

**DIRECTORS' REPORT***for the financial year ended 31 December 2005***FINANCIAL RESULTS**

	The Group RM'000	The Bank RM'000
Profit before taxation and zakat	229,352	225,324
Taxation and zakat	(61,863)	(61,961)
Net profit for the financial year	167,489	163,363

The Directors submit herewith their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2005.

**PRINCIPAL ACTIVITIES**

The principal activities of the Bank during the financial year are banking and related financial services which also include Islamic Banking business. Islamic Banking business refers generally to the acceptance of deposits and granting of financing under the Syariah principles. The principal activities of the subsidiary companies are factoring of credit facilities, property management services, nominee and trustee services. There were no significant changes in the nature of these activities during the financial year.

**DIVIDENDS**

No dividends have been paid since the end of the Bank's previous financial year.

The Directors now recommend the payment of a first and final gross dividend of 3 sen per share on 1,290,283,000 ordinary shares, less income tax of 28%, amounting to RM27,870,000 for the current financial year ended 31 December 2005, which is subject to the members' approval at the forthcoming Annual General Meeting of the Bank.

**RESERVES AND PROVISIONS**

All material transfers to or from reserves or provisions during the financial year are shown in the financial statements.

**ISSUE OF SHARES**

During the financial year, 273,002,000 new ordinary shares of RM1.00 each at an issue price of RM1.377 per ordinary share as settlement for the net assets transferred from Affin-ACF Finance Berhad.

**BAD AND DOUBTFUL DEBTS AND FINANCING**

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

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

**CURRENT ASSETS**

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

**DIRECTORS' REPORT**

*for the financial year ended 31 December 2005*

**CURRENT ASSETS (CONTINUED)**

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

**VALUATION METHODS**

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

**CONTINGENT AND OTHER LIABILITIES**

At the date of this report there does not exist:

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

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

**CHANGE OF CIRCUMSTANCES**

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

**ITEMS OF AN UNUSUAL NATURE**

The results of the operations of the Group and the Bank during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature, except those disclosed in Notes 42 and 43 to the financial statements.

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

**DIRECTORS**

The Directors of the Bank who have held office during the period since the date of the last report are:

**Jen (B) Tan Sri Dato' Seri Ismail bin Haji Omar**

*Non-Independent Non-Executive Chairman*

**Dato' Abdul Hamidy bin Abdul Hafiz**

**Managing Director / Chief Executive Officer**

*Non-Independent Executive Director*

**Tan Sri Dato' Haji Lodin bin Wok Kamaruddin**

*Non-Independent Non-Executive Director*

**Dr Raja Abdul Malek bin Raja Jallaludin**

*Independent Non-Executive Director*

**Laksamana Madya (B) Dato' Seri Ahmad**

**Ramli bin Mohd Nor**

*Independent Non-Executive Director*

**Datuk Razman Md. Hashim bin Che Din Md. Hashim**

*Independent Non-Executive Director*

**Dato' Dr. Lee Chee Kuon**

*Independent Non-Executive Director*

**Dato' Abdul Aziz bin Abdul Rahman**

*Independent Non-Executive Director*

**DIRECTORS' REPORT***for the financial year ended 31 December 2005***DIRECTORS' INTERESTS**

According to the Register of Directors' Shareholdings, the interest of Directors in office at the end of the financial year in shares, warrants and options of related corporations were as follows:

	<b>Ordinary shares of RM1 each</b>			
	As at 1.1.2005	Bought	Sold	As at 31.12.2005
<b>Affin Holdings Berhad</b>				
Tan Sri Dato' Haji Lodin bin Wok Kamaruddin	8,714	-	-	8,714*
Dato' Dr. Lee Chee Kuon	7,000	-	-	7,000
Dato' Abdul Aziz bin Abdul Rahman	20,000	-	-	20,000

\* Shares held in trust by nominee company

	<b>Number of warrants 2000/2010</b>			
	As at 1.1.2005	Bought	Sold	As at 31.12.2005
<b>Affin Holdings Berhad</b>				
Tan Sri Dato' Haji Lodin bin Wok Kamaruddin	1,500	-	-	1,500
Dato' Dr. Lee Chee Kuon	1,214	-	-	1,214

Each warrant of the holding company ('Affin Warrants 2000/2005') entitles the registered holder to subscribe one new ordinary share of RM1.00 each in Affin Holdings Berhad at any time from the date of issue of 8 July 2000 at the exercise price of RM3.10 per share. The original exercise period of the Affin Warrants 2000/2005 was to expire on 7 July 2005. During the financial year 2005, the Affin Warrants 2000/2005 was extended for another five years and will expire on 7 July 2010 ('Affin Warrants 2000/2010').

	<b>Options over ordinary shares of RM1 each</b>			
	As at 1.1.2005	Granted	Exercised	As at 31.12.2005
<b>Affin Holdings Berhad</b>				
Tan Sri Dato' Haji Lodin bin Wok Kamaruddin	-	800,000	-	800,000**

\*\* This option was granted by the holding company, Affin Holdings Berhad under its Employees' Share Option Scheme at the option price of RM1.41 per share and will expire on 13 February 2008.

**DIRECTORS' REPORT**  
for the financial year ended 31 December 2005

**DIRECTORS' INTERESTS (CONTINUED)**

	Ordinary shares of RM10 each; RM5 uncalled			
	As at	Bought	Transfer	As at
	1.1.2005			31.12.2005
<b>PAB Trustee Berhad***</b>				
Jen (B) Tan Sri Dato' Seri Ismail bin Haji Omar	20,000	-	-	20,000
Dr Raja Abdul Malek bin Raja Jallaludin	20,000	-	-	20,000
Laksamana Madya (B) Dato' Seri Ahmad Ramli bin Mohd Nor	20,000	-	-	20,000
Datuk Razman Md. Hashim bin Che Din Md. Hashim	20,000	-	-	20,000

\*\*\* Shares held in trust for the Bank

	Ordinary shares of 50 sen each			
	As at	Bought	Sold	As at
	1.1.2005			31.12.2005
<b>Boustead Holdings Berhad</b>				
Tan Sri Dato' Haji Lodin bin Wok Kamaruddin	3,600,000	6,500,000	7,200	10,092,800

	Option over ordinary shares of 50 sen each			
	As at	Granted	Exercised	As at
	1.1.2005			31.12.2005
<b>Boustead Holdings Berhad</b>				
Tan Sri Dato' Haji Lodin bin Wok Kamaruddin	6,500,000#	-	6,500,000	-
	400,000##	-	-	400,000##

# This is a five year option granted by LTAT to acquire 9,500,000 Boustead Holdings Berhad shares from LTAT at RM1.61 per share and expired on 22 November 2005.

## This option was granted by Boustead Holdings Berhad under its Employees' Share Option Scheme at RM0.94 per share and will expire on 22 July 2006.

Other than the above, the Directors in office at the end of the financial year did not have any other interest in shares, warrants and options over shares in the Bank or its related corporations during the financial year.

**DIRECTORS' REPORT**

*for the financial year ended 31 December 2005*

**DIRECTORS' BENEFITS**

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive a benefit (other than the fees and other emoluments shown in the notes to the financial statements) by reason of a contract made by the Bank or by a related corporation with the Director or with a firm of which he is a member or with a company in which he has a substantial financial interest except that certain Directors received remuneration as directors/executives of related corporations, share options granted to Directors of the Bank pursuant to the holding company's Employee Share Option Scheme and share options granted by the ultimate holding corporate body and Boustead Holdings Berhad.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any arrangement to which the Bank or any of its subsidiary companies 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.

**CORPORATE GOVERNANCE***(i) Board of Directors Responsibility and Oversight*

The Board of Directors comprises of Managing Director / Chief Executive Officer and seven non-executive Directors. There are five independent non-executive Directors, two non-independent non-executive Directors and one non-independent executive Director. The Board of Directors meetings are presided by a non-executive non-independent Chairman whose role is clearly separated from the role of the Managing Director / Chief Executive Officer.

In 2005 the Bank continues to have a strong and experienced Board, befitting its aspiration to become a mid size Bank of prominence. It consists of representatives from the private sector with suitable qualifications and experience in relevant areas particularly in banking.

The Board meets on a monthly basis, to review the Bank's financial and business performance, to oversee the conduct of the Bank's business as well as to ensure that adequate internal control systems are in place. The Board met twenty times during the financial year.

**DIRECTORS' REPORT***for the financial year ended 31 December 2005***CORPORATE GOVERNANCE (CONTINUED)***(i) Board of Directors Responsibility and Oversight (continued)*

The composition of the Board and the number of meetings attended by each director are as follows:

<b>Name of Directors</b>	<b>Total Meetings Attended</b>
1. Jen (B) Tan Sri Dato' Seri Ismail bin Haji Omar <i>Non-Independent Non-Executive Chairman</i>	19 out of 20
2. Dato' Abdul Hamidy bin Abdul Hafiz Managing Director / Chief Executive Officer <i>Non-Independent Executive Director</i>	20 out of 20
3. Tan Sri Dato' Haji Lodin bin Wok Kamaruddin <i>Non-Independent Non-Executive Director</i>	19 out of 20
4. Dr Raja Abdul Malek bin Raja Jallaludin <i>Independent Non-Executive Director</i>	17 out of 20
5. Laksamana Madya (B) Dato' Seri Ahmad Ramli bin Mohd Nor <i>Independent Non-Executive Director</i>	19 out of 20
6. Datuk Razman Md. Hashim bin Che Din Md. Hashim <i>Independent Non-Executive Director</i>	19 out of 20
7. Dato' Dr Lee Chee Kuon <i>Independent Non-Executive Director</i>	19 out of 20
8. Dato' Abdul Aziz bin Abdul Rahman <i>Independent Non-Executive Director</i>	20 out of 20

*(ii) Risk Management*

The Risk Management function, operating in an independent capacity, is part of the Bank's senior management structure which works closely as a team in managing risks to enhance stakeholders' value.

The Risk Management function provides support to the Asset and Liability Management Committee ('ALCO') and the Board Risk Management Committee ('BRMC').

Its responsibilities extend to cover market, credit and operational risks. The risks underlying the Bank's business, including new activities and product lending programmes, are identified, quantified wherever possible and managed.

The risks inherent in the financial business of the Bank are managed under the different headings:

- (a) Market risk
- (b) Credit risk
- (c) Liquidity risk
- (d) Operational risk management

**DIRECTORS' REPORT***for the financial year ended 31 December 2005***CORPORATE GOVERNANCE (CONTINUED)***(ii) Risk Management (continued)***Board loan review and recovery committee**

Board Loan Review Committee critically reviews loans and other credit facilities with higher risk implications, after due process of checking, analysis, review and recommendation by the Credit Risk Management function, and if found necessary, exercise the power to veto loan applications that have been accepted by the Management Loan Committee. The Committee is also responsible to provide review on the non-performing loans report presented by the Management.

**Management loan committee**

Management Loan Committee approves complex and larger loans and workout/recovery proposals beyond the delegated authority of the concerned individual senior management personnel of the Bank.

**Individual approvers**

For the delegated authority, a dual sign-off approval system is in place, independent of business imperatives.

**Risk management committee**

The main function of Board Risk Management Committee is to assist the Board in its supervisory role in the management of risk in the Bank. It has responsibility for approving and reviewing the credit risk strategy, credit risk framework and credit policies of the Bank.

A Risk Management Committee was established on 18 June 2002. During the financial year ended 31 December 2005, a total of ten meetings were held. The Risk Management Committee comprises the following members and the details of attendance of each member at the Risk Management Committee meetings held during the financial year are as follows:

<b>Composition of the Risk Management Committee</b>	<b>Attendance at the Committee meetings</b>
1. Datuk Razman Md. Hashim bin Che Din Md. Hashim <i>Chairman/ Independent Non-Executive Director</i>	10 out of 10
2. Dato' Dr Lee Chee Kuon <i>Member/ Independent Non-Executive Director</i>	10 out of 10
3. Dr Raja Abdul Malek bin Raja Jallaludin <i>Member/ Independent Non-Executive Director</i>	8 out of 10
4. Dato' Abdul Aziz bin Abdul Rahman <i>Member/ Independent Non-Executive Director</i>	9 out of 10

The primary responsibility of the Risk Management Committee is to provide oversight and management of all risks in the Bank. The committee also ensures that the procedures and framework in relation to identifying, measuring, monitoring and controlling risk are operating effectively. The Bank's risk management framework is set out in Note 2 to the financial statements.

## DIRECTORS' REPORT

for the financial year ended 31 December 2005

### CORPORATE GOVERNANCE (CONTINUED)

#### (iii) Internal Audit and Internal Control Activities

In accordance with Bank Negara Malaysia's GP10 guidelines, the Audit and Compliance Division ('ACD') conducts continuous reviews on auditable areas within the Bank. The continuous reviews by ACD are focused on areas of significant risks and effectiveness of internal control in accordance to the audit plan approved by the Audit and Examination Committee ('AEC'). The risk highlighted on the respective auditable areas as well as recommendation made by the ACD are addressed at AEC and Management meetings on a monthly basis. The AEC also conducts annual reviews on the adequacy of the internal audit function, scope of work, resources and budget of ACD.

At present, ACD consists of Operational Audit, IS Audit, Credit Review, Investigation and Compliance. Audit activities include these key components:-

- (a) Conduct audit on all auditable entities (Head Office, Branches and subsidiaries) processes, services, products, systems, etc and provide an independent assessment to the Board of Directors, AEC and Management that appropriate control environment is maintained with clear authority and responsibility with sufficient staff and resources to carry out control responsibilities.
- (b) Perform risk assessments to identify control risk and evaluate actions taken to provide reasonable assurance that procedures and controls exist to contain those risks.
- (c) Maintain strong control activities including documented processes and system incorporating adequate controls to produce accurate financial data and provide for the safeguarding of assets, and a documented review of reported results.

(d) Ensure effective information flows and communication, including:-

- (i) Training and the dissemination of standards and requirements;
  - (ii) An information system to produce and convey complete, accurate and timely data including financial data;
  - (iii) The upward communication of trends, developments and emerging issues.
- (e) Monitor controls, including procedures to verify that controls are in place and functioning, follow up on corrective action on control findings till its full resolution.

Based on ACD's review, identification and assessment of risk, testing and evaluation of controls, ACD will provide an opinion on the effectiveness of internal controls maintained by each entity.

#### (iv) Management Reports

Before each Board meeting, Directors are provided with a complete set of board papers itemised in the agenda for Board's review/approval and/or notation.

The Board monitors the Bank's performance by reviewing the monthly Management Report, which provides a comprehensive review and analysis of the Bank's operations and financial issues. In addition, the Minutes of the Board Committees and Management Committees meetings and other issues are also tabled and considered by the Board.

Procedures are in place for Directors to seek both independent professional advice at the company's expense and the advice and services of the Company Secretary in order to fulfil their duties and specific responsibilities.



**DIRECTORS' REPORT***for the financial year ended 31 December 2005***DISCLOSURE OF COMMITTEES****Nomination Committee**

A Nomination Committee was established on 30 June 2004. During the financial year ended 31 December 2005, a total of two meetings were held. The Nomination Committee comprises the following members and the details of attendance of each member at the Nomination Committee meetings held during the financial year are as follows:

<b>Composition of the Nomination Committee</b>	<b>Attendance at the Committee meetings</b>
1. Laksamana Madya (B) Dato' Seri Ahmad Ramli bin Mohd Nor <i>Chairman/Independent Non-Executive Director</i>	2 out of 2
2. Tan Sri Dato' Haji Lodin bin Wok Kamaruddin <i>Member/Non-Independent Non-Executive Director</i>	2 out of 2
3. Datuk Razman Md. Hashim bin Che Din Md. Hashim <i>Member/Independent Non-Executive Director</i>	2 out of 2
4. Dato' Abdul Aziz bin Abdul Rahman <i>Member/Independent Non-Executive Director</i>	2 out of 2
5. Dato' Abdul Hamidy bin Abdul Hafiz <i>Member/Non-Independent Executive Director</i>	2 out of 2

The primary responsibility of the Nomination Committee is to provide a formal and transparent procedure for the appointment of directors and Managing Director / Chief Executive Officer. The committee also assesses the effectiveness of the Board as a whole, contribution of each director, contribution of the board's various committees and the performance of Managing Director / Chief Executive Officer and key senior management officers.

**Remuneration Committee**

A Remuneration Committee was established on 30 June 2004. During the financial year ended 31 December 2005, a total of eight meetings were held. The Remuneration Committee comprises the following members and the details of attendance of each member at the Remuneration Committee meetings held during the financial year are as follows:

<b>Composition of the Remuneration Committee</b>	<b>Attendance at the Committee meetings</b>
1. Dr Raja Abdul Malek bin Raja Jallaludin <i>Chairman/Independent Non-Executive Director</i>	7 out of 8
2. Tan Sri Dato' Haji Lodin bin Wok Kamaruddin <i>Member/Non-Independent Non-Executive Director</i>	8 out of 8
3. Dato' Dr Lee Chee Kuon <i>Member/Independent Non-Executive Director</i>	8 out of 8
4. Laksamana Madya (B) Dato' Seri Ahmad Ramli bin Mohd Nor <i>Member/Independent Non-Executive Director</i>	7 out of 8

**DIRECTORS' REPORT**  
for the financial year ended 31 December 2005

**DISCLOSURE OF COMMITTEES (CONTINUED)**

**Remuneration Committee (continued)**

The primary responsibility of the Remuneration Committee is to evaluate and recommend a framework of remuneration for directors, the chief executive officer and key senior management officers that is competitive and consistent with the Bank's culture, objectives and strategy.

**Syariah Committee**

The main function of the Syariah Committee is to advise the Bank on the Islamic operation based on syariah law. The Syariah Committee was established in December 1995.

During the financial year ended 31 December 2005, a total of four meetings were held. The Syariah Committee comprises the following members and the details of attendance of each member at the Syariah Committee meetings held during the financial year are as follows:

<b>Composition of the Syariah Committee</b>	<b>Attendance at the Committee meetings</b>
1. Prof Madya Dr. Hailani bin Mujitahir <i>Syariah Advisor</i>	4 out of 4
2. Brig Jen Haji Jamil Khir bin Baharom <i>Syariah Advisor</i>	3 out of 4
3. Prof Madya Dr. Md Khalil bin Ruslan <i>Syariah Advisor</i>	3 out of 4
4. Wan Annuar bin Abu Kasim (Ceased to become Chairman w.e.f August 2005) <i>Chairman</i>	1 out of 2
5. Kamarul Ariffin bin Mohd Jamil (Joined as Chairman in August 2005) <i>Chairman</i>	2 out of 2

**DIRECTORS' REPORT***for the financial year ended 31 December 2005***BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND FUTURE OUTLOOK**

The year 2005 has seen the Bank successfully implementing several of its strategic initiatives. They included the acquisition of Affin-ACF Finance's assets and liabilities, which was completed in June 2005 and contributed to a welcome new dimension to the Bank's offerings. The Bank also had its rating upgraded from BBB<sub>2</sub> to A<sub>3</sub> by Rating Agency Malaysia Berhad ('RAM') in August 2005 as a result of overall improved performance in the Bank. In its continuous quest to provide improved services to its customers, the Bank also completed the change of its Core Banking System ('CBS') which is expected to bring about increased operational efficiency.

In the year of 2006, the Malaysian economy is expected to grow by 5.5%. The Banking sector is expected to face increased competition arising from the continued liberalisation of the banking and financing industry. In view of the challenges ahead, Affin Bank has lined up several measures to strengthen its position in the industry. Amongst some of the initiatives this year are a loans growth strategy targeting selected market segments, resolution of key NPL accounts, a re-branding campaign, quality improvement and preparation for Basel II implementation.

**RATING BY EXTERNAL AGENCIES**

The Bank has been rated by the following external rating agency:

<i>Name of rating agency</i>	RATING AGENCY MALAYSIA BERHAD
<i>Date of rating</i>	15 August 2005

## Rating classifications

- Long term:	A <sub>3</sub>
- Short term:	PI

RAM has upgraded the Bank's long-term general bank rating from BBB<sub>2</sub> to A<sub>3</sub> with a stable outlook. Concurrently, its short-term rating has been upgraded from P2 to PI.

'A' rating is defined by RAM as being able to offer adequate safety for timely payment of interest and principal, and has adequate credit profile but possess one or more problem areas, giving rise to the possibility of future riskiness. Entities rated in this category have generally performed at industry average and are considered to be more vulnerable to changes in economic condition than those rated in the higher categories. The subscript 3 in this category indicates a lower end ranking in the A category. A PI rating is defined by RAM as obligations which are supported by superior ability with regards to timely payment of obligations.

**ZAKAT OBLIGATIONS**

During the year the Bank allocated RM1.162 million as payment of zakat on behalf of depositors and shareholders in line with the syariah requirement.

**HOLDING COMPANY AND ULTIMATE HOLDING CORPORATE BODY**

The holding company of the Bank is Affin Holdings Berhad, a public listed company incorporated in Malaysia and the ultimate holding corporate body is Lembaga Tabung Angkatan Tentera, a statutory body incorporated under the Tabung Angkatan Tentera Act, 1973.

**AUDITORS**

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

In accordance with a resolution of the Board of Directors dated 28 February 2006.

Jen (B) Tan Sri Dato' Seri Ismail bin Haji Omar  
*Chairman*

Dato' Abdul Hamidy bin Abdul Hafiz  
*Managing Director / Chief Executive Officer*

**BALANCE SHEETS**  
as at 31 December 2005

	Note	The Group		The Bank	
		2005	2004	2005	2004
		RM'000	RM'000	RM'000	RM'000
<b>Assets</b>					
Cash and short-term funds	3	3,218,026	2,214,072	3,217,018	2,206,070
Deposits and placements with banks and other financial institutions	4	140,000	115,210	140,000	115,210
Held-for-trading securities	5	-	1,041,035	-	1,041,035
Available-for-sale securities	6	2,688,446	1,157,031	2,687,122	1,154,228
Held-to-maturity securities	7	1,165,143	1,655,533	1,132,860	1,636,614
Loans, advances and financing	8	16,436,195	10,708,147	16,423,069	10,689,274
Other assets	9	172,766	105,443	171,342	105,091
Tax recoverable		39,901	39,286	38,751	38,250
Deferred taxation assets (net)	10	151,853	183,734	157,409	189,396
Statutory deposit with Bank Negara Malaysia	11	563,900	453,500	563,900	453,500
Subsidiary companies	12	-	-	36,954	41,011
Associated company	13	30	30	30	30
Property, plant and equipment	14	294,722	235,443	287,627	228,036
Goodwill	15	133,430	142,585	137,323	146,478
<b>Total assets</b>		<b>25,004,412</b>	<b>18,051,049</b>	<b>24,993,405</b>	<b>18,044,223</b>
<b>Liabilities</b>					
Deposits from customers	16	17,839,098	12,948,829	17,842,071	12,952,948
Deposits and placements of banks and other financial institutions	17	905,942	471,010	905,942	471,010
Obligation on securities sold under repurchase agreements		1,248,777	875,942	1,248,777	875,942
Bills and acceptances payable		480,574	613,208	480,574	613,208
Recourse obligation on loans sold to Cagamas Berhad	18	1,241,160	343,635	1,241,160	343,635
Other liabilities	19	697,041	739,198	689,882	732,428
Subordinated term loan	20	500,000	500,000	500,000	500,000
<b>Total liabilities</b>		<b>22,912,592</b>	<b>16,491,822</b>	<b>22,908,406</b>	<b>16,489,171</b>
<b>Shareholders' equity</b>					
Share capital	21	1,290,283	1,017,281	1,290,283	1,017,281
Reserves	22	801,537	541,946	794,716	537,771
<b>Total Shareholders' equity</b>		<b>2,091,820</b>	<b>1,559,227</b>	<b>2,084,999</b>	<b>1,555,052</b>
<b>Total liabilities and shareholders' equity</b>		<b>25,004,412</b>	<b>18,051,049</b>	<b>24,993,405</b>	<b>18,044,223</b>
<b>Commitments and contingencies</b>	33	<b>24,585,348</b>	<b>26,189,509</b>	<b>24,433,641</b>	<b>26,000,344</b>

**INCOME STATEMENTS**  
for the financial year ended 31 December 2005

	Note	The Group		The Bank	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Interest income	23	1,040,304	783,144	1,040,165	782,125
Interest expense	24	(485,842)	(398,387)	(485,857)	(398,403)
Net interest income		554,462	384,757	554,308	383,722
Islamic Banking income	45 (l)	74,766	65,930	74,766	65,930
		629,228	450,687	629,074	449,652
Other operating income	25	214,390	200,368	209,565	190,145
Net income		843,618	651,055	838,639	639,797
Other operating expense	26	(401,684)	(343,577)	(399,772)	(341,001)
Operating profit		441,934	307,478	438,867	298,796
Allowances for losses on loans, advances and financing	27	(201,623)	(74,731)	(202,603)	(56,984)
Transfer to profit equalisation reserve	45 (j)	(4,920)	-	(4,920)	-
Impairment losses on property, plant and equipment	14	-	(44,207)	-	(44,207)
Impairment losses on securities		(6,039)	(8,960)	(6,020)	(12,470)
Profit before taxation and zakat		229,352	179,580	225,324	185,135
Taxation	30	(60,701)	(17,189)	(60,799)	(17,727)
Zakat		(1,162)	(738)	(1,162)	(738)
Profit after taxation and zakat		167,489	161,653	163,363	166,670
Earnings per share (sen)	31	14.2	15.9	13.9	16.4

STATEMENTS OF CHANGES IN EQUITY  
for the financial year ended 31 December 2005

	Note	Issued and fully paid ordinary shares of RM1 each RM'000	Non-distributable		Distributable		
			Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Investment fluctuation reserve RM'000	Retained profits RM'000
<b>The Group</b>							
At 1 January 2005							
As previously reported		1,017,281	190,735	169,581	-	171,117	1,548,714
Prior year adjustment	42	-	-	2,031	6,449	2,033	10,513
As restated		1,017,281	190,735	171,612	6,449	173,150	1,559,227
Share issued during the financial year		273,002	102,922	-	-	-	375,924
Net profit for the financial year		-	-	-	-	167,489	167,489
Net fair value change in available-for-sale securities		-	-	-	(10,820)	-	(10,820)
Transfer to statutory reserve		-	-	81,682	-	(81,682)	-
<b>At 31 December 2005</b>		<b>1,290,283</b>	<b>293,657</b>	<b>253,294</b>	<b>(4,371)</b>	<b>258,957</b>	<b>2,091,820</b>
At 1 January 2004							
As previously reported		1,017,281	190,735	88,715	-	95,269	1,392,000
Prior year adjustment	42	-	-	(438)	(8,255)	(437)	(9,130)
As restated		1,017,281	190,735	88,277	(8,255)	94,832	1,382,870
Net profit for the financial year		-	-	-	-	161,653	161,653
Net fair value change in available-for-sale securities		-	-	-	14,704	-	14,704
Transfer to statutory reserve		-	-	83,335	-	(83,335)	-
<b>At 31 December 2004</b>		<b>1,017,281</b>	<b>190,735</b>	<b>171,612</b>	<b>6,449</b>	<b>173,150</b>	<b>1,559,227</b>

STATEMENTS OF CHANGES IN EQUITY  
for the financial year ended 31 December 2005

	Note	Issued and fully paid ordinary shares of		Non-distributable		Distributable	
		RM1 each					
		Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Investment fluctuation reserve RM'000	Retained profits RM'000	Total RM'000
<b>The Bank</b>							
<b>At 1 January 2005</b>							
As previously reported		1,017,281	190,735	169,581	-	169,579	1,547,176
Prior year adjustment	42	-	-	2,031	3,812	2,033	7,876
As restated		1,017,281	190,735	171,612	3,812	171,612	1,555,052
Share issued during the financial year		273,002	102,922	-	-	-	375,924
Net profit for the financial year		-	-	-	-	163,363	163,363
Net fair value change in available-for-sale securities		-	-	-	(9,340)	-	(9,340)
Transfer to statutory reserve		-	-	81,682	-	(81,682)	-
<b>At 31 December 2005</b>		<b>1,290,283</b>	<b>293,657</b>	<b>253,294</b>	<b>(5,528)</b>	<b>253,293</b>	<b>2,084,999</b>
<b>At 1 January 2004</b>							
As previously reported		1,017,281	190,735	88,715	-	88,714	1,385,445
Prior year adjustment	42	-	-	(438)	(13,711)	(437)	(14,586)
As restated		1,017,281	190,735	88,277	(13,711)	88,277	1,370,859
Net profit for the financial year		-	-	-	-	166,670	166,670
Net fair value change in available-for-sale securities		-	-	-	17,523	-	17,523
Transfer to statutory reserve		-	-	83,335	-	(83,335)	-
<b>At 31 December 2004</b>		<b>1,017,281</b>	<b>190,735</b>	<b>171,612</b>	<b>3,812</b>	<b>171,612</b>	<b>1,555,052</b>

**CASH FLOW STATEMENTS**  
for the financial year ended 31 December 2005

	The Group		The Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before taxation	229,352	179,580	225,324	185,135
Adjustments for items not involving the movement of cash and cash equivalents:				
Interest income from available-for-sale securities	(36,460)	(6,833)	(36,460)	(6,833)
Interest income from held-to-maturity securities	(55,666)	(68,584)	(55,666)	(68,584)
Amortisation of premium less accretion of discount for available-for-sale securities	(14,358)	268	(14,358)	268
Amortisation of premium less accretion of discount for held-to-maturity securities	8,628	5,779	8,628	5,779
Interest-in-suspense/ income-in-suspense	19,440	14,041	19,440	14,041
Losses on sale from held-for-trading securities	4,896	3,748	4,896	3,748
Gain on sale for available-for-sale securities	(7,749)	(30,783)	(7,601)	(30,783)
Gain on sale for held-to-maturity securities	(7,307)	(26,413)	(7,307)	(28,280)
Gain on unrealised/ realised derivatives	(5,111)	(3,607)	(5,111)	(3,607)
Allowance for impairment of held-to-maturity securities	6,039	8,960	6,020	12,470
Write back on diminution of subsidiaries	-	-	(20)	(164)
Amortisation of goodwill	9,155	9,155	9,155	9,155
Depreciation of property, plant and equipment	47,546	45,219	47,226	44,891
Write back of over depreciation of property, plant and equipment	(16,348)	-	(16,348)	-
Property, plant and equipment written off	1,143	455	1,143	456
Impairment losses of property, plant and equipment	-	44,207	-	44,207
Gain on sale of property, plant and equipment	(2,779)	(2,648)	(2,779)	(2,648)
Net specific allowance for bad and doubtful debts and financing	333,293	172,026	333,266	153,819
Charge/ (write back) of general allowance	70	(108)	-	-
Operating profit before working capital changes	513,784	344,462	509,448	333,070
(Increase)/ decrease in deposits and placements with financial institutions	(12,045)	167,790	(12,045)	167,790
Net sale on held-for-trading securities	1,036,139	40,260	1,036,139	40,260
Increase in loans, advances and financing	(279,614)	(150,074)	(285,264)	(158,284)
(Increase)/ decrease in other assets	(62,407)	226,194	(61,221)	226,148
Decrease/ (increase) in statutory deposits with BNM	80,700	(500)	80,700	(500)
Decrease in investment in subsidiary	-	-	4,077	12,004
Decrease in deposits from customers	(190,316)	(2,300,211)	(191,462)	(2,299,978)



**CASH FLOW STATEMENTS**  
for the financial year ended 31 December 2005

	Note	The Group		The Bank	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Increase/ (decrease) in deposits and placements of banks and other financial institutions		434,932	(1,306,137)	434,932	(1,306,137)
Increase in obligation on securities sold under repurchase agreements		372,835	382,988	372,835	382,988
Decrease in bills and acceptances payable		(132,634)	(82,260)	(132,634)	(82,260)
Decrease in recourse obligation on loans sold to Cagamas		(353,837)	(61,805)	(353,837)	(61,805)
(Decrease)/ increase in other liabilities		(111,461)	192,584	(111,850)	193,705
Cash generated from/ (used in) operations		1,296,076	(2,546,709)	1,289,818	(2,552,999)
Tax paid		(8)	-	-	-
Zakat paid		(186)	(368)	(186)	(368)
Net cash generated from/ (used in) operating activities		1,295,882	(2,547,077)	1,289,632	(2,553,367)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received from held-for-trading securities		55,666	68,584	55,666	68,584
Interest received from available-for-sale securities		36,460	6,833	36,460	6,833
Proceeds from disposal of property, plant and equipment		8,266	5,135	8,266	5,135
Purchase of property, plant and equipment		(75,667)	(22,898)	(75,659)	(22,898)
Net sale of held-to-maturity securities		483,030	1,042,578	496,413	1,035,252
Net (purchase)/ sale of available-for-sale securities		(1,259,935)	59,770	(1,260,082)	65,392
Net cash (used in)/ generated from investing activities		(752,180)	1,160,002	(738,936)	1,158,298
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Repayment of subordinated debt		-	(100,000)	-	(100,000)
Net cash used in financing activities		-	(100,000)	-	(100,000)
Net increase/ (decrease) in cash and cash equivalents		543,702	(1,487,075)	550,696	(1,495,069)
Cash vested over from Affin-ACF		460,252	-	460,252	-
Cash and cash equivalents at beginning of the financial year		2,214,072	3,701,147	2,206,070	3,701,139
Cash and cash equivalents at end of the financial year		3,218,026	2,214,072	3,217,018	2,206,070
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>					
Cash and short-term funds	3	3,218,026	2,214,072	3,217,018	2,206,070

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
*for the financial year ended 31 December 2005*

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

**A) BASIS OF PREPARATION**

The financial statements are prepared under the historical cost convention, unless otherwise indicated in this summary of significant accounting policies.

The financial statements of the Group and of the Bank comply with the Malaysian Accounting Standards Board ('MASB') approved accounting standards in Malaysia, Bank Negara Malaysia Guidelines, Syariah requirements and the provisions of the Companies Act, 1965. The financial statements incorporate those activities relating to Islamic Banking business which have been undertaken by the Bank. Islamic Banking business refers generally to the acceptance of deposits and granting of financing under the Syariah principles.

There are no significant changes in the accounting policies during the year, except for the adoption of the revised guidelines on Financial Reporting for Licensed Institution ('BNM/GP8') issued by Bank Negara Malaysia ('BNM'). The guideline has been applied retrospectively and the details of the prior year adjustments are disclosed in the Statement of Changes in Equity and Note 42 to the financial statements. Bank Negara Malaysia has granted deferment to Affin Holdings Berhad Group from complying with the requirement on loan impairment under the revised BNM/GP8 as Affin Holdings Berhad Group is deemed complied if the specific allowance and general allowance are computed based on the 'Guidelines on the Classification of Non-Performing Loans and Provision for Sub-Standard, Bad and Doubtful Debt's,' ('BNM/GP3') requirements.

The preparation of financial statements in conformity with the provision of the Companies Act 1965 and the MASB approved accounting standards in Malaysia requires the use of estimates and assumptions that affect the reported amounts of

assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from these estimates.

**B) BASIS OF CONSOLIDATION**

The consolidated financial statements include the financial statements of the Bank and all its subsidiary companies made up to the end of the financial year.

Subsidiary companies are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Subsidiary companies are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiary companies acquired or disposed of during the financial year are included from the date of acquisition up to the date of disposal. At the date of acquisition, the fair values of the subsidiary companies' net assets are determined and these values are reflected in the consolidated financial statements. The difference between the acquisition cost and the fair values of the subsidiary companies' net assets is reflected as goodwill or reserve on consolidation.

All intercompany transactions and balances between group companies are eliminated and the consolidated financial statements reflect external transactions only. Where necessary, accounting policies for subsidiary companies have been changed to ensure consistency with the policies adopted by the Group.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
*for the financial year ended 31 December 2005*

**B) BASIS OF CONSOLIDATION (CONTINUED)**

unamortised balance of goodwill on acquisition.

A listing of the Group's subsidiaries is set out in Note 12 to the financial statements.

**C) GOODWILL**

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired at the date of acquisition. The amount is amortised on a straight line basis over 20 years from the date of acquisition. At each balance sheet date, the Group assesses whether the carrying amount of goodwill is recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

Capital reserve on consolidation represents the excess of the fair value of the Group's share of net assets over the purchase price. The amount is retained in the consolidated balance sheet until the disposal of the subsidiaries.

**D) RECOGNITION OF INTEREST/ FINANCING INCOME**

Interest income on loan accounts is recognised on an accrual basis. Interest income on hire purchase and lease receivables is recognised using the "sum-of-digits" method, so as to produce a constant periodic rate of interest.

Islamic financing income is recognised on an accrual basis in accordance with the Syariah principles and BNM/GP8. Al-Ijarah Thumma Al-Bai ('AITAB') financing income recognised using the "sum-of-digit" method over the lease terms, whilst Al-Bai Bithaman Ajil ('BBA'), Al-Murabahah, Al-Istisna and Bai Al-Inah financing income is recognised on a monthly basis over the period of the financing contracts, based on an agreed profit at the inception of such contracts.

Customers' accounts are generally classified as non-performing when repayments are in arrears for six months or more from first day of default for loans

and financing and overdrafts, and after three months or more from maturity date for trade bills, trust receipts, bankers' acceptances and other instruments of similar nature.

Interest accrued and recognised as income prior to the date the loans are classified as non-performing shall be reversed out of income by debiting the interest income in the income statement and crediting the accrued interest receivable account in the balance sheet. Subsequently, interest earned on non-performing loans shall be recognised as income on a cash basis, instead of being accrued and suspended at the same time as prescribed previously.

Interest income from securities portfolio is recognised on an accrual basis using the effective interest method. The interest income includes coupons earned and accrued discount and amortisation of premium on these securities.

**E) RECOGNITION OF FEES AND OTHER INCOME**

Loan arrangement 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 securities portfolio are recognised when received.

Fees and other profit from Islamic Banking business is recognised on an accrual basis in accordance with the principles of Syariah.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
*for the financial year ended 31 December 2005*

**F) INTEREST, FINANCING AND RELATED EXPENSE**

**RECOGNITION**

Interest expense and attributable profit on deposits and borrowings are expensed as incurred.

Dealers' handling fees on hire purchase are charged to income statement in the period when they are incurred in accordance with Bank Negara Malaysia circular dated 8 August 2003.

**G) ALLOWANCE FOR BAD AND DOUBTFUL DEBTS AND FINANCING**

Specific allowances are made for doubtful debts and financing based on management's evaluation of the collectibility and the status of the loans, advances and financing and their related underlying securities.

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

An uncollectible loan, advance and financing or portion of a loan, advance 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.

The allowance for bad and doubtful debts and financing is in conformity with the minimum requirements of BNM/GP3.

**H) SECURITIES PORTFOLIO**

The Bank classifies its securities portfolio into the following categories: held-for-trading securities, available-for-sale securities and held-to-maturity securities. Classification of the securities is determined at initial stage.

*a) Held-for-trading securities*

Securities are classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or it is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Held-for-trading securities are stated at fair value. Any unrealised gain or loss arising from the change in fair value or arising from sale of such securities are recognised in the income statement.

*b) Available-for-sale securities*

Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified as held-for-trading or held-to-maturity investments.

These securities are initially recognised at fair value. Investments in equity instruments where there is no quoted market price in an active market and whose fair value cannot be reliably measured, which will be stated at cost.

Any gains or losses arising from the change in fair value adjustments are recognised directly in equity through the statement of changes in equity except for impairment losses and foreign exchange gains or losses. When the financial asset is derecognised, the cumulative gains or loss previously in equity shall be transferred to the income statement.

Impairment of available-for-sale securities is assessed when there is an objective evidence of impairment. Cumulative unrealised losses that had been recognised directly in equity shall be removed and recognised in income statement even though the securities has not been derecognised.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
*for the financial year ended 31 December 2005*

**H) SECURITIES PORTFOLIO (CONTINUED)**

*b) Available-for-sale securities (continued)*

Impairment loss in addition to the above unrealised losses is also recognised in the income statement. Subsequent reversal of impairment on debt instrument in the income statement is allowed when the decrease in impairment can be related objectively to an event occurring after the impairment was recognised.

Impairment losses recognised in income statement for an investment in an equity instrument shall not be reversed.

*c) Held-to-maturity securities*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, as well as those instruments allowed by BNM. In accordance with BNM/GP8 issued by Bank Negara Malaysia on 5 October 2004, the following instruments may be classified as held-to-maturity investments and measured at cost:

- i) equity securities held as investment in organisations which are set up for socio-economic reasons; and
- ii) equity instruments received as a result of loan restructuring or loan conversion, where there is no quoted market price in an active market and whose fair value cannot be reliably measured.

Held-to-maturity securities are measured at amortised cost using the effective interest method. Gains or losses are recognised in income statement when the securities are derecognised or impaired and through the amortisation process.

Any sale or reclassification of more than an insignificant amount of held-to-maturity investments before maturity will result in the remaining securities being reclassified as available-for-sale.

Impairment of held-to-maturity securities is assessed, when there is an objective evidence of impairment.

*i) Securities carried at amortised cost*

The impairment loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at the Bank's original effective interest rate. Subsequent reversal of impairment is allowed in the event of an objective decrease in impairment. Recognition of impairment losses and its reversal is made through the income statement.

*ii) Securities carried at cost*

The impairment loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment losses shall not be reversed.

Previously, securities held by the Bank were classified as either 'Dealing' or 'Investment' securities. Under dealing securities classification, the securities were stated at the lower of cost and market value. Under investment securities classification, the securities were either stated at cost, amortised cost or market value, based on type of investments. Allowance is made for any permanent diminution in value. The impact of prior year adjustments are disclosed in Note 42 to the financial statements.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
*for the financial year ended 31 December 2005*

**i) REPURCHASE AGREEMENTS**

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

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

The difference between the sale and repurchase price as well as the purchase and resale price is treated as interest and accrued over the life of the repurchase agreement using the effective yield method.

**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.

Investment in subsidiary companies are stated at cost less any impairment losses. At each balance sheet date, the Bank assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the investment is recoverable. A write down is made if the carrying amount exceeds the recoverable amount. Any subsequent increase in recoverable amount is recognised in the income statement.

**k) INVESTMENT IN ASSOCIATED COMPANY**

An associated company is a company in which the Bank has a long term equity interest of between 20% to 50% and where the Bank can exercise significant influence through management participation. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not control over those policies. Investments in associated companies are stated at cost less any impairment losses.

At each balance sheet date, the Bank assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the investment is recoverable. A write down is made if the carrying amount exceeds the recoverable amount. Any subsequent increase in recoverable amount is recognised in the income statement.

**l) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Freehold land and capital work in progress are not depreciated. Depreciation of other property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight line basis over the expected useful lives of the assets concerned.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
*for the financial year ended 31 December 2005*

**L) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (CONTINUED)**

The principal annual rates of depreciation are as follows:

Buildings	2%
Leasehold land and buildings	Amortised over the remaining life
Renovation and leasehold premises	20% or the period of the lease whichever is greater
Office equipment and furniture	10%
Computer equipment and software	20%
Motor vehicles	20%

At each balance sheet date, the Bank assesses whether there is any indication of impairment. If such indications exist, 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. Any subsequent increase in the recoverable amount is recognised in the income statement.

**M) 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 leases and the related rentals are charged to the income statement as incurred.

**N) BILLS AND ACCEPTANCES PAYABLE**

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

**O) CURRENCY TRANSLATIONS**

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

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

Foreign currency	2005	2004
	RM	RM
USD 1	3.78	3.80
GBP 1	6.53	7.32
AUD 1	2.77	2.96
EUR 1	4.47	5.18
SGD 1	2.27	2.33

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
*for the financial year ended 31 December 2005*

**P) DEFERRED TAXATION**

*(i) Current taxation*

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 taxation*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation of property, plant and equipment, general provision for loans, advances and financing and unused tax losses carried forward. Tax enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences and unused tax losses can be utilised.

**Q) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING**

Derivatives are initially recognised at fair values on the date on which derivative contracts are entered into and are subsequently remeasured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of

the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criterias are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

*a) Fair Value Hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

*b) Cash Flow Hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain and loss relating to the ineffective portion is recognised immediately in the income statement.



**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
*for the financial year ended 31 December 2005*

**Q) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)**

*b) Cash Flow Hedge (continued)*

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect income statement (for example, when the forecast sale that is hedged take place).

When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

*c) Derivatives That Do Not Qualify For Hedge Accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Previously, interest income or interest expense associated with interest rate swaps that qualify as hedges is recognised over the life of the swap agreement as a component of interest income or interest expense. Gains and losses on interest rate swaps, futures, forward and option contracts that qualify as hedges are deferred and amortised over the life of hedged assets or liabilities as adjustments to interest income or interest expense. Gains and losses on interest rate swaps, futures, forward and option contracts that do not qualify as hedges are recognised in the current financial year using the mark-to-market method and are included in the income statement. The impact of the prior year adjustment are disclosed in Note 42.

**R) OTHER PROVISIONS**

Provisions are recognised by the Group and Bank when all of the following conditions have been met:

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

**S) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consists of cash in hand, bank balances and deposits and placements maturing within one month which are held for the purpose of meeting short term commitments and are readily convertible into cash without significant risk of changes in value.

**T) ZAKAT**

This 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 the net asset method.

**U) FORECLOSED PROPERTIES**

Foreclosed properties are stated at the lower of cost and net realisable value.

**V) PROFIT EQUALISATION RESERVE**

Profit equalisation reserve ('PER') is a mechanism to reduce the fluctuations in the profit rates payable to 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.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
*for the financial year ended 31 December 2005*

**W) EMPLOYEE BENEFITS**

*Short term employee benefits*

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

*Defined contribution plan*

The defined contribution plan is a pension plan under which the Group pays fixed contributions to the National Pension Scheme, the Employees' Provident Fund ('EPF') and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

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.

*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 any possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

**X) REPORTING CURRENCY**

The financial statements are presented in Ringgit Malaysia.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

### 1) GENERAL INFORMATION

The Bank is principally engaged in all aspects of banking and related financial services which also include Islamic Banking business. The principal activities of the Bank's subsidiary companies are factoring of credit facilities, property management services, nominee and trustee services. There have been no significant changes in these principal activities during the financial year.

The number of employees in the Group at the end of the financial year was 3,345 (2004: 2,624) employees, and the Bank was 3,324 (2004: 2,605) employees.

The holding company of the Bank is Affin Holdings Berhad, a public listed company incorporated in Malaysia and the ultimate holding corporate body is Lembaga Tabung Angkatan Tentera, a statutory body incorporated under the Tabung Angkatan Tentera Act, 1973.

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

### 2) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

#### *Market Risk*

The Bank is mainly exposed to risk on interest rates and foreign exchange rates. The interest rate risk arises mainly from differences in timing between the maturities or repricing of assets, liabilities and derivatives. The Bank is also exposed to basis risk, when the pricing characteristics of two instruments change at different times or by different amounts. Foreign exchange rate risk arises from unhedged positions arising from customers' requirements and proprietary positions.

For the trading portfolios, market risk is measured and managed daily by the Market Risk Management Department, which is part of the Bank's Risk Management Division.

Market Risk is primarily controlled through the imposition of cut-loss limits and potential loss limits (Value-at-Risk ('VaR')) which are approved by the Asset Liability Committee ('ALCO') in accordance with the Bank's risk appetite. These limits are set and reviewed regularly according to a number of factors, including the trading liquidity of the instruments and the Bank's business strategy. In addition, the Bank also conducts periodic stress testing analysis of its respective portfolios to ascertain the market risk under abnormal market conditions.

For the asset liability mismatch position in the Balance Sheet, the Bank employs a software to measure the risk. The risk is measured monthly using Net Interest Income simulations involving various interest rate scenarios managed through limits overtime-buckets and an Overall Risk Tolerance Limit approved by ALCO.

The Bank's management, ALCO and Board Risk Management Committee are regularly kept informed of the risk profile and performance of the trading portfolios.

The market risk management infrastructure in place is adequate for the Bank's present scale of operations, exposures and business range.

#### *Credit Risk*

Credit Risk is the potential financial loss resulting from the failure of the customer or counterparty to settle the financial and contractual obligations to the Bank. Credit risk arises mainly from our lending activities.

The management of credit in the Bank is governed by a set of credit policies approved by the Board of Directors. Approval authorities are delegated to the Management Loan Committee to approve large and higher risk loans in order to ensure sound credit granting standards.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**2) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

*Credit Risk (continued)*

A credit risk grading system is implemented for corporate and business loans. The grading is based on credit worthiness of the borrower, i.e. the ability to service and repay debt obligations based on the borrower's current condition, with regard to its management capacity and its market position.

Portfolio management is put in place to evaluate the credit risk exposures, the portfolio's risk profiles, and to identify any adverse trends or risk concentration patterns. The focus of portfolio management is to ensure that the risk concentration areas and unacceptable risk factors are managed and mitigated early.

*Liquidity Risk*

Liquidity risk is the risk of loss due to failure to access funds at reasonable cost to fund the Bank's operations and meet its liabilities as and when they fall due. Liquidity risk arises from the Bank's general on-going funding activities and the management of its assets.

The Board is responsible for the Bank's liquidity performance although the strategic management of liquidity has been delegated to the ALCO. The Board is however, informed regularly of the liquidity situation in the Bank.

ALCO executes the Bank's liquidity strategy including ensuring that appropriate policies and procedures are established to control and limit liquidity risk. It is also responsible for ensuring that the Bank has adequate information systems for measuring, monitoring, controlling and reporting liquidity risk.

To measure and manage net funding requirements, the Bank adopts BNM's New Liquidity Framework ('NLF'). The NLF ascertains the liquidity condition based on the contractual and behavioral cash-flow of

assets, liabilities and off-balance sheet commitments, taking into consideration the realisable cash value of the eligible liquefiable assets. The Bank has been in compliance with the NLF throughout the current financial year.

As a matter of prudence, the Bank has in place a Contingency Funding Plan.

*Operational Risk Management*

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. As such, operational risk is inherent in each of the Bank's business and operational activities. Such risks may result in breakdowns, errors and can potentially result in financial loss or other losses (e.g. reputation loss) to the Bank.

The Bank monitors and controls such risk through policies and procedures at individual business or operational activities level. These were designed taking into consideration the individual unit's business activities, the market in which it is operating and any regulatory requirement in force.

Since 2003, the Bank's Operational Risk Management team has been gathering and reporting of operational loss and "near misses" events to the Board Risk Management Committee. The Bank is currently drawing up a programme for Basel II implementation within the regulatory timeframe.

At the operational level, Internal Audit Division conducts annual audits and limited reviews on selected branches. The selection of branches is determined through a risk-based assessment process. Audits/reviews are also conducted on Head Office Divisions/Departments as well as the Bank's own subsidiaries. The focus of the audits is to provide assurance to management on the compliance with statutory requirements, laws, company policies and internal guidelines.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**2) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)***Audit and Examination Committee ('AEC')*

The AEC comprises members of the Bank's Board of Directors whose primary function is to assist the Board of Directors in its supervision over:

- (i) The reliability and integrity of accounting policies and financial reporting and disclosure practices,
- (ii) The provision of advice to the Board with regards to the financial statements and business risks to enable the Board to fulfill its fiduciary duties and obligations, and
- (iii) The establishment and maintenance of processes to ensure that they:
  - are in compliance with all applicable laws, regulations and company policies; and
  - have adequately addressed the risk relating to internal controls and systems, management of inherent and business risks, and ensuring that the assets are properly managed and safeguarded.

The AEC is made up of at least three but not more than five members appointed by the Board of Directors from among its non-executive directors.

**3) CASH AND SHORT-TERM FUNDS**

	The Group		The Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	118,977	93,488	118,969	93,486
Money at call and deposit placements maturing within one month	3,099,049	2,120,584	3,098,049	2,112,584
	<b>3,218,026</b>	<b>2,214,072</b>	<b>3,217,018</b>	<b>2,206,070</b>

**4) DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	The Group		The Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Licensed banks	90,000	75,210	90,000	75,210
Licensed finance companies	50,000	40,000	50,000	40,000
	<b>140,000</b>	<b>115,210</b>	<b>140,000</b>	<b>115,210</b>

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

5) HELD-FOR-TRADING SECURITIES	The Group		The Bank	
	2005	2004	2005	2004
At fair value	RM'000	RM'000	RM'000	RM'000
Malaysian Government securities	-	440,637	-	440,637
Cagamas bonds	-	180,555	-	180,555
Danaharta bonds	-	24,204	-	24,204
Malaysian Government investment certificates	-	122,863	-	122,863
	-	768,259	-	768,259
Unquoted securities :				
Private debt securities in Malaysia	-	272,776	-	272,776
	-	1,041,035	-	1,041,035
6) AVAILABLE-FOR-SALE SECURITIES				
	The Group		The Bank	
	2005	2004	2005	2004
At fair value	RM'000	RM'000	RM'000	RM'000
Malaysian Government treasury bills	232,311	-	232,311	-
Malaysian Government securities	263,102	638,273	263,102	638,273
Malaysian Government investment certificates	18,814	-	18,814	-
Bank Negara Malaysia notes	46,253	-	46,253	-
Cagamas bonds	246,343	160,859	246,343	160,859
Bank Negara Malaysia bills	310,327	-	310,327	-
Negotiable Islamic Debt Certificates	225,885	-	225,885	-
Negotiable Certificate of Deposits	424,863	-	424,863	-
Bankers' acceptances and Islamic accepted bills	589,293	-	589,293	-
Khazanah bonds	133,451	129,563	133,451	129,563
	2,490,642	928,695	2,490,642	928,695
Quoted securities :				
Shares in Malaysia	122,921	125,157	114,071	114,645
Private debt securities in Malaysia	25,420	57,262	25,420	55,663
Unquoted securities :				
Private debt securities in Malaysia	147,315	143,985	147,315	143,985
	2,786,298	1,255,099	2,777,448	1,242,988
Allowance for impairment of securities	(97,852)	(98,068)	(90,326)	(88,760)
	2,688,446	1,157,031	2,687,122	1,154,228
(i) Included in available-for-sale securities is an amount of RM1,248,777,000 (2004: RM875,942,000) being pledged to third parties in relation to securities sold under repurchase agreements.				
(ii) The Bank has also pledged available-for-sale securities amounting to RM493,374,000 (2004: RM369,000,000) in accordance with the Trust Deed of the subordinated term loans (Note 20).				

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

7) HELD-TO-MATURITY SECURITIES

	The Group		The Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
<b>At amortised cost</b>				
Malaysian Government securities	344,925	357,493	344,925	357,493
Cagamas bonds	60,255	60,415	60,255	60,415
Bankers' acceptances and Islamic accepted bills	-	248,454	-	248,454
Khazanah bonds	8,018	-	8,018	-
Floating rate notes	-	76,000	-	76,000
	413,198	742,362	413,198	742,362
Quoted securities :				
Private debt securities in Malaysia	58,557	45,978	45,192	45,978
Unquoted securities :				
Private debt securities in Malaysia	732,695	930,253	713,326	911,107
<b>At cost</b>				
Unquoted shares in Malaysia	62,773	53,934	62,773	53,934
	1,267,223	1,772,527	1,234,489	1,753,381
Allowance for impairment of securities	(102,080)	(116,994)	(101,629)	(116,767)
	1,165,143	1,655,533	1,132,860	1,636,614

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**8) LOANS, ADVANCES AND FINANCING**

	The Group		The Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>(i) By type</b>				
Overdrafts	1,887,804	2,321,075	1,887,804	2,321,075
Term loans/ financing				
- Housing loans/ financing	3,805,920	2,579,469	3,805,920	2,579,469
- Hire purchase receivables	6,629,743	-	6,629,743	-
- Lease receivables	-	6,034	-	6,034
- Other term loans/ financing	4,388,122	4,264,302	4,360,914	4,237,129
Bills receivables	111,565	38,729	111,565	38,729
Trust receipts	395,496	378,178	395,496	378,178
Claims on customers under acceptances credits	713,275	698,767	713,275	698,767
Staff loans/financing (of which RM Nil to Directors)	162,786	127,460	162,786	127,460
Credit / charge cards	90,545	103,779	90,545	103,779
Revolving credits	1,102,068	1,025,436	1,094,902	1,022,292
Factoring	29,605	39,547	-	-
	<b>19,316,929</b>	<b>11,582,776</b>	<b>19,252,950</b>	<b>11,512,912</b>
Less:				
Unearned interest and income	(1,824,467)	(206,505)	(1,824,467)	(206,505)
Gross loans, advances and financing	<b>17,492,462</b>	<b>11,376,271</b>	<b>17,428,483</b>	<b>11,306,407</b>
Less:				
Allowance for bad and doubtful debts and financing:				
- General	(314,456)	(208,051)	(314,039)	(207,704)
- Specific	(741,811)	(460,073)	(691,375)	(409,429)
Total net loans, advances and financing	<b>16,436,195</b>	<b>10,708,147</b>	<b>16,423,069</b>	<b>10,689,274</b>

Included in term loans are housing loans sold to Cagamas with recourse amounting to RM338,679,000 (2004: RM343,635,000) and hire purchase loans sold to Cagamas amounting to RM902,481,000 (2004 : RM NIL)

In the current financial year, the entire finance company business and net assets of Affin-ACF Finance Berhad were transferred to the Bank, pursuant to an Order of the High Court of Malaya granted under Section 50 of the Banking and Financial Institution Act, 1989 with no recourse.



NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

<b>8) LOANS, ADVANCES AND FINANCING (CONTINUED)</b>				
	The Group		The Bank	
	2005	2004	2005	2004
<b>(ii) By maturity structure</b>	RM'000	RM'000	RM'000	RM'000
Maturing within one year	6,120,771	7,187,388	6,056,792	7,117,524
One year to three years	2,271,351	760,391	2,271,351	760,391
Three years to five years	2,596,045	321,214	2,596,045	321,214
Over five years	6,504,295	3,107,278	6,504,295	3,107,278
	<b>17,492,462</b>	<b>11,376,271</b>	<b>17,428,483</b>	<b>11,306,407</b>
	The Group		The Bank	
	2005	2004	2005	2004
<b>(iii) By type of customer</b>	RM'000	RM'000	RM'000	RM'000
Domestic non-bank financial institutions				
- Stockbroking companies	359	57,340	359	42,490
- Others	130,389	254,612	130,389	254,612
Domestic business enterprises				
- Small medium enterprises	4,880,269	3,524,501	4,863,197	3,516,359
- Others	3,215,039	3,328,515	3,168,132	3,281,643
Government and statutory bodies	32,672	592,583	32,672	592,583
Individuals	8,863,544	3,358,588	8,863,544	3,358,588
Other domestic entities	28,506	200,528	28,506	200,528
Foreign entities	341,684	59,604	341,684	59,604
	<b>17,492,462</b>	<b>11,376,271</b>	<b>17,428,483</b>	<b>11,306,407</b>
	The Group		The Bank	
	2005	2004	2005	2004
<b>(iv) By interest/ profit rate sensitivity</b>	RM'000	RM'000	RM'000	RM'000
Fixed rate				
Housing loans/ financing	641,717	704,672	641,717	704,672
Hire purchase receivables	5,620,841	-	5,620,841	-
Other fixed rate loan/ financing	3,699,406	1,483,942	3,652,499	1,437,070
Variable rate				
BLR - plus	4,492,640	8,246,416	4,492,640	8,246,416
Cost - plus	3,037,858	941,241	3,020,786	918,249
	<b>17,492,462</b>	<b>11,376,271</b>	<b>17,428,483</b>	<b>11,306,407</b>

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

<b>8) LOANS, ADVANCES AND FINANCING (CONTINUED)</b>				
	The Group		The Bank	
	2005	2004	2005	2004
<b>(v) By sector</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Agriculture, hunting, forestry and fishing	187,812	90,541	187,812	90,541
Mining and quarrying	59,441	16,718	59,441	16,718
Manufacturing	1,455,345	1,556,400	1,453,528	1,551,874
Electricity, gas and water	25,983	17,677	25,983	17,677
Construction	1,546,210	1,395,291	1,539,131	1,388,195
Real estate	760,346	825,345	735,581	800,606
Purchase of landed property of which:				
- Residential	3,194,731	2,689,761	3,194,731	2,689,761
- Non-residential	671,174	680,832	671,174	680,832
Wholesale and retail trade and restaurants and hotels	1,077,576	885,513	1,064,910	869,480
Transport, storage and communication	434,128	402,050	434,128	402,050
Finance, insurance and business services	608,588	703,538	596,014	691,528
Purchase of securities	588,033	383,896	582,955	378,821
Purchase of transport vehicles	4,724,828	23,168	4,724,828	23,168
Consumption credit	647,993	383,295	647,993	383,295
Others	1,510,274	1,322,246	1,510,274	1,321,861
	<b>17,492,462</b>	<b>11,376,271</b>	<b>17,428,483</b>	<b>11,306,407</b>
	The Group		The Bank	
	2005	2004	2005	2004
<b>(vi) Movements in non-performing loans, advances and financing</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At beginning of the financial year	3,036,171	3,709,640	2,984,652	3,632,596
Balance vested over from Affin-ACF	316,326	-	316,326	-
Classified as non-performing during the financial year	764,887	728,021	764,731	726,941
Reclassified as performing during the financial year	(374,085)	(159,850)	(374,085)	(159,850)
Loans/ financing converted to securities	-	(137,776)	-	(123,863)
Amount recovered	(540,853)	(376,487)	(540,819)	(376,060)
Amount written off	(158,546)	(727,377)	(157,786)	(715,112)
At end of the financial year	3,043,900	3,036,171	2,993,019	2,984,652
Specific allowance	(741,811)	(460,073)	(691,375)	(409,429)
Net non-performing loans, advances and financing	2,302,089	2,576,098	2,301,644	2,575,223
Ratio of net non-performing loans, advances and financing to net loans, advances and financing	13.74%	23.60%	13.75%	23.63%

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

<b>8) LOANS, ADVANCES AND FINANCING (CONTINUED)</b>				
	<b>The Group</b>		<b>The Bank</b>	
<b>(vii) Movements in allowance for bad and doubtful debts and financing</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>General allowance</b>				
At beginning of the financial year	208,051	208,159	207,704	207,704
Balance vested over from Affin-ACF	106,335	-	106,335	-
Allowance made/(written back) during the financial year	70	(108)	-	-
At end of the financial year	314,456	208,051	314,039	207,704
As % of gross loans, advances and financing less specific allowance	1.88%	1.91%	1.88%	1.91%
<b>Specific allowance</b>				
At beginning of the financial year	460,073	1,015,578	409,429	954,114
Balance vested over from Affin-ACF	111,642	-	111,642	-
Allowance made during the financial year	413,589	256,564	413,373	237,756
Transfer to allowance for impairment of securities	-	(20,309)	-	(5,288)
Amount recovered	(80,296)	(84,538)	(80,107)	(83,937)
Amount written off	(163,197)	(707,222)	(162,962)	(693,216)
At end of the financial year	741,811	460,073	691,375	409,429
	<b>The Group</b>		<b>The Bank</b>	
<b>(viii) Non-performing loans, advances and financing analysed by their economic purposes</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Agriculture, hunting, forestry and fishing	1,085	8,129	1,085	8,129
Mining and quarrying	4,454	3,113	4,454	3,113
Manufacturing	378,240	411,951	376,884	410,382
Electricity, gas and water	328	8,176	328	8,173
Construction	585,551	645,406	578,487	638,351
Real estate	135,021	134,513	110,256	109,774
Purchase of landed property of which:				
- Residential	633,991	592,535	633,991	592,535
- Non-residential	156,936	160,721	156,936	160,721
Wholesale and retail trade and restaurants and hotels	160,099	326,940	158,401	324,169
Transport, storage and communication	93,180	113,149	93,180	113,149
Finance, insurance and business services	52,461	13,731	41,541	3,424
Purchase of securities	224,270	269,990	219,192	264,915
Purchase of transport vehicles	138,986	2,484	138,986	2,484
Consumption credit	98,828	76,047	98,828	76,047
Others	380,470	269,286	380,470	269,286
	3,043,900	3,036,171	2,993,019	2,984,652

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

9) OTHER ASSETS	The Group		The Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Other debtors, deposits and prepayments	55,194	27,110	53,770	26,758
Clearing accounts	5,050	6,329	5,050	6,329
Stocks and stationery	751	642	751	642
Money order and postal order purchased	1,758	1,509	1,758	1,509
Accrued income receivable	26,004	31,151	26,004	31,151
Foreclosed properties (a)	78,037	27,564	78,037	27,564
Derivative assets (b)	5,972	11,138	5,972	11,138
	<b>172,766</b>	<b>105,443</b>	<b>171,342</b>	<b>105,091</b>
<b>(a) Foreclosed properties</b>				
As at beginning of the financial year	27,564	19,385	27,564	19,385
Amount arising during the financial year	51,920	8,179	51,920	8,179
	<b>79,484</b>	<b>27,564</b>	<b>79,484</b>	<b>27,564</b>
Allowance for impairment losses	(1,447)	-	(1,447)	-
As at end of the financial year	<b>78,037</b>	<b>27,564</b>	<b>78,037</b>	<b>27,564</b>
<b>(b) Derivative assets</b>				
	The Group and the Bank		The Group and the Bank	
	2005		2004	
	Contract/ notional amount	Assets	Contract/ notional amount	Assets
<b>At fair value</b>	RM'000	RM'000	RM'000	RM'000
Foreign exchange derivatives:				
Currency forwards	2,114,201	766	644,554	137
Interest rate derivatives:				
Interest rate swap	1,193,556	2,741	1,633,200	8,466
Exchange-traded interest rate futures	4,483,000	2,465	10,470,000	2,535
	<b>7,790,757</b>	<b>5,972</b>	<b>12,747,754</b>	<b>11,138</b>

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**10) DEFERRED TAXATION ASSETS (NET)**

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 tax authority. The following amounts determined after appropriate offsetting, are shown in the balance sheet:

	The Group		The Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Deferred tax assets	185,751	209,809	191,255	215,337
Deferred tax liabilities	(33,898)	(26,075)	(33,846)	(25,941)
	<b>151,853</b>	<b>183,734</b>	<b>157,409</b>	<b>189,396</b>
As at beginning of the financial year	183,734	201,435	189,396	207,123
Balance vested over from Affin-ACF	28,812	-	28,812	-
Transfer from income statement (Note 30)	(60,693)	(17,701)	(60,799)	(17,727)
As at end of the financial year	<b>151,853</b>	<b>183,734</b>	<b>157,409</b>	<b>189,396</b>

The movements in deferred tax assets and liabilities during the financial year are as follows:

Deferred tax assets/(liabilities)	Excess of capital allowances over depreciation RM'000	General allowance on loans, advances and financing RM'000	Unabsorbed tax losses RM'000	Other temporary differences RM'000	Total RM'000
<b>Group</b>					
<b>2005</b>					
As at beginning of the financial year	(16,758)	58,255	148,258	(6,021)	183,734
Balance vested over from Affin-ACF	(1,183)	29,774	-	221	28,812
As restated	(17,941)	88,029	148,258	(5,800)	212,546
Credited/(charged) to income statement	(518)	19	(53,811)	(6,383)	(60,693)
As at end of the financial year	<b>(18,459)</b>	<b>88,048</b>	<b>94,447</b>	<b>(12,183)</b>	<b>151,853</b>
<b>2004</b>					
As at beginning of the financial year	(10,025)	58,285	161,467	(8,292)	201,435
Credited/(charged) to income statement	(6,733)	(30)	(13,209)	2,271	(17,701)
As at end of the financial year	<b>(16,758)</b>	<b>58,255</b>	<b>148,258</b>	<b>(6,021)</b>	<b>183,734</b>

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

10) DEFERRED TAXATION ASSETS (NET) (CONTINUED)

Deferred tax assets/(liabilities)	Excess of capital allowances over depreciation RM'000	General allowance on loans, advances and financing RM'000	Unabsorbed tax losses RM'000	Other temporary differences RM'000	Total RM'000
<b>Bank</b>					
<b>2005</b>					
As at beginning of the financial year	(16,626)	58,157	148,258	(393)	189,396
Balance vested over from Affin-ACF	(1,183)	29,774	-	221	28,812
As restated	(17,809)	87,931	148,258	(172)	218,208
Credited/(charged) to income statement	(599)	-	(53,811)	(6,389)	(60,799)
As at end of the financial year	(18,408)	87,931	94,447	(6,561)	157,409
<b>2004</b>					
As at beginning of the financial year	(9,883)	58,157	161,467	(2,618)	207,123
Credited/(charged) to income statement	(6,743)	-	(13,209)	2,225	(17,727)
As at end of the financial year	(16,626)	58,157	148,258	(393)	189,396

11) STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

A non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with requirements of Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amount of which is determined at a set percentage of total eligible liabilities.

12) SUBSIDIARY COMPANIES

	The Bank	
	2005 RM'000	2004 RM'000
Unquoted shares, at cost	59,557	59,557
Less : Allowance for impairment losses	(20,079)	(20,099)
	39,478	39,458
Amounts due (to)/ from subsidiary companies	(2,524)	1,553
	36,954	41,011

Amounts due (to)/ from subsidiary companies are unsecured, interest free and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**12) SUBSIDIARY COMPANIES (CONTINUED)**

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

Name	Principal activities	Percentage of equity held	
		2005	2004
		%	%
Affin Factors Sdn Bhd	Factoring credit facilities	100	100
PAB Properties Sdn Bhd	Property management services	100	100
ABB Nominee (Tempatan) Sdn Bhd	Share nominee services	100	100
ABB Nominee (Asing) Sdn Bhd	Share nominee services	100	100
ABB Trustee Berhad*	Trustee management services	100	100
Affin Futures Sdn Bhd	Dormant	100	100
PAB Property Management Services Sdn Bhd	Dormant	100	100
PAB Property Development Sdn Bhd	Dormant	100	100
ABB Venture Capital Sdn Bhd	Dormant	100	100
ABB IT & Services Sdn Bhd	Dormant	100	100
BSNCB Nominees (Tempatan) Sdn Bhd	Dormant	100	100
BSNC Nominees (Tempatan) Sdn Bhd	Dormant	100	100
ABB Asset Management (M) Bhd (formerly known as BSNC Asset Management (M) Bhd)	Dormant	100	100
BSN Merchant Bank Berhad	Dormant	100	100
BSN Merchant Nominees (Tempatan) Sdn Bhd	Dormant	100	100
BSN Merchant Nominees (Asing) Sdn Bhd	Dormant	100	100
Affin-ACF Nominees (Tempatan) Sdn Bhd	Dormant	100	-
PAB Property Trust Management Berhad**	Dormant	-	100
BSNC Venture Capital Sdn Bhd**	Dormant	-	100
Barakah Corporation Sdn Bhd**	Dormant	-	100

\* 80% held by Directors of the Bank, in trust for the Bank.

\*\* These dormant subsidiaries were deregistered during the financial year

**13) ASSOCIATED COMPANY**

	The Group and the Bank	
	2005	2004
	RM'000	RM'000
Unquoted shares, at cost	30	30

The associated company of the Bank, which is incorporated in Malaysia, is as follows:

Name	Principal activity	Percentage of equity held	
		2005	2004
		%	%
BSNC Trustee Berhad	Dormant	20	20

The results of the associated company was not equity accounted for by the Group as the associated company is dormant.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

14) PROPERTY, PLANT AND EQUIPMENT												
The Group 2005	Freehold land		Leasehold land		Buildings		Office equipment		Computer equipment		Capital work-in-progress	
	RM'000	RM'000	50 years or more	Less than 50 years	on freehold land	on leasehold land	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Cost</b>												
As at beginning of the financial year	20,857	4,096	1,297	69,456	103,426	85,900	54,275	244,087	4,222	18,736	606,352	
- Additions/ transfer	2,308	3,027	-	5,913	3,116	3,520	4,065	44,260	1,190	29,709	97,108	
- Disposals	(210)	-	-	(3,373)	(2,185)	(1,321)	(1,752)	(396)	(923)	(4)	(10,164)	
- Write-off	-	-	-	-	-	(2,719)	(2,141)	(79,133)	(71)	(592)	(84,656)	
- Reclassification	-	-	-	-	-	-	-	35,204	-	(35,204)	-	
As at end of the financial year	22,955	7,123	1,297	71,996	104,357	85,380	54,447	244,022	4,418	12,645	608,640	
<b>Accumulated depreciation</b>												
As at beginning of the financial year	-	466	664	11,514	11,515	78,777	35,359	185,805	2,602	-	326,702	
- Charge for the financial year	65	79	32	1,347	2,041	6,064	4,295	32,809	814	-	47,546	
- Write back of over depreciation	(65)	(42)	-	-	-	(381)	(248)	(15,604)	(8)	-	(16,348)	
- Disposals	-	-	-	(523)	(391)	(1,311)	(1,188)	(370)	(894)	-	(4,677)	
- Write-off	-	-	-	-	-	(2,549)	(1,681)	(44,438)	(70)	-	(48,738)	
As at end of the financial year	-	503	696	12,338	13,165	80,600	36,537	158,202	2,444	-	304,485	
<b>Impairment losses</b>												
As at beginning of the financial year	-	-	-	-	-	-	-	33,358	-	10,849	44,207	
- Charge for the financial year	-	-	-	-	-	-	-	-	-	-	-	
- Write off	-	-	-	-	-	-	-	(33,358)	-	(1,416)	(34,774)	
As at end of the financial year	-	-	-	-	-	-	-	-	-	9,433	9,433	
<b>Net book value as at end of the financial year</b>	22,955	6,620	601	59,658	91,192	4,780	17,910	85,820	1,974	3,212	294,722	



NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

<b>14) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)</b>													
The Group 2004	Freehold land		Leasehold land		Buildings		Office equipment		Computer equipment		Capital work-in-progress		Total
	RM'000	RM'000	50 years or more	Less than 50 years	on land	on leasehold land	furniture	and software	and vehicles	and motor work-in-progress	RM'000	RM'000	
<b>Cost</b>													
As at beginning of the financial year	20,857	4,123	1,297	69,456	105,462	87,594	55,487	228,342	4,907	16,727	594,252		
- Additions	-	-	-	-	-	843	647	12,953	715	7,740	22,898		
- Disposals	-	(27)	-	-	(2,036)	(1,666)	(1,026)	-	(1,057)	-	(5,812)		
- Write-off	-	-	-	-	-	(870)	(834)	(2,939)	(343)	-	(4,986)		
- Reclassification	-	-	-	-	-	(1)	1	5,731	-	(5,731)	-		
As at end of the financial year	20,857	4,096	1,297	69,456	103,426	85,900	54,275	244,087	4,222	18,736	606,352		
<b>Accumulated depreciation</b>													
As at beginning of the financial year	-	442	633	10,125	9,684	72,646	32,189	160,731	2,889	-	289,339		
- Charge for the financial year	-	30	31	1,389	2,068	8,556	4,603	27,895	647	-	45,219		
- Write back of over depreciation	-	-	-	-	-	-	-	-	-	-	-		
- Disposals	-	(6)	-	-	(237)	(1,555)	(667)	-	(860)	-	(3,325)		
- Write-off	-	-	-	-	-	(870)	(766)	(2,821)	(74)	-	(4,531)		
As at end of the financial year	-	466	664	11,514	11,515	78,777	35,359	185,805	2,602	-	326,702		
<b>Impairment losses</b>													
As at beginning of the financial year	-	-	-	-	-	-	-	-	-	-	-		
- Charge for the financial year	-	-	-	-	-	-	-	33,358	-	10,849	44,207		
- Write off	-	-	-	-	-	-	-	-	-	-	-		
As at end of the financial year	-	-	-	-	-	-	-	33,358	-	10,849	44,207		
<b>Net book value as at end of the financial year</b>	<b>20,857</b>	<b>3,630</b>	<b>633</b>	<b>57,942</b>	<b>91,911</b>	<b>7,123</b>	<b>18,916</b>	<b>24,924</b>	<b>1,620</b>	<b>7,887</b>	<b>235,443</b>		

The impairment of property, plant and equipment arose from the replacement of computer equipment and software (including work-in-progress) of the Bank.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

14) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)													
The Bank 2005	Leasehold Buildings				Buildings		Office equipment		Computer equipment		Capital work-in-progress		Total
	Freehold land RM'000	land 50 years or more RM'000	land on freehold leasehold RM'000	on leasehold land RM'000	Renovation RM'000	furniture and equipment RM'000	and software RM'000	and vehicles RM'000	and motor work-in-progress RM'000	RM'000	RM'000	RM'000	
<b>Cost</b>													
As at beginning of the financial year	17,860	2,206	67,820	102,236	84,624	54,061	242,301	4,170	18,736	594,014			
- Additions/ transfer	2,308	3,027	5,913	3,116	3,520	4,060	44,256	1,190	29,709	97,099			
- Disposals	(210)	-	(3,373)	(2,185)	(1,321)	(1,752)	(396)	(923)	(4)	(10,164)			
- Write-off	-	-	-	-	(2,719)	(2,140)	(79,133)	(71)	(592)	(84,655)			
- Reclassification	-	-	-	-	-	-	35,204	-	(35,204)	-			
As at end of the financial year	19,958	5,233	70,360	103,167	84,104	54,229	242,232	4,366	12,645	596,294			
<b>Accumulated depreciation</b>													
As at beginning of the financial year	-	295	10,821	11,022	77,503	35,220	184,319	2,591	-	321,771			
- Charge for the financial year	65	71	1,315	2,017	6,062	4,280	32,621	795	-	47,226			
- Write back of over depreciation	(65)	(42)	-	-	(381)	(248)	(15,604)	(8)	-	(16,348)			
- Disposals	-	-	(523)	(391)	(1,311)	(1,188)	(370)	(894)	-	(4,677)			
- Write-off	-	-	-	-	(2,549)	(1,681)	(44,438)	(70)	-	(48,738)			
As at end of the financial year	-	324	11,613	12,648	79,324	36,383	156,528	2,414	-	299,234			
<b>Impairment losses</b>													
As at beginning of the financial year	-	-	-	-	-	-	33,358	-	10,849	44,207			
- Charge for the financial year	-	-	-	-	-	-	-	-	-	-			
- Write-off	-	-	-	-	-	-	(33,358)	-	(1,416)	(34,774)			
As at end of the financial year	-	-	-	-	-	-	-	-	9,433	9,433			
<b>Net book value as at end of the financial year</b>	<b>19,958</b>	<b>4,909</b>	<b>58,747</b>	<b>90,519</b>	<b>4,780</b>	<b>17,846</b>	<b>85,704</b>	<b>1,952</b>	<b>3,212</b>	<b>287,627</b>			

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

14) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)															
The Bank 2004	Freehold land		Leasehold land 50 years or more		Buildings on leasehold land		Renovation		Office equipment and furniture		Computer equipment and software		Motor vehicles and work-in-progress		Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Cost</b>															
As at beginning of the financial year	17,860	2,233	67,820	104,271	86,302	55,053	225,370	4,855	16,727	580,491					
- Additions	-	-	-	-	843	647	12,953	715	7,740	22,898					
- Disposals	-	(27)	-	(2,035)	(1,666)	(1,026)	-	(1,057)	-	(5,811)					
- Write-off	-	-	-	-	(855)	(613)	(1,753)	(343)	-	(3,564)					
- Reclassification	-	-	-	-	-	-	5,731	-	(5,731)	-					
As at end of the financial year	17,860	2,206	67,820	102,236	84,624	54,061	242,301	4,170	18,736	594,014					
<b>Accumulated depreciation</b>															
As at beginning of the financial year	-	278	9,465	9,214	71,362	31,846	158,249	2,898	-	283,312					
- Charge for the financial year	-	22	1,356	2,045	8,551	4,586	27,704	627	-	44,891					
- Write back of over depreciation	-	-	-	-	-	-	-	-	-	-					
- Disposals	-	(5)	-	(237)	(1,555)	(667)	-	(860)	-	(3,324)					
- Write-off	-	-	-	-	(855)	(545)	(1,634)	(74)	-	(3,108)					
As at end of the financial year	-	295	10,821	11,022	77,503	35,220	184,319	2,591	-	321,771					
<b>Impairment losses</b>															
As at beginning of the financial year	-	-	-	-	-	-	-	-	-	-					
- Charge for the financial year	-	-	-	-	-	-	33,358	-	-	10,849					
- Write-off	-	-	-	-	-	-	-	-	-	-					
As at end of the financial year	-	-	-	-	-	-	33,358	-	-	10,849					
<b>Net book value as at end of the financial year</b>	<b>17,860</b>	<b>1,911</b>	<b>56,999</b>	<b>91,214</b>	<b>7,121</b>	<b>18,841</b>	<b>24,624</b>	<b>1,579</b>	<b>7,887</b>	<b>228,036</b>					
The impairment of property, plant and equipment arose from the replacement of computer equipment and software (including work-in-progress) of the Bank.															

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

15) GOODWILL

	The Group		The Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
<b>Cost</b>				
As at beginning/ end of the financial year	179,205	179,205	183,098	183,098
<b>Less: Accumulated amortisation</b>				
As at beginning of the financial year	(36,620)	(27,465)	(36,620)	(27,465)
Amortised during the financial year	(9,155)	(9,155)	(9,155)	(9,155)
As at end of the financial year	(45,775)	(36,620)	(45,775)	(36,620)
Net book value as at end of the financial year	133,430	142,585	137,323	146,478

16) DEPOSITS FROM CUSTOMERS

	The Group		The Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
<b>(i) By type of deposit</b>				
Demand deposits	3,063,094	3,085,443	3,065,131	3,088,812
Savings deposits	1,086,355	1,292,236	1,086,355	1,292,236
Fixed deposits	11,170,907	7,079,018	11,171,843	7,079,768
Negotiable instrument of deposits	2,518,742	1,492,132	2,518,742	1,492,132
	17,839,098	12,948,829	17,842,071	12,952,948
<b>(ii) By type of customer</b>				
Government and statutory bodies	2,398,748	1,532,571	2,398,748	1,532,571
Business enterprises	5,252,854	4,137,447	5,252,854	4,137,447
Individuals	4,310,609	2,726,973	4,310,609	2,726,973
Others	5,876,887	4,551,838	5,879,860	4,555,957
	17,839,098	12,948,829	17,842,071	12,952,948

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**17) DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	The Group and the Bank	
	2005 RM'000	2004 RM'000
Licensed banks	579,298	471,010
Licensed finance companies	56,000	–
Licensed merchant banks	118,230	–
Bank Negara Malaysia	107,814	–
Other financial institutions	44,600	–
	<b>905,942</b>	<b>471,010</b>

**18) RECOURSE OBLIGATION ON LOANS SOLD TO CAGAMAS BERHAD**

In the normal course of banking operations, the Bank sells loans to Cagamas Berhad with recourse to the Bank at values equivalent to the unpaid principal balances of loans and advances due from the borrowers.

The Bank is liable in respect of housing loans and hire purchase receivables sold directly to Cagamas Berhad, under the condition that the Bank undertakes to administer these loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on an agreed prudential criteria. Such financing transactions and the obligations to buy back the loans are reflected as a liability on the balance sheet.

**19) OTHER LIABILITIES**

	The Group		The Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Bank Negara Malaysia and Credit Guarantee Corporation Funding Programmes	260,789	240,878	260,789	240,878
Margin and collateral deposits	16,079	12,884	16,079	12,884
Accrued interest payable	122,357	95,878	122,357	95,878
Sundry creditors	182,894	109,925	175,735	103,155
Clearing accounts	100,232	265,116	100,232	265,116
Profit equalisation reserve	5,707	–	5,707	–
Defined contribution plan (Note a)	6,179	4,005	6,179	4,005
Accrued employee benefits (Note b)	747	747	747	747
Derivative liabilities (Note c)	2,057	9,765	2,057	9,765
	<b>697,041</b>	<b>739,198</b>	<b>689,882</b>	<b>732,428</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**19) OTHER LIABILITIES (CONTINUED)**

(a) The Group and the Bank contributes to the Employee Provident Fund ('EPF'), the national defined contribution plan. Once the contributions have been paid, the Group and the Bank has no further payment obligations.

(b) This refers to the accruals for short-term employee benefits for leave entitlement. Under employment contract, employees earn their leave entitlement which they are entitled to carry forward and will lapse if not utilised in the following accounting period. Accruals are made for the estimated liability for unutilised annual leave.

(c) Derivative liabilities:

	The Group and the Bank		The Group and the Bank	
	2005		2004	
	Contract/ notional amount	Liabilities	Contract/ notional amount	Liabilities
<b>At fair value</b>	RM'000	RM'000	RM'000	RM'000
Foreign exchange derivatives:				
Currency forwards	2,114,201	395	644,554	320
Interest rate derivatives:				
Interest rate swap	1,193,556	1,581	1,633,200	9,073
Exchange-traded interest rate futures	4,483,000	81	10,470,000	372
	<b>7,790,757</b>	<b>2,057</b>	<b>12,747,754</b>	<b>9,765</b>

**20) SUBORDINATED TERM LOAN**

The subordinated Bonds 2002/2006 ('The Bonds') were issued at a nominal value of RM500 million in multiples of RM1,000,000, which is subordinated to all other liabilities. The Bonds were constituted by Trust Deeds dated 28 December 2001 and was issued on 31 December 2001. The Bonds are unsecured and redeemable in full on 31 December 2006, five years from the issue date.

On 31 December 2004, the Bank restructured the Bonds into a new 10 year subordinated term loan of the same value, with a revised coupon rate. The principal terms and conditions of the subordinated term loan remain similar to the Bonds. The new subordinated term loan will have a prepayment option after the end of Year 5, giving the Bank the right, subject to BNM approval, to repay the subordinated term loan after the end of Year 5.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**20) SUBORDINATED TERM LOAN (CONTINUED)**

The nominal value and coupon rate of the subordinated term loan, payable semi-annually, are as follows:

Value:	RM500 million
Coupon rate:	7.3% per annum for a period of thirty two months from the issue date, 6.80% per annum for the next sixteen months, 6.25% per annum for the next twenty four months and thereafter the higher of 5 year Malaysian Government Securities interest rate plus 300 basis points or
Year 6	6.75%
Year 7	7.25%
Year 8	7.75%
Year 9	8.25%
Year 10	8.75%

In respect of the subordinated term loan, the Bank has undertaken to pledge the Bank's securities of RM10,000,000 every month beginning from one month after the issue date (31 January 2004) till the end of the third year after the issue date. These securities may only be used to fund the payment of any monies under the Trust Deed and/or the subordinated term loan which is due and unpaid.

**21) SHARE CAPITAL**

	The Group and the Bank	
	2005 RM'000	2004 RM'000
<b>Authorised ordinary shares of RM1 each:</b>		
As at beginning/ end of the financial year	2,000,000	2,000,000
<b>Issued and fully paid:</b>		
As at beginning of the financial year	1,017,281	1,017,281
Issued during the year	273,002	–
As at end of the financial year	1,290,283	1,017,281

**22) RESERVES**

	The Group		The Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Share premium	293,657	190,735	293,657	190,735
Investment fluctuation reserves	(4,371)	6,449	(5,528)	3,812
Statutory reserves	253,294	171,612	253,294	171,612
Retained profits	258,957	173,150	253,293	171,612
	801,537	541,946	794,716	537,771
<b>Statutory reserves</b>				
As at beginning of the financial year	171,612	88,277	171,612	88,277
Transfer from retained profits	81,682	83,335	81,682	83,335
As at end of the financial year	253,294	171,612	253,294	171,612

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**23) INTEREST INCOME**

	The Group		The Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Loans, advances and financing	846,958	616,000	846,819	614,981
- Interest income other than recoveries from NPLs	752,397	483,119	752,867	483,959
- Recoveries from NPLs	94,561	132,881	93,952	131,022
Money at call and deposit placements with financial institutions	101,200	67,682	101,200	67,682
Securities:				
Held-for-trading	13,730	44,133	13,730	44,133
Available-for-sale	36,460	6,833	36,460	6,833
Held-to-maturity	55,666	68,584	55,666	68,584
	1,054,014	803,232	1,053,875	802,213
Amortisation of premium less accretion of discount	5,730	(6,047)	5,730	(6,047)
Interest suspended	(19,440)	(14,041)	(19,440)	(14,041)
	1,040,304	783,144	1,040,165	782,125

**24) INTEREST EXPENSE**

	The Group		The Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Deposits and placements of banks and other financial institutions	22,746	20,769	22,746	20,769
Deposits from customers	375,982	284,914	375,997	284,930
Subordinated term loan/ bonds	35,548	39,162	35,548	39,162
Loans sold to Cagamas	38,077	15,483	38,077	15,483
Others	13,489	38,059	13,489	38,059
	485,842	398,387	485,857	398,403



NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

	The Group		The Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
<b>25) OTHER OPERATING INCOME</b>				
<b>Fee income</b>				
Commission	19,433	17,193	19,433	17,193
Service charges and fees	64,065	40,063	64,065	40,063
Guarantee fees	35,895	19,466	35,895	19,466
Other fee income	659	1,114	659	1,114
	120,052	77,836	120,052	77,836
<b>Securities income</b>				
(Loss)/ gain on sale of securities:				
- Held-for-trading	(14,592)	1,468	(14,592)	1,468
- Available-for-sale	7,749	30,783	7,601	30,783
- Held-to-maturity	7,307	26,413	7,307	28,280
Revaluation gain/ (loss) on trading	9,696	(5,216)	9,695	(5,216)
Unrealised/ realised gains/ (losses) on derivatives	5,111	3,607	5,111	3,607
Gross dividends from Malaysia:				
- Available-for-sale securities	384	486	384	486
- Held-to-maturity securities	2,846	2,723	2,084	2,531
	18,501	60,264	17,590	61,939
<b>Other income</b>				
Foreign exchange (loss)/ profit				
- realised	(2,725)	(2,223)	(2,725)	(2,223)
- unrealised	41,998	33,254	41,998	33,254
Rental income	1,322	1,365	1,271	1,314
Gain on sale of property, plant and equipment	2,779	2,648	2,779	2,648
Other non-operating income	32,463	27,224	28,600	15,377
	75,837	62,268	71,923	50,370
	214,390	200,368	209,565	190,145

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**26) OTHER OPERATING EXPENSES**

	The Group		The Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Personnel costs	203,264	163,090	202,083	162,053
Establishment costs	121,627	118,283	121,339	118,058
Marketing expenses	28,644	6,078	28,591	6,019
Administration and general expenses	48,149	56,126	47,759	54,871
	<b>401,684</b>	<b>343,577</b>	<b>399,772</b>	<b>341,001</b>

	The Group		The Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Personnel costs comprise the following:				
Wages, salaries and bonus	145,456	112,762	144,470	111,907
Defined contribution plan ('EPF')	22,730	20,249	22,590	20,113
Termination benefits (see below)	15,001	15,751	15,001	15,751
Other personnel costs	20,077	14,328	20,022	14,282
	<b>203,264</b>	<b>163,090</b>	<b>202,083</b>	<b>162,053</b>

Termination benefits mainly comprise the payment made for Voluntary Separation Scheme ('VSS'). The VSS was carried out to optimise the resources and remain competitive in the industry.

Personnel cost includes directors' remuneration which is disclosed further in Note 29.

	The Group		The Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Establishment costs comprise the following:				
Rental of premises	16,795	15,489	17,185	15,395
Equipment rental	4,926	4,651	4,871	4,618
Repair and maintenance	22,055	22,584	22,032	23,584
Depreciation	47,546	45,219	47,226	44,891
Other establishment costs	30,305	30,340	30,025	29,570
	<b>121,627</b>	<b>118,283</b>	<b>121,339</b>	<b>118,058</b>

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**26) OTHER OPERATING EXPENSES (CONTINUED)**

	The Group		The Bank	
	2005	2004	2005	2004
Marketing expense comprise the following:	RM'000	RM'000	RM'000	RM'000
Dealers' handling charges	21,346	-	21,346	-
Business promotion and advertisement	1,550	2,297	1,549	2,297
Entertainment	1,671	994	1,669	994
Travelling and accommodation	2,705	1,568	2,666	1,568
Other marketing expenses	1,372	1,219	1,361	1,160
	<b>28,644</b>	<b>6,078</b>	<b>28,591</b>	<b>6,019</b>
	The Group		The Bank	
Administration and general expenses comprise the following:	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Telecommunication expenses	4,456	4,644	4,417	4,644
Audit expenses	581	540	552	501
Professional fees	6,578	3,427	6,557	3,427
Fixed asset written off	1,143	8,534	1,143	8,536
Other administration and general expenses	35,391	38,981	35,090	37,763
	<b>48,149</b>	<b>56,126</b>	<b>47,759</b>	<b>54,871</b>
	The Group		The Bank	
The above expenditure includes the following statutory disclosure:	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Directors' remuneration (Note 29)	3,419	2,154	3,419	2,154
Rental of premises	16,795	15,489	17,185	15,395
Hire of equipment	4,926	4,651	4,871	4,618
Lease rental	-	67	-	-
Auditors' remuneration				
- statutory audit fees	507	458	478	419
- non audit fees	74	82	74	82
Depreciation of property, plant and equipment	47,546	45,219	47,226	44,891
Property, plant and equipment written off	1,143	455	1,143	455
Writeback on diminution of subsidiaries	-	-	(20)	(164)
Goodwill amortisation	9,155	9,155	9,155	9,155

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

27) ALLOWANCE FOR LOSSES ON LOANS, ADVANCES AND FINANCING

	The Group		The Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Allowance for bad and doubtful debts on loans and financing				
(a) Specific allowance				
- made in the financial year	413,589	256,564	413,373	237,756
- written back	(80,296)	(84,538)	(80,107)	(83,937)
(b) General allowance				
- made/(written back) in the financial year	70	(108)	-	-
Bad debts and financing				
- Recovered	(134,722)	(100,501)	(133,645)	(100,149)
- Written off	2,982	3,314	2,982	3,314
	201,623	74,731	202,603	56,984

During the year the Bank has made RM136 million specific provision as a result of collateral writedown for loans above seven years as at 31 December 2005.

28) SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

Related parties and their relationship with the Bank are as follows:

Lembaga Tabung Angkatan Tentera	Ultimate holding corporate body
Affin Holdings Berhad	Holding company
Affin-ACF Holdings Sdn Bhd	Subsidiary of holding company
Affin Discount Berhad	Subsidiary of holding company
Affin Merchant Bank Berhad	Subsidiary of holding company
Affin-Capital Holdings Sdn Bhd	Subsidiary of holding company
Affin Moneybrokers Sdn Bhd	Subsidiary of holding company
Affin Corporate Services Sdn Bhd	Subsidiary of holding company
Affin Fund Management Sdn Bhd	Subsidiary of holding company
Indolight Sdn Bhd	Subsidiary of holding company
AXA-Affin Assurance Bhd	Associated company of holding company
Boustead Properties Bhd	Subsidiary of ultimate holding corporate body

The subsidiary companies of the Bank are those as disclosed in Note 12 to the financial statements.

Other related parties comprise of related companies, being subsidiaries of the ultimate holding corporate body.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

28) SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	Ultimate holding corporate body	Holding company	Subsidiary companies	Other related companies
2005	RM'000	RM'000	RM'000	RM'000
<b>Income</b>				
Interest on placements	-	-	470	6,582
Other income	-	-	681	-
	-	-	1,151	6,582
<b>Expenditure</b>				
Rental	1,430	-	480	9,636
Interest on advances and deposits	7,638	3,594	15	2,316
Interest on borrowing	-	-	-	5,161
Interest on repo	417	11	-	-
Brokerage fee	-	-	-	248
Others	-	76	-	1,568
	9,485	3,681	495	18,929
<b>Amount due to</b>				
Short term advances	37,301	-	5,987	-
Demand and fixed deposits	63,886	853	2,973	62,995
Negotiable instrument deposits	-	-	-	110,000
Interbank placement	-	-	-	10,440
	101,187	853	8,960	183,435
<b>Amount due from</b>				
Short term advances	-	-	3,463	-
	-	-	3,463	-

The significant related party transactions and balances described above were carried out on terms and conditions obtainable on transactions with unrelated parties except for amount due from subsidiaries of RM 2.5 million (2004: RM1.6 million) which is interest free. All short term advances have no fixed terms for repayments.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

28) SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

2004	Ultimate holding corporate body RM'000	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
<b>Income</b>				
Interest on placements	-	-	-	15,642
Other income	-	-	523	-
	-	-	523	15,642
<b>Expenditure</b>				
Rental	397	-	480	9,636
Interest on advances and deposits	5,241	586	16	915
Interest on borrowing	-	-	-	11,678
Interest on repo	682	-	-	-
Interest on subordinated bond	2,562	-	-	-
Brokerage fee	-	-	-	262
Others	-	-	-	259
	8,882	586	496	22,750
<b>Amount due to</b>				
Short term advances	-	78	6,071	-
Demand and fixed deposits	195,237	33,120	4,119	91,135
Bankers' acceptances	-	-	-	67,615
	195,237	33,198	10,190	158,750
<b>Amount due from</b>				
Short term advances	-	-	7,624	-
Term placement	-	-	-	919
	-	-	7,624	919

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**29) CEO, DIRECTORS AND SYARIAH COMMITTEE'S REMUNERATION**

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

**Executive Director**

*Dato' Abdul Hamidy bin Abdul Hafiz*

**Non-Executive Directors**

*Jen (B) Tan Sri Dato' Seri Ismail bin Haji Omar*

*Tan Sri Dato' Haji Lodin bin Wok Kamaruddin*

*Dr. Raja Abdul Malek bin Raja Jallaludin*

*Datuk Razman Md. Hashim bin Che Din Md. Hashim*

*Dato' Abdul Aziz bin Abdul Rahman*

*Laksamana Madya (B) Dato' Seri Ahmad Ramli bin Mohd Nor*

*Dato' Dr. Lee Chee Kuon*

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

	The Group		The Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Executive Directors:</b>				
- Salaries	1,270	1,200	1,270	1,200
- Bonuses	1,110	216	1,110	216
- Defined contribution plan (EPF)	382	170	382	170
- Other employee benefits	35	-	35	-
- Benefits-in-kind	28	22	28	22
<b>Non Executive Directors:</b>				
- Fees	571	523	571	523
- Benefits-in-kind	23	23	23	23
Syariah Committee	7	6	7	6
	<b>3,426</b>	<b>2,160</b>	<b>3,426</b>	<b>2,160</b>

The remuneration attributable to the Managing Director / Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM2,825,000 (2004: RM1,608,000).

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**29) CEO, DIRECTORS AND SYARIAH COMMITTEE'S REMUNERATION (CONTINUED)**

Directors' remuneration band as follows:

	Number of directors	
	Executive Director	Non-executive Director
Remuneration band:		
RM50,000 - RM100,000	–	6
RM150,000 - RM200,000	–	1
RM2,800,000 - RM2,850,000	1	–

**30) TAXATION**

	The Group		The Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
The taxation charge arising in Malaysia for the financial year				
- Current taxation	8	(512)	–	–
- Deferred taxation (Note 10)	60,693	17,701	60,799	17,727
	60,701	17,189	60,799	17,727

No provision for taxation is required in respect of the Bank's earnings for the current financial year due to the offset of its taxable profits with its unabsorbed business losses brought forward from previous year of approximately RM536,354,000.

Subject to agreement of the Inland Revenue Board, the Bank has unabsorbed tax losses of approximately RM337,311,000 (2004: RM536,354,000) available for set-off against future taxable income.



NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**30) TAXATION (CONTINUED)**

The reconciliation between the applicable statutory income tax rate to the effective income tax rate of the Group and the Bank are as follows:

	The Group		The Bank	
	2005	2004	2005	2004
	%	%	%	%
Statutory tax rate in Malaysia	<b>28.00</b>	28.00	<b>28.00</b>	28.00
Tax effect in respect of				
- Non allowable expenses	<b>0.62</b>	12.74	<b>0.81</b>	11.73
- Non taxable income	<b>(0.47)</b>	(0.60)	<b>(0.48)</b>	(0.68)
Utilisation of previously unrecognised tax losses :				
- deferred tax	<b>(1.68)</b>	(30.30)	<b>(1.35)</b>	(29.21)
Average effective tax rate	<b>26.47</b>	9.84	<b>26.98</b>	9.84

	The Group		The Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Tax savings during the financial year arising from previously unrecognised tax losses	<b>3,850</b>	52,909	<b>3,059</b>	52,634
Unutilised tax losses for which no deferred tax asset is recognised	<b>113,285</b>	119,252	-	-

**31) EARNINGS PER SHARE**

The earnings per share for the financial year have been calculated based on the net profit after taxation and zakat of the Group of RM167,489,000 (2004: RM161,653,000), and of the Bank of RM163,363,000 (2004: RM166,670,000) divided by the weighted average number of ordinary shares of RM1 each in issue during the financial year of 1,176,594,000 (2004: 1,017,281,000).

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**32) DIVIDENDS**

Dividends proposed in respect of the financial year ended 31 December 2005 are as follows:

	The Group and the Bank		The Group and the Bank	
	2005		2004	
	Gross dividend per share	Amount of dividend net of tax	Gross dividend per share	Amount of dividend net of tax
	sen	RM'000	sen	RM'000
Proposed final dividend	3	27,870	-	-

The Directors now recommend the payment of a first and final gross dividend of 3 sen per share on 1,290,283,000 ordinary shares, less income tax of 28%, amounting to RM27,870,000 for the financial year ended 31 December 2005, which is subject to the members' approval at the forthcoming Annual General Meeting of the Bank. These financial statements do not reflect this final dividend which will be accrued as liability in the financial year ending 31 December 2006 when approved by the shareholders in the Annual General Meeting.

**33) COMMITMENTS AND CONTINGENCIES**

(i) 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. No material losses are anticipated as a result of these transactions.

The commitments and contingencies consist of:

	The Group			The Group		
	2005			2004		
	Principal amount	Credit equivalent amount*	Risk-weighted amount*	Principal amount	Credit equivalent amount*	Risk-weighted amount*
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	277,996	277,996	272,447	176,526	176,526	176,526
Transaction-related contingent items	2,354,770	1,177,385	1,177,385	2,592,905	1,296,453	1,296,453
Short-term self-liquidating trade-related contingencies	4,397,559	879,512	161,080	6,023,476	1,204,695	172,714
Irrevocable commitments to extend credit:	9,764,266	814,448	706,841	4,648,848	1,683,737	702,111
- maturity more than one year	1,628,895	814,448	706,841	3,367,474	1,683,737	702,111
- maturity less than one year	8,135,371	-	-	1,281,374	-	-

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

33) COMMITMENTS AND CONTINGENCIES (CONTINUED)

	The Group			The Group		
	2005			2004		
	Principal amount RM'000	Credit equivalent amount* RM'000	Risk- weighted amount* RM'000	Principal amount RM'000	Credit equivalent amount* RM'000	Risk- weighted amount* RM'000
Foreign exchange related contracts:	2,114,201	27,989	8,271	644,554	9,921	3,159
- less than one year	2,114,201	27,989	8,271	644,554	9,921	3,159
Interest rate related contracts:	5,676,556	12,008	6,004	12,103,200	25,865	12,932
- less than one year	3,577,000	2,543	1,272	6,578,800	3,705	1,852
- one year to less than five years	2,099,556	9,465	4,732	5,524,400	22,160	11,080
	24,585,348	3,189,338	2,332,028	26,189,509	4,397,197	2,363,895
	The Bank			The Bank		
	2005			2004		
	Principal amount RM'000	Credit equivalent amount* RM'000	Risk- weighted amount* RM'000	Principal amount RM'000	Credit equivalent amount* RM'000	Risk- weighted amount* RM'000
Direct credit substitutes	277,996	277,996	272,447	176,526	176,526	176,526
Transaction-related contingent items	2,354,770	1,177,385	1,177,385	2,592,905	1,296,453	1,296,453
Short-term self-liquidating trade-related contingencies	4,397,559	879,512	161,080	6,023,476	1,204,695	172,714
Irrevocable commitments to extend credit:	9,612,559	814,448	706,841	4,459,683	1,683,737	702,111
- maturity more than one year	1,628,895	814,448	706,841	3,367,474	1,683,737	702,111
- maturity less than one year	7,983,664	-	-	1,092,209	-	-

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

33) COMMITMENTS AND CONTINGENCIES (CONTINUED)

	The Bank			The Bank		
	2005			2004		
	Principal amount RM'000	Credit equivalent amount* RM'000	Risk- weighted amount* RM'000	Principal amount RM'000	Credit equivalent amount* RM'000	Risk- weighted amount* RM'000
Foreign exchange related contracts:	2,114,201	27,989	8,271	644,554	9,921	3,159
- less than one year	2,114,201	27,989	8,271	644,554	9,921	3,159
Interest rate related contracts:	5,676,556	12,008	6,004	12,103,200	25,865	12,932
- less than one year	3,577,000	2,543	1,272	6,578,800	3,705	1,852
- one year to less than five years	2,099,556	9,465	4,732	5,524,400	22,160	11,080
	24,433,641	3,189,338	2,332,028	26,000,344	4,397,197	2,363,895

\* The credit equivalent amount and risk-weighted amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

**FINANCIAL DERIVATIVES**

Financial derivatives are financial instruments whose characteristics are derived from the underlying assets, or from interest and exchange rates or indices. These include forwards, swaps, futures and options. The following outlines the nature and terms of the most common types of derivatives used by the Bank:

**Exchange Rate Contracts**

*Forward foreign exchange* contracts are agreements to buy or sell fixed amounts of currency at agreed rates of exchange on a specified future date.

*Cross currency swaps* are agreements to exchange, and on termination of the swap, re-exchange principal amounts denominated in different currencies. Cross currency swaps may involve the exchange of interest payments in one specified currency for interest payments in another specified currency for a specified period.

*Currency futures* are typically exchange-traded agreements to buy or sell standard amounts of a specified currency at an agreed exchange rate on a standard future date.

*Currency options* give the buyer on payment of a premium the right, but not the obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

### 33) COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### Interest rate contracts

*Interest rate swaps* involve the exchange of interest obligations with counterparties for a specified period without exchanging the underlying (or notional principal).

*Interest rate caps and floors* give the buyer the ability to fix the maximum or minimum rate of interest. There is no facility to deposit or draw down funds; instead the writer pays to the buyer the amount by which the market rate exceeds or is less than the cap rate or the floor rate respectively. A combination of an interest rate cap and floor is known as an interest rate collar.

*Forward rate agreements* give the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date). There is no exchange of principal and settlement is effected on the settlement date. The settlement amount is calculated by reference to the difference between the contracted rate and the market rate prevailing on the settlement date.

*Swaptions* give the buyer the right, but not the obligation, to enter an interest rate swap as either the payer or receiver of the fixed side of the swap.

The table below analyses the contractual or underlying principal amounts of derivative financial instruments held or issued. In addition, they also set out the corresponding gross positive credit equivalent of the derivative financial instruments.

	The Group and the Bank		The Group and the Bank	
	2005		2004	
	Principal Amount RM'000	Credit equivalent amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000
Foreign exchange contracts				
- forward contracts	2,114,201	27,989	644,554	9,921
Interest rate contracts				
- futures contracts	4,483,000	-	10,470,000	-
- swaps	1,193,556	12,008	1,633,200	25,865

Foreign exchange related contracts and interest rate related contracts are subject to market risk and credit risk.

(ii) Pursuant to clause 2.1.5. of the Acquisition of Business Agreement dated 30 August 2000 between the Bank, the holding company, BSN Commercial Bank (Malaysia) Berhad ('BSNC') and Bank Simpanan Nasional ('BSN') in respect of the acquisition of certain assets and liabilities of BSNC by the Bank, BSNC and BSN undertakes to the Bank that debts other than those reflected as bad or doubtful debts in the audited financial statements of BSNC will be recoverable in the ordinary course of business.

**NOTES TO THE FINANCIAL STATEMENTS**

*for the financial year ended 31 December 2005*

**33) COMMITMENTS AND CONTINGENCIES (CONTINUED)**

For the debts not recoverable, BSNC undertakes to pay the Bank within 30 days from the date of receipt of the Bank's letter of demand, the amounts claimed subject to a limit of 30% of the purchase price.

On 6 April 2001, the Bank exercised the warranty and issued a letter of demand for RM101,694,000, equivalent to 30% of the original purchase price of RM338,980,000 as a result of doubtful or bad debts arising during the year. Arising from the above, the Bank is now required to reassign all the rights and benefits of the said bad or doubtful debts to BSNC or its nominee.

As at the date of the financial statements, the Bank has yet to comply with this requirement. As the bad or doubtful debts would have been fully provided or written off, the Directors are of the opinion that there would not be any material financial impact on the Bank.

- (iii) On 18 November 2002, the Bank had entered into a primary collateralised loan obligations ('Primary CLO') programme amounting to RM1 billion. The Primary CLO involved the sale, transfer and assignment of a loan portfolio facility to a special purpose vehicle, Aegis One Bhd ('Aegis'), an unrelated party, which is funded through the issuance of RM900 million AAA rated asset backed senior fixed rate bonds maturing in 2007 and RM 100 million BB rated asset backed subordinated variable rate bonds maturing in 2007 (the 'Bonds').

The terms of the Bonds stipulate that in the event of a loss by Aegis, losses would be absorbed first by the subordinated bondholders and then by the senior bondholders. The principal amount will be settled in full upon maturity depending on the repayment of the loans by the borrowers. As at 31 December 2005, the Bank holds RM1.5 million of

the subordinated bonds issued by Aegis which is recorded under 'Held-to-maturity' securities in Note 7.

The Bank does not guarantee the payment of interest nor the repayment of principal due on the Bonds. The Bank has no obligation to repurchase any of the loans except to the extent of any warranties given as provided in the sale and purchase agreement between the Bank and Aegis.

At the date of these financial statements, there is no indication of any losses incurred by Aegis and the Directors are of the opinion that there has not been any breach of the warranties provided for by the Bank.

**34) INTEREST/ PROFIT RATE RISK**

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of the assets and their corresponding liability funding. One of the major causes of these mismatches is timing differences in the repricing of the assets and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process which is conducted in accordance with Group policy guidelines.

The following table represents the Group's and the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates as at 31 December 2005.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

The Group 2005	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Cash and short-term funds	3,086,995	-	-	-	-	131,031	-	3,218,026	3.06
Deposits and placements with banks and other financial institutions	-	140,000	-	-	-	-	-	140,000	-
Held-for-trading securities	-	-	-	-	-	-	-	-	-
Available-for-sale securities	195,351	588,690	1,428,914	387,595	43,415	44,481	-	2,688,446	3.18
Held-to-maturity securities	7,034	-	15,035	694,340	141,736	306,998	-	1,165,143	3.35
Loans, advances and financing									
- performing	6,143,701	823,776	1,460,292	3,944,373	2,076,420	(314,456)*	-	14,134,106	7.47
- non-performing	-	-	-	-	-	2,302,089*	-	2,302,089	-
Other assets (1)	-	(14)	23	2,731	-	1,353,862	-	1,356,602	-
<b>Total assets</b>	<b>9,433,081</b>	<b>1,552,452</b>	<b>2,904,264</b>	<b>5,029,039</b>	<b>2,261,571</b>	<b>3,824,005</b>	<b>-</b>	<b>25,004,412</b>	

\* The negative balance represents specific allowances and general allowances for loans, advances and financing in accordance with the Group's accounting policy on allowance for bad and doubtful debts.

1. Others include property, plant and equipment, statutory deposits, investment in subsidiary & associate and other assets.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

34) INTEREST/ PROFIT RATE RISK (CONTINUED)

The Group 2005	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest/ profit sensitive		Effective interest rate %
						Trading book RM'000	Total RM'000	
<b>Liabilities</b>								
Deposits from customers	8,918,058	4,417,656	3,947,268	556,116	-	-	-	3.00
Deposits and placements of banks and other financial institutions	594,257	255,000	56,685	-	-	-	-	3.07
Obligations on securities sold under repurchase agreements	1,226,894	21,883	-	-	-	-	-	2.94
Bills and acceptances payable	137,271	212,356	35,193	-	-	95,754	-	3.03
Recourse obligation on loans sold to Cagamas	-	36,143	402,269	802,748	-	-	-	4.11
Subordinated term loan	-	-	-	500,000	-	-	-	6.80
Other liabilities (2)	-	126	1,371	84	-	695,460	-	
<b>Total liabilities</b>	<b>10,876,480</b>	<b>4,943,164</b>	<b>4,442,786</b>	<b>1,858,948</b>	<b>-</b>	<b>791,214</b>	<b>-</b>	<b>22,912,592</b>
<b>Shareholders' funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,091,820</b>	<b>-</b>	<b>2,091,820</b>
<b>Total liabilities and shareholders' funds</b>	<b>10,876,480</b>	<b>4,943,164</b>	<b>4,442,786</b>	<b>1,858,948</b>	<b>-</b>	<b>2,883,034</b>	<b>-</b>	<b>25,004,412</b>
On balance sheet - interest sensitivity gap	(1,443,399)	(3,390,712)	(1,538,522)	3,170,091	2,261,571	940,971		
Off balance sheet - interest sensitivity gap (3)	242,556	441,000	(379,000)	(304,556)	-	-		
<b>Total interest sensitivity gap</b>	<b>(1,200,843)</b>	<b>(2,949,712)</b>	<b>(1,917,522)</b>	<b>2,865,535</b>	<b>2,261,571</b>	<b>940,971</b>		

2. Other liabilities include other borrowings, current and deferred taxation and other liabilities.  
3. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments.



NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

The Group 2004	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Cash and short-term funds	2,101,811	-	-	-	-	112,261	-	2,214,072	2.75
Deposits and placements with banks and other financial institutions	-	-	115,210	-	-	-	-	115,210	2.75
Held-for-trading securities	-	-	-	-	-	-	1,041,035	1,041,035	3.15
Available-for-sale securities	-	1,952	671,345	360,094	86,344	37,296	-	1,157,031	2.44
Held-to-maturity securities	132,888	95,539	228,144	776,754	114,576	307,632	-	1,655,533	4.60
Loans, advances and financing									
- performing	6,794,268	576,801	563,894	283,181	582,029	(208,051)*	-	8,592,122	7.09
- non-performing	-	-	-	-	-	2,116,025*	-	2,116,025	
Other assets (1)	-	50	1,489	6,928	-	1,151,554	-	1,160,021	
<b>Total assets</b>	<b>9,028,967</b>	<b>674,342</b>	<b>1,580,082</b>	<b>1,426,957</b>	<b>782,949</b>	<b>3,516,717</b>	<b>1,041,035</b>	<b>18,051,049</b>	

\*The negative balance represents specific allowances and general allowances for loans, advances and financing in accordance with the Group's accounting policy on allowance for bad and doubtful debts.

1. Others include property, plant and equipment, statutory deposits, investment in subsidiary & associate and other assets.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

The Group 2004	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest/ profit sensitive		Trading book RM'000	Total RM'000	Effective interest rate %
						RM'000	RM'000			
<b>Liabilities</b>										
Deposits from customers	6,692,987	2,349,461	2,378,577	9,323	-	1,518,481	-	12,948,829	2.59	
Deposits and placements of banks and other financial institutions	265,810	121,600	83,600	-	-	-	-	471,010	2.77	
Obligations on securities sold under repurchase agreements	825,942	50,000	-	-	-	-	-	875,942	2.65	
Bills and acceptances payable	181,388	274,370	107,041	-	-	50,409	-	613,208	3.21	
Recourse obligation on loans sold to Cagamas	4,023	-	166,152	173,460	-	-	-	343,635	4.18	
Subordinated term loan	-	-	-	500,000	-	-	-	500,000	7.30	
Other liabilities (2)	2	(17)	2,301	6,787	-	730,125	-	739,198		
<b>Total liabilities</b>	<b>7,970,152</b>	<b>2,795,414</b>	<b>2,737,671</b>	<b>689,570</b>	<b>-</b>	<b>2,299,015</b>	<b>-</b>	<b>16,491,822</b>		
<b>Shareholders' funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,559,227</b>	<b>-</b>	<b>1,559,227</b>		
<b>Total liabilities and shareholders' funds</b>	<b>7,970,152</b>	<b>2,795,414</b>	<b>2,737,671</b>	<b>689,570</b>	<b>-</b>	<b>3,858,242</b>	<b>-</b>	<b>18,051,049</b>		
On balance sheet - interest sensitivity gap	1,058,815	(2,121,072)	(1,157,589)	737,387	782,949	(341,525)	1,041,035			
Off balance sheet - interest sensitivity gap (3)	(30,000)	200,200	109,200	(279,400)	-	-	-			
<b>Total interest sensitivity gap</b>	<b>1,028,815</b>	<b>(1,920,872)</b>	<b>(1,048,389)</b>	<b>457,987</b>	<b>782,949</b>	<b>(341,525)</b>	<b>1,041,035</b>			

2. Other liabilities include other borrowings, current and deferred taxation and other liabilities.
3. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

The Bank 2005	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Cash and short-term funds	3,086,995	-	-	-	-	130,023	-	3,217,018	3.06
Deposits and placements with banks and other financial institutions	-	140,000	-	-	-	-	-	140,000	-
Held-for-trading securities	-	-	-	-	-	-	-	-	-
Available-for-sale securities	195,351	588,690	1,428,914	387,595	43,415	43,157	-	2,687,122	3.18
Held-to-maturity securities	7,034	-	15,035	671,447	132,346	306,998	-	1,132,860	3.35
Loans, advances and financing									
- performing	6,130,603	823,776	1,460,292	3,944,373	2,076,420	(314,039)*	-	14,121,425	7.47
- non-performing	-	-	-	-	-	2,301,644*	-	2,301,644	-
Other assets (1)	-	(14)	23	2,731	-	1,390,596	-	1,393,336	-
<b>Total assets</b>	<b>9,419,983</b>	<b>1,552,452</b>	<b>2,904,264</b>	<b>5,006,146</b>	<b>2,252,181</b>	<b>3,858,379</b>	<b>-</b>	<b>24,993,405</b>	

\* The negative balance represents specific allowances and general allowances for loans, advances and financing in accordance with the Group's accounting policy on allowance for bad and doubtful debts.

1. Others include property, plant and equipment, statutory deposits, investment in subsidiary & associate and other assets.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

34) INTEREST/ PROFIT RATE RISK (CONTINUED)

The Bank 2005	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest/ profit		Effective interest rate Total RM'000
						Trading book RM'000	sensitive RM'000	
<b>Liabilities</b>								
Deposits from customers	8,921,031	4,417,656	3,947,268	556,116	-	-	17,842,071	3.00
Deposits and placements of banks and other financial institutions	594,257	255,000	56,685	-	-	-	905,942	3.07
Obligations on securities sold under repurchase agreements	1,226,894	21,883	-	-	-	-	1,248,777	2.94
Bills and acceptances payable	137,271	212,356	35,193	-	-	95,754	480,574	3.03
Recourse obligation on loans sold to Cagamas	-	36,143	402,269	802,748	-	-	1,241,160	4.11
Subordinated term loan	-	-	-	500,000	-	-	500,000	6.80
Other liabilities (2)	-	126	1,371	84	-	688,301	689,882	
<b>Total liabilities</b>	<b>10,879,453</b>	<b>4,943,164</b>	<b>4,442,786</b>	<b>1,858,948</b>	<b>-</b>	<b>784,055</b>	<b>22,908,406</b>	
<b>Shareholders' funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,084,999</b>	<b>2,084,999</b>	
<b>Total liabilities and shareholders' funds</b>	<b>10,879,453</b>	<b>4,943,164</b>	<b>4,442,786</b>	<b>1,858,948</b>	<b>-</b>	<b>2,869,054</b>	<b>24,993,405</b>	
On balance sheet - interest sensitivity gap	(1,459,470)	(3,390,712)	(1,538,522)	3,147,198	2,252,181	989,325		
Off balance sheet - interest sensitivity gap (3)	242,556	441,000	(379,000)	(304,556)	-	-		
<b>Total interest sensitivity gap</b>	<b>(1,216,914)</b>	<b>(2,949,712)</b>	<b>(1,917,522)</b>	<b>2,842,642</b>	<b>2,252,181</b>	<b>989,325</b>		

2. Other liabilities include other borrowings, current and deferred taxation and other liabilities.  
3. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

34) INTEREST/ PROFIT RATE RISK (CONTINUED)											
The Bank 2004	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %		
<b>Assets</b>											
Cash and short-term funds	2,101,811	-	-	-	-	104,259	-	2,206,070	2.75		
Deposits and placements with banks and other financial institutions	-	-	115,210	-	-	-	-	115,210	2.75		
Held-for-trading securities	-	-	-	-	-	-	1,041,035	1,041,035	3.15		
Available-for-sale securities	-	-	671,345	360,094	86,344	36,445	-	1,154,228	2.44		
Held-to-maturity securities	132,888	95,539	228,144	767,226	105,186	307,631	-	1,636,614	4.60		
Loans, advances and financing											
- performing	6,315,850	576,801	563,894	283,181	582,029	(207,704)*	-	8,114,051	7.09		
- non-performing	-	-	-	-	-	2,575,223*	-	2,575,223			
Other assets (1)	-	50	1,489	6,928	-	1,193,325	-	1,201,792			
<b>Total assets</b>	<b>8,550,549</b>	<b>672,390</b>	<b>1,580,082</b>	<b>1,417,429</b>	<b>773,559</b>	<b>4,009,179</b>	<b>1,041,035</b>	<b>18,044,223</b>			

\* The negative balance represents specific allowances and general allowances for loans, advances and financing in accordance with the Group's accounting policy on allowance for bad and doubtful debts.

1. Others include property, plant and equipment, statutory deposits, investment in subsidiary & associate and other assets.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

34) INTEREST/ PROFIT RATE RISK (CONTINUED)

The Bank 2004	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
<b>Liabilities</b>									
Deposits from customers	6,236,133	2,554,923	2,628,282	15,129	-	1,518,481	-	12,952,948	2.59
Deposits and placements of banks and other financial institutions	265,810	121,600	83,600	-	-	-	-	471,010	2.77
Obligations on securities sold under repurchase agreements	825,942	50,000	-	-	-	-	-	875,942	2.65
Bills and acceptances payable	181,388	274,370	107,041	-	-	50,409	-	613,208	3.21
Recourse obligation on loans sold to Cagamas	4,023	-	166,152	173,460	-	-	-	343,635	4.18
Subordinated term loan	-	-	-	500,000	-	-	-	500,000	7.30
Other liabilities (2)	2	(17)	2,301	6,787	-	723,355	-	732,428	
<b>Total liabilities</b>	<b>7,513,298</b>	<b>3,000,876</b>	<b>2,987,376</b>	<b>695,376</b>	<b>-</b>	<b>2,292,245</b>	<b>-</b>	<b>16,489,171</b>	
<b>Shareholders' funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,555,052</b>	<b>-</b>	<b>1,555,052</b>	
<b>Total liabilities and shareholders' funds</b>	<b>7,513,298</b>	<b>3,000,876</b>	<b>2,987,376</b>	<b>695,376</b>	<b>-</b>	<b>3,847,297</b>	<b>-</b>	<b>18,044,223</b>	
On balance sheet - interest sensitivity gap	1,037,251	(2,328,486)	(1,407,294)	722,053	773,559	161,882	1,041,035		
Off balance sheet - interest sensitivity gap (3)	(30,000)	200,200	109,200	(279,400)	-	-	-		
<b>Total interest sensitivity gap</b>	<b>1,007,251</b>	<b>(2,128,286)</b>	<b>(1,298,094)</b>	<b>442,653</b>	<b>773,559</b>	<b>161,882</b>	<b>1,041,035</b>		

2. Other liabilities include other borrowings, current and deferred taxation and other liabilities.  
3. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**35) LIQUIDITY RISK**

The maturities of on-balance sheets assets and liabilities as well as other off-balance sheet assets and liabilities, commitments and counter-guarantees are important factors in assessing the liquidity of the Group. The table below provides analysis of assets and liabilities into relevant maturity tenures based on their behavioural profile:-

Maturities of assets and liabilities of the Group and the Bank by behavioural maturity profile are as follows:

<b>The Group 2005</b>	<b>Up to 3 months RM'000</b>	<b>&gt;3 - 6 months RM'000</b>	<b>&gt;6 - 12 months RM'000</b>	<b>&gt;1 - 3 years RM'000</b>	<b>&gt;3 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Total RM'000</b>
<b>Assets</b>							
Cash and short-term funds	3,218,026	-	-	-	-	-	3,218,026
Deposits and placements with banks and other financial institutions	140,000	-	-	-	-	-	140,000
Held-for-trading securities	-	-	-	-	-	-	-
Available-for-sale securities	789,374	887,328	541,586	366,255	60,488	43,415	2,688,446
Held-to-maturity securities	280,104	-	15,035	643,820	59,066	167,118	1,165,143
Loans, advances and financing	2,524,908	416,290	836,861	2,941,809	3,728,268	5,988,059	16,436,195
Other assets	87,604	135	557	4,551	-	-	92,847
	<b>7,040,016</b>	<b>1,303,753</b>	<b>1,394,039</b>	<b>3,956,435</b>	<b>3,847,822</b>	<b>6,198,592</b>	<b>23,740,657</b>
<b>Liabilities</b>							
Deposits from customers	4,203,747	413,843	313,854	12,907,654	-	-	17,839,098
Deposits and placements of banks and other financial institutions	849,257	56,685	-	-	-	-	905,942
Obligations on securities sold under repurchase agreements	1,248,777	-	-	-	-	-	1,248,777
Bills and acceptances payable	445,380	35,194	-	-	-	-	480,574
Recourse obligation on loans sold to Cagamas	36,143	203,718	198,551	802,748	-	-	1,241,160
Subordinated term loan	-	-	-	-	-	500,000	500,000
Other liabilities	695,505	264	1,186	3	83	-	697,041
	<b>7,478,809</b>	<b>709,704</b>	<b>513,591</b>	<b>13,710,405</b>	<b>83</b>	<b>500,000</b>	<b>22,912,592</b>
On balance sheet gap	(438,793)	594,049	880,448	(9,753,970)	3,847,739	5,698,592	828,065
Off balance sheet credit commitments	467,592	-	-	11,777,733	-	-	12,245,325
Derivatives	(81,116)	(107,322)	(9,281)	-	-	-	(197,719)
<b>Net maturity mismatch</b>	<b>(52,317)</b>	<b>486,727</b>	<b>871,167</b>	<b>2,023,763</b>	<b>3,847,739</b>	<b>5,698,592</b>	<b>12,875,671</b>

The behavioural assumptions adopted are as per Bank Negara Malaysia guidelines.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

35) LIQUIDITY RISK (CONTINUED)

The Group 2004	Up to 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	>1 - 3 years RM'000	>3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>Assets</b>							
Cash and short-term funds	2,214,072	-	-	-	-	-	2,214,072
Deposits and placements with banks and other financial institutions	95,450	19,760	-	-	-	-	115,210
Held-for-trading securities	1,041,035	-	-	-	-	-	1,041,035
Available-for-sale securities	42,022	119	662,475	353,103	12,117	87,195	1,157,031
Held-to-maturity securities	518,023	165,265	62,878	597,693	179,061	132,613	1,655,533
Loans, advances and financing	1,550,743	582,631	624,841	3,469,280	1,108,445	3,372,207	10,708,147
Other assets	58,505	1,330	1,306	14,608	116	-	75,865
	5,519,850	769,105	1,351,500	4,434,684	1,299,739	3,592,015	16,966,893
<b>Liabilities</b>							
Deposits from customers	3,976,983	736,593	1,163,034	7,072,219	-	-	12,948,829
Deposits and placements of banks and other financial institutions	387,410	83,600	-	-	-	-	471,010
Obligations on securities sold under repurchase agreements	875,942	-	-	-	-	-	875,942
Bills and acceptances payable	506,167	107,041	-	-	-	-	613,208
Recourse obligation on loans sold to Cagamas	4,023	166,152	-	173,460	-	-	343,635
Subordinated term loan	-	-	-	-	-	500,000	500,000
Other liabilities	445,798	524	42,310	4,933	245,633	-	739,198
	6,196,323	1,093,910	1,205,344	7,250,612	245,633	500,000	16,491,822
On balance sheet gap	(676,473)	(324,805)	146,156	(2,815,928)	1,054,106	3,092,015	475,071
Off balance sheet credit commitments	160,333	-	-	7,477,893	-	-	7,638,226
Derivatives	12,717	(91,588)	-	-	-	-	(78,871)
<b>Net maturity mismatch</b>	<b>(503,423)</b>	<b>(416,393)</b>	<b>146,156</b>	<b>4,661,965</b>	<b>1,054,106</b>	<b>3,092,015</b>	<b>8,034,426</b>

The behavioural assumptions adopted are as per Bank Negara Malaysia guidelines.



NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

35) LIQUIDITY RISK (CONTINUED)

The Bank 2005	Up to 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	>1 - 3 years RM'000	>3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>Assets</b>							
Cash and short-term funds	3,217,018	-	-	-	-	-	3,217,018
Deposits and placements with banks and other financial institutions	140,000	-	-	-	-	-	140,000
Held-for-trading securities	-	-	-	-	-	-	-
Available-for-sale securities	789,374	887,328	541,586	364,931	60,488	43,415	2,687,122
Held-to-maturity securities	280,104	-	15,035	627,224	52,769	157,728	1,132,860
Loans, advances and financing	2,511,810	416,290	836,861	2,941,809	3,728,268	5,988,031	16,423,069
Other assets	86,180	135	557	4,551	-	-	91,423
	7,024,486	1,303,753	1,394,039	3,938,515	3,841,525	6,189,174	23,691,492
<b>Liabilities</b>							
Deposits from customers	4,206,720	413,843	313,854	12,907,654	-	-	17,842,071
Deposits and placements of banks and other financial institutions	849,257	56,685	-	-	-	-	905,942
Obligations on securities sold under repurchase agreements	1,248,777	-	-	-	-	-	1,248,777
Bills and acceptances payable	445,380	35,194	-	-	-	-	480,574
Recourse obligation on loans sold to Cagamas	36,143	203,718	198,551	802,748	-	-	1,241,160
Subordinated term loan	-	-	-	-	-	500,000	500,000
Other liabilities	688,346	264	1,186	3	83	-	689,882
	7,474,623	709,704	513,591	13,710,405	83	500,000	22,908,406
On balance sheet gap	(450,137)	594,049	880,448	(9,771,890)	3,841,442	5,689,174	783,086
Off balance sheet credit commitments	467,592	-	-	11,777,733	-	-	12,245,325
Derivatives	(81,116)	(107,322)	(9,281)	-	-	-	(197,719)
<b>Net maturity mismatch</b>	<b>(63,661)</b>	<b>486,727</b>	<b>871,167</b>	<b>2,005,843</b>	<b>3,841,442</b>	<b>5,689,174</b>	<b>12,830,692</b>

The behavioural assumptions adopted are as per Bank Negara Malaysia guidelines.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

35) LIQUIDITY RISK (CONTINUED)

The Bank 2004	Up to 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	>1 - 3 years RM'000	>3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>Assets</b>							
Cash and short-term funds	2,206,070	-	-	-	-	-	2,206,070
Deposits and placements with banks and other financial institutions	95,450	19,760	-	-	-	-	115,210
Held-for-trading securities	1,041,035	-	-	-	-	-	1,041,035
Available-for-sale securities	40,070	119	662,475	353,103	12,117	86,344	1,154,228
Held-to-maturity securities	518,023	165,265	62,878	597,693	169,533	123,222	1,636,614
Loans, advances and financing	1,532,398	582,631	624,841	3,469,280	1,108,445	3,371,679	10,689,274
Other assets	58,153	1,330	1,306	14,608	116	-	75,513
	5,491,199	769,105	1,351,500	4,434,684	1,290,211	3,581,245	16,917,944
<b>Liabilities</b>							
Deposits from customers	3,981,102	736,593	1,163,034	7,072,219	-	-	12,952,948
Deposits and placements of banks and other financial institutions	387,410	83,600	-	-	-	-	471,010
Obligations on securities sold under repurchase agreements	875,942	-	-	-	-	-	875,942
Bills and acceptances payable	506,167	107,041	-	-	-	-	613,208
Recourse obligation on loans sold to Cagamas	4,023	166,152	-	173,460	-	-	343,635
Subordinated term loan	-	-	-	-	-	500,000	500,000
Other liabilities	439,028	524	42,310	4,933	245,633	-	732,428
	6,193,672	1,093,910	1,205,344	7,250,612	245,633	500,000	16,489,171
On balance sheet gap	(702,473)	(324,805)	146,156	(2,815,928)	1,044,578	3,081,245	428,773
Off balance sheet credit commitments	160,333	-	-	7,477,893	-	-	7,638,226
Derivatives	12,717	(91,588)	-	-	-	-	(78,871)
<b>Net maturity mismatch</b>	<b>(529,423)</b>	<b>(416,393)</b>	<b>146,156</b>	<b>4,661,965</b>	<b>1,044,578</b>	<b>3,081,245</b>	<b>7,988,128</b>

The behavioural assumptions adopted are as per Bank Negara Malaysia guidelines.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**36) CREDIT RISK CONCENTRATIONS**

Credit risk is the risk of financial loss from the failure of customers to meet their obligations. Exposure to credit risk is managed through portfolio management. The credit portfolio's risk profiles and exposures are reviewed and monitored regularly to ensure that an acceptable level of risk diversification is maintained. Exposure to credit risk is also managed in part by obtaining collateral security and corporate and personal guarantees.

The credit risk concentrations of the Group and the Bank, by industry concentration, are set out in the following tables:

Group 2005	Cash and short term funds RM'000	Deposits and placements with banks				Held-to- maturity securities RM'000	Loans and advances RM'000	Other assets RM'000	On balance sheet total RM'000	Commitment and contingencies RM'000
		Cash and short term funds RM'000	Available- for-sale securities RM'000	Deposits and placements with banks RM'000	Deposits and placements with banks RM'000					
Agricultural	-	-	-	52,000	186,718	656	239,374	1,621		
Mining and quarrying	-	-	-	-	55,139	-	55,139	168		
Manufacturing	-	-	1,353	249,808	1,352,253	989	1,604,403	104,436		
Electricity, gas and water	-	-	57,063	-	25,910	-	82,973	15,139		
Construction	-	-	65,982	106,656	1,483,310	677	1,656,625	171,362		
Real estate	-	-	5,533	41,256	725,391	-	772,180	37,512		
General commerce	-	-	39	-	1,029,615	-	1,029,654	31,162		
Transport, storage and communication	-	-	4,998	4,100	404,449	14	413,561	16,064		
Finance, insurance and business services	1,076,940	140,000	1,505,668	95,549	585,854	11,531	3,415,542	40,204		
Government and Government Agencies	2,082,941	-	1,004,258	510,519	32,774	9,168	3,639,660	744,592		
Purchase of residential, landed property, security and transport vehicle	-	-	-	-	8,931,072	-	8,931,072	105,536		
Wholesale and retail trade, restaurant and hotel	-	-	-	51,135	620,114	-	671,249	2,015		
Others	-	-	5,728	20,193	1,318,052*	69,812	1,413,785	1,919,527		
<b>Total assets</b>	<b>3,159,881</b>	<b>140,000</b>	<b>2,650,622</b>	<b>1,131,216</b>	<b>16,750,651</b>	<b>92,847</b>	<b>23,925,217</b>	<b>3,189,338</b>		

\*Not inclusive of general provision amounting to RM314 million

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 33.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

Group	Cash and short term funds		Deposits and placements with banks and other financial institutions		Held-to-trading securities	Available-for-sale securities	Held-to-maturity securities	Loans and advances	Other assets	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000							
Agricultural, hunting, forestry & fishing	-	-	-	-	-	-	-	89,755	-	89,755	4,595
Mining and quarrying	-	-	-	-	-	-	-	14,586	-	14,586	1,071
Manufacturing	-	-	-	-	-	1,062	432,433	1,337,409	1,382	1,772,286	320,057
Electricity, gas and water	-	-	-	-	-	66,400	-	5,731	153	72,284	1,898
Construction	-	-	-	-	-	35,784	102,772	1,356,331	588	1,495,475	393,496
Real estate	-	-	-	-	-	3,744	158,776	784,570	-	947,090	18,953
General commerce	-	-	-	-	-	-	-	375,158	-	375,158	3,009
Transport, storage and communication	-	-	-	-	-	3,018	167	378,466	-	381,651	53,326
Finance, insurance and business services	1,063,534	115,210	453,331	202,659	310,587	675,975	19,687	2,840,983	84,045		
Government and Government Agencies	1,076,503	-	587,704	767,837	515,068	592,583	11,079	3,550,774	1,962,553		
Purchase of residential, landed property, security and transport vehicle	-	-	-	-	-	-	-	3,811,575	-	3,811,575	230,147
Wholesale and retail trade, restaurant and hotel	-	-	-	1,647	93,337	807,671	-	902,655	412,539		
Others	-	-	-	22,713	21,013	686,388	42,976	773,090	911,508		
<b>Total assets</b>	<b>2,140,037</b>	<b>115,210</b>	<b>1,041,035</b>	<b>1,104,864</b>	<b>1,634,153</b>	<b>10,916,198 *</b>	<b>75,865</b>	<b>17,027,362</b>	<b>4,397,197</b>		

\* Not inclusive of general provision amounting to RM208 million

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 33.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

Bank 2005	36) CREDIT RISK CONCENTRATIONS (CONTINUED)									
	Cash and short term funds RM'000	Deposits and placements with bank and other financial institutions RM'000	Available- for-sale securities RM'000	Held-to- maturity securities RM'000	Loans and advances RM'000	Other assets RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000		
Agricultural	-	-	-	52,000	186,718	656	239,374	1,621		
Mining and quarrying	-	-	-	-	55,139	-	55,139	168		
Manufacturing	-	-	973	249,808	1,351,948	989	1,603,718	104,436		
Electricity, gas and water	-	-	57,063	-	25,910	-	82,973	15,139		
Construction	-	-	65,982	106,656	1,483,295	677	1,656,610	171,362		
Real estate	-	-	4,640	41,256	725,391	-	771,287	37,512		
General commerce	-	-	-	-	1,019,132	-	1,019,132	31,162		
Transport, storage and communication	-	-	4,998	4,100	404,449	14	413,561	16,064		
Finance, insurance and business services	1,076,940	140,000	1,505,656	82,184	583,518	11,531	3,399,829	40,204		
Government and Government Agencies	2,082,941	-	1,004,258	491,601	32,693	9,168	3,620,661	744,592		
Purchase of residential, landed property, security and transport vehicle	-	-	-	-	8,930,749	-	8,930,749	105,536		
Wholesale and retail trade, restaurant and hotel	-	-	-	51,135	620,114	-	671,249	2,015		
Others	-	-	5,728	20,193	1,318,052	68,388	1,412,361	1,919,527		
<b>Total assets</b>	<b>3,159,881</b>	<b>140,000</b>	<b>2,649,298</b>	<b>1,098,933</b>	<b>16,737,108*</b>	<b>91,423</b>	<b>23,876,643</b>	<b>3,189,338</b>		

\* Not inclusive of general provision amounting to RM314 million

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 33.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

36) CREDIT RISK CONCENTRATIONS (CONTINUED)

Bank 2004	Cash and short term funds		Deposits and placements with banks and other financial institutions		Held-to-trading securities		Available-for-sale securities		Held-to-maturity securities		Loans and advances		Other assets		On balance sheet total		Commitments and contingencies	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agricultural, hunting, forestry & fishing	-	-	-	-	-	-	-	-	-	-	89,755	-	-	-	89,755	-	4,595	
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	14,586	-	-	-	14,586	-	1,071	
Manufacturing	-	-	-	-	-	-	1,062	1,062	432,433	1,382	1,334,289	153	588	1,769,166	320,057	1,898		
Electricity, gas and water	-	-	-	-	-	-	66,400	66,400	-	-	5,731	-	-	72,284	393,496	1,898		
Construction	-	-	-	-	-	-	35,784	35,784	102,772	588	1,356,291	588	-	1,495,435	18,953	3,009		
Real estate	-	-	-	-	-	-	3,744	3,744	158,776	-	784,570	-	-	947,090	-	3,009		
General commerce	-	-	-	-	-	-	-	-	-	-	361,775	-	-	361,775	-	-		
Transport, storage and communication	-	-	-	-	-	-	3,018	3,018	167	-	378,466	-	-	381,651	-	53,326		
Finance, insurance and business services	1,055,532	115,210	453,331	202,659	310,587	674,034	19,687	2,831,040	84,045	-	-	-	-	-	-	-		
Government and Government Agencies	1,076,503	-	587,704	767,837	496,149	592,583	11,079	3,531,855	1,962,553	-	-	-	-	-	-	-		
Purchase of residential, landed property, security and transport vehicle	-	-	-	-	-	-	-	-	-	-	3,811,224	-	-	3,811,224	-	230,147		
Wholesale and retail trade, restaurant and hotel	-	-	-	1,647	93,337	807,671	-	902,655	412,539	-	-	-	-	-	-	-		
Others	-	-	-	22,713	21,013	686,002	42,624	772,352	911,508	-	-	-	-	-	-	-		
<b>Total assets</b>	<b>2,132,035</b>	<b>115,210</b>	<b>1,041,035</b>	<b>1,104,864</b>	<b>1,615,234</b>	<b>10,896,977*</b>	<b>75,513</b>	<b>16,980,868</b>	<b>4,397,197</b>									

\* Not inclusive of general provision amounting to RM208 million

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 33.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the financial year ended 31 December 2005

**37) LEASE COMMITMENTS**

The Bank has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments, net of sub-leases as at 31 December 2005 are as follows:

	The Group and The Bank	
	2005 RM'000	2004 RM'000
2005	–	14,240
2006	15,588	14,240
2007	15,588	14,240
2008	15,588	14,240
2009	15,588	–

**38) CAPITAL COMMITMENTS**

Capital expenditure approved by Directors but not provided for in the financial statements amounted to approximately:

	The Group and The Bank	
	2005 RM'000	2004 RM'000
Authorised and contracted for	36,688	70,700
Authorised but not contracted for	37	37,599
	<b>36,725</b>	<b>108,299</b>
Analysed as follows:		
Property, plant and equipment	36,725	108,299

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**39) CAPITAL ADEQUACY**

(i) The capital adequacy ratios are as follows:

	The Bank	
	2005	2004
	RM'000	RM'000
<b>Tier I capital</b>		
Paid-up share capital	1,290,283	1,017,281
Share premium	293,657	190,735
Retained profit	302,745	251,463
Statutory reserve fund	203,842	91,761
	<b>2,090,527</b>	1,551,240
Less: Goodwill	(137,323)	(146,478)
Deferred tax assets / (liabilities)	(128,597)	(189,396)
<b>Total Tier I capital</b>	<b>1,824,607</b>	1,215,366
<b>Tier II capital</b>		
Subordinated term loans	500,000	500,000
General allowance for bad and doubtful debts and financing	314,039	207,704
<b>Total Tier II capital</b>	<b>814,039</b>	707,704
Less: Investment in subsidiaries	(39,479)	(39,458)
<b>Capital base</b>	<b>2,599,167</b>	1,883,612
Core capital ratio	10.41%	9.41%
Risk-weighted capital ratio	14.83%	14.58%
Core capital ratio (net of proposed dividends)	10.25%	9.41%
Risk-weighted capital ratio (net of proposed dividends)	14.67%	14.58%



NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**39) CAPITAL ADEQUACY (CONTINUED)**

(ii) Breakdown of gross risk-weighted assets in the various categories of risk-weights:

	The Bank		The Bank	
	2005		2004	
	Principal RM'000	Risk- weighted RM'000	Principal RM'000	Risk- weighted RM'000
0%	6,642,730	–	5,607,557	–
10%	310,039	31,003	419,903	41,990
20%	2,951,108	590,222	2,449,146	489,829
50%	2,634,727	1,317,364	2,825,289	1,412,645
100%	15,546,694	15,546,694	10,973,814	10,973,814
Total risk weighted assets for credit risk	<u>28,085,298</u>	<u>17,485,283</u>	<u>22,275,709</u>	12,918,278
Risk weighted assets for market risk *		42,502		–
Total risk weighted assets		17,527,785		12,918,278

Pursuant to Bank Negara Malaysia's circular, 'Recognition of Deferred Tax Asset ('DTA') and Treatment of DTA for RWCR Purposes' dated 8 August 2003, deferred tax income/(expenses) is excluded from the calculation of Tier I and DTA is excluded from the calculation of risk - weighted assets.

\* Effective 1 April 2005, the Bank's capital adequacy requirements incorporates market risk positions in accordance to Bank Negara Malaysia's circular, 'Market Risk Capital Adequacy Framework: Incorporation of Market Risk into the Risk Weighted Capital Ratio' dated 17 September 2004.

**40) LITIGATIONS AGAINST THE BANK**

There are legal suits against the Bank in respect of claims and counter claims of approximately RM151.9 million (2004: RM172.5 million).

Based on legal advice, the Directors are of the opinion that no provision for damages need to be made in the financial statements, as the probability of adverse adjudication against the Bank is remote.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**41) 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 instruments 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 balance sheet date.

Quoted market prices, when available, are used as the measure of fair values. For financial instruments, without quoted market prices, fair values are estimated using net present value or other valuation techniques. These techniques involve a certain degree of uncertainty depending on the assumptions used and judgements made regarding risk characteristics of various financial instruments, discounts rates, estimates of future cash flows, future expected loss experience and other factors. Changes in these assumptions could materially affect these estimates and the resulting fair value.

Fair value information for non financial assets and liabilities are excluded as they do not fall within the scope of FRS132 which requires fair values to be disclosed. This includes property, plant and equipment, subsidiary and associated companies, tax recoverable, deferred taxation and intangibles.

The following table summarises the fair values of those financial assets and liabilities which were presented at carrying value on the Group's and the Bank's balance sheet.

	The Group		The Bank	
	2005	2005	2005	2005
	Fair value	Carrying amount	Fair value	Carrying amount
	RM'000	RM'000	RM'000	RM'000
<b>Financial assets</b>				
Cash and short-term funds	3,218,026	3,218,026	3,217,018	3,217,018
Deposits and placements with banks and other financial institutions	140,000	140,000	140,000	140,000
Held-for-trading securities	-	-	-	-
Available-for-sale securities	2,688,446	2,688,446	2,687,122	2,687,122
Held-to-maturity securities	1,102,057	1,165,143	1,082,176	1,132,860
Loans and advances	16,464,547	16,436,195	16,451,891	16,423,069
Other assets	90,831	90,831	89,366	89,366

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

41) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	The Group		The Bank	
	2005		2005	
	Fair value RM'000	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000
<b>Financial liabilities</b>				
Deposits from customers	17,837,964	17,839,098	17,840,937	17,842,071
Deposits and placements of banks and other financial institutions	905,542	905,942	905,942	905,942
Obligation on securities sold under repurchase agreements	1,248,777	1,248,777	1,248,777	1,248,777
Bills and acceptances payable	480,574	480,574	480,574	480,574
Amount due to Cagamas	1,243,849	1,241,160	1,243,849	1,241,160
Subordinated term loan	371,237	500,000	371,237	500,000
Other liabilities	704,461	704,461	697,258	697,258
	The Group		The Bank	
	2004		2004	
	Fair value RM'000	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000
<b>Financial assets</b>				
Cash and short-term funds	2,214,072	2,214,072	2,206,070	2,206,070
Deposits and placements with banks and other financial institutions	115,210	115,210	115,210	115,210
Held-for-trading securities	1,041,035	1,041,035	1,041,035	1,041,035
Available-for-sale securities	1,157,031	1,157,031	1,154,228	1,154,228
Held-to-maturity securities	1,655,533	1,557,490	1,636,614	1,557,490
Loans and advances	10,660,658	10,708,147	10,641,785	10,689,274
Other assets	66,100	66,100	65,748	65,748
<b>Financial liabilities</b>				
Deposits from customers	12,948,715	12,948,829	12,952,834	12,952,948
Deposits and placements of banks and other financial institutions	471,010	471,010	471,010	471,010
Obligation on securities sold under repurchase agreements	875,942	875,942	875,942	875,942
Bills and acceptances payable	613,208	613,208	613,208	613,208
Amount due to Cagamas	348,340	343,635	348,340	343,635
Subordinated term loan	352,417	500,000	352,417	500,000
Other liabilities	729,433	729,433	722,663	722,663

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**41) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The fair values of derivative financial instruments at the balance sheet date are as follows:

	The Group and the Bank			The Group and the Bank		
	Underlying notional RM'000	2005		Underlying notional RM'000	2004	
		Asset RM'000	Liability RM'000		Asset RM'000	Liability RM'000
<b>Foreign exchange contracts</b>						
- Forward contracts	2,114,201	766	395	644,554	137	320
<b>Interest rate contracts</b>	5,676,556	5,207	1,662	12,103,200	11,001	9,445
- Futures contracts	4,483,000	2,466	81	10,470,000	2,535	372
- Swaps	1,193,556	2,741	1,581	1,633,200	8,466	9,073

The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuation in market interest rates or foreign exchange rates relative to their terms. The extent to which instruments are favourable or unfavourable and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair value estimates were determined by application of the methods and assumptions described below.

*Deposits and placements with financial institutions*

For amounts due from other financial institutions with maturities of six months or more, fair value have been estimated by reference to current rates at which similar advances would be made to banks with a similar credit rating and the same remaining maturities.

Deposit and placement with maturity of less than six months, the carrying amount is a reasonable estimate of fair value.

*Held-for-trading, available-for-sale and held-to-maturity securities*

The fair value of held-for-trading, available-for-sale and held-to-maturity securities are reasonable estimates based on quoted market prices. In the absence of such quoted prices, the fair values are based on indicative market yields or the book value asset of the invested company.

*Loans, advances and financing*

For performing fixed rate loans, fair values have been estimated by discounting the estimated cash flows using the prevailing market rates of loans and advances with similar credit ratings and maturities.

For floating-rate loans, the carrying amount is generally a reasonable estimate of fair value. Fair value of credit card receivables is based on the carrying value of receivables outstanding which is generally a reasonable estimate.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**41) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

*Loans, advances and financing (continued)*

The fair value of impaired loans, fixed or floating are based on the carrying value less specific allowance, being the expected recoverable amount. In arriving at the fair values for loans on the above bases, the total fair value of the entire loan portfolio has been reduced by RM314 million (Group and the Bank) (2004: RM208 million) being the carrying value of the general allowance for doubtful debts which covers unidentified losses inherent in the portfolio.

*Statutory deposits with Bank Negara Malaysia*

The group is required by law, to lodge interest free regulatory deposits with the central bank. As the Group's ability to carry on the business of banking is conditional upon the maintenance of these deposits, their fair value is assumed to be equal to their carrying value, notwithstanding no interest being earned thereon.

*Deposits from customers banks and financial institutions, obligation on securities sold under repurchase agreements, bills and acceptances payable and recourse obligation on loans sold to Cagamas Berhad.*

The fair value of demand deposits is the amounts payable on demand at the reporting date. For other liabilities with maturities of less than 6 months, the carrying amount is a reasonable estimate of fair value.

For liabilities with maturities of 6 months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values are estimated using discounted cash flows based on rates currently offered for similar liabilities of similar remaining maturities.

The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, approximates carrying amount which represents the amount repayable on demand.

*Subordinated term loan*

The estimated fair value of subordinated bonds/subordinated term loan is based on discounted cash flow model using a current yield curve appropriate for the remaining term to maturity.

*Derivative financial instruments*

The fair value of exchange rate and interest rate contracts is the estimated amount the Group would receive or pay to terminate the contracts at the reporting date.

**42) PRIOR YEAR ADJUSTMENTS AND COMPARATIVE FIGURES**

On 5 October 2004, Bank Negara Malaysia issued a revised BNM/GP8 which provides guidance on recognition, measurement and classification of securities portfolio, which became operative for the financial year ending 31 December 2005. The adoption of the revised BNM/GP8 has resulted the following changes in accounting policies:

*(a) Recognition and measurement of securities portfolio*

Previously, dealing securities are measured at lower of cost and market value. Bank guaranteed and government guaranteed private debt securities are measured at amortised cost, while non-bank guaranteed and non-government guaranteed private debts securities are measured at lower of cost and market value. Other investment securities are measured at cost and allowance is made in the event of any permanent diminution in value. Accretion of discount and amortisation of premium on non-bank guaranteed and non-government guaranteed private debt securities is not allowed.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**42) PRIOR YEAR ADJUSTMENTS AND COMPARATIVE FIGURES (CONTINUED)***(a) Recognition and measurement of securities portfolio (continued)*

With the revision, all held-for-trading securities are now measured at fair value. Investment securities are classified into available-for-sale ('AFS') and held-to-maturity ('HTM') securities. AFS securities are measured at fair value, with changes in fair value recognised directly in shareholder's fund. Equity securities, which have no quoted price in an active market and whose fair value cannot be reliably measured are classified as AFS securities and stated at cost. HTM securities are measured at amortised cost, except for investment in equity holdings in socio-economic entities, which is stated at cost. Impairment losses arising from AFS and HTM securities are recognised in the current period's income statement. Accretion of discount and amortisation of premium on securities portfolio is allowed and recognised in the current period's income statement as interest income.

*(b) Recognition and measurement of derivative financial instruments*

Previously, derivative financial instruments transacted by the Group and Bank for both hedging and non-hedging are recognised as off-balance sheet items, except for foreign currency forward contracts. Foreign currency contracts are measured at fair value of replacement costs, with changes in fair value are recognised directly in the current period's income statement. The cumulative changes in fair value are presented as an item in 'Other assets' or 'Other liabilities'.

With the revision, all derivative financial instruments transacted by the Group and Bank i.e. interest rate swaps and foreign currency forward contracts are carried at fair value and presented separately in the balance sheets as assets (positive replacement costs) and liabilities (negative replacement costs). Unrealised gains or losses arising from changes in fair value of derivative financial instruments are recognised directly in the current period's income statement, except for derivative financial instruments that are designated as effective hedging instrument.

For qualifying fair value hedges, the change in fair value of the hedging derivative is recognised in current period income statement. Those changes in fair value of the hedged item, which are attributable to the risks hedged with the derivative financial instrument are reflected as an adjustment to the carrying value of the hedged item, which is also recognised in the current period's income statement.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**42) PRIOR YEAR ADJUSTMENTS AND COMPARATIVE FIGURES (CONTINUED)**

This change in accounting policy has been accounted for retrospectively as follows:

	The Group			The Bank		
	As reported previously RM'000	Effect of change in accounting policy RM'000	As restated RM'000	As reported previously RM'000	Effect of change in accounting policy RM'000	As restated RM'000
<b>Balance Sheet as at 31 December 2004</b>						
Dealing securities	272,776	(272,776)	-	272,776	(272,776)	-
Investment securities	3,569,737	(3,569,737)	-	3,550,652	(3,550,652)	-
Held-for-trading securities	-	1,041,035	1,041,035	-	1,041,035	1,041,035
Available-for-sale securities	-	1,157,031	1,157,031	-	1,154,228	1,154,228
Held-to-maturity securities	-	1,655,533	1,655,533	-	1,636,614	1,636,614
Other assets	96,251	(573)	95,678	95,899	(573)	95,326
Reserves as at						
31 December 2004	531,433	10,513	541,946	529,895	7,876	537,771
Reserves as at 1 January 2004	374,719	(9,130)	365,589	368,164	(14,586)	353,578
<b>Income Statement for the year ended 31 December 2004</b>						
Profit before tax	174,641	4,939	179,580	180,196	4,939	185,135
Profit after tax and zakat	156,714	4,939	161,653	161,731	4,939	166,670
Earning per share (sen)	15.4	0.5	15.9	15.9	0.5	16.4

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**43) TRANSFER OF BUSINESS**

Transfer of assets and liabilities of Affin-ACF Finance Berhad, ('AAFB') to Affin Bank Berhad ('ABB') ('Merger of Businesses'):

On 6 May 2005, ABB had entered into a Business Transfer Agreement with AAFB to acquire the assets and liabilities of the finance company business of AAFB. The Merger of Businesses is made pursuant to the amendments to the Banking and Financial Institutions Act, 1989 ('BAFIA') which came into force on 15 January 2004, that provides for, amongst others, the creation of a new banking entity called 'banking and finance company'.

The Merger of Businesses involved the transfer to ABB of the assets and liabilities of the finance company business of AAFB including AAFB's shares in its wholly-owned subsidiary, Affin-ACF Nominees (Tempatan) Sdn Bhd and the subsequent merger of the finance company business of AAFB with the commercial banking business of ABB.

Pursuant to the Vesting Order obtained on 26 May 2005 by ABB and AAFB, the entire finance company business of AAFB had been transferred and merged with the commercial banking business of ABB on 1 June 2005. On the same date, AAFB ceased its operation as a licensed finance company and became dormant thereafter.

The Initial Consideration was satisfied by the issuance of 273,022,111 new ABB shares issued as fully paid-up at an issue price of RM1.377 per ABB share (Consideration Shares) to Affin Holdings Berhad ('AHB') nominated by AAFB in its favour, and the Balance Consideration of RM5,935,554 was settled in cash on 30 June 2005 between AHB, ABB and AAFB as per the Business Transfer Agreement.

The assets and liabilities of Affin-ACF Finance Berhad which were transferred to the Bank are as follows:

	The Bank at date of transfer of business RM'000
<b>Assets transferred</b>	
Cash and short term funds	454,287
Deposits and placements with financial institutions	12,745
Available-for-sale securities	242,340
Held-to-maturity securities	17,853
Loans, advances and financing	5,801,237
Other assets	8,157
Statutory deposits with Bank Negara Malaysia	191,100
Deferred tax assets	28,812
Property, plant and equipment	21,441
	<b>6,777,972</b>
<b>Liabilities transferred</b>	
Deposits from customers	3,894,046
Deposits and placements of banks and other financial institutions	1,186,539
Recourse obligation on loans sold to Cagamas Berhad	1,251,361
Other liabilities	76,037
	<b>6,407,983</b>
<b>Net assets transferred from Affin-ACF Finance Berhad</b>	<b>369,989</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
for the financial year ended 31 December 2005

**44) APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 28 February 2006.

**45) THE OPERATIONS OF ISLAMIC BANKING**

Balance Sheets as at 31 December 2005

	Note	The Group and The Bank	
		2005 RM'000	2004 RM'000
<b>Assets</b>			
Cash and short-term funds	(b)	1,307,383	937,653
Deposits and placements with bank and other financial institutions	(c)	140,000	95,450
Available-for-sale securities	(d)	534,857	804,195
Held-to-maturity securities	(e)	92,593	93,260
Financing, advances and other loans	(f)	1,495,292	1,170,625
Other assets	(g)	3,547	1,284
Statutory deposits with Bank Negara Malaysia		75,000	56,000
<b>Total assets</b>		<b>3,648,672</b>	<b>3,158,467</b>
<b>Liabilities and shareholders' equity</b>			
Deposits from customers	(h)	2,038,344	2,287,365
Deposits and placements of banks and other financial institutions	(i)	111,040	–
Bills and acceptances payable		2,014	1,477
Other liabilities	(j)	1,182,122	578,775
<b>Total liabilities</b>		<b>3,333,520</b>	<b>2,867,617</b>
<b>Islamic Banking Capital Funds</b>			
Islamic Banking funds		315,558	284,704
Reserves		(406)	6,146
<b>Total Islamic Banking Capital Funds</b>	(k)	<b>315,152</b>	<b>290,850</b>
<b>Total liabilities and Islamic Banking Capital Funds</b>		<b>3,648,672</b>	<b>3,158,467</b>
<b>Commitments and contingencies</b>		<b>4,847,285</b>	<b>7,731,410</b>

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

<b>45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)</b>				
Income statements for the financial year ended 31 December 2005				
<b>The Group and The Bank</b>				
	Note	2005	2004	
		RM'000	RM'000	
Income derived from investment of depositors' funds and others	(m)	131,468	107,868	
Allowance for losses on financing	(n)	(35,726)	(30,930)	
Transfer from profit equalisation reserve	(j)	(4,920)	-	
		90,822	76,938	
Income attributable to depositors	(o)	(76,444)	(54,148)	
Income attributable to shareholders		14,378	22,790	
Income derived from investment of Islamic Banking Capital Funds	(p)	19,742	12,210	
Net income		34,120	35,000	
Other operating expenses	(q)	(2,104)	(1,844)	
Profit before zakat		32,016	33,156	
Zakat		(1,162)	(738)	
Profit after zakat		30,854	32,418	
Statements of changes in Islamic Banking. Capital Funds for the financial year ended 31 December 2005.				
		Non-distributable	Distributable	
		Islamic Banking funds	Investment fluctuation reserve	Retained earnings
		RM'000	RM'000	RM'000
				Total RM'000
<b>The Group and Bank</b>				
At 1 January 2005	72,000	-	219,102	291,102
Prior year adjustment	-	6,146	(6,398)	(252)
	72,000	6,146	212,704	290,850
Net profit for the financial year	-	-	30,854	30,854
Net fair value change in available-for-sale securities	-	(6,552)	-	(6,552)
As at 31 December 2005	72,000	(406)	243,558	315,152
At 1 January 2004	72,000	-	178,788	250,788
Prior year adjustment	-	(8,843)	1,498	(7,345)
	72,000	(8,843)	180,286	243,443
Net profit for the financial year	-	-	32,418	32,418
Net fair value change in available-for-sale securities	-	14,989	-	14,989
As at 31 December 2004	72,000	6,146	212,704	290,850

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)**

Cash flow statements for the financial year ended 31 December 2005

	The Group and The Bank	
	2005 RM'000	2004 RM'000
<b>Cash flows from operating activities</b>		
<b>Profit before zakat</b>	<b>32,016</b>	33,156
<i>Adjustments for items not involving the movement of cash and cash equivalents:</i>		
Income from available-for-sale securities	(1,715)	(2,356)
Income from held-to-maturity securities	(4,860)	(5,432)
Accretion of discount less amortisation of premium for available-for-sale securities	(20,036)	(21,758)
Accretion of discount less amortisation of premium for held-to-maturity securities	1,242	(3,735)
Gain on sale of held-for-trading securities	(5,805)	-
(Gain)/ loss on sale of available-for-sale securities	(448)	467
Charge of specific allowance for bad and doubtful financing	36,115	30,927
Income suspended	2,501	26,742
Operating profit before working capital changes	39,010	58,011
Increase in deposits and placements with financial institutions	(44,550)	(85,450)
(Increase)/ decrease in financing, advances and others loans	(190,222)	93,226
(Increase)/ decrease in other assets	(2,074)	1,247
(Increase)/decrease in statutory deposits with Bank Negara Malaysia	(12,630)	47,386
Decrease in deposits from customers	(411,548)	(479,497)
Increase/ (decrease) in deposits and placements of banks and other financial institutions	111,040	(422,000)
Increase/ (decrease) in bills and acceptances payable	537	(40,220)
Decrease in other liabilities	564,283	642,266
Decrease in reserves on available-for-sale securities	-	14,990
Net sale of held-for-trading securities	5,805	-
Cash generated from/ (used) in operations	59,651	(170,041)
Zakat paid	(186)	(368)
Net cash generated from/ (used) in operating activities	59,465	(170,409)
<b>Cash flows from investing activities</b>		
Interest received from held-to-maturity securities	4,860	5,433
Interest received from available-for-sale securities	1,715	2,355
Net (purchase)/sale of held-to-maturity securities	(575)	292,539
Net sale of available-for-sale securities	283,442	70,035
Net cash generated from investing activities	289,442	370,362
<b>Net increase in cash and cash equivalents</b>	<b>348,907</b>	<b>199,953</b>
<b>Cash vested over from Affin-ACF</b>	<b>20,823</b>	-
<b>Cash and cash equivalents at beginning of the financial year</b>	<b>937,653</b>	<b>737,700</b>
Cash and cash equivalents at end of the financial year	1,307,383	937,653
<b>Analysis of cash and cash equivalents</b>		
Cash and short-term funds	1,307,383	937,653

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)***(a) Disclosure of Syariah Advisor*

The Bank engages the services of the Syariah Advisory Council of Affin Holdings Group for advice with respect to Islamic Banking products, transactions and business dealings involving the Bank. The council members comprise of three qualified Syariah professionals who meet up with the members of the Islamic Banking Unit of each financial institution in the Group.

The roles and responsibilities of the Syariah Advisory Council are as follows:

- (i) Providing advisory services and as well as certifying and approving Islamic banking products and transactions.
- (ii) Reviewing and endorsing the Islamic Banking Annual Report.

*(b) Cash and short-term funds*

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
Cash and balances with banks and other financial institutions	25,383	1,616
Money at call and deposit placements maturing within one month	1,282,000	936,037
	<b>1,307,383</b>	<b>937,653</b>

*(c) Deposits and placements with banks and other financial institutions*

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
Licensed Islamic banks	90,000	-
Licensed banks	50,000	55,450
Licensed finance companies	-	40,000
	<b>140,000</b>	<b>95,450</b>

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)**

*(d) Available-for-sale securities*

	The Group and The Bank	
	2005	2004
<b>At fair value</b>	<b>RM'000</b>	<b>RM'000</b>
Malaysian Government investment certificates	232,312	638,273
Islamic Khazanah bonds	133,451	129,563
NIDC purchased	19,338	-
Islamic accepted bills	93,052	-
Bank Negara Notes	21,480	-
	<b>499,633</b>	<b>767,836</b>
Unquoted securities :		
Shares in Malaysia	-	575
Private debt securities in Malaysia	35,224	35,784
	<b>534,857</b>	<b>804,195</b>

*(e) Held-to-maturity securities*

	The Group and The Bank	
	2005	2004
<b>At amortised cost</b>	<b>RM'000</b>	<b>RM'000</b>
Unquoted securities :		
Private debt securities in Malaysia	92,018	93,260
<b>At cost</b>		
Shares in Malaysia	575	-
	<b>92,593</b>	<b>93,260</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

<b>45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)</b>		
<i>(f) Financing, advances and other loans</i>		
	<b>The Group and The Bank</b>	
	2005	2004
<b>(i) By type</b>	<b>RM'000</b>	<b>RM'000</b>
Cash line	58,229	18,101
Term financing		
- House financing	1,383,963	702,651
- Hire purchase receivables	268,161	-
- Other term financing	537,724	586,596
Bills receivable	5,003	1,451
Trust receipts	71,824	44,371
Claims on customers under acceptance credits	52,432	36,407
Staff financing (of which RM NIL to directors)	12,081	9,838
Revolving credit	95,143	55,615
	<b>2,484,560</b>	1,455,030
Less: Unearned income	<b>(860,412)</b>	<b>(193,702)</b>
Gross financing, advances and others	<b>1,624,148</b>	1,261,328
Less: Allowance for bad and doubtful financing:		
- General	<b>(26,709)</b>	<b>(23,539)</b>
- Specific	<b>(102,147)</b>	<b>(67,164)</b>
Total net financing, advances and other loans	<b>1,495,292</b>	1,170,625
	<b>The Group and The Bank</b>	
	2005	2004
<b>(ii) By contract</b>	<b>RM'000</b>	<b>RM'000</b>
Al-Bai' Bithaman Ajil	1,173,256	563,455
Al-Murabahah	1,771	1,085
Other principles	449,121	696,788
	<b>1,624,148</b>	1,261,328
	<b>The Group and The Bank</b>	
	2005	2004
<b>(iii) By type of customer</b>	<b>RM'000</b>	<b>RM'000</b>
Domestic non-bank financial institutions		
- Others	49	62
Domestic business enterprises		
- Small medium enterprises	357,481	217,034
- Others	289,770	178,457
Government and statutory bodies	5,831	106,131
Individuals	898,323	745,382
Other domestic entities	1,879	6,474
Foreign entities	70,815	7,788
	<b>1,624,148</b>	1,261,328

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)**

(f) *Financing, advances and other loans (continued)*

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
<b>(iv) By profit rate sensitivity</b>		
Fixed rate		
- House financing	641,418	704,672
- Hire purchase receivables	220,617	-
- Other fixed rate financing	762,113	556,656
	<b>1,624,148</b>	<b>1,261,328</b>
	The Group and The Bank	
	2005	2004
	RM'000	RM'000
<b>(v) By sector</b>		
Agriculture, hunting, forestry and fishing	17,995	4,011
Mining and quarrying	4,082	3,970
Manufacturing	182,042	29,595
Electricity, gas and water	672	-
Construction	175,576	146,222
Real estate	381	2,252
Purchase of landed property of which:		
- Residential	649,037	687,936
- Non-residential	49,072	59,474
Wholesale and retail trade and restaurants and hotels	76,514	79,637
Transport, storage and communication	65,669	95,439
Finance, insurance and business services	4,413	1,040
Purchase of securities	7,898	8,997
Purchase of transport vehicles	212,920	476
Consumption credit	15,725	4,404
Others	162,152	137,875
	<b>1,624,148</b>	<b>1,261,328</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)***(f) Financing, advances and other loans (continued)*

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
<b>(vi) Movements in non-performing financing, advances and other loans (including income receivables)</b>		
At beginning of the financial year	474,433	355,635
Balance vested over from Affin-ACF	1,446	-
Classified as non-performing during the financial year	150,018	288,575
Reclassified as performing during the financial year	(73,810)	(36,321)
Amount recovered	(68,097)	(43,620)
Amount written off	(2,564)	(89,836)
At end of the financial year	481,426	474,433
Specific allowance	(102,147)	(67,164)
Net non-performing financing, advances and other loans	379,279	407,269
Ratio of net non-performing financing, advances and other loans to total net financing, advances and other loans	24.92%	34.10%
	The Group and The Bank	
	2005	2004
	RM'000	RM'000
<b>(vii) Movements in allowance for bad and doubtful financing, advances and other loans</b>		
<b>General allowance</b>		
At beginning of the financial year	23,539	23,539
Balance vested over from Affin-ACF	3,170	-
At end of the financial year	26,709	23,539
As % of total financing ,advances and other loans less specific allowance	1.75%	1.97%
<b>Specific allowance</b>		
At beginning of the financial year	67,164	72,106
Balance vested over from Affin-ACF	265	-
Allowance made during the financial year	51,885	37,346
Amount recovered	(15,770)	(6,419)
Amount written off	(1,397)	(35,869)
At end of the financial year	102,147	67,164



NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)**

(f) *Financing, advances and other loans (continued)*

	The Group and The Bank	
	2005	2004
(viii) Non-performing financing, advances and other loans by sector	RM'000	RM'000
Agriculture, hunting, forestry and fishing	3,975	3,527
Mining and quarrying	3,888	886
Manufacturing	69,752	11,261
Construction	95,728	134,866
Purchase of landed property of which:		
- Residential	157,809	173,016
- Non-residential	8,414	16,685
Wholesale and retail trade and restaurants and hotels	36,280	55,621
Transport, storage and communication	50,815	50,921
Finance, insurance and business services	11	-
Purchase of securities	6,648	7,366
Purchase of transport vehicles	944	-
Consumption credit	1,787	2,035
Others	45,375	18,249
	481,426	474,433

(g) *Other assets*

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
Other debtors, deposits and prepayments	198	248
Accrued income receivable	3,349	1,036
	3,547	1,284

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)***(h) Deposits from customers*

	The Group and The Bank	
	2005	2004
<b>(i) By type</b>	RM'000	RM'000
<i>Non-Mudharabah fund:</i>		
Demand deposits	1,191,600	1,315,122
Savings deposits	153,543	240,250
Negotiable instrument deposit certificate	157,342	94,632
<i>Mudharabah Fund:</i>		
Demand deposits	-	65,885
Savings deposits	6,194	9,201
General investment deposits	529,665	562,275
	<b>2,038,344</b>	<b>2,287,365</b>

	The Group and The Bank	
	2005	2004
<b>(ii) By type of customer</b>	RM'000	RM'000
Government and statutory bodies	1,009,251	-
Business enterprises	519,438	564,633
Individuals	212,186	274,872
Others	297,469	1,447,860
	<b>2,038,344</b>	<b>2,287,365</b>

*(i) Deposits and placements of banks and other financial institutions*

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
<i>Mudharabah fund:</i>		
Licensed merchant banks	10,440	-
Licensed finance companies	56,000	-
Other financial institutions	44,600	-
	<b>111,040</b>	<b>-</b>

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)**

*(j) Other liabilities*

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
Margin/ collateral deposits	2,819	2,607
Sundry creditors	16	623
Accrued income payable	5,873	4,359
Interbranch items in transit	1,167,707	571,186
Profit equalisation reserve (see below)	5,707	-
	<b>1,182,122</b>	<b>578,775</b>

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
<b>Profit Equalisation Reserve</b>		
At beginning of the financial year	-	-
Balance vested over from Affin-ACF	787	-
Provided in the financial year	27,939	19,430
Written back in the financial year	(23,019)	(19,430)
At end of the financial year	<b>5,707</b>	<b>-</b>

*(k) Islamic Banking funds*

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
Funds allocated from Head Office	72,000	72,000
Retained earnings	243,558	212,704
Reserves	(406)	6,146
Net unrealised (losses)/ gains on 'available-for-sale' investment of which the depositors' portion is RM353,000 ( 2004 : RM5,531,000)		
	<b>315,152</b>	<b>290,850</b>

*(l) Income from Islamic banking operations*

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

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
Income derived from investment of depositors' funds and others	131,468	107,868
Income attributable to the depositors	(76,444)	(54,148)
Income derived from the investment of Islamic Banking Capital funds	19,742	12,210
	<b>74,766</b>	<b>65,930</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)***(m) Income derived from investment of depositors' funds and others*

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	35,283	31,008
(ii) Other deposits	96,185	76,860
	<b>131,468</b>	<b>107,868</b>
<b>(i) General investment deposits</b>		
	The Group and The Bank	
	2005	2004
	RM'000	RM'000
<b>Finance income and hibah</b>		
Financing, advances and other loans	20,508	18,563
Available-for-sale securities	398	606
Held-to-maturity securities	1,298	1,554
Money at call and deposits with other financial institutions	6,490	2,931
Total finance income and hibah	<b>28,694</b>	<b>23,654</b>
Amortisation of premium less accretion of discount	<b>4,345</b>	<b>6,539</b>
	<b>33,039</b>	<b>30,193</b>
<b>Gain/ (loss) from sale of securities:</b>		
- Held-for-trading	1,349	-
- Available-for-sale	104	(120)
	<b>1,453</b>	<b>(120)</b>
<b>Fee and commission income</b>		
Commission	468	397
Service charges and fees	92	176
Guarantee fees	107	285
	<b>667</b>	<b>858</b>
<b>Other income</b>		
Others	124	77
	<b>35,283</b>	<b>31,008</b>

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)**

*(m) Income derived from investment of depositors' funds and others (continued)*

**(ii) Other deposits**

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
<b>Finance income and hibah</b>		
Financing, advances and other loans	56,271	46,344
Available-for-sale securities	1,094	1,511
Held-to-maturity securities	2,930	3,328
Money at call and deposits with other financial institutions	17,806	7,318
Total finance income and hibah	78,101	58,501
Amortisation of premium less accretion of discount	11,922	16,325
	90,023	74,826
<b>Gain/(loss) from sale of securities:</b>		
- Held-for-trading	3,701	-
- Available-for-sale	286	(300)
	3,987	(300)
<b>Fee and commission income</b>		
Commission	1,284	992
Service charges and fees	254	440
Guarantee fees	294	711
	1,832	2,143
<b>Other income</b>		
Others	343	191
	96,185	76,860

*(n) Allowance for losses on financing, advances and other loans*

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
Allowance for bad and doubtful financing, advances and other loans		
Specific allowance		
- made in the financial year	(51,885)	(37,346)
- written back	15,770	6,419
Bad debts on financing		
- recovered	399	-
- written off	(10)	(3)
	(35,726)	(30,930)

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)**

*(o) Income attributable to depositors*

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
Deposits from customers		
- Mudharabah fund	15,672	20,053
- Non-mudharabah fund	17,883	22,394
Deposits and placements of banks and other financial institutions		
- Mudharabah fund	8,166	5,709
Others	34,723	5,992
	<b>76,444</b>	<b>54,148</b>

*(p) Income derived from investment of Islamic Banking Capital funds*

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
<b>Finance income and hibah</b>		
Financing, advances and other loans	11,473	7,316
Available-for-sale securities	223	239
Held-to-maturity securities	632	550
Money at call and deposits with other financial institutions	3,630	1,155
Total finance income and hibah	15,958	9,260
Amortisation of premium less accretion of discount	2,527	2,629
	<b>18,485</b>	<b>11,889</b>
<b>Gain/(loss) from sale of securities:</b>		
- Held-for-trading	755	-
- Available-for-sale	58	(47)
	<b>813</b>	<b>(47)</b>
<b>Fee and commission income</b>		
Commission	262	157
Service charges and fees	52	69
Guarantee fees	60	112
	<b>374</b>	<b>338</b>
<b>Other income</b>		
Others	70	30
	<b>19,742</b>	<b>12,210</b>

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(q) Other operating expenses

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
Personnel costs	1,476	1,568
Establishment costs	121	96
Marketing expenses	75	16
Administration and general expenses	432	164
	2,104	1,844
	The Group and The Bank	
	2005	2004
	RM'000	RM'000
Personnel costs comprise the following:		
Wages, salaries and bonus	1,146	1,176
Defined contribution plan ('EPF')	188	205
Other personnel costs	142	187
	1,476	1,568
	The Group and The Bank	
	2005	2004
	RM'000	RM'000
Establishment costs comprise the following:		
Equipment rental	14	40
Repair and maintenance	5	1
Other establishment costs	102	55
	121	96
	The Group and The Bank	
	2005	2004
	RM'000	RM'000
Marketing expenses comprise the following:		
Business promotion and advertisement	45	-
Entertainment	5	1
Travelling and accomodation	24	10
Other marketing expenses	1	5
	75	16

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

**45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)***(q) Other operating expenses (continued)*

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
Administration and general expenses comprise the following:		
Professional fees	283	6
Other administration and general expenses	149	158
	432	164

*(r) Capital adequacy*

(i) The capital adequacy ratios are as follows:

	The Group and The Bank	
	2005	2004
	RM'000	RM'000
<b>Tier 1 capital</b>		
Islamic Banking Fund	72,000	72,000
Retained profit	243,558	212,704
Total Tier 1 capital	315,558	284,704
<b>Tier II capital</b>		
General allowance for bad and doubtful financing	26,710	23,539
Total Tier II capital	26,710	23,539
<b>Capital base</b>	342,268	308,243
Core capital ratio	18.79%	21.97%
Risk-weighted capital ratio	20.38%	23.79%

(ii) Breakdown of gross risk-weighted assets in the various categories of risk weights:

	The Group and The Bank		The Group and The Bank	
	2005		2004	
	Principal RM'000	Risk- weighted RM'000	Principal RM'000	Risk- weighted RM'000
0%	2,317,824	-	3,173,783	-
10%	-	-	-	-
20%	404,930	80,986	837,042	167,408
50%	492,706	246,353	717,617	358,809
100%	1,351,841	1,351,841	769,593	769,593
	4,567,301	1,679,180	5,498,035	1,295,810



NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(s) Commitments and contingencies

	The Group and the Bank			The Group and the Bank		
	2005			2004		
	Principal	Credit	Risk-	Principal	Credit	Risk-
	amount	equivalent	weighted	amount	equivalent	weighted
RM'000	amount*	amount*	RM'000	amount*	amount*	
Direct credit substitutes	542	542	542	10,272	10,272	10,272
Transaction-related contingent items	129,419	64,710	64,710	122,841	61,420	61,420
Short-term self-liquidating trade-related contingencies	4,119,583	823,917	104,547	5,553,333	1,110,667	78,686
Irrevocable commitment to extend credit						
- maturity exceeding one year	52,966	26,483	25,452	2,029,722	1,014,861	86,958
- maturity not exceeding one year	544,775	-	-	15,242	-	-
	<b>4,847,285</b>	<b>915,652</b>	<b>195,251</b>	<b>7,731,410</b>	<b>2,197,220</b>	<b>237,336</b>

\* The credit equivalent amount and risk-weighted amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2005

## 45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(t) Liquidity risk

The Group and The Bank 2005	Up to 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	>1 - 3 years RM'000	>3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>Assets</b>							
Cash and short-term funds	1,307,383	-	-	-	-	-	1,307,383
Deposits and placements with Banks and other financial institutions	140,000	-	-	-	-	-	140,000
Available-for-sale securities	202,211	56,677	275,969	-	-	-	534,857
Held-to-maturity securities	-	-	-	92,018	-	575	92,593
Financing, advances and other loans	229,309	31,052	49,037	214,819	359,418	611,657	1,495,292
Other assets	-	-	-	-	-	3,547	3,547
	1,878,903	87,729	325,006	306,837	359,418	615,779	3,573,672
<b>Liabilities</b>							
Deposits from customers	1,185,632	18,319	24,333	810,060	-	-	2,038,344
Deposits and placements of banks and other financial institutions	111,040	-	-	-	-	-	111,040
Bills and acceptances payable	2,014	-	-	-	-	-	2,014
Other liabilities	-	-	-	-	-	1,182,122	1,182,122
	1,298,686	18,319	24,333	810,060	-	1,182,122	3,333,520
On balance sheet gap	580,217	69,410	300,673	(503,223)	359,418	(566,343)	240,152
Off balance sheet credit commitments	-	-	-	-	-	-	-
<b>Net maturity mismatch</b>	<b>580,217</b>	<b>69,410</b>	<b>300,673</b>	<b>(503,223)</b>	<b>359,418</b>	<b>(566,343)</b>	<b>240,152</b>

The behavioural assumptions adopted are as per Bank Negara Malaysia guidelines.

NOTES TO THE FINANCIAL STATEMENTS  
for the financial year ended 31 December 2005

**45) THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)**

(t) *Liquidity risk (continued)*

The Group and The Bank 2004	Up to 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	>1 - 3 years RM'000	>3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>Assets</b>							
Cash and short-term funds	937,653	-	-	-	-	-	937,653
Deposits and placements with banks and other financial institutions	95,450	-	-	-	-	-	95,450
Available-for-sale securities	-	-	638,273	165,348	-	574	804,195
Held-to-maturity securities	-	-	-	93,260	-	-	93,260
Financing, advances and other loans	54,870	86,237	111,168	212,687	169,643	536,020	1,170,625
Other assets	1,284	-	-	-	-	-	1,284
	1,089,257	86,237	749,441	471,295	169,643	536,594	3,102,467
<b>Liabilities</b>							
Deposits from customers	1,890,335	28,586	25,414	343,030	-	-	2,287,365
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-
Bills and acceptances payable	1,477	-	-	-	-	-	1,477
Other liabilities	578,775	-	-	-	-	-	578,775
	2,470,587	28,586	25,414	343,030	-	-	2,867,617
On balance sheet gap	(1,381,330)	57,651	724,027	128,265	169,643	536,594	234,850
Off balance sheet credit commitments	2,418	-	-	2,175,659	-	-	2,178,077
<b>Net maturity mismatch</b>	<b>(1,378,912)</b>	<b>57,651</b>	<b>724,027</b>	<b>2,303,924</b>	<b>169,643</b>	<b>536,594</b>	<b>2,412,927</b>

The behavioural assumptions adopted are as per Bank Negara Malaysia guidelines.

## STATEMENT BY DIRECTORS

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

We, JEN (B) TAN SRI DATO' SERI ISMAIL BIN HAJI OMAR and DATO' ABDUL HAMIDY BIN ABDUL HAFIZ, being two of the Directors of AFFIN BANK BERHAD, state that, in the opinion of the Directors, the financial statements set out on pages 13 to 108 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2005 and of the results and cash flows of the Group and of the Bank for the financial year ended on that date in accordance with the provisions of the Companies Act, 1965, Malaysian Accounting Standards Board ('MASB') approved accounting standards in Malaysia and Bank Negara Malaysia Guidelines.

In accordance with a resolution of the Board of Directors dated 28 February 2006.

JEN (B) TAN SRI DATO' SERI ISMAIL BIN HAJI OMAR

*Chairman*

DATO' ABDUL HAMIDY BIN ABDUL HAFIZ

*Managing Director / Chief Executive Officer*

## STATUTORY DECLARATION

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

I, RAMANATHAN RAJOO being the officer of AFFIN BANK BERHAD, primarily responsible for the financial management of the Group and of the Bank, do solemnly and sincerely declare that in my opinion, the financial statements set out on pages 13 to 108 are 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.

RAMANATHAN RAJOO

Subscribed and solemnly declared by the abovenamed RAMANATHAN RAJOO at Kuala Lumpur in Malaysia on 28 February 2006, before me.

AHMAD BIN LAYA

NO. W259

Commissioner for Oaths

**REPORT OF THE AUDITORS**  
**TO THE MEMBERS OF AFFIN BANK BERHAD**  
Company No : 25046 T

We have audited the financial statements set out on pages 13 to 108. These financial statements are the responsibility of the Bank's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved 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 provisions of the Companies Act, 1965, Malaysian Accounting Standards Board ('MASB') approved accounting standards in Malaysia and Bank Negara Malaysia Guidelines 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 2005 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 by the subsidiaries have been properly kept in accordance with the provisions of the Act.

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

**REPORT OF THE AUDITORS (CONTINUED)**  
TO THE MEMBERS OF AFFIN BANK BERHAD  
Company No : 25046 T

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**  
(AF: 1146)  
Chartered Accountants

**JAYARAJAN A/L U.RATHINASAMY**  
(2059/06/06(J))  
Partner of the firm

Kuala Lumpur  
28 February 2006