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Financial
Statements

Commerce Asset-Holding Berhad
(50841-W)

Kandungan

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Directors' Report
for the year ended 31 December 1997

The Directors have pleasure in submitting their report together with the audited accounts of the Group and of the Company for the financial year ended 31 December 1997.

Principal activities

The principal activities of the Company are those of investment holding, management company, property management, provision of consultancy services and dealing in securities. The principal activities of the subsidiary companies are set out in note 11 to the accounts. There have been no significant changes in the nature of these activities except the Company commenced dealing in securities during the financial year.

Financial results	The Group RM'000	The Company RM'000
Profit before taxation	324,467	97,053
Taxation	(127,933)	(36,201)
Zakat	(30)	-
Profit after taxation and zakat	196,504	60,852
Minority interests	(15,787)	-
Profit after taxation and minority interests	180,717	60,852
Transfer to statutory reserve	(78,962)	-
Transfer to non-distributable reserve	(19,055)	-
Retained profit for the year	82,700	60,852
Retained profit brought forward	407,098	112,697
Profit available for distribution	489,798	173,549
Proposed dividend of 6% less tax	(34,930)	(34,930)
Retained profit carried forward	454,868	138,619

Dividends

Dividends paid, declared or proposed since the end of the Company's previous financial year were as follows:-

	RM'000
(a) In respect of the financial year ended 31 December 1996: As proposed in the report of the Directors for that year, a first and a final dividend of 12% less tax at 30% paid on 28 April 1997	26,023
(b) In respect of the financial year ended 31 December 1997: A first and final dividend of 6% less tax at 28% payable on a date to be determined by the Board of Directors	34,930

Share capital

During the financial year, the authorised share capital of the Company was increased from RM500,000,000 to RM1,500,000,000 by the creation of 1,000,000,000 new ordinary shares of RM1.00 each.

During the financial year, the issued and fully paid up share capital of the Company was increased from 295,028,322 ordinary shares of RM1.00 each to 779,832,442 ordinary shares of RM1.00 each by way of:

- (a) a bonus issue of 319,235,250 new ordinary shares of RM1.00 each on the basis of one (1) new ordinary share for every one (1) existing ordinary share held in the Company;
- (b) a special issue of 11,378,900 new ordinary shares of RM1.00 each at an issue price of RM6.50 per share to Bumiputra investors approved by the Ministry of Finance;
- (c) a rights issue of 129,969,880 new ordinary shares of RM1.00 each at an issue price of RM6.50 per share on the basis of one (1) new ordinary share for every five (5) existing ordinary shares held in the Company;

Directors' Report
for the year ended 31 December 1997

- (d) an issue of 8,351,531 new ordinary shares of RM1.00 each from the exercise of 8,338,369 and 13,162 Transferable Subscription Rights (TSR) at the exercise price of RM6.30 per share and at the adjusted exercise price of RM2.97 per share respectively;
- (e) an issue of 15,868,559 new ordinary shares of RM1.00 each from the conversion of USD84,500,000 nominal value of 1.75% redeemable Euro-Convertible Bonds due 2004 at the conversion price of RM13.60 per ordinary share at a fixed exchange rate of RM2.554 to USD1.00.

The newly issued shares rank pari passu in all respects with the existing issued shares of the Company.

Zero coupon redeemable unsecured Bonds and Warrants

During the financial year, the Company issued USD160 million 5 years zero coupon redeemable unsecured Bonds 1997/2002 together with 81,231,175 detachable Warrants to provide additional funds for working capital purposes in its banking subsidiary companies. These Bonds are redeemable by the Company at 100% of its nominal value on maturity date.

The Warrant entitles its registered holder the right, exercisable in whole or in part, to subscribe for one new ordinary share at an exercise price of RM7.45 (subject to adjustments under certain circumstances in accordance with the Deed Poll) at any time during the subscription period, expiring on 16 March 2002.

Employees' share option scheme

The Commerce Asset-Holding Berhad Group Employee Share Option Scheme ("the Scheme") was approved by the shareholders at an Extraordinary General Meeting held on 28 March 1997.

The main features of the Scheme are:

- (a) Eligible persons are employees of the Group who have been confirmed in the employment of the Group and have been in the employment of the Group for at least one year on or prior to the offering date, the date when an offer is made in writing to an employee to participate in the Scheme. The eligibility for participation in the Scheme shall be at the discretion of the Board of Directors.
- (b) The total number of new ordinary shares available under the Scheme shall not exceed 10% of the total issued and paid up share capital of the Company at any point of time during the existence of the Scheme, which shall be in force for a period of five years, expiring 20 June 2002.
- (c) No option shall be granted for less than 1,000 shares nor more than 250,000 shares and shall always be multiples of 1,000 ordinary shares.
- (d) The subscription price for each RM1.00 share shall be the average of the mean market quotation of the shares of the Company as shown in the Daily Official List issued by The Kuala Lumpur Stock Exchange for the five market days preceding the offer date, provided that subscription price shall in no event be less than the par value of the ordinary shares of the Company.

During the year, 62,126,000 options have been granted and none of the options granted were exercised. At 31 December 1997, unissued shares of the Company under the Scheme were as follows:

Number of Ordinary Shares	Subscription Price RM
61,928,000	6.92
198,000	6.80

The consideration is payable in full on application. The options granted do not confer any right to participate in any share issue of any other company.

Reserves and provisions

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

Directors' Report

for the year ended 31 December 1997

Bad and doubtful debts and financing

Before the accounts of the Group and of the Company 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 the making of provisions for doubtful debts and financing, and satisfied themselves that all known bad debts and financing have been written off and adequate provisions made for doubtful debts and financing.

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

Current assets

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

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

Valuation methods

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company 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 and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Group and of the Company that has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent or other liability of any company in the Group has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group and its subsidiary companies 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 accounts of the Group and of the Company, that would render any amount stated in the accounts misleading.

Items of an unusual nature

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

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

Directors' Report
for the year ended 31 December 1997

Directors and their interests in shares, transferable subscription rights, warrants and share options

The names of the Directors of the Company in office since the date of the last report and at the date of this report are:

Directors

Dato' Mohd Desa Pachi
Dato' Md Nor Md Yusof
Dr. Rozali Mohamed Ali
Tunku Dato' Abdul Malek Tunku Kassim
Dato' Sulaiman Aris
Mr Koshi Akagi

In accordance with Article 94 of the Articles of Association, Tunku Dato' Abdul Malek Tunku Kassim and Dato' Sulaiman Aris retire from the Board at the Annual General Meeting and, being eligible, offer themselves for re-election.

According to the Register of Directors' Shareholdings, the Directors' interests in the Shares, Transferable Subscription Rights, Warrants and Share Options of the Company during the financial year are as follows:

	No. of Ordinary Shares of RM1 each			Balance as at 31 December
	Balance as at 1 January	Bonus/ rights issue/bought	Sold	
Dato' Mohd Desa Pachi	10,000	194,000	180,000	24,000
Dato' Md Nor Md Yusof	300,000	2,101,000	1,680,000	721,000
Dr. Rozali Mohammed Ali	-	962,400	960,000	2,400
Tunku Dato' Abdul Malek Tunku Kassim	-	162,000	160,000	2,000
Dato' Sulaiman Aris	-	75,000	70,000	5,000

	No. of Transferable Subscription Rights			Balance as at 31 December
	Balance as at 1 January	Bonus issue/bought	Sold/ Conversion	
Dato' Md Nor Md Yusof	2,000	1,079	2,000	1,079

	No. of Warrants			Balance as at 31 December
	Balance as at 1 January	Bought	Sold/ Conversion	
Dato' Mohd Desa Pachi	-	21,750	-	21,750
Dato' Md Nor Md Yusof	-	237,500	-	237,500
Dr. Rozali Mohammed Ali	-	100,000	-	100,000

	No. of Share Options			Balance as at 31 December
	Balance as at 1 January	Granted	Exercised	
Dato' Md Nor Md Yusof	-	200,000	-	200,000
Dr. Rozali Mohammed Ali	-	200,000	-	200,000

According to the Register of Directors' Shareholdings, none of the other Directors in office at the end of the financial year held any interests in the Shares, Transferable Subscription Rights, Warrants and Share Options of the Company and its subsidiary companies during the financial year.

Directors' Report
for the year ended 31 December 1997

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefits (other than the emoluments shown in the accounts) by reason of a contract made by the Company 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.

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements to which the Company or any of its subsidiary companies is a party whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Auditors

The auditors, Coopers & Lybrand, have expressed their willingness to continue in office.

On behalf of the Board of Directors



Dato' Mohd Desa Pachi
Director



Dato' Md Nor Md Yusof
Director

Kuala Lumpur
31 March 1998

Report of the auditors
to the members of Commerce Asset-Holding Berhad

We have audited the accounts set out on pages 80 to 116 in accordance with approved Auditing Standards.

In our opinion:

- (a) the accounts give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 1997 and of their profits and cash flows of the Group for the year then ended and comply with the Companies Act, 1965; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the accounts and the auditors' report of the subsidiary company of which we have not acted as auditors which is indicated in note 11 to the accounts.

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

The auditors' reports on the accounts of the subsidiary companies were not subject to any qualification and did not include any adverse comment made under subsection (3) of Section 174 of the Act.



Coopers & Lybrand
[AF:0178]
Public Accountants



Dato' Cheong Keap Tai
[1129/12/99(J/PH)]
Partner

Kuala Lumpur
31 March 1998

Consolidated balance sheet
as at 31 December 1997

	Note	1997 RM'000	1996 RM'000
Assets			
Cash and short-term funds	3	863,841	791,458
TSR proceeds account	4	147,838	274,363
Deposits and placements with financial institutions	5	1,326,331	874,414
Dealing securities	6	1,120,781	425,039
Investment securities	7	2,439,011	2,080,194
Loans, advances and financing	8	15,000,649	11,399,521
Other assets	9	923,327	792,092
Statutory deposits with Bank Negara Malaysia	10	1,694,398	1,443,401
Associated companies	12	52,031	1,621
Fixed assets	13	196,045	178,174
Goodwill on consolidation	14	16,827	17,624
Total assets		23,781,079	18,277,901
Liabilities and shareholders' funds			
Deposits from customers	15	13,313,846	12,056,211
Deposits and placements of banks and other financial institutions	16	4,296,195	2,617,030
Obligations on securities sold under repurchase agreements		768,099	-
Bills and acceptances payable		163,759	205,250
Other liabilities	17	934,273	998,156
Bonds	20	907,269	457,454
Irredeemable convertible unsecured loan stocks	21	411	-
Total liabilities		20,383,852	16,334,101
Minority interests		236,943	200,595
Share capital	22	779,832	295,028
Reserves	23	2,380,452	1,448,177
Shareholders' funds		3,160,284	1,743,205
Total liabilities and shareholders' funds		23,781,079	18,277,901
Commitments and contingencies	34	3,939,779	3,417,339

The above consolidated balance sheet is to be read in conjunction with the notes to the accounts on pages 86 to 116.
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Consolidated profit and loss account
for the year ended 31 December 1997

	Note	1997 RM'000	1996 RM'000
Interest income	24	1,728,343	1,291,898
Interest expense	25	(1,123,503)	(817,133)
Net interest income		604,840	474,765
Loan and financing loss and provision	26	(233,567)	(96,251)
		371,273	378,514
Non-interest income	27	343,022	346,952
Net income		714,295	725,466
Overhead expense	28	(391,683)	(253,161)
		322,612	472,305
Share of results of associated companies		1,855	1,139
Profit before taxation and zakat		324,467	473,444
Taxation	30	(127,933)	(157,975)
Zakat		(30)	-
Profit after taxation and zakat		196,504	315,469
Minority interests		(15,787)	(47,910)
Profit after taxation and minority interests		180,717	267,559
Transfer to statutory reserve	23	(78,962)	(98,054)
Transfer to non-distributable reserve	23	(19,055)	(19,107)
Retained profit for the year		82,700	150,398
Retained profit brought forward		407,098	280,950
Profit available for distribution		489,798	431,348
Proposed dividend	31	(34,930)	(24,250)
Retained profit carried forward		454,868	407,098
Retained by:			
The Company		138,619	112,697
Subsidiary companies		315,256	293,418
Associated companies		993	983
		454,868	407,098
Earnings per share	32		
Basic		26.06 sen	49.04 sen
Fully diluted		23.68 sen	40.64 sen

The above consolidated profit and loss account is to be read in conjunction with the notes to the accounts on pages 86 to 116.
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Balance sheet
as at 31 December 1997

	Note	1997 RM'000	1996 RM'000
Assets			
Cash and short-term funds	3	430,921	10,420
TSR proceeds account	4	147,838	274,363
Dealing securities	6	100,834	-
Investment securities	7	2,500	1,500
Loans, advances and financing	8	468	549
Other assets	9	49,286	47,753
Subsidiary companies	11	2,322,481	1,102,231
Associated company	12	50,400	-
Fixed assets	13	70,222	56,644
Total assets		3,174,950	1,493,460
Liabilities and shareholders' funds			
Other liabilities	17	55,058	31,783
Bonds	20	907,269	457,454
Total liabilities		962,327	489,237
Share capital	22	779,832	295,028
Reserves	23	1,432,791	709,195
Shareholders' funds		2,212,623	1,004,223
Total liabilities and shareholders' funds		3,174,950	1,493,460

The above balance sheet is to be read in conjunction with the notes to the accounts on pages 86 to 116.
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Profit and loss account
for the year ended 31 December 1997

	Note	1997 RM'000	1996 RM'000
Interest income	24	66,159	24,758
Interest expense	25	(2,763)	(8,115)
<hr style="border-top: 1px dotted black;"/>			
Net interest income		63,396	16,643
Non-interest income	27	43,523	66,219
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Net income		106,919	82,862
Overhead expense	28	(9,866)	(6,944)
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Profit before taxation		97,053	75,918
Taxation	30	(36,201)	(23,583)
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Profit after taxation		60,852	52,335
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Retained profit brought forward		112,697	84,612
<hr style="border-top: 1px dotted black;"/>			
Profit available for distribution		173,549	136,947
<hr style="border-top: 1px dotted black;"/>			
Proposed dividend	31	(34,930)	(24,250)
<hr style="border-top: 1px dotted black;"/>			
Retained profit carried forward		138,619	112,697

The above profit and loss account is to be read in conjunction with the notes to the accounts on pages 86 to 116.
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Consolidated cash flow statement
for the year ended 31 December 1997

	Note	1997	1996
		RM'000	RM'000
Cash flows from/(used in) operating activities			
Net profit before taxation		324,467	473,444
<i>Adjustments for:</i>			
Depreciation of fixed assets		34,287	22,586
Net gain on disposal of fixed assets		(250)	(473)
Fixed assets written off		-	58
Dividends from investment securities		(1,030)	(867)
Provision for bad and doubtful debts:			
- Loans loss and provision		233,567	96,251
- Other debtors		103,724	4,150
Net interest suspended		27,812	12,397
Gains on sale of investment securities		(14,490)	(4,103)
Provision for diminution in value of investment securities		4,735	-
Amortisation of premium less accretion of discounts		5,113	5,267
Interest expense on short term borrowings		32,009	27,964
Loss on disposal of a subsidiary company		180	-
Amortisation of goodwill		797	799
Share of results of associated companies		(1,855)	(1,139)
		424,599	162,890
.....			
Operating profit before changes in working capital		749,066	636,334
Decrease/(increase) in operating assets			
TSR proceeds account		126,525	(229,613)
Deposits and placements with banks and other financial institutions		(334,746)	1,320,689
Loans, advances and financing		(3,461,419)	(1,254,756)
Dealing securities		(695,742)	78,300
Other assets		(230,583)	(356,382)
Statutory deposits with Bank Negara Malaysia		(250,997)	(215,952)
		(4,846,962)	(657,714)
Increase/(decrease) in operating liabilities			
Deposits from customers		1,185,259	1,080,274
Deposits and placement of banks and other financial institutions		1,464,356	124,640
Obligations on securities sold under repurchase agreement		768,099	(670,883)
Bills and acceptance payable		(41,491)	17,844
Other liabilities		126,076	(19,422)
		3,502,299	532,453
.....			
Cash flows/(used in) from operations		(595,597)	511,073
Taxation paid		(150,496)	(163,406)
Interest paid		(32,009)	(28,071)
.....			
Net cash from/(used in) operating activities		(778,102)	319,596

The above cash flow statement is to be read in conjunction with the notes to the accounts on pages 86 to 116.
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Consolidated cash flow statement
for the year ended 31 December 1997 (continued)

	Note	1997 RM'000	1996 RM'000
Cash flows from/(used in) investing activities			
Proceeds from disposal of fixed assets		2,145	771
Dividends received from investment securities		1,030	802
Dividends received from an associated company		447	-
Net purchase of investment securities		(309,823)	(459,326)
Purchase of fixed assets		(53,468)	(35,534)
Proceeds from disposal of a subsidiary company	38	5,226	-
Investment in an associated company		(50,400)	-
<i>Net cash used in investing activities</i>		(404,843)	(493,287)
Cash flows from/(used in) financing activities			
Net proceeds from/(repayments of) short term borrowings		(98,000)	156,210
Dividends paid		(26,023)	(21,560)
Dividends paid by subsidiary companies to minority shareholders		(3,475)	(1,302)
Proceeds from issuance of shares of the Company		962,640	221,055
Proceeds from issuance of shares to minority shareholders		26,540	-
Proceeds from issuance of Bonds		396,800	-
Proceeds from issuance of ICULS by a subsidiary company to minority shareholders		411	-
Share issue expenses		(4,782)	-
<i>Net cash generated from financing activities</i>		1,254,111	354,403
Net increase in cash and cash equivalents during the financial year		71,166	180,712
Effect of exchange rate changes		1,217	(2,075)
Cash and cash equivalents at beginning of the financial year		791,458	612,821
Cash and cash equivalents at end of the financial year	39	863,841	791,458

The above consolidated cash flow statement is to be read in conjunction with the notes to the accounts on pages 86 to 116.
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Notes to the accounts
for the year ended 31 December 1997

1 BASIS OF PREPARATION OF THE ACCOUNTS

The accounts of the Group and of the Company have been prepared in accordance with approved Accounting Standards and the provisions of the Companies Act, 1965. The accounts incorporate those activities relating to Interest-Free Banking Scheme (SPTF) which have been undertaken by the Group.

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

2 SIGNIFICANT GROUP ACCOUNTING POLICIES

All significant accounting policies set out below are consistent with those applied in the previous year.

Accounting convention

The accounts are prepared under the historical cost convention.

Basis of consolidation

The consolidated accounts include the audited accounts of the Company and all its subsidiary companies made up to the end of the financial year. Intercompany transactions are eliminated on consolidation and the consolidated accounts reflect external transactions only. The Company adopts both the acquisition and merger method of consolidation.

When the acquisition method is adopted, the excess of the purchase price over the fair value of the net assets of subsidiary companies at the date of acquisition is included in the consolidated accounts as goodwill on consolidation and is amortised over a period of 25 years.

Acquisitions of subsidiary companies which meet the criteria for merger accounting under the Malaysian Accounting Standard 2, Accounting for Acquisitions and Mergers, are accounted for using merger accounting principles. When the merger method is used, the cost of investment in the Company's books is recorded as the nominal value of shares issued and the difference between the carrying value of the investment and the nominal value of shares transferred is treated as merger reserves in accordance with merger relief provisions under Section 60(4) of the Companies Act, 1965. The results of the companies being merged are included for the full financial year.

Except for Bank of Commerce (M) Berhad which is consolidated under the merger method, all other subsidiary companies are consolidated under the acquisition method.

Subsidiary companies

The Company treats as subsidiary companies, those companies in which the Company controls the composition of its Board of Directors or more than half of its voting power, or holds more than half of its issued ordinary share capital.

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

Recognition of interest income

Interest income is recognised on an accrual basis. Interest income on housing and term loans is recognised by reference to rest periods which are either monthly or yearly.

Where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. Customers' accounts are classified as non-performing where repayments are in arrears for three months or more for loans and overdrafts, and 14 days after maturity date for trade bills, bankers' acceptances and trust receipts. With effect from 1 October 1997, the Commercial Bank's and the Merchant Bank's policy on suspension of interest is in conformity with Bank Negara Malaysia's "Guidelines on Interest Suspension, BNM/GP3 (revised)". The Commercial Bank and the Merchant Bank have implemented the BNM/GP3 (revised) guidelines ahead of the 1998 implementation date.

Recognition of fees and other income

Loan arrangement, management and participation fees, acceptance and underwriting commissions are recognised as income when all conditions precedent are fulfilled.

Portfolio management fees, commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

Dividends from dealing securities are recognised when received. Dividends from investment securities are recognised when declared.

Notes to the accounts
for the year ended 31 December 1997

Provision for bad and doubtful debts and financing

Specific provisions are made for doubtful debts and financing which have been individually reviewed and specifically identified as bad or doubtful.

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

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

With effect from 1 October 1997, the Commercial Bank and the Merchant Bank have revised the default period from 6 months to 3 months, and have provided 50% on defaulted non-performing loans for 6 months but less than 12 months as against defaulted non-performing loans for 12 months but less than 24 months previously and 100% provision on defaulted non-performing loans for 12 months and above as against defaulted non-performing loans for 24 months and above previously.

Repurchase agreements

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

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

Dealing securities

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

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

Investments securities

Investment securities are securities that are acquired and held for yield or capital growth or to meet minimum liquid assets requirements pursuant to Section 38 of the Banking and Financial Institutions Act, 1989, and are usually held to maturity.

Malaysian Government securities, Malaysian Government investment issues, Cagamas bonds, other Government securities, and Bank Guarantee Private Debt Securities held for investment are stated at cost adjusted for amortisation of premium or accretion of discount to maturity date. Other Private Debt Securities are valued at the lower of cost and market value. Other investment securities are stated at cost and provision is made in the event of any permanent diminution in value.

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

Depreciation

Freehold land and leasehold land with lease period of 800 years and above are not depreciated. Depreciation of other fixed assets is calculated to write-off the cost of the fixed assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates are:-

Long term leasehold land - 50 years or more	Over the lease period
Short term leasehold land - less than 50 years	Over the lease period
Buildings on freehold land	2.5%
Buildings on leasehold land	2.5% or over the balance period of the lease, whichever is shorter
Office equipment, furniture and fixtures	10% - 20%
Motor vehicles	20%
Computer equipment and software	20% - 33 1/3%
Personal computers, software and peripherals	33 1/3%
Renovations to rented premises	20% or over the period of the tenancy, whichever is shorter

During the financial year, the Group revised the estimated useful life of personal computers and certain software and peripherals from 5 years to 3 years to reflect fairly their economic useful lives. The change in accounting estimate has no significant effects on current year's profit.

Notes to the accounts *for the year ended 31 December 1997*

Associated companies

The Group treats as an associated company, a company in which the Company has a long term equity interest of between 20% to 50% and where the Company can exercise significant influence through management participation.

Investments in associated companies are stated at cost less provision for diminution in value of investments of a permanent nature, if any.

The Group's share of profits less losses of associated companies is included in the consolidated profit and loss account and the Group's share of post-acquisition retained profits and reserves is added to the cost of investments in the consolidated balance sheet. These amounts are taken from the latest management accounts of the associated companies concerned, made up to the end of the financial year of the Group.

Assets under lease

Assets under lease which in substance transfer the risks and benefits of ownership of the assets to the Group are capitalised under fixed assets. 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 term. Such leased assets are subject to depreciation consistent with that of depreciable assets which are owned.

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

Bills and acceptances payable

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

Forward exchange contracts

Unmatured forward exchange contracts are valued at forward rates as at balance sheet date, applicable to their respective dates of maturity, and unrealised losses and gains are recognised in the profit and loss account for the year.

Gains and losses, arising from swap transactions are amortised over the period to maturity.

Interest rate swap contracts

The subsidiary companies act as intermediary with counterparties who wish to swap their interest obligations. The subsidiary companies also use interest rate swaps in their trading account activities and in overall interest rate risk management.

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.

Derivative financial instruments

Transactions are undertaken in derivative financial instruments ("derivatives") which include interest rate swaps, cross currency swaps, futures, warrants and similar instruments, for trading and non-trading purposes. Derivatives classified as non-trading are held for the purpose of hedging exposures relating to the Group's assets, liabilities and positions which are held for the purpose of investment.

Gains and losses arising from the hedging of investment transactions are released to the profit and loss account over the life of the asset, liability or position against which the hedge is held. Gains and losses arising from the hedging of assets which are not held for the purpose of investment are taken directly to the profit and loss account. Where a transaction originally entered into as a hedge no longer represents a hedge, its value is restated and any change in value is taken to the profit and loss account.

Gains and losses on instruments purchased or sold for trading and market making purposes are taken directly to the profit and loss account. Any such transactions outstanding at the balance sheet date are stated at market value.

Notes to the accounts
for the year ended 31 December 1997

Bonds

Bonds issued by the Company are stated at the issue price. When the convertible Bonds are converted, the amount recognised in the shareholders' funds in respect of the shares issued will be the amount at which the liability for the Bonds is stated as at the date of conversion. No gain or loss will be recognised on conversion.

The premium over the principal amount arising from the put option of the Bonds not previously redeemed, purchased and cancelled, or converted, are provided over the period from the date of initial issue to the date of option to redeem and are set aside to the non-distributable reserves.

Gain or loss on the redemption or purchase of Bonds by the Company are taken up in the Profit and Loss Account in the year it arises.

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. Profit and loss items are converted at rates prevailing on transaction dates. Exchange gains and losses are recognised in the profit and loss account in the year they arise.

The accounts of the foreign subsidiary company and the subsidiary company incorporated in the Federal Territory of Labuan and related foreign currency borrowings are translated into Ringgit Malaysia at the rates of exchange ruling at the balance sheet date. Exchange differences arising from this translation are dealt with through the exchange fluctuation reserve account.

Deferred taxation

Provision is made, by the liability method, for taxation deferred in respect of all material timing differences except where timing differences give rise to deferred tax benefits, these net benefits are not recognised.

Staff retirement benefits

A subsidiary company has established an approved Retirement Benefit Scheme (RBS) to provide for the subsidiary company's liability in respect of retirement benefits for all eligible employees.

The contribution rate to the RBS by the subsidiary company is set and charged to the profit and loss account so as to be sufficient to meet all the liabilities of the RBS over the future working lifetime of existing employees. The contribution rate is determined using the "Attained Age Method" and is reviewed at intervals of three years by an independent actuary.

3 CASH AND SHORT-TERM FUNDS

	The Group		The Company	
	1997 RM'000	1996 RM'000	1997 RM'000	1996 RM'000
Cash and balances with banks and other financial institutions	339,391	284,495	263	604
Money at call and deposits placements maturing within one month	524,450	506,963	430,658	9,816
	863,841	791,458	430,921	10,420

4 TRANSFERABLE SUBSCRIPTION RIGHTS (TSR) PROCEEDS ACCOUNT

This is in respect of monies received from the exercise of Transferable Subscription Rights by the TSR-holders during the subscription period, which is being held by a Trustee in relation to the 1993/98 Bonds. This account shall be used for the purchase of the 1993/98 Bonds and/or the repayment, redemption of principal amount of the outstanding Bonds upon due date.

Notes to the accounts
for the year ended 31 December 1997

5 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	The Group	
	1997	1996
	RM'000	RM'000
Licensed banks	550,464	521,879
Licensed finance companies	220,000	110,527
Other financial institutions	555,867	242,008
	1,326,331	874,414

6 DEALING SECURITIES

	The Group		The Company	
	1997	1996	1997	1996
	RM'000	RM'000	RM'000	RM'000
Money market instruments:-				
Malaysian Government securities	-	5,000	-	-
Malaysian Government treasury bills	15,342	106	-	-
Bank Negara bills	-	34,630	-	-
Cagamas bonds	49,505	22,714	-	-
Cagamas notes	76,569	-	-	-
Negotiable instruments of deposits	648,853	316,000	-	-
Bankers' acceptances	76,688	37,927	-	-
Private debt securities	123,202	-	-	-
	990,159	416,377	-	-
Quoted securities in Malaysia:-				
Warrants	18,677	2,597	-	-
Corporate bonds	4,350	4,687	-	-
Shares	107,595	1,378	100,834	-
	1,120,781	425,039	100,834	-
Market value of quoted securities and money market instruments:-				
Malaysian Government securities	-	4,998	-	-
Bank Negara bills	-	34,782	-	-
Cagamas bonds	49,086	22,512	-	-
Warrants	18,677	4,155	-	-
Corporate bonds	4,350	5,738	-	-
Shares	109,716	804	102,955	-
	181,829	72,989	102,955	-

Notes to the accounts
for the year ended 31 December 1997

7 INVESTMENT SECURITIES

	The Group		The Company	
	1997 RM'000	1996 RM'000	1997 RM'000	1996 RM'000
Money market instruments:				
General investment certificates	-	9,156	-	-
Malaysian Government securities	436,503	447,133	-	-
Malaysian Government treasury bills	75,650	47,671	-	-
Bank Negara bills	-	174,741	-	-
Cagamas bonds	760,791	710,400	-	-
Cagamas Mudharabah bonds	1,000	-	-	-
Cagamas notes	49,095	-	-	-
Negotiable instruments of deposits	805,000	450,000	-	-
Bills and Notes receivables	84,992	-	-	-
Bankers' acceptance and Islamic accepted bills	-	21,586	-	-
	2,213,031	1,860,687	-	-
Quoted securities:				
In Malaysia				
Shares	4,850	4,690	1,315	1,315
Bonds	22,542	33,131	-	-
Property trust units	5	4	-	-
Outside Malaysia				
Bonds	-	55,594	-	-
Shares	2,498	-	-	-
Unquoted securities:				
In Malaysia				
Shares	80,614	52,465	1,185	185
Bonds	15,652	231	-	-
Promissory notes	12,683	45,891	-	-
Property trust units	-	1	-	-
Loan stocks	600	-	-	-
Outside Malaysia				
Shares	20,311	12,865	-	-
Bonds	86,086	25,270	-	-
	2,458,872	2,090,829	2,500	1,500
Amortisation of premiums less accretion of discounts	(15,842)	(10,235)	-	-
Provision for diminution in value of investment securities:				
- Unquoted shares	(4,019)	(400)	-	-
	2,439,011	2,080,194	2,500	1,500
(i) Market value of quoted securities and money market instruments:				
Malaysian Government securities	398,051	423,463	-	-
Cagamas bonds	736,051	689,012	-	-
Quoted shares in Malaysia	4,568	18,663	502	2,016
Quoted bonds in Malaysia	23,334	12,883	-	-
Quoted shares outside Malaysia	2,935	-	-	-
Quoted bonds outside Malaysia	-	55,489	-	-
Quoted property trust units	4	5	-	-
	1,164,943	1,199,515	502	2,016
(ii) The maturity structure of money market instruments held for investment is as follows:				
Maturing within one year	1,237,945	850,860	-	-
One year to three years	372,176	310,949	-	-
Three years to five years	376,599	482,085	-	-
Over five years	226,311	216,793	-	-
	2,213,031	1,860,687	-	-

Notes to the accounts
for the year ended 31 December 1997

8 LOANS, ADVANCES AND FINANCING

	The Group		The Company	
	1997	1996	1997	1996
	RM'000	RM'000	RM'000	RM'000
Overdrafts	1,739,118	1,154,510	-	-
Term loans				
- fixed rate	634,057	280,968	-	-
- floating rate	9,834,067	7,381,527	-	-
Bills receivable	72,684	72,831	-	-
Trust receipts	337,159	312,488	-	-
Claims on customers under acceptance credits	1,769,650	1,551,061	-	-
Staff loans [of which RM24,730 (1996: RM44,227) is to a director]	114,704	112,405	468	549
Other loans	1,044,859	930,551	-	-
	15,546,298	11,796,341	468	549
Less:				
Unearned interest and income	(22,433)	(19,106)	-	-
Gross loans, advances and financing	15,523,865	11,777,235	468	549
Provision for bad and doubtful debts and financing				
- specific	(109,591)	(71,322)	-	-
- general	(364,399)	(249,648)	-	-
Interest-in-suspense/income-in-suspense	(49,226)	(56,744)	-	-
Total net loans, advances and financing	15,000,649	11,399,521	468	549

The maturity structure of loans, advances and financing is as follows:-

Maturing within one year	9,472,069	6,542,302	71	48
One year to three years	839,115	1,112,653	96	96
Three years to five years	1,455,771	1,011,389	51	96
Over five years	3,756,910	3,110,891	250	309
	15,523,865	11,777,235	468	549

Loans, advances and financing analysed by their economic purposes are as follows:

	The Group		The Company	
	1997	1996	1997	1996
	RM'000	RM'000	RM'000	RM'000
Agriculture	176,070	156,208	-	-
Mining and quarrying	12,046	11,876	-	-
Manufacturing	4,154,067	3,343,249	-	-
Electricity, gas and water	112,696	162,449	-	-
Construction	2,102,852	1,412,295	-	-
Real estate	857,929	517,307	-	-
Purchase of landed property				
- Residential	1,381,787	1,147,892	-	-
- Non-residential	706,676	412,640	-	-
General commerce	1,119,874	1,083,586	-	-
Transport, storage and communication	814,903	414,571	-	-
Finance, insurance and business services	1,566,386	1,595,102	-	-
Purchase of securities	1,615,406	636,251	-	-
Purchase of transport vehicles	14,446	14,752	-	-
Consumption credit	181,825	104,816	-	-
Others	706,902	764,241	468	549
	15,523,865	11,777,235	468	549

Notes to the accounts
for the year ended 31 December 1997

Movements in the non performing loans and financing (including interest and income receivable) are as follows :

	The Group	
	1997 RM'000	1996 RM'000
At 1 January	419,933	589,182
Non performing during the year	1,938,167	1,293,437
Performing during the year	(735,577)	(349,269)
Recoveries	(933,578)	(1,045,546)
Amount written off	(142,363)	(67,871)
At 31 December	546,582	419,933
Ratio of non-performing loans to total gross loans (including Cagamas loans)	3.3%	3.4%

Movements in the provision for bad and doubtful debts and financing and interest-in-suspense/ income-in-suspense accounts are as follows:

	The Group	
	1997 RM'000	1996 RM'000
General provision		
At 1 January	249,648	183,287
Provisions made during the year	108,140	66,409
Exchange fluctuation	6,611	(48)
At 31 December	364,399	249,648
(as % of total loans less SP and IIS)	2.3%	2.1%
Specific provision (SP)		
At 1 January	71,322	76,438
Provisions made during the year	156,044	47,962
Amount written back in respect of recoveries	(9,739)	(8,810)
Amount written off	(108,036)	(44,268)
At 31 December	109,591	71,322
Interest-in-suspense/Income-in-suspense (IIS)		
At 1 January	56,744	68,302
Provisions made during the year	52,009	44,170
Amount written back in respect of recoveries	(24,197)	(32,114)
Amount written off	(35,330)	(23,614)
At 31 December	49,226	56,744

9 OTHER ASSETS

	The Group		The Company	
	1997 RM'000	1996 RM'000	1997 RM'000	1996 RM'000
Due from brokers and clients net of provision for doubtful debts of RM60,888,121 (1996: RM7,088,954)	496,799	643,853	-	-
Other debtors, deposits and prepayments net of provision for doubtful debts of RM49,815,397 (1996: RM706,854)	426,490	147,923	49,286	47,753
Unit trust stocks	38	316	-	-
	923,327	792,092	49,286	47,753

Notes to the accounts
for the year ended 31 December 1997

10 Statutory deposits with Bank Negara Malaysia

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

11 SUBSIDIARY COMPANIES

	The Company	
	1997 RM'000	1996 RM'000
Shares, at cost (unquoted)	1,330,678	665,227
Provision for diminution in value of a subsidiary company	(1,275)	-
	1,329,403	665,227
Amounts due from subsidiary companies net of provision for doubtful debts of RM510,000 (1996:Nil)	1,034,014	437,004
	2,363,417	1,102,231
Amounts due to subsidiary companies	(40,936)	-
	2,322,481	1,102,231

The direct subsidiary companies are:-

Name of Company	Principal activities	Percentage of equity held		Paid up capital as at 31.12.1997 RM
		1997 %	1996 %	
Bank of Commerce (M) Berhad	Commercial banking and related financial services	98.32	97.91	755,715,100
Commerce International Merchant Bankers Berhad	Merchant banking and the provision of related services	66.99	64	186,714,000
Commerce Asset Fund Managers Sdn. Bhd.	Fund management	*63.40	*62.8	3,500,000
Commerce MGI Sdn. Bhd.	Islamic investment advisory, consultancy and promotion of Islamic investment products	51	51	2,500,000
Commerce Property Trust Managers Berhad	Property trust management	70	70	500,000
Commerce Asset Realty Sdn. Bhd.	Holding of properties for letting to a related company	100	100	240,000
Commerce Asset Nominees Sdn. Bhd.	Nominee services	100	100	10,000
Commerce Asset Ventures Sdn. Bhd. (Formerly known as Commerce Asset Managers Sdn Bhd)	Providing management services	100	100	500,000

*Effective shareholding

Notes to the accounts
for the year ended 31 December 1997

The subsidiary companies, held through its subsidiary company, Bank of Commerce (M) Berhad are:-

Name of Company	Principal activities	Percentage of equity held		Paid up capital as at 31.12.1997
		1997 %	1996 %	
BOC Nominees Sdn. Bhd.	Nominee services	100	100	RM 25,000
United Asian Services Sdn. Bhd.	Dormant	100	100	3
BOC Properties Sdn. Bhd.	Dormant	100	100	2
Bank of Commerce (L) Limited (Incorporated in the Federal Territory of Labuan)	Offshore banking	100	100	USD15,000,000 (Ordinary shares) * USD10,700,000 (Preference shares)
BOC Nominees (Tempatan) Sdn. Bhd.	Nominee services	100	100	10,000
BOC Nominees (Asing) Sdn. Bhd.	Nominee services	100	100	10,000

*The 70% cumulative redeemable preference shares of USD0.10 each issued during the financial year are held directly by Commerce Asset-Holding Berhad.

The subsidiary companies, held through its subsidiary company, Commerce International Merchant Bankers Berhad are:-

Name of Company	Principal activities	Equity interest				Paid up capital as at 31.12.1997
		Directly by the Company		Through subsidiary Company		
		1997 %	1996 %	1997 %	1996 %	RM
CIMB Holdings Sdn Bhd	Investment holding	100	100	-	-	10,370,000
CIMB Futures Sdn Bhd	Futures broking	100	100	-	-	6,000,000
Commerce - BT Unit Trust Management Bhd (Formerly known as CIMB-OCBC Unit Trust Management Bhd)	Unit trust manager	70	70	-	-	7,000,000
CIMB Nominees (Tempatan) Sdn Bhd	Nominee services	100	100	-	-	10,000
CIMB Nominees (Asing) Sdn Bhd	Nominee services	100	100	-	-	10,000
CIMB Securities Sdn Bhd	Stock and share broking	-	-	100	100	40,000,000
CIMB Securities (Hong Kong) Limited * (Incorporated in Hong Kong)	Stock and share broking	-	-	100	100	HKD5,000,000
CIMSEC Nominees (Tempatan) Sdn Bhd	Nominee services	-	-	100	100	10,000
CIMSEC Nominess (Asing) Sdn Bhd	Nominee services	-	-	100	100	10,000
CIMSEC Nominess Sdn Bhd	Nominee services	-	-	100	100	10,000

*Audited by a member firm of Coopers & Lybrand International.

Notes to the accounts
for the year ended 31 December 1997

The subsidiary companies, held through its subsidiary company, Commerce MGI Sdn Bhd are:-

Name of Company	Principal activities	Percentage of equity held		Paid up capital as at 31.12.1997 RM
		1997 %	1996 %	
Commerce MGI Nominee (Tempatan) Sdn Bhd	Nominee services	100	-	2
Commerce MGI Nominee (Asing) Sdn Bhd	Nominee services	100	-	2

The subsidiary company, held through its subsidiary company, Commerce Property Trust Managers Berhad is:-

Name of Company	Principal activities	Percentage of equity held		Paid up capital as at 31.12.1997 RM
		1997 %	1996 %	
Commerce Property Managers Sdn Bhd	Property management	100	100	50,000

All the subsidiary companies, unless otherwise stated, are incorporated in Malaysia.

12 ASSOCIATED COMPANIES

	The Group		The Company	
	1997 RM'000	1996 RM'000	1997 RM'000	1996 RM'000
Shares, at cost (unquoted)	51,038	638	50,400	-
Group's share of post-acquisition profits	993	983	-	-
	52,031	1,621	50,400	-

The direct associated company is:

Name of Company	Principal activities	Percentage of equity held		Accounting year end
		1997	1996	
AMAL Assurance Berhad	Life assurance business	30%	-	31 August

The associated company, held through its subsidiary company, Commerce International Merchant Bankers Berhad is:

Name of Company	Principal activities	Percentage of equity held		Accounting year end
		1997	1996	
Malaysian Issuing House Sdn Bhd	Share registry, share issue and consultancy services	25.5%	25.5%	30 June

Both the associated companies are incorporated in Malaysia.

Notes to the accounts
for the year ended 31 December 1997

13 FIXED ASSETS

	Buildings										Computer equipment and software under lease Renovations RM'000	Motor vehicles RM'000	Capital WIP RM'000	Total RM'000	
	Freehold land RM'000	Leasehold land 50 years or more RM'000	Leasehold land less than 50 years RM'000	Buildings on freehold land RM'000	Buildings on leasehold land 50 years or more RM'000	Buildings on leasehold land less than 50 years RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Computer equipment and software under lease RM'000	Renovations RM'000					
The Group															
1997															
Cost															
At 1 January	30,193	6,376	165	45,665	31,270	1,663	89,012	42,984	12,460	24,712	1,192	3,059	288,751		
Additions	635	438	-	-	-	-	18,383	17,460	2,399	-	573	13,580	53,468		
Disposals	-	-	-	-	-	-	(5,364)	(1,062)	(1,168)	-	(436)	-	(8,030)		
Transfer/reclassification	-	-	-	31	14,398	-	-	-	-	-	-	(14,429)	-		
Exchange adjustments	-	58	-	-	750	-	435	205	70	-	-	-	1,518		
At 31 December	30,828	6,872	165	45,696	46,418	1,663	102,466	59,587	13,761	24,712	1,329	2,210	335,707		
Depreciation															
At 1 January	-	395	69	13,442	2,519	520	56,781	21,292	4,832	10,550	177	-	110,577		
Charge for the year	-	148	4	1,195	887	171	7,315	12,081	2,354	9,888	244	-	34,287		
Disposals	-	-	-	-	-	-	(3,788)	(703)	(750)	-	(124)	-	(5,365)		
Exchange adjustments	-	1	-	-	8	-	44	99	11	-	-	-	163		
At 31 December	-	544	73	14,637	3,414	691	60,352	32,769	6,447	20,438	297	-	139,662		
Net book value as															
at 31 December 1997	30,828	6,328	92	31,059	43,004	972	42,114	26,818	7,314	4,274	1,032	2,210	196,045		
Net book value as															
at 31 December 1996	30,193	5,981	96	32,223	28,751	1,143	32,231	21,692	7,628	14,162	1,015	3,059	178,174		
Depreciation charge															
for the year ended															
31 December 1996	-	145	4	1,158	906	171	6,452	6,436	2,162	5,001	151	-	22,586		

Notes to the accounts
for the year ended 31 December 1997

	Freehold land RM'000	Leasehold land 50 years or more RM'000	Buildings on freehold land RM'000	Buildings on leasehold land 50 years or more RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital WIP RM'000	Total RM'000
The Company									
1997									
Cost									
At 1 January	18,280	6,130	2,035	29,559	397	108	877	3,059	60,445
Additions	635	438	-	-	92	20	204	13,580	14,969
Disposals	-	-	-	-	-	-	-	-	-
Transfer/reclassification	-	-	31	14,398	-	-	-	(14,429)	-
At 31 December	18,915	6,568	2,066	43,957	489	128	1,081	2,210	75,414
Depreciation									
At 1 January	-	380	639	2,376	97	48	261	-	3,801
Charge for the year	-	143	92	854	47	57	198	-	1,391
Disposals	-	-	-	-	-	-	-	-	-
At 31 December	-	523	731	3,230	144	105	459	-	5,192
Net book value as									
at 31 December 1997	18,915	6,045	1,335	40,727	345	23	622	2,210	70,222
Net book value as									
at 31 December 1996	18,280	5,750	1,396	27,183	300	60	616	3,059	56,644
Depreciation charge									
for the year ended	-	142	53	888	39	14	143	-	1,279
31 December 1996	-	142	53	888	39	14	143	-	1,279

Notes to the accounts
for the year ended 31 December 1997

14 GOODWILL ON CONSOLIDATION

	The Group	
	1997	1996
	RM'000	RM'000
Goodwill arising from acquisition of subsidiary companies	19,942	19,942
Amortisation	(3,115)	(2,318)
	16,827	17,624

15 DEPOSITS FROM CUSTOMERS

	The Group	
	1997	1996
	RM'000	RM'000
Demand deposits	1,621,224	1,757,717
Savings deposits	448,530	499,380
Fixed deposits	9,422,478	8,501,742
Negotiable instruments of deposits	1,746,698	1,218,000
Others	74,916	79,372
	13,313,846	12,056,211

	The Group	
	1997	1996
	RM'000	RM'000
Maturity structure of fixed deposits and negotiable instruments of deposits is as follows:-		
Due within six months	7,769,156	6,880,853
Six months to one year	2,083,599	2,525,656
One year to three years	1,295,170	312,982
Three years to five years	21,251	251
	11,169,176	9,719,742

The deposits are sourced from the following customers:

Business enterprises	6,444,246	4,856,841
Individuals	2,576,194	3,245,249
Others	4,293,406	3,954,121
	13,313,846	12,056,211

16 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group	
	1997	1996
	RM'000	RM'000
Licensed banks	2,392,192	1,088,362
Licensed finance companies	295,869	181,045
Others financial institutions	1,608,134	1,347,623
	4,296,195	2,617,030

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for the year ended 31 December 1997

17 OTHER LIABILITIES

	The Group		The Company	
	1997 RM'000	1996 RM'000	1997 RM'000	1996 RM'000
Proposed dividends	33,689	24,782	33,689	24,782
Taxation	114,988	151,899	20,298	4,104
Deferred taxation (note 18)	14,330	2,728	-	-
Due to brokers and clients	122,348	214,034	-	-
Short term borrowings (note 19)	172,000	270,000	-	-
Other liabilities	476,888	334,713	1,071	2,897
Zakat (note 42)	30	-	-	-
	934,273	998,156	55,058	31,783

18 DEFERRED TAXATION

	The Group	
	1997 RM'000	1996 RM'000
At 1 January	2,728	1,968
Transfer from profit and loss account	12,950	760
Disposal of a subsidiary company	(1,348)	-
At 31 December	14,330	2,728

The deferred taxation is in respect of the following:

Leasing timing differences	-	1,402
Timing differences between depreciation and corresponding capital allowances on the fixed assets	14,330	1,582
Timing differences on provisions	-	(256)
	14,330	2,728

19 SHORT TERM BORROWINGS

	The Group	
	1997 RM'000	1996 RM'000
Revolving credits	70,000	30,000
Commercial papers	-	40,000
Floating rate notes	102,000	200,000
	172,000	270,000

The revolving credits up to a limit of RM170 million (1996: RM476 million) are unsecured and the interest rates during the financial year ranged from 7.55% to 16.05% (1996: 7.10% to 10.35%) per annum.

The floating rate notes up to a limit of RM220 million (1996: RM300 million), are unsecured and the interest rates during the financial year ranged from 7.40% to 16.0% (1996: 7.10% to 8.25%) per annum.

Notes to the accounts
for the year ended 31 December 1997

20 BONDS

	The Group and The Company	
	1997	1996
	RM'000	RM'000
1.5% redeemable bank guaranteed Bonds 1993/1998	142,277	150,974
1.75% redeemable Euro-Convertible Bonds due 2004	138,912	306,480
Zero coupon redeemable unsecured USD Bonds 1997/2002	626,080	-
	907,269	457,454

- (a) The 1.5% redeemable bank guaranteed Bonds 1993/98 were issued with 73,816,881 detachable Transferable Subscription Rights (TSR). The main features of the Bonds are as follows:-
- (i) Nominal value of the Bonds are RM200 million in denominations or multiples of RM1,000 and constituted by a Trust Deed.
 - (ii) Each TSR entitles its registered holder the right to subscribe for one new ordinary share of RM1.00 each at an exercise price of RM6.30 per share (subject to adjustments under certain circumstances in accordance with the Deed Poll) at any time during the subscription period, expiring on 27 June 1998.

As a result of the bonus issue, rights issue and offer for sale of warrants 1997/2002, the Subscription price of each TSR has been adjusted in accordance with the Deed Poll from RM6.30 per share to RM2.97 per share with effect from 5 June 1997 and the subscription Rights have been adjusted with additional 17,038,341 TSR issued to the TSR holders.

As at 31 December 1997, 32,816,013 of the TSR remained unexercised.
 - (iii) The Bonds bear interest at the rate of 1.5% per annum payable semi-annually in arrears in equal instalments on 30 June and 31 December of each year during the tenure and on the date of maturity. Any Bonds converted, redeemed or purchased and cancelled will cease to carry interest as from the last interest payment date immediately preceding the date of conversion.
 - (iv) Unless previously purchased and cancelled or tendered in payment in relation to the exercise of TSR and cancelled, the Bonds will be fully redeemed by the Company at 100% of its nominal value together with interest accrued to the date of redemption, on maturity date.
 - (v) The Company or any of its subsidiary companies may at any time purchase or otherwise acquire the Bonds at any price in the open market or otherwise.
 - (vi) The Bonds may be surrendered for cancellation towards payment of the exercise price pursuant to the exercise of the TSR during the subscription period, and shall not be available for resale or reissue.
 - (vii) The principal amount or the nominal value of the Bonds together with interest thereon, if any, not exceeding RM201,500,000 is guaranteed by a licensed bank.
- (b) The 1.75% redeemable Euro-Convertible Bonds due 2004 have the following main features:-
- (i) The Bonds are in denominations of USD5,000 or integral multiples thereof, constituted by a Trust Deed, bear interest at the rate of 1.75% per annum payable annually in arrears on 26 September each year.
 - (ii) Unless previously redeemed, purchased and cancelled, the Bonds may be converted on or after 26 October 1994 up to and including 19 September 2004 into fully-paid up ordinary shares of RM1.00 each of the Company at an initial conversion price, subject to adjustment in certain circumstances, of RM13.60 per ordinary share and with a fixed exchange rate of RM2.554 to USD1.00.

As a result of the bonus issue, rights issue and offer for sale of warrants 1997/2002, the conversion price of the Bonds has been adjusted in accordance with the Trust Deed dated 26 September 1994 constituting the Bonds from RM13.60 per share to RM6.20 per share at the fixed exchange rate of RM2.554 to USD1.00 with effect from 6 August 1997.
 - (iii) Unless previously redeemed, purchased and cancelled or converted, each Bond will be redeemed on 26 September 2004 at its principal amount. The Company will, at the option of the bondholders redeem the Bonds at 131.75 per cent of its principal amount on 26 September 1999. The Bonds may also be redeemed, in whole or in part, by the Company at any time on or after 26 September 1996 at fixed redemption prices.

Notes to the accounts
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(c) The zero coupon redeemable unsecured USD Bonds 1997/2002 are issued with 81,231,175 detachable Warrants. The main features of the Bonds are as follows :

- (i) Nominal value of the Bonds are USD160 million in denominations or multiples of USD 250,000 and constituted by a Trust Deed.
- (ii) Each Warrant entitles its registered holder the right, exercisable in whole or in part, to subscribe for one new ordinary share at an exercise price of RM7.45 (subject to adjustments under certain circumstances in accordance with the Deed Poll) at any time during the subscription period, expiring on 16 March 2002.
- (iii) Unless previously purchased and cancelled, the Bonds will be redeemed by the Company at 100% of its nominal value on maturity date.

As at 31 December 1997, all the Warrants remained unexercised.

21 IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS (ICULS)

The 6% irredeemable convertible unsecured loan stocks (ICULS) 1997/2002 were issued by a subsidiary company, Bank of Commerce (M) Berhad. The main features of the ICULS are as follows :

- (i) Nominal value of the ICULS are RM605,715,100 in denominations or multiples of RM1.00 and constituted by a Trust Deed.
- (ii) The ICULS bear interest at the rate of 6.0% per annum payable annually in arrears on 31 December each year provided that the subsidiary company may defer the payment of interest until the subsidiary company has sufficient retained earnings. The first interest payment will be made on 31 December 1998.
- (iii) The registered holder of the ICULS has the right to convert the ICULS at the conversion price into new ordinary shares during the conversion period (months of March, June, September and December) of the ICULS.
- (iv) The ICULS are not redeemable for cash or otherwise. Unless previously converted, all outstanding ICULS will be mandatorily converted by the subsidiary company into new ordinary shares at the conversion price on the basis of the equivalent nominal value of ICULS for every one (1) new ordinary share in the subsidiary company on 15 December 2002 (or on such other date as may be approved by the Board).
- (v) The ICULS shall constitute unsecured and subordinated obligations of the subsidiary company.
- (vi) All new ordinary shares issued upon conversion of ICULS will rank pari passu in all respects with the existing ordinary shares of the Bank except that they are not entitled for any dividends for the financial year ended 31 December 1997 and any dividends declared for the subsequent financial years ending before the conversion dates and any other distributions, unless the ICULS are converted prior to or on the entitlement date.

22 SHARE CAPITAL

	The Group and The Company	
	1997	1996
	RM'000	RM'000
Ordinary shares of RM1.00 each:-		
Authorised:		
At 1 January	500,000	500,000
Created during the year	1,000,000	-
At 31 December	1,500,000	500,000
<hr/>		
Issued and fully paid:		
At 1 January	295,028	256,663
Issued upon exercise of Transferable Subscription Rights	8,351	38,365
Bonus issue of 1:1	319,235	-
Rights issue of 1:5	129,970	-
Special issue to approved Bumiputra investors	11,379	-
Conversion of Euro-Convertible Bonds	15,869	-
At 31 December	779,832	295,028

Notes to the accounts
for the year ended 31 December 1997

23 RESERVES

	The Group		The Company	
	1997	1996	1997	1996
	RM'000	RM'000	RM'000	RM'000
Distributable				
Retained profit	454,868	407,098	138,619	112,697
Non-distributable				
Share premium	1,294,172	596,608	1,294,172	596,498
Statutory reserves	418,562	339,600	-	-
Merger reserve	65,746	65,746	-	-
Capital reserve arising on consolidation	3,995	-	-	-
Exchange fluctuation reserve	80,844	(4,085)	-	-
Other non-distributable reserve	62,265	43,210	-	-
	1,925,584	1,041,079	1,294,172	596,498
Total reserves	2,380,452	1,448,177	1,432,791	709,195
Share premium				
At 1 January	596,608	393,271	596,498	393,161
Issue of shares upon exercise of Transferable Subscription Rights	44,219	203,337	44,219	203,337
Rights issue	714,834	-	714,834	-
Special issue	62,584	-	62,584	-
Conversion of Euro-Convertible Bonds	199,944	-	199,944	-
Issue of shares pursuant to the bonus issue by capitalising the share premium account	(319,235)	-	(319,235)	-
Share issue expenses	(4,782)	-	(4,672)	-
At 31 December	1,294,172	596,608	1,294,172	596,498
Statutory reserves				
At 1 January	339,600	241,546	-	-
Transfer from profit and loss account	78,962	98,054	-	-
At 31 December	418,562	339,600	-	-
Exchange fluctuation reserve				
At 1 January	(4,085)	(2,010)	-	-
Arising from translation of net assets of a foreign subsidiary company and Labuan Offshore bank	84,929	(2,075)	-	-
At 31 December	80,844	(4,085)	-	-
Other non-distributable reserve				
At 1 January	43,210	24,103	-	-
Transfer from profit and loss account	19,055	19,107	-	-
At 31 December	62,265	43,210	-	-

- (a) RM417,931,000 (1996:RM338,969,000) of the statutory reserve is maintained in compliance with the provisions of the Banking and Financial Institutions Act, 1989 and RM631,000 (1996:RM631,000) is maintained in compliance with the Kuala Lumpur Stock Exchange Rules and Regulations. These reserves are not distributable by way of dividends.
- (b) The other non-distributable reserve represents a reserve set aside to meet a 31.75% premium relating to the 1.75% redeemable Euro-Convertible Bonds due 2004 which may arise in the event of the exercise of a put option so attached, on 26 September 1999.
- (c) The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of all its retained profit as at 31 December 1997.

Notes to the accounts
for the year ended 31 December 1997

24 INTEREST INCOME

	The Group		The Company	
	1997	1996	1997	1996
	RM'000	RM'000	RM'000	RM'000
Loans and advances	1,419,975	1,115,358	12,892	14,347
Money at call and deposit placements with financial institutions	97,730	80,427	53,267	10,411
Dealing securities	54,569	17,862	-	-
Investment securities	168,435	95,915	-	-
Others	20,559	-	-	-
	1,761,268	1,309,562	66,159	24,758
Amortisation of premium less accretion of discount	(5,113)	(5,267)	-	-
Net interest suspended	(27,812)	(12,397)	-	-
	1,728,343	1,291,898	66,159	24,758

The Commercial Bank and the Merchant Bank have fully adhered to Bank Negara Malaysia's revised GP3 guidelines on the default period for the classification of non-performing loans and the clawback of interest with effect from 1 October 1997.

25 INTEREST EXPENSE

	The Group		The Company	
	1997	1996	1997	1996
	RM'000	RM'000	RM'000	RM'000
Deposits and placements of banks and other financial institutions	328,801	202,722	-	-
Deposits from other customers	761,306	601,591	-	-
Subordinated term loans	6,245	7,891	-	-
Others	27,151	4,929	2,763	8,115
	1,123,503	817,133	2,763	8,115

26 LOANS AND FINANCING LOSS AND PROVISION

	The Group	
	1997	1996
	RM'000	RM'000
Provision for bad and doubtful debts and financing:-		
- specific provision (net)	146,305	39,152
- general provision	108,140	66,409
Bad debts and financing:-		
- recovered	(20,878)	(9,310)
	233,567	96,251

The Commercial Bank and the Merchant Bank have adhered to Bank Negara Malaysia's revised GP3 guidelines on the revision of default period, and complied with the provision requirements with effect from 1 October 1997.

Notes to the accounts
for the year ended 31 December 1997

27 NON-INTEREST INCOME

	The Group		The Company	
	1997	1996	1997	1996
	RM'000	RM'000	RM'000	RM'000
Fee income:-				
Commissions	44,244	37,153	-	-
Fee on loans and advances	36,639	20,515	-	-
Portfolio management fees	2,938	2,697	-	-
Service charges and fees	23,009	20,141	-	-
Corporate advisory fees	19,508	26,209	-	-
Guarantee fees	22,090	19,725	-	-
Other fee income	27,506	28,416	-	-
	175,934	154,856	-	-
Investment income:-				
Gains from sale of investment securities	14,490	4,103	-	-
Net profit/(loss) from dealing securities:				
- Treasury	9,254	1,549	-	-
- Equity	(104,707)	-	-	-
Loss on write down of dealing securities	(44,896)	-	(26,049)	-
Gross dividends from:				
- Subsidiary companies	-	-	60,455	60,456
- Investment and dealing securities	1,030	867	294	49
	(124,829)	6,519	34,700	60,505
Provision for diminutions in value of investment securities	(4,735)	-	-	-
	(129,564)	6,519	34,700	60,505
Other income:-				
Foreign exchange profit	47,703	23,756	-	-
Rental income	441	358	4,496	3,888
Gain on disposal of fixed assets	250	473	-	95
Gain on disposal of a subsidiary company	-	-	3,226	-
Net interest income on loans sold to Cagamas	12,077	5,356	-	-
Net brokerage fee	131,080	105,109	-	-
Income from SPTF operations [Note 42(i)]	2,336	3,410	-	-
Other non-operating income	102,765	47,115	1,101	1,731
	296,652	185,577	8,823	5,714
	343,022	346,952	43,523	66,219

Notes to the accounts
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28 OVERHEAD EXPENSE

	The Group		The Company	
	1997	1996	1997	1996
	RM'000	RM'000	RM'000	RM'000
Personnel costs	126,015	114,258	1,447	1,084
Establishment costs	71,174	58,864	-	-
Marketing expenses	13,082	9,287	-	-
Administration and general expenses	181,412	70,752	8,419	5,860
	391,683	253,161	9,866	6,944

The above expenditure includes the following statutory disclosures:-

Directors' remuneration (note 29)	1,302	1,233	528	490
Rental of premises	12,004	7,990	-	-
Hire of equipment	944	796	-	-
Auditors' remuneration				
• statutory				
- current year	400	393	20	20
- underprovision in respect of previous year	-	97	-	15
• others	80	54	80	-
Depreciation of fixed assets	34,287	22,586	1,391	1,279
Fixed assets written off	-	58	-	-
Interest expense on short term loan	32,009	27,964	-	-
Amortisation of goodwill	797	799	-	-
Provision for diminution in a subsidiary company	-	-	1,275	-
Provision for doubtful debts for other debtors	103,724	4,150	510	-
Loss on disposal of a subsidiary company	180	-	-	-

29 DIRECTORS' REMUNERATION

	The Group		The Company	
	1997	1996	1997	1996
	RM'000	RM'000	RM'000	RM'000
Fees	210	210	102	102
Other remuneration:-				
- Executive directors	993	936	333	306
- Non-executive directors	99	87	93	82
	1,302	1,233	528	490

The estimated cash value of benefits-in-kind of Directors amounted to RM59,000 (1996: RM66,000)

Notes to the accounts
for the year ended 31 December 1997

30 TAXATION

	The Group		The Company	
	1997 RM'000	1996 RM'000	1997 RM'000	1996 RM'000
Taxation based on the profit for the year:				
Malaysian income tax	111,550	156,149	35,639	23,583
Overseas tax	169	-	-	-
Transfer to deferred taxation	12,950	760	-	-
	124,669	156,909	35,639	23,583
Prior year under provision	1,866	673	562	-
	126,535	157,582	36,201	23,583
Share of taxation of associated companies	1,398	393	-	-
	127,933	157,975	36,201	23,583

The effective rate of taxation for the Group is higher than the standard rate of tax mainly due to certain charges and provisions being non deductible for tax purposes.

31 DIVIDENDS

	The Group and The Company	
	1997 RM'000	1996 RM'000
Proposed first and final dividend of 6% (1996: 12%) less tax at 28% (1996: 30%)	33,689	24,782
Under/(over) provision of final dividend declared in respect of the financial year ended 31 December 1996/31 December 1995	1,241	(532)
	34,930	24,250

32 EARNINGS PER SHARE

The basic earnings per ordinary share have been calculated based on the Group's net profit after taxation and minority interests of RM180,717,000 (1996: RM267,559,000) and on the weighted average number of ordinary shares in issue during the year of 693,415,063 (1996: 545,620,418) after taking into consideration bonus shares issued during the year of 319,235,250.

The fully diluted earnings per share are calculated based on adjusted earnings of RM209,622,000 (1996: RM277,712,000) after adding back;

- (i) notional savings after tax on interest on the 1.75% redeemable USD120 million Euro-Convertible Bonds Due 2004, and
- (ii) the notional income after tax deemed to be received from interest on fixed deposits from the proceeds of TSR of RM97,463,559 (1996: TSR of RM393,716,591) at 7% (1996: 6%) per annum, and on the assumption that no redemption, purchase or cancellation of the 1.5% Bonds 1993/98 1.75% Euro-Convertible Bonds and Zero Coupon Bonds 1997/2002 were made, and on the weighted average number of ordinary shares issued and issuable for the year and adjusted for the bonus element of 885,412,223 shares (1996: 683,385,638), inclusive of shares issuable on the assumption that rights to conversion attaching to the:
 - (i) TSR of 32,816,013 shares (1996: 24,129,203),
 - (ii) Euro-Convertible Bonds of 14,623,710 shares (1996: 22,535,294) and
 - (iii) Warrants of 81,231,175 shares (1996: Nil), and
 - (iv) Employee Share Options of 62,126,000 shares

were exercised on 1 January 1997. The fully diluted earnings per share are also calculated based on the assumption that the TSR, Euro-Convertible Bonds, Warrants and Share Options are not entitled to bonus issue made during the year.

The earnings per share for the previous financial year have been adjusted to reflect the element arising from the bonus of 1:1 issued during the financial year.

The terms of conversion of the Bonds, TSR, Warrants are set out in Note 20 to the accounts.

Notes to the accounts
for the year ended 31 December 1997

33 SIGNIFICANT INTER-COMPANY TRANSACTIONS AND BALANCES

	The Company	
	1997 RM'000	1996 RM'000
Income from subsidiary companies:		
Interest on fixed deposits and money market	44,167	10,411
Interest on loans and advances	13,696	14,347
Dividend income	60,455	60,456
Rental income	4,496	3,888
	122,814	89,102
Amount due from subsidiary companies:		
Subordinated term loans	572,876	426,635
Current account and fixed deposits	430,919	119,790
Loans and advances	5,360	5,010
Convertible unsecured loan stocks	455,305	5,000
Inter-company balances	983	858
	1,465,443	557,293
Amount due to subsidiary companies		
Inter-company balances	40,936	-

34 COMMITMENTS AND CONTINGENCIES

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

	1997		1996	
	Principal RM'000	Credit equivalent RM'000	Principal RM'000	Credit equivalent RM'000
The Group				
Direct credit substitutes	1,757,060	1,757,060	1,547,842	1,547,842
Certain transaction related contingent items	721,314	360,658	770,292	385,147
Short-term self-liquidating trade-related contingencies	501,733	100,347	428,629	85,726
Housing loans sold directly and indirectly to Cagamas Berhad	809,108	809,108	558,391	558,391
Obligations under underwriting agreement	285,580	142,790	497,364	248,682
Irrevocable commitments to extend credit:				
- Maturity exceeding one year	831,642	415,821	1,109,179	554,591
- Maturity not exceeding one year	6,542,522	-	6,404,958	-
Credit derivatives	-	89,125	-	-
Foreign exchange related contracts:				
- Forward exchange contracts	2,966,782	214,423	1,847,248	36,945
- Cross currency swaps	155,000	36,297	-	-
	14,570,741	3,925,629	13,163,903	3,417,324
Interest rate related contracts:				
- Interest rate futures	1,409,000	-	-	-
- Interest rate swaps	1,175,430	14,170	3,045	15
	2,584,430	14,170	3,045	15
	17,155,171	3,939,799	13,166,948	3,417,339

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The Group is contingently liable in respect of housing loans sold to Cagamas Berhad, under the condition that the Group undertakes to administer the loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on prudential criteria.

The Group has also given a continuing guarantee to Bank Negara Malaysia to meet the liabilities and financial obligations and requirements of its subsidiary company, Bank of Commerce (L) Limited, arising from its offshore banking business in the Federal Territory of Labuan.

Foreign exchange and interest rate related contracts are subject to market risk and credit risk. With effect from July 1997, as per Bank Negara Malaysia's requirement, the Group had revised the computation of the credit equivalent exposure for exchange rate and interest rate related contracts from the "current exposure" method to "replacement cost" method with an "add-on" factor for potential exposure.

MARKET RISK

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at end of 1997, the amount of contracts which were not hedged and, hence, exposed to market risk was RM29,735,953 (1996: RM8,198,290).

Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Group have a gain position. As at end of 1997, the amounts of credit risk, measured in terms of the cost to replace the profitable contracts, was RM352,775,000 (1996: RM36,960,000). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

35 CAPITAL COMMITMENTS

Capital expenditure approved by Directors but not provided for in the accounts amounted to approximately:-

	The Group		The Company	
	1997	1996	1997	1996
	RM'000	RM'000	RM'000	RM'000
Authorised and contracted for	18,559	16,356	557	-
Authorised but not contracted for	8,613	26,991	-	11,623

36 LEASE COMMITMENTS

The lease commitments are 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 are as follows:

	The Group	
	1997	1996
	RM'000	RM'000
1997	-	15,885
1998	10,186	7,040
1999	5,725	3,155
2000	3,520	1,934
>2000	11,828	11,333
.....	31,259	39,347

Notes to the accounts
for the year ended 31 December 1997

37 SEGMENTAL ANALYSIS BY ACTIVITIES

	Operating revenue RM'000	The Group Profit before taxation and zakat RM'000	Assets employed RM'000
1997:			
Commercial banking	1,559,292	235,053	18,644,176
Offshore banking	183,589	1,023	2,380,061
Investment holding	144,668	138,870	3,197,388
Merchant banking	292,304	55,921	2,960,499
Stock and sharebroking	177,302	6,067	674,542
Property trust management	1,954	522	3,979
Nominee services	-	-	4,544
Property holding	4,851	1,926	55,286
Fund management	1,819	(1,409)	3,966
Futures broking	2,775	6	32,951
Investment advisory and consultancy	94	(3,939)	3,147
Unit trust management	895	(457)	7,094
	2,369,543	433,583	27,967,633
Consolidation adjustments	(236,929)	(109,116)	(4,186,554)
	2,132,614	324,467	23,781,079
1996:			
Commercial banking	1,258,113	250,331	14,946,553
Offshore banking	66,359	25,345	910,711
Investment holding	110,715	97,042	1,487,184
Merchant banking	211,601	96,321	1,729,032
Stock and sharebroking	172,364	80,281	731,112
Property trust management	1,737	496	4,099
Leasing	10,061	801	100,564
Nominee services	4	(168)	4,299
Property holding	4,297	1,956	41,916
Fund management	2,780	1,027	3,599
Futures broking	775	(922)	11,618
Investment advisory and consultancy	5,552	2,220	5,489
Unit trust management	927	118	1,411
	1,845,285	554,848	19,977,587
Consolidation adjustments	(127,394)	(81,404)	(1,699,686)
	1,717,891	473,444	18,277,901

Included in investment holding segment is dividend income from other segments which amounted to RM89,055,000 (1996: RM81,956,000).

The Group operates mainly in Malaysia, and accordingly, no information on the Group's operations by geographical segments has been provided.

Notes to the accounts
for the year ended 31 December 1997

38 SUMMARY OF EFFECTS OF THE DISPOSAL OF A SUBSIDIARY COMPANY

	The Group 1997 RM'000
Loans and advances	83,221
Fixed assets	770
Other assets	670
Subordinated term loan	(5,000)
Other liabilities	(74,255)
.....	5,406
Loss on disposal	(180)
.....	5,226
Proceeds from the disposal	5,226

39 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated cash flow statement comprise the following:

	The Group	
	1997	1996
	RM'000	RM'000
Cash and balances with banks and other financial institutions	339,391	284,495
Money at call and deposits placements maturing within one month	524,450	506,963
.....	863,841	791,458
	863,841	791,458

40 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

41. SIGNIFICANT EVENT SUBSEQUENT TO BALANCE SHEET DATE

On 23 March 1998, the Commercial Bank entered into a Memorandum of Understanding (MOU) with MBf Capital Berhad for a proposed strategic alliance between the Commercial Bank and MBf Finance Berhad to acquire 37.5% equity interest in MBf Finance Berhad in exchange for a 20% stake in the Commercial Bank's enlarged share capital (after taking into account the full future conversion of ICULS in issue). The purchase consideration for the proposal will be mutually agreed after completion of a valuation exercise on the Commercial Bank and MBf Finance Berhad and any difference in value will be settled in cash or other means to be mutually agreed upon.

After completion of the exercise, MBf Finance Berhad proposes to invite an institutional investor to subscribe for up to 20% of its new equity interest which will effectively dilute the Commercial Bank's stake in MBf Finance Berhad to 30%.

Notes to the accounts
for the year ended 31 December 1997

42 THE OPERATIONS OF SPTF

**Balance sheet
as at 31 December 1997**

	Note	The Group	
		1997 RM'000	1996 RM'000
Assets			
Cash and short-term funds	(a)	2,798	721
Deposits and placements with financial institutions	(b)	19,166	-
Investment securities	(c)	-	31,742
Loans, advances and financing	(d)	173,250	5,679
Total assets		195,214	38,142
Liabilities and shareholders' funds			
Deposits from customers	(e)	65,523	28,479
Deposits and placements of banks and other financial institutions	(f)	117,000	177
Other liabilities	(g)	1,295	262
Total liabilities		183,818	28,918
Interest-free banking funds	(h)	11,396	9,224
Total liabilities and interest-free banking funds		195,214	38,142
Commitments and contingencies	(k)	7,004	-

The accompanying notes form an integral part of the financial statements.

**Profit and loss account
for the year ended 31 December 1997**

	Note	The Group	
		1997 RM'000	1996 RM'000
Assets			
Income	(i)	2,336	3,410
Overhead expense	(j)	(134)	(16)
Profit before taxation and zakat		2,202	3,394
Zakat		(30)	-
Profit after zakat		2,172	3,394
Transfer to statutory reserve	(h)	(1,086)	(1,697)
Profit after transfer to statutory reserve		1,086	1,697
Retained profit brought forward		2,527	830
Retained profit carried forward		3,613	2,527

The accompanying notes form an integral part of the financial statements.

(a) Cash and short-term funds

	The Group	
	1997 RM'000	1996 RM'000
Cash and balances with banks and other financial institutions	2,798	721

(b) Deposits and placements with financial institutions

	The Group	
	1997 RM'000	1996 RM'000
Licensed banks	19,166	-

Notes to the accounts
for the year ended 31 December 1997

(c) Investment securities

	The Group	
	1997	1996
	RM'000	RM'000
Money market instruments		
Malaysian Government investment issues	-	9,156
Islamic accepted bills	-	21,586
.....	-	30,742
In Malaysia		
Unquoted securities :		
Islamic debt securities	-	1,000
.....	-	31,742
Total investment securities	-	31,742

	The Group	
	1997	1996
	RM'000	RM'000
The maturity structure of money market instruments held for investment is as follows:		
Maturing within one year	-	22,586
One year to three years	-	9,156
.....	-	31,742

(d) Loans, advances and financing

	The Group	
	1997	1996
	RM'000	RM'000
Overdrafts	4,061	-
Term financing	191,184	9,692
.....	195,245	9,692
Unearned income	(21,995)	(4,013)
.....	173,250	5,679
Total net loans, advances and financing	173,250	5,679

	The Group	
	1997	1996
	RM'000	RM'000
(i) Loans, advances and financing analysed by concepts are as follows:		
Al-Bai' Bithaman Ajil	84,210	5,679
Other principles	89,040	-
.....	173,250	5,679

	The Group	
	1997	1996
	RM'000	RM'000
(ii) The maturity structure of loans, advances and financing is as follows:		
Maturing within one year	20,000	-
One year to three years	20,000	-
Three years to five years	31,881	2,359
Over five years	101,369	3,320
.....	173,250	5,679

Notes to the accounts
for the year ended 31 December 1997

	The Group	
	1997	1996
	RM'000	RM'000
(iii) Loans, advances and financing analysed by their economic purposes are as follows:		
Manufacturing	26,085	-
Infrastructure construction	90,836	2,359
Housing	6,489	3,320
General commerce	20,000	-
Finance, insurance and business services	29,500	-
Consumption credit	340	-
	173,250	5,679

(e) Deposits from customers

Types	The Group	
	1997	1996
	RM'000	RM'000
Demand deposits	6,239	271
Savings deposits	1,635	1,646
General investment deposits	50,949	26,562
Special investment deposits	6,000	-
Others	700	-
Total deposits	65,523	28,479

	The Group	
	1997	1996
	RM'000	RM'000
(i) Maturity structure of investment deposits is as follows:		
Due within six months	44,364	18,750
Six months to one year	8,509	7,512
One year to three years	4,076	300
	56,949	26,562

	The Group	
	1997	1996
	RM'000	RM'000
(ii) The deposits are sourced from the following customers:		
Business enterprises	22,663	11,128
Individuals	27,663	8,171
Others	15,197	9,180
	65,523	28,479

Notes to the accounts
for the year ended 31 December 1997

(f) Deposits and placements of banks and other financial institutions

	The Group	
	1997	1996
	RM'000	RM'000
Licensed banks	117,000	177
	117,000	177

(g) Other liabilities

	The Group	
	1997	1996
	RM'000	RM'000
Zakat	30	-
Other liabilities	1,265	262
	1,295	262

h) Interest-free banking funds (IBF)

	The Group	
	1997	1996
	RM'000	RM'000
Funds allocated from Head Office	5,000	5,000
Statutory reserve	2,783	1,697
Retained profit	3,613	2,527
	11,396	9,224

Statutory reserve

	The Group	
	1997	1996
	RM'000	RM'000
At 1 January	1,697	-
Transfer from profit and loss account	1,086	1,697
At 31 December	2,783	1,697

(i) Income from SPTF operations

	The Group	
	1997	1996
	RM'000	RM'000
Income derived from investment of depositors' fund and IBF	11,367	11,910
Income attributable to depositors		
- Other customer	(3,496)	(1,752)
- Banks and financial institutions	(5,535)	(6,748)
Income attributable to bank	2,336	3,410

Notes to the accounts
for the year ended 31 December 1997

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

1997	The Group	
	Depositors' funds RM'000	IBF RM'000
Income from financing	10,235	-
Investment income :		
Gains from sale of investment securities	833	82
Fee income:		
Commission	103	-
Service charges and fees	112	-
Other fee income	2	-
	217	-
	11,285	82
<hr/>		
1996		
Income from financing	9,361	-
Investment income :		
Gains from sale of investment securities	2,027	101
Fee income:		
Service charges and fees	420	-
Other fee income	1	-
	11,809	101

(j) Overhead expenses

	The Group	
	1997 RM'000	1996 RM'000
Personnel costs	90	2
Marketing expenses	-	5
Administration and general expenses	44	9
Total overhead expenses	134	16

(k) Commitments and contingencies

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

The commitments and contingencies constitute the following :

	The Group	
	1997 RM'000	1996 RM'000
Direct credit substitutes	7,004	-

Notes to the accounts
for the year ended 31 December 1997

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

In the opinion of the Directors, the accounts set out on pages 80 to 116 are drawn up so as to exhibit a true and fair view of the state of affairs of the Group and of the Company as at 31 December 1997 and of the results of the Group and of the Company and cash flows of the Group for the year then ended on that date.

Signed at Kuala Lumpur on 31 March 1998

On behalf of the Board of Directors



Dato' Mohd Desa Pachi
Director



Dato' Md Nor Md Yusof
Director

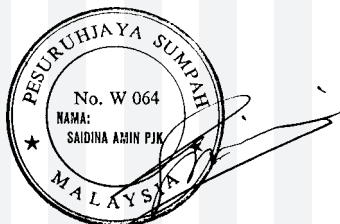
STATUTORY DECLARATION

I, Tunku Ahmad Burhanuddin Tunku Adnan, being the officer primarily responsible for the financial management of Commerce Asset-Holding Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the accounts set out on pages 80 to 116 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.



Tunku Ahmad Burhanuddin Tunku Adnan

Subscribed and solemnly declared at Kuala Lumpur on 31 March 1998



11A Tingkat 1
Wilama Yakin
60100 Kuala Lumpur.

Before me:

Commissioner for Oaths