

2005

ANNUAL REPORT

SOUTHERN BANK BERHAD (5303-W)

Level 3, Menara Southern Bank, 83, Medan Setia 1, Plaza Damansara, Bukit Damansara, 50490 Kuala Lumpur

Tel : (03) 2087 3000 Fax : (03) 2093 3157 Web : <http://www.southernbank.com.my>



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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 44th Annual General Meeting of Southern Bank Berhad will be held in The Auditorium, Level 6, Menara Southern Bank, 83 Medan Setia 1, Plaza Damansara, Bukit Damansara, 50490 Kuala Lumpur on Friday, 30 June 2006 at 9.30 a.m. for the following purposes:

ORDINARY BUSINESS:

1. To receive the Audited Financial Statements for the financial year ended 31 December 2005 and the Reports of the Directors and Auditors thereon. **Resolution 1**
2. To re-elect Mr Yeap Lam Yang who retires by rotation pursuant to Article 111 of the Company's Articles of Association. **Resolution 2**
3. To appoint Auditors of the Company for the financial year ending 31 December 2006 and to authorise the Directors to fix the Auditors' remuneration. **Resolution 3**

By Order of the Board

Tan Ghee Kay
Kong Sooi Peng
Joint Secretaries

Kuala Lumpur
8 June 2006

NOTICE OF ANNUAL GENERAL MEETING

Notes:

The right of Foreigners to vote in respect of their deposited securities is subject to Section 41(1)(e) and Section 41(2) of the Securities Industry (Central Depositories) Act, 1991 and Securities Industry (Central Depositories) (Foreign Ownership) Regulations, 1996. The position of such Depositors in this regard will be determined based on the General Meeting Record of Depositors. Such Depositors, whose shares exceed the Company's foreign shareholding limit of 30% as at the date of the General Meeting Record of Depositors, may attend the above Meeting but are not entitled to vote. Consequently, a proxy appointed by such Depositor who is not entitled to vote will also not be entitled to vote at the above Meeting.

A member of the Company entitled to attend and vote at the above Meeting is entitled to appoint a proxy to vote on his behalf. A proxy need not be a member of the Company and the provisions of Section 149 (1) (b) of the Companies Act, 1965 shall not apply to the Company. The instrument appointing the proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, under its Common Seal or under the hand of its attorney. An instrument appointing a proxy executed in Malaysia need not be witnessed. The signature to an instrument appointing a proxy executed outside Malaysia shall be attested by a solicitor, notary public, consul or magistrate.

Where a member appoints two proxies, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy. In the case of joint holdings, the signatures of all joint holders are required.

The instrument appointing a proxy must be deposited at the Registered Office of the Company, Level 3, Menara Southern Bank, 83, Medan Setia 1, Plaza Damansara, Bukit Damansara, 50490 Kuala Lumpur not less than 48 hours before the time set for the Meeting and any adjournment thereof.

Statement Accompanying the Notice of Annual General Meeting

(Pursuant to Paragraph 8.28(2) of the Listing Requirements of Bursa Malaysia Securities Berhad)

1. DIRECTORS STANDING FOR RE-ELECTION AT THE 44TH ANNUAL GENERAL MEETING OF THE COMPANY

Pursuant to Article 111 of the Company's Articles of Association to re-elect Mr Yeap Lam Yang

A total of twenty-three Board Meetings were held during the year ended 31 December 2005 and Mr Yeap Lam Yang had attended all of the said twenty-three Board Meetings.

2. DATE, TIME AND PLACE OF THE ANNUAL GENERAL MEETING

The 44th Annual General Meeting of Southern Bank Berhad will be held as follows:

Date : Friday, 30 June 2006

Time : 9.30 a.m.

Place : The Auditorium, Level 6
Menara Southern Bank
83 Medan Setia 1
Plaza Damansara
Bukit Damansara
50490 Kuala Lumpur

3. FURTHER DETAILS OF THE DIRECTOR WHO IS STANDING FOR RE-ELECTION

The profile and securities holdings in the Company, of the Director standing for re-election, are set out in page 13 and page 126 of the Annual Report respectively. The Director does not hold any securities in any of the Company's subsidiaries.

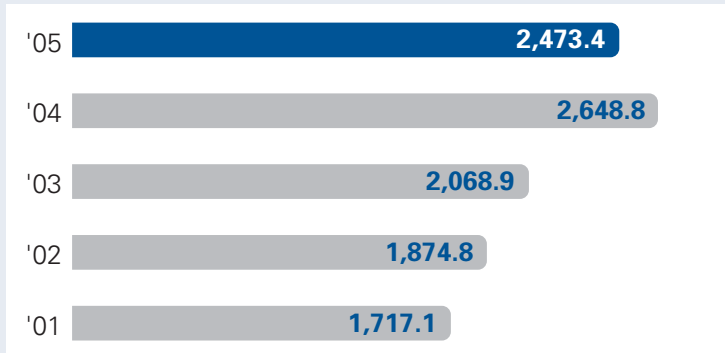
Five Year Group Financial Highlights

	2001	2002	2003	2004 *	2005
Operating Results (RM'000)					
Profit before taxation and zakat	315,793	417,016	488,587	483,575	438,785
Profit after taxation, zakat and minority interest	209,980	290,162	342,312	347,160	314,350
Key Balance Sheet Data (RM'000)					
Total assets	24,711,999	26,128,261	29,814,669	31,104,861	32,700,238
Net tangible assets	1,717,062	1,874,809	2,068,909	2,648,831	2,473,369
Loans, advances and financing	17,491,102	19,137,278	20,562,197	21,506,801	22,702,778
Total deposits	19,805,039	20,337,730	22,735,687	22,158,689	23,662,323
Paid-up capital	1,122,825	1,122,826	1,122,852	1,447,682	1,515,609
Shareholders' equity	2,283,842	2,549,759	2,756,940	3,423,456	3,225,256
Ratio					
Gross dividend rate (%)	3	9	25	23	20
Net tangible assets per share (RM)	1.53	1.67	1.84	1.83	1.69
Net return on average shareholders' equity (%)	9.6	12.0	12.9	11.2	9.5
Basic earnings per share (sen)	18.7	25.8	30.0	27.5	21.6
Net return on average assets (%)	0.9	1.1	1.2	1.1	1.0
Loans and advances to total deposits (%)	88.3	94.1	90.4	97.1	95.9

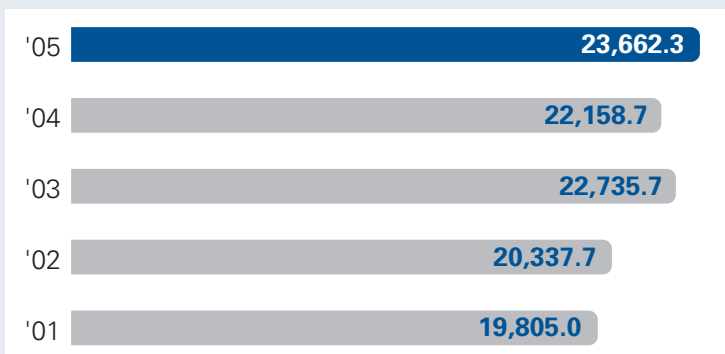
* Only FY2004 comparative figures have been restated in accordance with the requirements as set out in Revised BNM/GP8.

Performance Charts

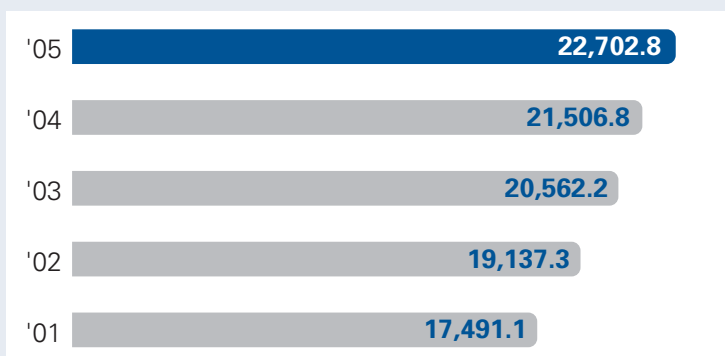
Group's net tangible assets (RM million)

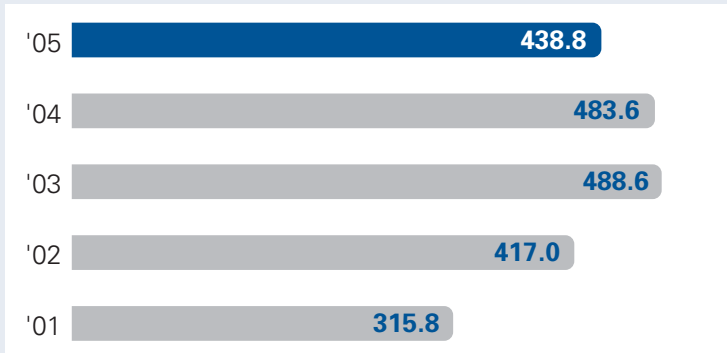
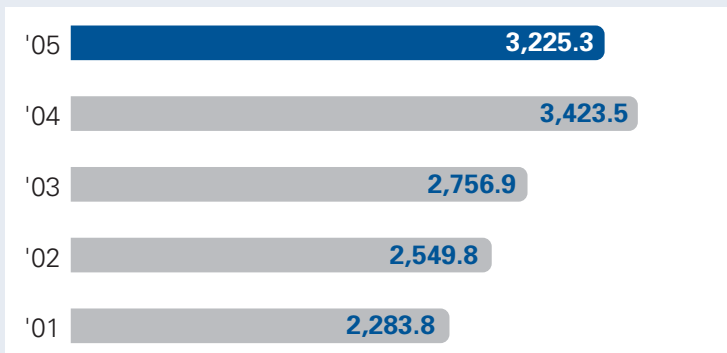
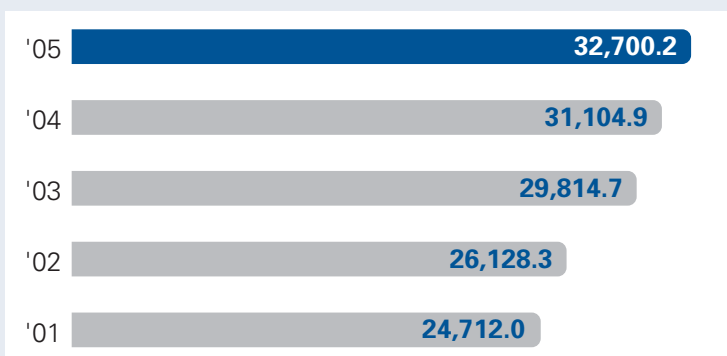


Group's total deposits (RM million)



Group's loans, advances and financing (RM million)



Group's profit before tax (RM million)**Group's shareholders' equity** (RM million)**Group's total assets** (RM million)

Message to Shareholders

FINANCIAL PERFORMANCE

The Bank recorded a loan growth of 6.3%. Net interest margin and pre-tax return on assets remained healthy at 2.8% and 1.4% respectively, amongst the highest in the industry. However, Group pre-tax profit was lower at RM438.8 million, down 9.3% compared to the previous financial year, mainly due to a stringent provisioning policy for long dated non-performing loans ("NPLs"), some non-recurring expenses as well as higher interest expense.

Asset quality continued to strengthen further with the net NPL ratio of the Bank at 5.5% and Group at 7.4%, an improvement from 6.5% and 8.7% respectively.

Although the Group made a RM82 million provision in 2005 for long-dated NPLs, management believes that the underlying collateral of the NPLs still carry substantial recoverable values.

CAPITAL MANAGEMENT

As at 31 December 2005, a total of 55,323,400 shares amounting to 3.7% of the Bank's total share capital were bought back, at an average price of RM3.61 per share, compared to the current market price of RM4.26 per share.

The Bank raised USD200 million of Innovative Hybrid Tier 1 capital securities during the year under review.

The Group stands well capitalised with a strong Risk Weighted Capital Adequacy Ratio ("CAR") of 17.0% and 20.9% at the Bank. These ratios are amongst the highest in the industry.

MESSAGE TO SHAREHOLDERS

DIVIDEND

The Bank paid on 23 May 2006 a further special interim dividend of 5 sen, less 28% tax. Together with the first and second interim dividends totalling 15 sen less 28% tax paid earlier, total dividends declared for the financial year 2005 are 20 sen less 28% tax.

SUBSEQUENT EVENTS

Following the approval of shareholders at an Extraordinary General Meeting held on 5 May 2006, the Bank entered into a Sale of Business Agreement for the disposal of its entire assets and liabilities to Bumiputra-Commerce Holdings Berhad (BCHB) on 31 May 2006. The transfer of the Bank's business to Bumiputra-Commerce Bank is expected to be completed in the later part of this year. Separately, BCHB launched on the same day a voluntary conditional offer for the shares and warrants of SBB not already owned by BCHB at a price of RM4.30 per share and RM2.56 per warrant (VGO). Once successfully completed, Southern Bank will become a subsidiary of BCHB.

An independent Financial Adviser has been retained to provide an evaluation as to the fairness and reasonableness of the VGO together with our recommendation.

Tan Sri Dato' Tan Teong Hean

Chief Executive Director

Dato' Yeap Leong Huat

Director

Corporate Information

BOARD OF DIRECTORS

Chief Executive Director

YBhg Tan Sri Dato' Tan Teong Hean

PSM, SIMP, DSIS, DSAP, DIMP, FIBM, FMID

Directors

YBhg Dato' Yeap Leong Huat

DSPN, DJN, PJK, LLD (Hon)

YBhg Datuk Nicholas Spiro Zefferys

PJN

Mr Yeap Lam Yang

YM Tengku Zaitun binti Tengku Mahadi

Dr Sieh Lee Mei Ling

Mr Ian Craig Buchanan

CORPORATE INFORMATION

Secretaries

Mr Tan Ghee Kay

Mr Kong Sooi Peng

Auditors

Deloitte KassimChan

Level 19, Uptown 1

1, Jalan SS21/58

Damansara Uptown

47400 Petaling Jaya

Selangor Darul Ehsan

Malaysia

Registrars

ShareWorks Sdn Bhd

23, Jalan Sri Hartamas 7

Sri Hartamas, 50480 Kuala Lumpur

Tel: (03) 6201 1120 / 6201 5451

Fax: (03) 6201 3121

Registered Office

Corporate Headquarters

Level 3, Menara Southern Bank

83, Medan Setia 1, Plaza Damansara

Bukit Damansara, 50490 Kuala Lumpur

Tel: (03) 2087 3000

Fax: (03) 2093 3157

Web: <http://www.southernbank.com.my>

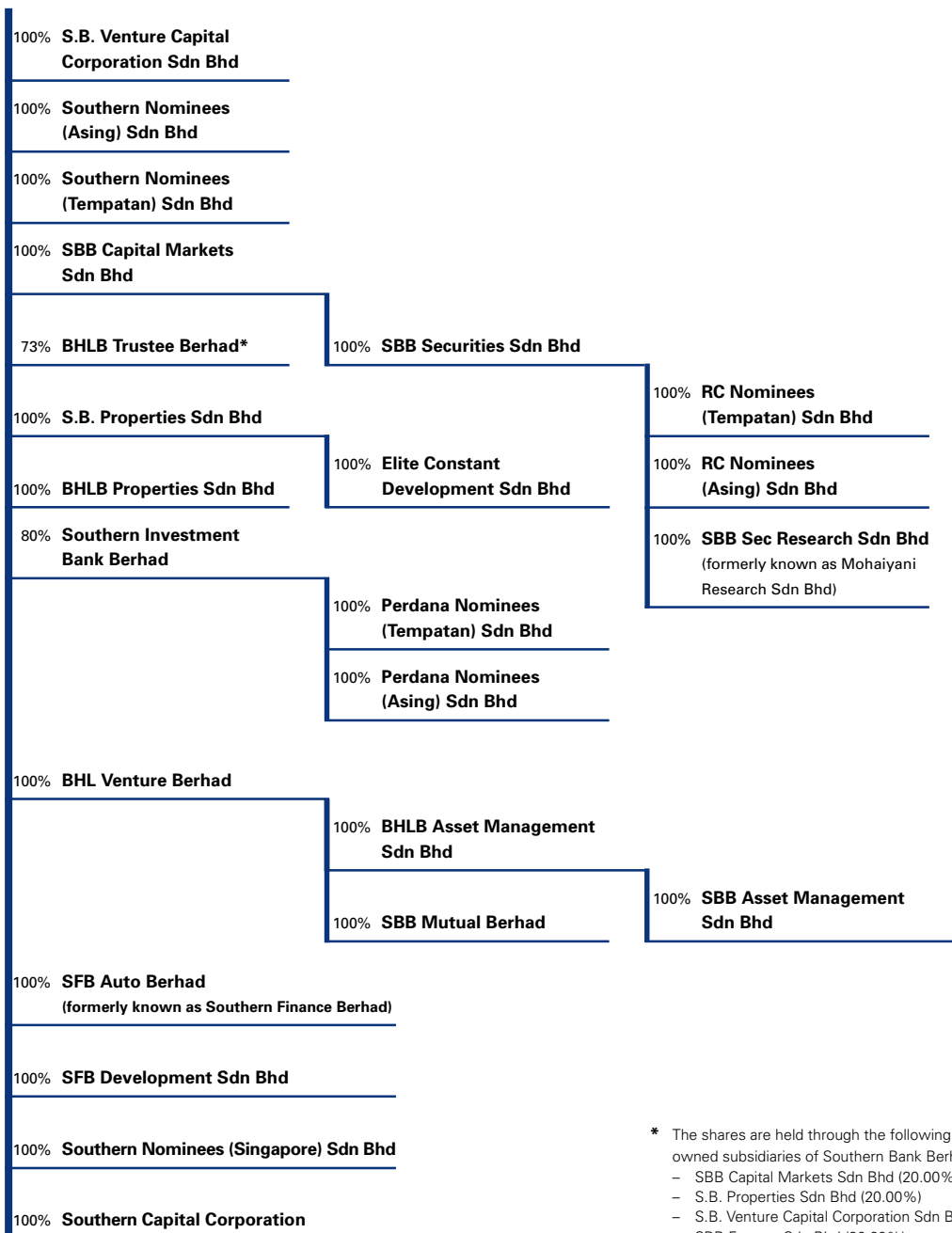
E-mail: enquiry@sbb.com.my

Listing

Main Board

Bursa Malaysia Securities Berhad

Corporate Structure



* The shares are held through the following wholly-owned subsidiaries of Southern Bank Berhad:

- SBB Capital Markets Sdn Bhd (20.00%)
- S.B. Properties Sdn Bhd (20.00%)
- S.B. Venture Capital Corporation Sdn Bhd (13.37%)
- SBB Futures Sdn Bhd (20.00%)

Directors' Profile

Tan Sri Dato' Tan Teong Hean

PSM, SIMP, DSIS, DSAP, DIMP, FIBM, FMID
Chief Executive Director/Non-Independent Director

Bachelor of Arts (Economics) (Hons) (University of Malaya, Malaysia, 1966)
Malaysian, Age 62 years

Tan Sri Dato' Tan Teong Hean was appointed to the Board of Southern Bank in 1975. He became Chief Executive Director on 1 October 1983. Tan Sri Tan is also the Chairman of the Bank's stockbroking subsidiary, SBB Securities Sdn Bhd. He also sits on the Boards of SFB Auto Berhad (formerly known as Southern Finance Berhad) and Southern Investment Bank Berhad.

A Fellow of the Institute of Bankers Malaysia and Fellow of the Malaysian Institute of Directors, Tan Sri Tan is a Member of the Board of Trustees of the Malaysian Institute of Economic Research.

He is the Chairman of the Board of MasterCard International-Asia Pacific, a member of the Nominating and Corporate Governance Committee and a Director on the MasterCard Global Board. He is also a Global Counsellor to The Conference Board.

Tan Sri Tan does not have any family relationship with any director and/or major shareholders of Southern Bank and has no convictions for offences within the past ten years.

Tan Sri Tan attended all of the twenty-three Board Meetings held during the financial year ended 31 December 2005.

Tan Sri Tan is currently the Chairman of the Bank Credit Committee and a Member of the Nominating Committee of the Bank.

Dato' Yeap Leong Huat

DSPN, DJN, PJK, LLD (Hon)
Non-Independent Non-Executive Director

Malaysian, Age 59 years

Dato' Yeap Leong Huat was appointed to the Board of Southern Bank on 18 October 2000. He sits on the Boards of the following public companies within the Southern Bank Group: SFB Auto Berhad (formerly known as Southern Finance Berhad), BHL Venture Berhad, SBB Mutual Berhad, BHLB Trustee Berhad and is the Chairman of Southern Investment Bank Berhad. Dato' Yeap is also the Chairman of SBB Asset Management Sdn Bhd.

Dato' Yeap is currently the Executive Chairman of Heng Lee & Company Sdn Bhd.

Dato' Yeap was admitted to the Degree of Doctor of Laws (honoris causa) of Deakin University, Australia, on 20 September 1997 for distinguished service to education.

Dato' Yeap is the uncle of Mr. Yeap Lam Yang, a Director and shareholder of the Bank. He does not have any personal interest in any business arrangement involving the Bank and has no convictions for offences within the past ten years.

Dato' Yeap attended all of the twenty-three Board Meetings held during the financial year ended 31 December 2005.

Dato' Yeap Leong Huat currently sits on the Credit Risk Management Committee as Chairman and is a Member of the Nominating Committee, Audit Committee, Risk Management Committee and Remuneration Committee of the Bank.

Datuk Nicholas Spiro Zefferys PJN

Independent Non-Executive Director

Master of Business Administration (MBA) (State University of New York at Buffalo, 1966)

Bachelor of Electrical Engineering (BEE) (Rensselaer Polytechnic Institute, Troy, New York, 1961)

American, Age 67 years

Datuk Nicholas Spiro Zefferys was appointed to the Board of Southern Bank on 20 August 2003 as an Independent Non-Executive Director.

Datuk Nicholas has over 35 years experience in business and government leadership positions related to business development, strategic planning, finance, capital acquisition, marketing, operations and total quality management. He has worked, inter alia, in Vietnam, Thailand, Malaysia, Singapore, Russia, England, Canada and the United States. He is currently President and CEO of Applied Consulting & Engineering Sdn Bhd and has resided in Malaysia for the past ten years.

Datuk Nicholas was the President of the American Malaysian Chamber of Commerce in 1999-2002 and is presently its Governor.

Datuk Nicholas does not have any family relationship with any director and/or major shareholders of the Bank or any personal interest in any business arrangement involving the Bank. He has no convictions for any offences within the past ten years.

Datuk Nicholas attended all of the twenty-three Board Meetings held during the financial year ended 31 December 2005.

Datuk Nicholas Spiro Zefferys is currently the Chairman of the Nominating Committee, Audit Committee, Remuneration Committee and Risk Management Committee of the Bank.

Mr Yeap Lam Yang

Non-Independent Executive Director

Bachelor of Science Economics (Hons) (London School of Economics, United Kingdom, 1978)

Singaporean, Age 52 years

Mr Yeap Lam Yang was appointed to the Board of Southern Bank on 18 October 2000.

Mr Yeap has been the Resident Director and Chief Executive of Ban Hin Lee Bank, Singapore Branch since 1986 and then after the merger, holding a similar position at the Singapore Branch of Southern Bank. He also sits on the Boards of BHL Venture Bhd, BHLB Trustee Bhd and Heng Lee & Company Sdn Bhd. He does not hold any other directorships of public companies.

Mr Yeap is the nephew of Dato' Yeap Leong Huat, a Director and shareholder of the Bank. He does not have any personal interest in any business arrangement involving the Bank and has no convictions for offences within the past ten years.

Mr Yeap attended all of the twenty-three Board Meetings held during the financial year ended 31 December 2005.

Mr Yeap Lam Yang currently sits on the Bank Credit Committee of the Bank.

DIRECTORS' PROFILE

Tengku Zaitun binti Tengku Mahadi

Non-Independent Executive Director

Bachelor of Science (Hons.) in Economics (University of Malaya, Malaysia, 1973)

Malaysian, Age 57 years

Tengku Zaitun binti Tengku Mahadi was appointed to the Board of Southern Bank on 25 August 2004.

Tengku Zaitun joined Southern Bank in 1973 as a credit officer after graduating from the University of Malaya with a BSc (Hons.) degree in Economics. Since joining the Bank she has held several management positions. She was appointed Regional Manager in 1986, Senior Manager in 1994 and the General Manager of Retail Banking Group in 1997. Through these appointments she had gathered wide experience and expertise in effective supervision of branches, smooth running of support departments of operations, conceptualization and implementation of system and procedures for operational efficiency and productive staff management. The final appointment before executive directorship was as Executive Vice President of Branch Distribution Group in year 2000 where generation of sales and marketing became her core tasks.

Tengku Zaitun does not have any family relationship with any director and/or major shareholders of the Bank or any personal interest in any business arrangement involving the Bank. She has no convictions for offences within the past ten years.

Tengku Zaitun attended all of the twenty-three Board Meetings held during the financial year ended 31 December 2005.

Tengku Zaitun is currently a Member of the Bank Credit Committee of the Bank and also holds the position of non-executive director of SBB Asset Management Sdn Bhd since 27 July 2004.

Dr Sieh Lee Mei Ling

Independent Non-Executive Director

Doctor of Philosophy (Ph.D) (1978), Master of Arts (Business Studies) (1972) (University of Sheffield, United Kingdom), Bachelor of Social Science (Economics Honours) (University of Singapore, 1970)

Singaporean, Age 58 years

Permanent Resident of Malaysia since 1970

Dr Sieh Lee Mei Ling was appointed to the Board on 25 August 2004 as an Independent Non-Executive Director. She is currently Chairman of the Investment Committee of SBB Mutual Bhd, the unit trust arm of the Bank.

Dr Sieh was Chair Professor of Business Administration at the University of Malaya. She has extensive research experience and numerous publications. She has been a consultant to government and inter-government agencies, professional bodies, industries, multinational and Malaysian corporations. Her advisory and honorary positions include those with the Palm Oil Research Institute of Malaysia, the Master Builders Association of Malaysia, the Board of Employees Provident Fund and the National Accreditation Board.

Dr Sieh does not have any family relationship with any director and/or major shareholders of the Bank or any personal interest in any business arrangement involving the Bank. She has no convictions for offences within the past ten years.

Dr Sieh attended all of the twenty-three Board Meetings held during the financial year ended 31 December 2005.

Dr Sieh Lee Mei Ling is currently a Member of the Nominating Committee, Audit Committee, Remuneration Committee and Risk Management Committee of the Bank.

Mr Ian Craig Buchanan

Independent Non-Executive Director

Master of Business Administration (Wharton Graduate School of Business, University of Pennsylvania, 1972), Master of Arts in Chemistry/Quantum Chemistry (Oxford University, 1970)

British, Age 59 years

Mr Ian Craig Buchanan was appointed to the Board on 25 August 2004 as an Independent Non-Executive Director. He also sits on the Board of Southern Investment Bank Berhad.

Mr Buchanan is Senior Executive Adviser to, and former Regional Chairman of, leading international management and technology consulting firm, Booz Allen Hamilton. He has over 30 years of consulting and venture capital experience throughout the region.

He is a regular guest speaker/lecturer on Asian Strategy at Harvard and other business schools as well as at a wide range of leading business forums and is Chairman of the Centre for Corporate Change at Australia's leading business school, the Australian Graduate School of Management.

Mr Buchanan does not have any family relationship with any director and/or major shareholders of the Bank or any personal interest in any business arrangement involving the Bank. He has no convictions for offences within the past ten years.

Mr Buchanan attended all of the twenty-three Board Meetings held during the financial year ended 31 December 2005.

Mr Buchanan is currently a Member of the Nominating Committee of the Bank.

Corporate Governance Statement

CORPORATE GOVERNANCE

Southern Bank has always taken pride in ensuring that the Group's operations are always managed with integrity, accountability and transparency. During the year under review, along with the restructuring of the core businesses of the Bank, internal control systems have been strengthened to ensure there are greater checks and balances in the Bank's business plan and operations.

THE BOARD OF DIRECTORS

At the head of the Bank for the greater part of 2005 was an eight-member Board of Directors which met monthly and more often if necessary to fulfill the responsibilities imposed on a public listed company. These included reviewing and adopting a strategic plan for the Bank, overseeing the conduct of the Bank's business to ensure it is being properly managed, identifying principal risks and ensuring the implementation of appropriate systems to manage these risks, succession planning, developing and implementing an investor relations programme and shareholder communications policy for the Bank and reviewing the adequacy and the integrity of the Bank's internal control and management information systems to ensure compliance with applicable laws, regulations, directives and guidelines. The Board's membership was reduced to seven in December 2005 when the Chairman of the Board, Dato' Syed Mohd Yusof bin Tun Syed Nasir resigned as Chairman and as a director.

Board Composition and Balance

The Board comprises four Non-Executive Directors and three Executive Directors (including the Chief Executive Director). Of the Non-Executive Directors, three are independent. Thus more than one third of the Board consists of Independent Directors and thus also the membership of the Board reflects the interests of the minority shareholdings of the Bank. The profiles of the Board members, showing their varied experience and diversity of backgrounds including academia and various areas of the corporate sector, and therefore their knowledge, skills and aptitude appear on pages 12 to 15 of this Report.

The role and functions of the Chairman of the Board are clearly separated from that of the Chief Executive Director. The Chief Executive Director is responsible for operational decisions and for meeting the corporate objectives of the Bank approved by the Board. The Board is entitled to receive and is given all information regarding financial matters, the performance of the

Bank, customer satisfaction, the quality of the Bank products and services and all other relevant information related to the items on the Agenda for every Board meeting as well as information that may be required for the Board to make an informed decision on any matter.

At all times therefore the directors have access to any information that they may require in the carrying out of their responsibilities to the Bank. The Board has appointed two joint secretaries to assist and support the Chair and Directors to ensure that the Board is always able to function effectively in the stewardship of the affairs of the Bank. The Board and Directors are entitled to and do receive advice from independent external professional advisors in the discharge of their responsibilities. Such advisors would attend Board meetings, upon invitation, to enable them to give their professional advice on questions and issues raised by Directors regarding matters before the Board for consideration. Finally the Board when it has appointed a committee has always clearly demarcated its function and also the extent of its authority.

The Independent Directors play a vital role in ensuring that the strategies and policies proposed by management enhance, while at the same safeguarding, the long term interests of shareholders, other stakeholders and the Bank's constituents. They do so by expressing their views, by exercising independent judgment and more significantly, act as important restraints against any potential internal abuses or excesses.

Appointment and Re-election

The Nominating Committee of the Board, established in 2003, identifies, assesses and recommends, the nominees for directorships, to the Board.

The appointment of the nominees on to the Board are subject to the prior consent of Bank Negara Malaysia.

Members of the Board, retire from office at due intervals by rotation. Being eligible, they may offer themselves for re-election, a process that enables shareholders/proxy holders to vote them back into office.

Directors who have attained the age of seventy years retire at every annual general meeting and shall be eligible for re-appointment to hold office until the next annual general meeting pursuant to Section 129 of the Companies Act 1965.

CORPORATE GOVERNANCE STATEMENT

Board Committees

The Board has a long-established Audit Committee whose important role is to ensure that the integrity of the Bank's financial procedures and internal control systems are preserved so that assets are safeguarded, risks managed, and sound and profitable business operations are carried out.

The Bank's Nominating Committee, Remuneration Committee and Risk Management Committee are all performing their respective duties in enhancing corporate governance and best practices.

Nominating Committee

The Nominating Committee was set up with the objectives of providing a formal and transparent procedure for the appointment of Directors and the Chief Executive Director, as well as the assessment of their effectiveness and that of key senior management officers. Its recommendations are escalated to the Board for decision.

MEMBERSHIP*Chairman*

Datuk Nicholas Spiro Zefferys

(Independent Non-Executive Director)

Members

Dato' Syed Mohd Yusof Bin Tun Syed Nasir

(Non-Independent Non-Executive Director)

[Resigned on 2 December 2005]

Tan Sri Dato' Tan Teong Hean

(Non-Independent Executive Director)

Dato' Yeap Leong Huat

(Non-Independent Non-Executive Director)

Dr. Sieh Lee Mei Ling

(Independent Non-Executive Director)

Mr. Ian Craig Buchanan

(Independent Non-Executive Director)

[Appointed on 7 December 2005]

DUTIES & RESPONSIBILITIES

The chief duties and responsibilities of this Committee include the following:-

- To establish minimum requirements for the Board after taking into account the required mix of skills, experience, qualification and other core competencies required of a Director, and for the Chief Executive Director.
- To consider, assess and recommend to the Board for approval of nominees for Directors, Board Committee members and the Chief Executive Director, the extension of appointment of Directors and the re-election of Directors.
- To annually oversee the overall composition of the Board in terms of the appropriate size and skills and the balance between Executive Directors, Non-Executive Directors and Independent Directors.
- To report annually to the Board with an assessment of the performance of the Board and its Committees.
- To oversee the appointment, management succession planning and performance evaluation of key senior management officers.

Remuneration Committee

The Remuneration Committee was established with the objectives of providing a formal and transparent procedure for formulating the remuneration policies for Directors, the Chief Executive Director and key senior management officers, in consonance with the Bank's culture, objectives and strategy.

MEMBERSHIP*Chairman*

Datuk Nicholas Spiro Zefferys

(Independent Non-Executive Director)

Members

Dato' Syed Mohd Yusof Bin Tun Syed Nasir

(Non-Independent Non-Executive Director)

[Resigned on 2 December 2005]

Dato' Yeap Leong Huat

(Non-Independent Non-Executive Director)

Dr. Sieh Lee Mei Ling

(Independent Non-Executive Director)

[Appointed on 7 December 2005]

CORPORATE GOVERNANCE STATEMENT

DUTIES & RESPONSIBILITIES

The principal duties and responsibilities of this Committee include the following:-

- To recommend the remuneration structure for Directors, the Chief Executive Director and key senior management officers for the Board's approval.
- To review, determine and recommend their remuneration levels on an annual basis.
- To conduct an annual review of the Committee's performance and the adequacy of its charter and to recommend changes to the Board if necessary.

Risk Management Committee

The Bank has set up the Risk Management Committee which is tasked with overseeing the activities of the senior management in the management of the Bank's credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and properly functioning.

MEMBERSHIP

Chairman

Datuk Nicholas Spiro Zefferys
(Independent Non-Executive Director)

Members

Dr. Sieh Lee Mei Ling
(Independent Non-Executive Director)

Dato' Yeap Leong Huat
(Non-Independent Non-Executive Director)

DUTIES & RESPONSIBILITIES

The principal duties and responsibilities of the Committee include the following:-

- To review and recommend risk management strategies, policies and risk tolerance for the Board's approval.
- To review and assess the adequacy of risk management policies and framework.
- To ensure infrastructure, resources and systems are in place for risk management.

Bank Credit Committee

The Bank Credit Committee has the responsibility for the approval, review or consideration of major loans and temporary facilities. The Committee presently consists of three Executive Directors and one senior management staff. Decisions of this Committee are noted by the Board which has a right of review and veto in certain specified cases.

Credit Risk Management Committee

This Committee was set up to assist the Risk Management Committee and is tasked with the reviewing and establishing of the appropriate risk appetite and strategies for the Bank. The members of the Committee currently comprise one Non-Executive Director and three senior management staff.

Remuneration of Directors

The remuneration of Non-Executive Directors is by way of fixed annual fees, based on recommendations by the Remuneration Committee to the Board and approved by shareholders at the annual general meeting. In addition, Non-Executive Directors draw an allowance for attendance at meetings. Reasonable expenses incurred by the Directors in the course of their duties are also reimbursed. Directors' fees were revised in 2005. Shareholders at the Annual General Meeting of the Bank held on 27 June 2005 had approved the increase in Directors' fees to RM937,500 per annum.

The aggregate remuneration of the Directors, including the Chief Executive Director, for the financial year ended 31 December 2005 are disclosed in Note 33 to the Financial Statement on page 74.

Directors' Attendance of Board Meetings

In the financial year 2005, there were a total of 23 Board Meetings. All the current Directors complied with the minimum number of attendance at Board Meetings prescribed by the regulatory authorities.

Directors' Continuing Training

All Directors have attended the Mandatory Accreditation Programme conducted by Bursatra Sdn Bhd (formerly known as Bursa Malaysia Training Sdn Bhd), pursuant to Bursa Malaysia's guidelines on Training for Directors. They also attended the seminars and conferences organised by Bank Negara. In March 2005, all members of the Board attended the ICLIF-INSEAD Directors Forum, an in-house training programme held in Kuala Lumpur.

CORPORATE GOVERNANCE STATEMENT

SUPPLY OF INFORMATION TO THE BOARD

The Board meets every month to consider and discuss an extensive agenda covering the latest financial and operational developments as well as strategic and policy issues. The monthly meetings serve as the principal forum for the Board to obtain reports and seek information and clarification from the Chief Executive Director and senior management on all aspects of the business.

The company secretaries are on hand at all times as well as during Board Meetings to assist and provide support to the Directors.

The Bank has a Steering Committee, chaired by the Chief Executive Director, comprising 10 other senior Bank personnel and backed up by a Project Management Office. This Committee has a strategic role and meets at least once every two weeks or whenever else required, to formulate strategy, to approve new initiatives, to monitor the implementation of ongoing projects and to assist in shaping those proposals that require Board approval.

ACCOUNTABILITY AND AUDIT

Statement of Directors' Responsibility in Respect of the Audited Financial Statements

The Directors are required by the Companies Act, 1965 to ensure that the financial statements for each financial year give a true and fair view of the state of affairs of the Bank and of the Group as at the end of the financial year and of their results and cash flows for the financial year.

In the preparation of the financial statements, the Directors have considered the applicable approved accounting standards of the Malaysian Accounting Standards Board and BNM/GP8: Guidelines on the Specimen Financial Statements for the Banking Industry modified to comply with the Principles of Syariah for activities relating to the Islamic Banking Scheme, adopted and consistently applied appropriate accounting policies and made judgments and estimates that were prudent and reasonable.

The Directors are also responsible for ensuring that the Bank and the Group maintain accounting records which disclose with reasonable accuracy the financial position of the Bank and of the Group.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and of the Group and to prevent and detect fraud and other irregularities.

STATEMENT ON INTERNAL CONTROL

The Board acknowledges its responsibility for the Group's system of internal control, which covers not only financial controls but also operational and compliance controls as well as risk management. In view of the limitations inherent in any system of internal control, such systems are designed to manage the Group's risks within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Group. Accordingly, these systems can only provide reasonable, but not absolute, assurance against material misstatement and loss.

The Board is also pleased to disclose that there is an on-going process for identifying, evaluating and managing key commercial, financial and significant risks faced by the Group throughout the financial year as well as a structured approach to reviewing the adequacy and integrity of the system of internal controls. Measures will be taken as appropriate to update the system of internal controls in response to changes in business environment and regulatory guidelines.

The Board is supported by the Board Audit Committee in the exercise of its oversight responsibility. An independent Internal Audit Group carries out regular evaluation and reporting of control weaknesses and a Risk Management Group undertakes risk management activities. The Board Risk Management Committee (RMC) further strengthens the risk management process. The RMC is responsible for oversight of senior management's responsibilities to assess and manage the Bank's credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and properly functioning. Besides the RMC, the Bank Credit Committee and the Credit Risk Management Committee assist the RMC and the Board in its supervision of credit risk. The Bank also has other relevant Board Committees, all of which have clearly defined terms of reference. These committees have the authority to examine all matters within their scope of responsibility and to report back to the Board with their recommendations for a final decision of the Board.

There is a clearly defined framework and empowerment approved by the Board for acquisition and disposal of fixed assets as well as for the award of tenders, applications for capital expenditure, writing off of operational and credit items and approval of general expenses, including donations and operational excesses.

CORPORATE GOVERNANCE STATEMENT

The Directors and Senior Management of the Group are committed to maintaining a culture of corporate risk awareness in all areas of operations and promoting good corporate governance.

During the financial year, audits conducted by the Internal Audit Department did not reveal weaknesses that resulted in any material losses, contingencies or uncertainties that would require disclosure in the Bank's annual report.

RELATIONSHIP WITH AUDITORS

The appointment of the external auditors is recommended by the Audit Committee. The external auditors meet with the Committee to present their Audit Planning Memorandum before the commencement of the audit.

There are independent procedures for both the internal auditor and the external auditors to report their conclusions and recommendations to the management and the Audit Committee.

The Bank's business and operations are also subject to regular examination by Bank Negara Malaysia.

INVESTOR RELATIONS AND SHAREHOLDER COMMUNICATION

The Secretariat is the principal office where shareholders and stakeholders are able to access information or seek assistance. The Management Directory of this Report sets out the key personnel of the Bank whom shareholders/stakeholders can contact.

Dissemination by the Bank of its financial performance reports and information on other significant developments affecting its business are by way of mailed announcements. Electronic deliveries through the Bank's financial portal www.southernbank.com.my as well as announcements through the media serve as additional channels to disseminate information promptly to constituents.

The formal fora for the Bank and where its shareholders/proxy holders can engage in open, free and full dialogue are at the Annual General Meetings and the Extraordinary General Meetings of the Bank where the Board of Directors is always receptive to frank and interactive dialogue during which any concerns or queries may be raised by minority shareholders.

In a further effort to fulfill the Bank's commitment to the fullest and widest disclosure of information relating to the Bank's up to date performance, regular briefings are scheduled with fund managers, analysts and the media. The Bank also participated in "Corporate Day" events organised by Bursa Malaysia, which schedule sessions where selected companies and analysts have a series of full day bilateral meetings with each other.

COMPLIANCE WITH THE CODE

In the following areas substantive steps have been taken to attain more effective compliance, with the Principles and Best Practices of the Malaysian Code on Corporate Governance:

Composition of the Board of Directors

The eight-member and after 2 December 2005 seven-member Board has three Independent Non-Executive Directors and therefore fully complies with the best practice that one-third of the Board should comprise Independent Directors.

Board Committees

Apart from the Audit Committee, the Board has delegated some of its duties to specific committees, including the Nominating Committee, the Remuneration Committee, the Risk Management Committee and the Bank Credit Committee.

The Audit Committee is chaired by an Independent Non-Executive Director and the majority of its members are Independent Directors, as recommended by the Code.

The Board of Directors are satisfied that in carrying out their responsibilities there has always been availability and transparency of information to individual Directors to enable them to consider and to exercise their independent judgment in the best interests of the Bank and that this practice of good corporate governance in the running of the Bank has resulted in its continued growth and unbroken track record of profitability.

Audit Committee Report

The Audit Committee was established in 1985. The Audit Committee provides independent oversight with the objective of assisting the Board in ensuring the integrity of the Bank's financial reporting and internal control systems and ensuring checks and balances within the Bank to safeguard assets, manage risks and promote sound and profitable business operations.

MEMBERSHIP

The members of the Audit Committee are appointed by the Board from amongst its Directors. During the financial year 2005, the Audit Committee comprised three Non-Executive Directors.

Chairman

Tan Sri Osman S Cassim
(Independent Non-Executive Director)
[Retired on 18 February 2005]

Datuk Nicholas Spiro Zefferys
(Independent Non-Executive Director)
[Appointed as Chairman on 27 April 2005]

Members

Dato' Dr Yahya bin Ismail
(Independent Non-Executive Director)
[Retired on 18 February 2005]

Dr Sieh Lee Mei Ling
(Independent Non-Executive Director)

Dato' Yeap Leong Huat
(Non-Independent Non-Executive Director)

TERMS OF REFERENCE

Authority

The Audit Committee is authorised by the Board to review all matters relating to the external and internal audit of the Bank as well as its financial procedures and risk management systems. It is authorised to seek any information from any director or member of management and all employees are directed to co-operate with any request made by the Audit Committee. Where necessary, the Audit Committee is also authorized by the Board to obtain independent legal and other professional advice.

In all important matters under its terms of reference, the Committee makes it a practice to report its actions to the Board for information or for approval.

DUTIES AND RESPONSIBILITIES

The Audit Committee has explicit authority to investigate any matter within its terms of reference with full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings and to obtain reasonable resources to enable it to discharge its functions.

The Audit Committee has full and unrestricted access to information and is able to obtain independent professional advice. It can delegate responsibility to sub-committees of the Audit Committee as necessary or appropriate.

Duties of the Audit Committee among others are as follows:

Financial Procedures and Financial Reporting

Review the financial statements of the Bank and the consolidated financial statements of the Group to ensure compliance with appropriate accounting policies, accounting standards and disclosure requirements before submitting them to the Board.

Fair and Transparent Reporting

Ensure fair and transparent reporting and prompt publication of the financial accounts.

External Audit

- Select external auditors for appointment by Board.
- Recommend not only the appointment but also the removal of auditors.
- Assess objectivity, performance and independence of external auditors (e.g. by reviewing and assessing the various relationships between the external auditors and the Bank or any other entity).
- Review the external auditors' management letter and response.
- Approve the provision of non-audit services by the external auditors.
- Ensure that there are proper checks and balances in place so that the provision of non-audit services does not interfere with the exercise of independent judgment by the external auditors.
- Regularly review the audit findings and ensure that issues are managed and rectified appropriately and in a timely manner.
- Review the external auditors' fees and recommend to the Board.
- Have direct communication channels with the external auditors and to meet with the external auditors without the presence of management, at least annually.

AUDIT COMMITTEE REPORT

Effectiveness of Internal Audit

- Oversee the functions of the Internal Audit Department and ensure compliance with BNM/GP10 requirements.
- Review the scope of the internal audit program, internal audit findings and recommend actions to be taken by management.
- Appoint, set compensation, evaluate performance and decide on the transfer and dismissal of the Chief Internal Auditor.

Internal Controls

Review the effectiveness of internal controls and risk management processes.

Related Party Transactions

Review all related party transactions and keep the Board informed of such transactions.

MEETINGS

During the financial year ended 31 December 2005, forty-six Audit Committee meetings were held. A record of the attendance of these Audit Committee meetings is as follows:

No. of Meetings Attended

Datuk Nicholas Spiro Zefferys	46/46
Dr Sieh Lee Mei Ling	46/46
Dato' Yeap Leong Huat	27/29*

* Appointed as Member of Audit Committee on 27 April 2005. Tan Sri Osman S Cassim and Dato' Dr Yahya bin Ismail who retired on 18 February 2005 did not attend any of the Audit Committee Meetings held during the period from 1 January 2005 to 17 February 2005.

ACTIVITIES

In accordance with its terms of reference, the following activities were undertaken by the Audit Committee:

1. Reviewed with the external auditors their Audit Planning Memorandum for the year 2005 to ensure adequate scope and coverage.
2. Reviewed the adequacy and scope of the Internal Audit Plan for the Bank and its subsidiary including that for Information Technology Audit Activities and SBB Securities Sdn Bhd for year 2005 and approved the Audit Plans.
3. Discussed a total of 106 internal audit reports and 43 investigation audit reports and reviewed the actions taken by management in response to the recommendations of the said reports/memorandums.
4. Reviewed the status reports of Internal Audit which provide an update of the progress of activities throughout the year as well as pertinent matters of concern on internal control, investigation and governance standards.
5. Reviewed the results of the audit reports of Bank Negara Malaysia and other regulatory authorities and the status of remedial actions taken in respect of the findings.
6. Reviewed the Compliance Reports of SBB Securities Sdn Bhd in compliance with BMSB Rule 702.4.
7. Provided independent evaluation of the performance and approval of the remuneration package of the Chief Internal Auditor.
8. Made recommendation to the Board on the appointment of the external auditors.
9. Reviewed the quarterly and year-end financial statements and related party transactions.
10. Reviewed and endorsed the manuals of the Internal Audit Group

INTERNAL AUDIT FUNCTION

The Bank has a well-established Internal Audit Department with appropriate standing to conduct independent operational, risk management and management audits. The internal audit function is guided by the Audit Charter and it plays a key role in assisting the Audit Committee to ascertain that management has in place a sound system of risk management, internal control and governance.

Internal audit adopts a risk-based approach in the planning and conduct of audits and takes cognisance of the Group's objectives and policies in the selection of the audit units giving priority to areas of higher risk. The Audit Plan is tabled to the Audit Committee for approval at the end of the preceding year.

The audit reports are submitted to the Audit Committee for review and the implementation progress of audit recommendations are closely monitored to enhance the audit review process.

Internal Audit also plays a consultative role by reviewing and recommending improvements to current risk management, internal control and governance processes, where applicable. The internal audit function is subject to continual self-assessment, with the view of ensuring audit processes are in line with recommended best practices.

Financial Statements

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Directors' Report

The directors have pleasure in submitting their annual report and the audited financial statements of the Bank and of the Group for the financial year ended December 31, 2005.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in all aspects of the banking business and the provision of related services, which also include Islamic banking services.

The principal activities of the Bank's subsidiary companies are disclosed in Note 13 to the financial statements.

There have been no significant changes in the nature of the activities of the Bank and of its subsidiary companies during the financial year.

RESULTS OF OPERATIONS

The results of operations of the Bank and of the Group for the financial year are as follows:

	The Bank RM'000	The Group RM'000
Profit before taxation and zakat	799,126	438,785
Taxation and zakat	(216,230)	(123,783)
Profit after taxation and zakat	582,896	315,002
Minority interest	–	(652)
Net profit for the year	582,896	314,350

DIVIDENDS

Since the end of the previous financial year, the Bank paid the following dividends:

- (i) A special interim dividend of 10% less 28% tax in respect of the previous financial year amounting to RM104,233,137 on April 8, 2005.
- (ii) A final dividend of 7% less 28% tax in respect of the previous financial year amounting to RM72,963,196 on July 8, 2005.
- (iii) A first interim dividend of 10% less 28% tax in respect of the current financial year amounting to RM105,678,645 on October 14, 2005.
- (iv) A second interim dividend of 5% less 28% tax in respect of the current financial year amounting to RM52,576,656 on December 30, 2005.

The directors declared a special interim dividend of 5% (gross), comprising 3.3% tax exempt dividend and 1.7% non-tax exempt dividend less 28% tax amounting to RM66,063,323 in respect of the current financial year based on the issued and fully paid-up capital of 1,460,285,649 ordinary shares of RM1.00 each.

RESERVES AND PROVISIONS

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

ISSUANCES OF SHARES

During the financial year, the issued and paid-up ordinary share capital of the Bank was increased from RM1,447,682,465 to RM1,515,609,049 by virtue of the exercise of 67,926,584 warrants at an exercise price of RM1.74 per ordinary share. The new shares issued rank pari passu in all respect with the then existing ordinary shares of the Bank.

SHARE BUY-BACK

On June 27, 2005, the Bank obtained the approval of the shareholders at an Extraordinary General Meeting, to buy back up to 145,000,000 of its own shares (SBB Shares) through Bursa Malaysia.

During the financial year, the Bank bought back 55,323,400 SBB Shares from the open market at an average price of RM3.61 per share. The total consideration paid for the SBB Shares, including transaction costs was RM199,914,697. The SBB Shares bought back are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965. The treasury shares have no rights to voting, dividends and participation in other distribution.

None of the treasury shares held were resold or cancelled during the financial year.

BAD AND DOUBTFUL DEBTS AND FINANCING

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

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

CURRENT ASSETS

Before the financial statements of the Bank and of the Group were made out, the directors took reasonable steps to ascertain that any current assets, other than debts and financing, which were unlikely to realise their value as shown in the accounting records of the Bank and of the Group in the ordinary course of business 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 financial statements of the Bank and of the Group misleading.

VALUATION METHODS

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

DIRECTORS' REPORT

CONTINGENT AND OTHER LIABILITIES

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

SIGNIFICANT AND SUBSEQUENT EVENTS

The significant and subsequent events are disclosed in Note 43 and Note 44 to the financial statements respectively.

BOARD COMMITTEES

Nominating Committee

The Nominating Committee has the objective of providing a formal and transparent procedure for the appointment of Directors and the Chief Executive Director, as well as the assessment of their effectiveness and that of key senior management officers. Its recommendations are escalated to the Board for decision.

Membership

Chairman

YBhg Datuk Nicholas Spiro Zefferys – Independent Non-Executive Director

Members

YBhg Dato' Syed Mohd Yusof bin Tun Syed Nasir – Non-Independent Non-Executive Director
(Resigned on December 2, 2005)

YBhg Tan Sri Dato' Tan Teong Hean – Non-Independent Executive Director

YBhg Dato' Yeap Leong Huat – Non-Independent Non-Executive Director

Dr Sieh Lee Mei Ling – Independent Non-Executive Director

Mr. Ian Craig Buchanan – Independent Non-Executive Director

(Appointed on December 7, 2005)

BOARD COMMITTEES (CONT'D)**Nominating Committee (Cont'd)**Duties and responsibilities

The chief duties and responsibilities of this Committee include the following:

- To establish minimum requirements for the Board after taking into account the required mix of skills, experience, qualification and other core competencies required of a Director, and for the Chief Executive Director.
- To consider, assess and recommend to the Board for approval of nominees for Directors, Board Committee members and the Chief Executive Director, the extension of appointment of Directors and the re-election of Directors.
- To annually oversee the overall composition of the Board in terms of the appropriate size and skills and the balance between Executive Directors, Non-Executive Directors and Independent Directors.
- To report to the Board once a year with an assessment of the performance of the Board and its Committees.
- To oversee the appointment, management succession planning and performance evaluation of key senior management officers.

Meetings

During the financial year ended December 31, 2005, ten Nominating Committee meetings were held. A record of the attendance of these Nominating Committee meetings is as follows:

Members	Attendance
YBhg Datuk Nicholas Spiro Zefferys	10/10
YBhg Dato' Syed Mohd Yusof bin Tun Syed Nasir	8/8
YBhg Tan Sri Dato' Tan Teong Hean	10/10
YBhg Dato' Yeap Leong Huat	10/10
Dr Sieh Lee Mei Ling	6/7
Mr. Ian Craig Buchanan	1/1

Remuneration Committee

The Remuneration Committee's objective is to provide formal and transparent procedure for formulating the remuneration policies for Directors, Chief Executive Director and key senior management officers, in consonance with the Bank's culture, objectives and strategy.

Membership*Chairman*

YBhg Datuk Nicholas Spiro Zefferys – Independent Non-Executive Director

Members

YBhg Dato' Syed Mohd Yusof bin Tun Syed Nasir – Non-Independent Non-Executive Director
(Resigned on December 2, 2005)

YBhg Dato' Yeap Leong Huat – Non-Independent Non-Executive Director

Dr Sieh Lee Mei Ling – Independent Non-Executive Director

(Appointed on December 7, 2005)

DIRECTORS' REPORT

BOARD COMMITTEES (CONT'D)

Remuneration Committee (Cont'd)

Duties and responsibilities

The principal duties and responsibilities of this Committee include the following:

- To recommend the remuneration structure for Directors, the Chief Executive Director and key senior management officers for the Board's approval.
- To review, determine and recommend their remuneration levels on an annual basis.
- To conduct an annual review of the Committee's performance and the adequacy of its charter and to recommend changes to the Board if necessary.

Meetings

During the financial year ended December 31, 2005, thirteen Remuneration Committee meetings were held. A record of the attendance of these Remuneration Committee meetings is as follows:

Members	Attendance
YBhg Datuk Nicholas Spiro Zefferys	13/13
YBhg Dato' Syed Mohd Yusof bin Tun Syed Nasir	7/7
YBhg Dato' Yeap Leong Huat	13/13
Dr Sieh Lee Mei Ling	3/3

Risk Management Committee

The Bank has established the Risk Management Committee to oversee the activities of the senior management in the management of the Bank's credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and properly functioning.

Membership

Chairman

YBhg Datuk Nicholas Spiro Zefferys – Independent Non-Executive Director

Members

Dr Sieh Lee Mei Ling – Independent Non-Executive Director

YBhg Dato' Yeap Leong Huat – Non-Independent Non-Executive Director

Duties and responsibilities

The principal duties and responsibilities of this Committee include the following:

- To review and recommend risk management strategies, policies and risk tolerance for the Board's approval.
- To review and assess the adequacy of risk management policies and framework.
- To ensure infrastructure, resources and systems are in place for risk management.

BOARD COMMITTEES (CONT'D)**Risk Management Committee (Cont'd)**Meetings

During the financial year ended December 31, 2005, eleven Risk Management Committee meetings were held. A record of the attendance of these Risk Management Committee meetings is as follows:

Members	Attendance
YBhg Datuk Nicholas Spiro Zefferys	11/11
YBhg Dato' Yeap Leong Huat	7/7
Dr Sieh Lee Mei Ling	10/11

DIRECTORS AND THEIR INTERESTS IN SHARES

The names of the directors of the Bank in office since the date of the last report and at the date of this report are:

YBhg Dato' Syed Mohd. Yusof bin Tun Syed Nasir (Resigned as Chairman and Director on December 2, 2005)

YBhg Tan Sri Dato' Tan Teong Hean (Chief Executive Director)

YBhg Dato' Yeap Leong Huat

YBhg Datuk Nicholas Spiro Zefferys

Mr. Yeap Lam Yang

YM Tengku Zaitun binti Tengku Mahadi

Dr Sieh Lee Mei Ling

Mr. Ian Craig Buchanan

Mr Yeap Lam Yang and YBhg Datuk Nicholas Spiro Zefferys retire by rotation under Article 111 of the Bank's Articles of Association and, being eligible, offer themselves for re-election.

According to the Register of Directors' Shareholdings maintained by the Bank in accordance with Section 134 of the Companies Act, 1965, the interests of directors in office at the end of the financial year in the shares and warrants of the Bank and its related corporations were as follows:

	Number of ordinary shares of RM1 each of the Bank				As of 31.12.2005
	As of 1.1.2005	Addition	Exercise of SBB warrants	Disposal	
YBhg Tan Sri Dato' Tan Teong Hean					
– direct	3,330,856	–	–	–	3,330,856
– indirect	327,597,705	9,240,100	6,592,013	–	343,429,818
YBhg Dato' Yeap Leong Huat					
– direct	10,210,298	–	–	–	10,210,298
– indirect	2,786,511	–	–	–	2,786,511
Mr. Yeap Lam Yang					
– direct	6,461,723	–	–	–	6,461,723
– indirect	2,786,511	–	–	–	2,786,511
YM Tengku Zaitun binti Tengku Mahadi					
– direct	1,902	–	–	–	1,902
– indirect	–	–	–	–	–

By virtue of their shareholdings in the Bank, the above directors are deemed to have beneficial interests in the shares of the subsidiary companies of the Bank.

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS IN SHARES (CONT'D)

	Number of warrants of the Bank				As of 31.12.2005
	As of 1.1.2005	Addition	Exercised	Disposal	
YBhg Tan Sri Dato' Tan Teong Hean					
– direct	643,961	–	–	–	643,961
– indirect	60,307,830	–	6,592,013	20,081,700	33,634,117
YM Tengku Zaitun binti Tengku Mahadi					
– direct	547	–	–	–	547
– indirect	–	–	–	–	–

Each warrant entitles the holder to subscribe for one new ordinary share of RM1 each in the Bank at any time during the exercise period. The exercise period is from June 18, 1997 to June 17, 2006 (extended).

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the directors of the Bank has received or become entitled to receive any benefit (other than the benefits included in the aggregate amount of emoluments received or due and receivable by directors as shown in the financial statements, or the fixed salary of a full-time employee of the Bank) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest other than as disclosed in Note 32 to the financial statements.

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangements to which the Bank was a party whereby directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

BUSINESS STRATEGY AND OUTLOOK

The Group is confident of sustained growth in the key market segments it has chosen to compete in.

AUDITORS

The auditors, Messrs. Deloitte KassimChan, have indicated their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors,

YBhg Tan Sri Dato' Tan Teong Hean

Chief Executive Director

YBhg Dato' Yeap Leong Huat

Director

Kuala Lumpur

April 25, 2006

Balance Sheets

as of December 31, 2005

	Note	The Bank		The Group	
		2005 RM'000	2004 RM'000 Restated	2005 RM'000	2004 RM'000 Restated
ASSETS					
Cash and short term funds	4	2,971,832	2,131,009	4,015,768	2,984,264
Deposits and placements with banks and other financial institutions	5	418,153	112,155	412,643	342,952
Held-for-trading securities	6	100,692	61,193	123,553	71,566
Held-to-maturity investments	7	270,577	403,258	474,403	656,915
Available-for-sale securities	8	2,524,303	3,305,822	2,672,358	3,007,438
Loans, advances and financing	9	16,280,690	15,018,509	22,702,778	21,506,801
Other assets	11	551,637	344,086	376,071	469,210
Statutory deposits with Central Banks	12	438,531	535,486	676,418	775,591
Investment in subsidiary companies	13	1,235,503	1,257,024	–	–
Investment in an associated company	14	–	350	–	471
Property, plant and equipment	15	207,039	222,062	370,132	397,460
Deferred tax assets	16	71,870	58,706	124,227	117,568
Goodwill / Intangible assets	17	18,980	27,435	751,887	774,625
TOTAL ASSETS		25,089,807	23,477,095	32,700,238	31,104,861
LIABILITIES AND SHAREHOLDERS' FUNDS					
Deposits from customers	18	14,565,194	14,130,838	19,095,939	19,510,013
Deposits and placements of banks and other financial institutions	19	2,655,673	1,583,994	4,566,384	2,648,676
Obligations on securities sold under repurchase agreements		1,175,143	1,529,040	1,054,786	1,019,682
Bills and acceptances payable		649,753	945,647	649,753	945,647
Recourse obligations on loans sold to Cagamas	20	629,293	777,879	1,656,503	1,817,226
Other liabilities	21	341,371	230,460	615,568	616,648
Provision for taxation and zakat	22	3,907	3,341	4,312	21,257
Subordinated obligations	23	1,813,448	1,085,095	1,813,448	1,085,095
TOTAL LIABILITIES		21,833,782	20,286,294	29,456,693	27,664,244
MINORITY INTEREST		–	–	18,289	17,161
Share capital	24	1,515,609	1,447,682	1,515,609	1,447,682
Reserves	25	1,940,331	1,743,119	1,909,562	1,975,774
Treasury shares	26	(199,915)	–	(199,915)	–
SHAREHOLDERS' FUNDS		3,256,025	3,190,801	3,225,256	3,423,456
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		25,089,807	23,477,095	32,700,238	31,104,861
COMMITMENTS AND CONTINGENCIES					
(UNSECURED)	37	14,419,382	11,302,372	15,096,324	11,727,257

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

Income Statements

for the year ended December 31, 2005

	Note	The Bank		The Group	
		2005 RM'000	2004 RM'000 Restated	2005 RM'000	2004 RM'000 Restated
Revenue	3(n)	1,939,467	1,428,898	2,145,483	2,105,352
Interest income	27	1,086,888	1,034,199	1,556,310	1,535,718
Interest expense	28	(527,667)	(467,260)	(722,694)	(679,613)
Net interest income		559,221	566,939	833,616	856,105
Other operating income	29	807,367	348,000	448,879	413,885
Income from Islamic banking operations	42(n)	23,463	26,586	91,922	99,610
Other operating expenses	30	1,390,051 (416,200)	941,525 (350,778)	1,374,417 (631,965)	1,369,600 (546,779)
Operating profit		973,851	590,747	742,452	822,821
Allowance for losses on loans and financing	31	(174,725)	(198,581)	(303,903)	(339,423)
Share of results of an associated company		799,126 –	392,166 –	438,549 236	483,398 177
Profit before taxation and zakat		799,126	392,166	438,785	483,575
Taxation and zakat	34	(216,230)	(106,175)	(123,783)	(130,325)
Profit after taxation and zakat		582,896	285,991	315,002	353,250
Minority interest		–	–	(652)	(6,090)
Net profit for the year		582,896	285,991	314,350	347,160
Earnings per share (sen)	35				
– Basic		40.1	22.6	21.6	27.5
– Fully diluted		38.8	21.5	20.9	26.0
Net dividend per share (sen)	36	27.56	19.44	27.56	19.44

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

Statements of Changes in Equity

for the year ended December 31, 2005

	Share Capital RM'000	Share Premium RM'000	Other Reserves (Note 25) RM'000	Retained Profit RM'000	Treasury Shares RM'000	Total RM'000
The Bank						
2005						
At beginning of year						
– As previously reported	1,447,682	741,551	725,929	312,457	–	3,227,619
– Prior year adjustments (Note 49)	–	–	(28,862)	(7,956)	–	(36,818)
– As restated	1,447,682	741,551	697,067	304,501	–	3,190,801
Net profit for the year	–	–	–	582,896	–	582,896
Unrealised revaluation loss on available-for-sale securities	–	–	(31,139)	–	–	(31,139)
Fair valuation reserve realised on disposal of available-for-sale securities	–	–	(997)	–	–	(997)
Transfer to statutory reserves	–	–	291,448	(291,448)	–	–
Issue of shares	67,927	50,266	–	–	–	118,193
Share issue expenses	–	(135)	–	–	–	(135)
Dividends paid and payable (Note 36)	–	–	–	(401,514)	–	(401,514)
Buy-back of shares (Note 26)	–	–	–	–	(199,915)	(199,915)
Exchange differences	–	–	(2,165)	–	–	(2,165)
At end of year	1,515,609	791,682	954,214	194,435	(199,915)	3,256,025
2004						
At beginning of year						
– As previously reported	1,122,852	472,542	578,308	400,068	–	2,573,770
– Prior year adjustments (Note 49)	–	–	(6,231)	(5,343)	–	(11,574)
– As restated	1,122,852	472,542	572,077	394,725	–	2,562,196
Net profit for the year	–	–	–	285,991	–	285,991
Unrealised revaluation loss on available-for-sale securities	–	–	(20,829)	–	–	(20,829)
Fair valuation reserve realised on disposal of available-for-sale securities	–	–	(1,802)	–	–	(1,802)
Transfer to statutory reserves	–	–	144,302	(144,302)	–	–
Issue of shares	324,830	269,201	–	–	–	594,031
Share issue expenses	–	(192)	–	–	–	(192)
Dividends paid	–	–	–	(231,913)	–	(231,913)
Exchange differences	–	–	3,319	–	–	3,319
At end of year	1,447,682	741,551	697,067	304,501	–	3,190,801

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

STATEMENTS OF CHANGES IN EQUITY

for the year ended December 31, 2005

	Share Capital RM'000	Share Premium RM'000	Other Reserves (Note 25) RM'000	Retained Profit RM'000	Treasury Shares RM'000	Total RM'000
The Group						
2005						
At beginning of year						
– As previously reported	1,447,682	741,551	849,725	433,352	–	3,472,310
– Prior year adjustments (Note 49)	–	–	(41,179)	(7,675)	–	(48,854)
– As restated	1,447,682	741,551	808,546	425,677	–	3,423,456
Net profit for the year	–	–	–	314,350	–	314,350
Unrealised revaluation loss on available-for-sale securities	–	–	(26,183)	–	–	(26,183)
Fair valuation reserve realised on disposal of available-for-sale securities	–	–	(842)	–	–	(842)
Transfer to statutory reserves	–	–	292,051	(292,051)	–	–
Issue of shares	67,927	50,266	–	–	–	118,193
Share issue expenses	–	(135)	–	–	–	(135)
Dividends paid and payable (Note 36)	–	–	–	(401,514)	–	(401,514)
Buy-back of shares (Note 26)	–	–	–	–	(199,915)	(199,915)
Exchange differences	–	–	(2,154)	–	–	(2,154)
At end of year	1,515,609	791,682	1,071,418	46,462	(199,915)	3,225,256
2004						
At beginning of year						
– As previously reported	1,122,852	472,542	700,070	461,476	–	2,756,940
– Prior year adjustments (Note 49)	–	–	(8,978)	(4,700)	–	(13,678)
– As restated	1,122,852	472,542	691,092	456,776	–	2,743,262
Net profit for the year	–	–	–	347,160	–	347,160
Unrealised revaluation loss on available-for-sale securities	–	–	(30,512)	–	–	(30,512)
Fair valuation reserve realised on disposal of available-for-sale securities	–	–	(1,689)	–	–	(1,689)
Transfer to statutory reserves	–	–	146,346	(146,346)	–	–
Issue of shares	324,830	269,201	–	–	–	594,031
Share issue expenses	–	(192)	–	–	–	(192)
Dividends paid	–	–	–	(231,913)	–	(231,913)
Exchange differences	–	–	3,309	–	–	3,309
At end of year	1,447,682	741,551	808,546	425,677	–	3,423,456

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

Cash Flow Statements

for the year ended December 31, 2005

	The Bank		The Group	
	2005 RM'000	2004 RM'000 Restated	2005 RM'000	2004 RM'000 Restated
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation, zakat and minority interest	799,126	392,166	438,785	483,575
Adjustments for:				
Interest income from held-to-maturity (HTM) and available-for-sale (AFS) securities	(84,664)	(77,132)	(78,904)	(83,765)
Accretion of discount less amortisation of premium	9,873	7,272	8,166	2,532
Accretion of discount and cost relating to the issuance of subordinated loans and notes	1,389	558	1,389	558
Gain from sale / redemption of securities	(34,164)	(24,314)	(44,346)	(42,273)
Dividend income	(517,954)	(145,816)	(8,674)	(8,953)
Gain on transfer of investment in an associated company to a subsidiary	(225)	–	–	–
Unrealised loss on revaluation of held-for-trading securities	514	1,193	2,492	894
Impairment loss / (Reversal of impairment loss) for security	313	–	4,351	(1,674)
Unrealised foreign exchange (gain) / loss	(488)	2,054	(485)	2,023
Net gain on disposal of property, plant and equipment	(3,728)	(1,969)	(9,916)	(6,752)
Net (gain) / loss on disposal of foreclosed properties	(2,400)	8	(14,910)	8
Depreciation of property, plant and equipment	36,827	30,908	47,900	43,133
Property, plant and equipment written off	51	35	441	306
Amortisation of goodwill	–	–	23,650	22,629
Amortisation of deferred assets net of credit transfer	8,455	4,321	16,001	14,335
Allowance for losses on loans and financing	232,633	231,865	403,905	394,962
Bad debts written off	819	5,073	819	5,073
Allowance / (Reversal of allowance) for commitments and contingencies	29	(2,716)	29	(2,716)
Transfer to / (from) profit equalisation reserve	379	524	(7)	975
Share of results of an associated company	–	–	(236)	(177)
Operating profit before working capital changes	446,785	424,030	790,450	824,693

CASH FLOW STATEMENTS

for the year ended December 31, 2005

	The Bank		The Group	
	2005 RM'000	2004 RM'000 Restated	2005 RM'000	2004 RM'000 Restated
(Increase)/Decrease in operating assets:				
Deposits and placements with banks and other financial institutions	(306,054)	(101,510)	(69,747)	(311,272)
Held-for-trading securities	(35,763)	133,936	(17,005)	111,753
Loans, advances and financing	(1,482,942)	(1,122,528)	(1,605,612)	(1,389,462)
Other assets	(235,326)	(26,539)	62,049	(329,645)
Statutory deposits with Central Banks	96,697	(97,615)	98,915	(89,959)
Increase/(Decrease) in operating liabilities:				
Deposits from customers	400,411	480,208	(406,432)	598,643
Deposits and placements of banks and other financial institutions	1,074,449	(607,212)	1,920,478	(1,150,523)
Obligations on securities sold under repurchase agreements	(353,897)	876,705	35,104	308,337
Bills and acceptances payable	(295,860)	110,853	(295,860)	110,853
Recourse obligations on loans sold to Cagamas	(148,586)	(180,932)	(160,723)	28,661
Other liabilities	93,946	26,543	(68,724)	347,229
Cash (used in) / generated from operations	(746,140)	(84,061)	282,893	(940,692)
Income tax and zakat paid	(47,114)	(100,514)	(108,697)	(176,542)
Net cash (used in) / generated from operating activities	(793,254)	(184,575)	174,196	(1,117,234)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of HTM and AFS securities	(4,846,481)	(8,018,351)	(4,990,210)	(8,559,090)
Proceeds from sale of HTM and AFS securities	5,722,428	6,670,972	5,454,663	8,161,781
Interest received from HTM and AFS securities	95,248	72,969	89,423	85,547
Dividends received	373,037	112,299	6,918	24,689
Purchase of property, plant and equipment	(25,647)	(47,100)	(29,947)	(57,677)
Proceeds from disposal of property, plant and equipment	4,952	2,750	20,297	15,978
Acquisition of subsidiary companies, net of cash and cash equivalent acquired	–	–	(4,032)	4,774
Acquisition of remaining 30% equity interest in SBB Securities Sdn Bhd from minority shareholders	–	–	–	(14,277)
Net cash generated from / (used in) investing activities	1,323,537	(1,206,461)	547,112	(338,275)

CASH FLOW STATEMENTS

for the year ended December 31, 2005

	The Bank		The Group	
	2005 RM'000	2004 RM'000 Restated	2005 RM'000	2004 RM'000 Restated
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from the issuance of shares	118,058	504,581	118,058	504,581
Dividends paid	(335,451)	(231,913)	(335,451)	(231,913)
Buy-back of shares	(199,915)	–	(199,915)	–
Net proceeds from the issuance of USD200 million subordinated notes	–	743,113	–	743,113
Net proceeds from the issuance of USD200 million non-cumulative guaranteed preference shares	–	–	747,527	–
Net proceeds from the subordinated loans extended by a subsidiary company	747,527	–	–	–
Repayment of subordinated certificates of deposits	(16,424)	(33,576)	(16,424)	(33,576)
Repayment of other term loans by subsidiary companies	–	–	(344)	(12,626)
Net cash generated from financing activities	313,795	982,205	313,451	969,579
Net increase / (decrease) in cash and cash equivalents	844,078	(408,831)	1,034,759	(485,930)
Cash and cash equivalents at beginning of year	2,131,009	2,537,651	2,984,264	3,468,005
Exchange differences on translation of opening cash and cash equivalents	(3,255)	2,189	(3,255)	2,189
Cash and cash equivalents at end of year	2,971,832	2,131,009	4,015,768	2,984,264
ANALYSIS OF CASH AND CASH EQUIVALENTS				
Cash and short term funds (Note 4)	2,971,832	2,131,009	4,015,768	2,984,264

CASH FLOW STATEMENTS

for the year ended December 31, 2005

The effect of acquisition of additional 53.37% equity interest in BHLB Trustee Berhad (BHLBT) on November 29, 2005 [Note 43(iv)] and the acquisition of 100% equity interest in Mohaiyani Sdn Bhd (MSB) in the preceding year is as follows:

	The Group	
	2005 RM'000	2004 RM'000
NET ASSETS OF SUBSIDIARY COMPANIES ACQUIRED	BHLBT	MSB
Cash and short term funds	1,709	29,707
Deposits and placements with banks and other financial institutions	–	10,662
Available-for-sale securities	550	6,477
Loans, advances and financing	–	13,097
Other assets	1,423	21,725
Property, plant and equipment	1,491	643
Deferred tax assets	55	–
Other liabilities	(1,886)	(28,712)
Provision for taxation and zakat	(88)	–
Goodwill on consolidation	4,005	28,057
Minority interest	(867)	–
	6,392	81,656
Less: carrying value of 20% equity interest in BHLBT already owned by the Group	(651)	–
Cost of additional investment	5,741	81,656
Satisfied by issuance of shares	–	(56,723)
Satisfied by cash	5,741	24,933
Less: Cash and cash equivalent acquired	(1,709)	(29,707)
Net cash used for / (generated from) acquisition	4,032	(4,774)

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

Notes to the Financial Statements

December 31, 2005

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Bank is principally engaged in all aspects of the banking business and the provision of related services, which also include Islamic banking services.

The principal activities of the Bank's subsidiary companies are disclosed in Note 13 to the financial statements.

There have been no significant changes in the nature of the activities of the Bank and of its subsidiary companies during the financial year.

The Bank is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Board of Bursa Malaysia Securities Berhad. The registered office of the Bank is Level 3, Menara Southern Bank, 83, Medan Setia 1, Plaza Damansara, Bukit Damansara, 50490 Kuala Lumpur, Malaysia.

The number of employees of the Bank and of the Group at the end of the financial year was 3,095 (2004 : 3,012) and 4,650 (2004 : 4,657) respectively.

These financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on April 25, 2006.

2. BASIS OF PREPARATION

The financial statements of the Bank and of the Group have been prepared in compliance with the Companies Act, 1965, the applicable Malaysian Accounting Standards Board (MASB) approved accounting standards in Malaysia and BNM/GP8: Guidelines on Financial Reporting for Licensed Institutions (revised 2004), modified to comply with the Principles of Syariah for activities relating to Islamic Banking Scheme.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting Convention

The financial statements of the Bank and of the Group have been prepared under the historical cost convention unless indicated otherwise in the accounting policies below.

(b) Basis of Consolidation

The consolidated financial statements of the Group comprise the audited financial statements of the Bank and all its subsidiary companies listed under Note 13 made up to the end of the financial year.

The results of subsidiary companies acquired or disposed during the financial year are included in the consolidated financial statements from the effective date of acquisition or disposal.

All significant inter-company transactions and balances are eliminated on consolidation.

(c) 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 is stated at cost less permanent impairment losses in the financial statements of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) 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 is in a position to exercise significant influence in its management.

Investment in associated company is stated at cost less permanent impairment loss in the financial statements of the Bank.

In the consolidated financial statements, the results of associated company is accounted for under the equity method whereby the Group's share of post acquisition profits of the associated company is included in the consolidated results and the Group's investment in the associated company is stated in the consolidated balance sheet at cost plus adjustments to reflect the Group's share of the net assets of the associated company.

(e) Goodwill

Goodwill arising on consolidation represents the excess of the purchase price over the fair value of the net assets of the subsidiary companies at the date of acquisition and is amortised over twenty-five years.

(f) Deferred Assets

Deferred asset resulting from the acquisition of Common Forge Berhad by the Group in year 2000 is reduced annually by an amount which is computed based on net loan recoveries in accordance with the guidelines of BNM in respect of a scheme of arrangement.

Deferred assets in respect of capitalised development costs are amortised on a straight line basis over a period of between three to five years.

(g) Held-for-trading Securities

Held-for-trading securities are securities acquired for the purpose of selling or repurchasing in the near term or they are 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 portfolio taking. These securities are stated at fair value and gain or loss arising from the changes in the value of held-for-trading securities is recognised in the income statement.

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

(h) Held-to-maturity Investments

Held-to-maturity investments are securities with fixed or determinable payments and fixed maturity which the Bank and the Group have positive intention and ability to hold to maturity. These investments are stated at amortised cost using the effective interest rate method.

Gain or loss is recognised in the income statement when the securities is derecognised or impaired through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(i) Available-for-sale Securities**

Available-for-sale securities are securities that are not classified as held-for-trading securities or held-to-maturity investments, and they are stated at fair value. Investment in equity instruments that do not have quoted market price or which fair value cannot be reliably measured, are stated at cost. Gain or loss arising from changes in fair value is recognised directly in equity whilst impairment losses and foreign exchange gains and losses are recognised in the income statements.

Interest from the available-for-sales securities, calculated using the effective interest rate method, is recognised in the income statement.

(j) Property, Plant and Equipment and Depreciation

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

Freehold land and construction work-in-progress are not depreciated. Leasehold land is depreciated on a straight line basis over the period of the lease. Other property, plant and equipment are depreciated on a straight line basis over their estimated useful lives. The principal annual depreciation rates are:

Buildings	0.5% – 2.5%
Office equipment, furniture, fittings and renovations	6.0% – 20.0%
Computer equipment and software	10.0% – 20.0%
Motor vehicles	15.0% – 20.0%

(k) Repurchase Agreements

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

Conversely, obligations on securities sold under repurchase agreements are securities which the Bank and the Group have sold from their portfolio, with a commitment to repurchase at future dates and are reflected as a liability on the balance sheet.

(l) Bills and Acceptances Payable

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

(m) Treasury Shares

The Bank's shares as bought back are accounted for as treasury shares. The cost of purchase, including directly attributable costs, is presented as a deduction from the shareholders' equity.

(n) Revenue

Revenue of the Bank comprises gross interest income, commissions, fees and other income derived from banking operations and gross dividends from investments.

Revenue of the Group comprises all types of revenue derived from banking, financing, merchant banking, stock broking, sales and management of unit trust funds and other related services provided by the Group.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Interest and Financing Income Recognition

Interest on loans and advances is recognised on an accrual basis. Interest from hire-purchase, block discounting and leasing transactions is recognised on the 'sum-of-the-digits' method.

Profit from the Islamic Banking Scheme (SPI) is recognised on an accrual basis in compliance with Bank Negara Malaysia's guidelines.

Commencing January 1, 2005, where a customer account is classified as non-performing, interest income accrued and recognised previously is reversed by debiting interest income and crediting the accrued interest receivable. Thereafter, interest is recognised on a cash basis. Prior to January 1, 2005, interest income on non-performing loans was accrued and simultaneously suspended.

This change in interest recognition policy is in accordance with revised BNM/GP8 which became effective on January 1, 2005.

Customers' accounts of the Bank are classified as non-performing where repayments are in arrears for 3 months or more for all loans, advances and financing. This policy of classifying non-performing accounts is more stringent than the requirement of Bank Negara Malaysia (BNM) guidelines, BNM/GP3 (Revised 1999) "Guidelines on Classification of Non-Performing Loans and Provision for Bad and Doubtful Debts and Financing", which require accounts to be classified as non-performing where repayments are in arrears for 6 months or more for all loans and advances.

Customers' accounts of the finance and merchant bank subsidiary companies, Southern Finance Berhad and Southern Investment Bank Berhad respectively, are classified as non-performing where repayments are in arrears for 6 months or more for all loans, advances and financing. This non-performing loan classification policy is in compliance with BNM/GP3 (Revised 1999).

(p) Fees and Other Income Recognition

Commitment fees are recognised on an accrual basis. Loan arrangement fees, management and participation fees, acceptance and underwriting commissions are recognised as income when all conditions are fulfilled.

Fees from advisory and corporate finance activities are recognised on the completion of each stage of the assignments.

Dividend income is recognised on a cash basis except for dividend income from subsidiary companies which is recognised when the right to receive payment is established.

Revenue from sales of unit trusts is recognised upon the approval of a unitholder's application. Management fees from the management of unit trusts and other funds are recognised on an accrual basis.

Brokerage fees are recognised on contract date.

(q) Interest, Financing and Related Expenses Recognition

Interest expense and attributable profit (in respect of SPI) on deposits and borrowings are recognised on an accrual basis.

Handling fees paid to motor vehicle dealers by the finance subsidiary company, Southern Finance Berhad for hire purchase loans secured are charged to income statement in the period in which they are incurred in compliance with Bank Negara Malaysia Circular of August 8, 2003 "The Accounting Treatment of Handling Fees for Hire Purchase Loans".

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(r) Allowances for Bad and Doubtful Debts and Financing**

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

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

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

(s) Forward Exchange Contracts

Unmatured forward exchange contracts are stated at their original contracted forward rates applicable to the respective dates of maturity and unrealised losses and gains are taken up in the income statements for the year on a time-apportionment basis over the individual life of the contracts.

(t) Interest Rate Swaps and Futures Contracts

The Bank uses interest rate swaps and futures contracts in its trading account activities and as part of the 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. Gains and losses on interest rate swaps and futures contracts that qualify as hedges are generally deferred and amortised over the life of the hedged assets or liabilities as adjustments to interest income or interest expense.

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

(u) Currency Translations

Transactions in foreign currencies are converted into Ringgit Malaysia at rates prevailing on transaction dates. Individual foreign currency assets and liabilities are stated in the balance sheets at spot rates of exchange which closely approximate those ruling at the balance sheet date. Exchange gains and losses are recognised in the income statements in the year they arise.

For the purpose of consolidation, the financial statements of foreign branch and foreign subsidiary company expressed in foreign currency are translated into Ringgit Malaysia at the rates of exchange ruling at the balance sheet date. Gains or losses arising on translation into Ringgit Malaysia are taken up in the exchange fluctuation reserve.

The closing rate used in translation is as follows:

SGD RM2.2712 (2004 : RM2.3273)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(v) Income Tax

Income tax in the income statement comprises current and deferred taxes.

Current tax is calculated using the tax rates that have been enacted at the balance sheet date on the taxable profit for the year.

Deferred tax is provided for under the liability method for all temporary differences between the carrying amounts of the assets and liabilities in the balance sheet and their tax base.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the related deductible temporary differences, unutilised tax losses and unutilised tax credits can be utilised.

(w) Cash Flow Statement

The Bank and the Group adopt the indirect method in the preparation of cash flow statements. Cash equivalents are short term, highly liquid investments which are readily convertible to cash with insignificant risk of changes in value.

4. CASH AND SHORT TERM FUNDS

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cash and balances with banks and other financial institutions	237,985	243,046	263,819	263,833
Money at call and deposit placements maturing within one month	2,733,847	1,887,963	3,751,949	2,720,431
	2,971,832	2,131,009	4,015,768	2,984,264

5. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Licensed banks	95,739	31,431	235,306	219,124
Licensed merchant banks	322,414	58,079	172,337	38,028
Central banks	–	22,645	5,000	31,645
Other financial institutions	–	–	–	54,155
	418,153	112,155	412,643	342,952

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

6. HELD-FOR-TRADING SECURITIES

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At fair value:				
Malaysian government securities	27,182	5,018	27,182	5,018
Bankers' acceptances	26,483	30,866	26,483	30,866
Cagamas bonds and notes	15,951	–	15,951	–
Private debt securities	31,076	25,309	31,076	25,309
	100,692	61,193	100,692	61,193
Shares, warrants and loan stocks quoted in Malaysia	–	–	22,861	10,373
	100,692	61,193	123,553	71,566

7. HELD-TO-MATURITY INVESTMENTS

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At amortised cost:				
Government investment certificates	–	29,398	80,447	107,624
Khazanah bonds	35,232	34,199	35,232	34,199
Bankers' acceptances and islamic accepted bills	–	100,639	–	100,639
KLIA bonds	–	–	98,052	99,418
Negotiable instruments of deposits	9,986	9,610	9,986	39,320
Singapore treasury bills	56,342	72,129	56,342	72,129
Singapore government securities	6,934	–	6,934	–
Singapore commercial bills	6,920	–	6,920	–
Private debt securities	129,871	131,991	147,091	170,187
	245,285	377,966	441,004	623,516
At cost:				
Unquoted equity instruments	25,292	25,292	33,399	33,399
	270,577	403,258	474,403	656,915

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

8. AVAILABLE-FOR-SALE SECURITIES

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At fair value				
Malaysian government securities	380,588	566,470	448,706	643,107
Government investment certificates	12,969	8,408	12,969	8,408
Cagamas bonds and notes	131,071	131,797	201,387	202,624
Khazanah bonds	86,362	75,989	86,362	75,989
Danaharta bonds	–	–	–	9,344
Negotiable instruments of deposits	1,168,172	1,653,587	1,107,510	1,103,587
	1,779,162	2,436,251	1,856,934	2,043,059
Securities quoted in Malaysia:				
Shares, unit trusts and warrants	675,935	786,619	680,660	813,906
Private debt securities	7,258	5,426	33,666	17,125
Unquoted securities:				
Shares	–	–	–	12,955
Private debt securities	58,657	72,196	97,176	114,290
	2,521,012	3,300,492	2,668,436	3,001,335
At cost:				
Unquoted equity investments	4,538	6,577	5,169	7,350
Less: Accumulated impairment loss	(1,247)	(1,247)	(1,247)	(1,247)
	3,291	5,330	3,922	6,103
	2,524,303	3,305,822	2,672,358	3,007,438

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

9. LOANS, ADVANCES AND FINANCING

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(i) By type of loans, advances and financing				
Overdrafts	3,126,897	3,021,643	3,126,897	3,021,643
Term loans / financing	8,767,018	8,086,228	16,981,582	15,849,450
– Housing loans / financing	4,144,395	3,454,936	4,677,786	4,051,331
– Syndicated term loans / financing	141,459	128,046	196,207	150,380
– Hire purchase receivables	18,415	27,600	6,927,652	6,180,723
– Lease receivables	1,084	12,588	1,084	17,414
– Other term loans / financing	4,461,665	4,463,058	5,178,853	5,449,602
Bills receivable	87,376	83,837	87,376	83,837
Trust receipts	355,278	376,769	355,278	376,769
Claims on customers under acceptance credits	1,243,881	1,239,955	1,243,881	1,239,955
Staff loans / financing	69,552	74,782	93,348	99,528
– To Directors	–	–	–	–
– To staff other than Directors	69,552	74,782	93,348	99,528
Credit / charge cards	1,288,474	1,041,583	1,288,474	1,041,583
Revolving credits	2,195,674	1,941,956	2,602,505	2,459,131
Other loans / financing	21,271	15,677	63,976	55,231
Less: Unearned interest and income	(321,760)	(295,582)	(1,653,747)	(1,461,598)
	16,833,661	15,586,848	24,189,570	22,765,529
Less: Islamic financing sold to Cagamas	–	–	(518,506)	(232,014)
Gross loans, advances and financing	16,833,661	15,586,848	23,671,064	22,533,515
Less: Allowances for bad and doubtful debts and financing				
– General	(249,095)	(229,665)	(354,521)	(331,740)
– Specific	(303,876)	(338,674)	(613,765)	(694,974)
Net loans, advances and financing	16,280,690	15,018,509	22,702,778	21,506,801

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

9. LOANS, ADVANCES AND FINANCING (CONT'D)

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(ii) By type of customers				
Domestic non-bank financial institutions				
– Stockbroking companies	87,380	7,802	87,380	7,802
– Others	492,045	474,212	558,798	529,925
Domestic business enterprises				
– Small medium enterprises	5,257,679	4,597,664	6,347,186	5,663,765
– Others	3,438,456	3,851,317	4,021,136	4,725,797
Government and statutory bodies	26,191	21,490	26,765	21,947
Individuals	7,127,066	6,292,234	12,728,917	11,458,973
Other domestic entities	17,169	8,660	17,621	9,260
Foreign entities	387,675	333,469	401,767	348,060
	16,833,661	15,586,848	24,189,570	22,765,529
Less: Islamic financing sold to Cagamas	–	–	(518,506)	(232,014)
	16,833,661	15,586,848	23,671,064	22,533,515
(iii) By interest / profit rate sensitivity				
Fixed rate				
Housing loans / financing	1,412,104	1,205,788	1,614,265	1,425,360
Hire purchase receivables	18,383	27,541	5,651,652	5,081,531
Other fixed rate loans / financing	6,206,545	5,458,967	6,326,827	5,571,042
Variable rate				
BLR plus	8,577,620	8,358,181	8,697,107	8,351,860
Cost plus	397,430	459,881	531,657	615,436
Other variable rates	221,579	76,490	1,368,062	1,720,300
	16,833,661	15,586,848	24,189,570	22,765,529
Less: Islamic financing sold to Cagamas	–	–	(518,506)	(232,014)
	16,833,661	15,586,848	23,671,064	22,533,515

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

9. LOANS, ADVANCES AND FINANCING (CONT'D)

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(iv) By sector				
Agriculture, hunting, forestry and fishing	364,050	331,559	389,427	353,009
Mining and quarrying	50,631	62,740	63,459	80,830
Manufacturing	1,994,308	2,070,391	2,176,688	2,293,381
Electricity, gas and water	7,667	126,496	17,129	133,544
Construction	1,112,725	1,072,768	1,555,163	1,559,146
Real estate	1,198,852	1,139,258	1,412,976	1,420,559
Purchase of landed properties	5,512,615	4,931,532	6,314,562	5,835,294
Residential	4,327,968	3,965,407	4,903,541	4,594,856
Non-residential	1,184,647	966,125	1,411,021	1,240,438
Wholesale & retail trade and restaurants & hotels	2,168,426	2,046,625	2,447,047	2,360,468
Transport, storage and communication	199,107	266,629	338,807	372,962
Finance, insurance and business services	835,629	559,599	957,609	728,428
Purchase of securities	1,004,604	958,844	1,102,940	1,081,416
Purchase of transport vehicles	7,508	10,953	4,927,918	4,416,975
Consumption credit	2,088,792	1,739,525	2,122,439	1,783,381
Others	288,747	269,929	363,406	346,136
	16,833,661	15,586,848	24,189,570	22,765,529
Less: Islamic financing sold to Cagamas	-	-	(518,506)	(232,014)
	16,833,661	15,586,848	23,671,064	22,533,515

10. NON-PERFORMING LOANS / FINANCING (NPL / NPF)

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(i) Movements in non-performing loans, advances and financing				
At beginning of year	1,326,155	1,345,312	2,614,902	2,793,854
Classified as non-performing during the year	774,187	771,119	1,162,338	1,179,827
Reclassified as performing during the year	(452,281)	(470,522)	(564,671)	(630,187)
Amount recovered	(180,467)	(85,317)	(381,368)	(299,299)
Amount written off	(251,188)	(235,661)	(476,398)	(414,015)
Loans converted to securities	-	(254)	-	(16,756)
Exchange differences	(887)	1,478	(887)	1,478
At end of year	1,215,519	1,326,155	2,353,916	2,614,902
Less: Specific allowances	(303,876)	(338,674)	(613,765)	(694,974)
Net non-performing loans, advances and financing	911,643	987,481	1,740,151	1,919,928
Ratio of net non-performing loans and financing to net loans and financing	5.5%	6.5%	7.4%	8.7%

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

10. NON-PERFORMING LOANS / FINANCING (NPL / NPF) (CONT'D)

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(ii) Movements in allowances for bad and doubtful debts				
<u>General allowance</u>				
At beginning of year	229,665	216,156	331,740	317,820
Allowance made	19,596	13,222	22,947	13,633
Exchange differences	(166)	287	(166)	287
At end of year	249,095	229,665	354,521	331,740
As % of gross loans, advances and financing less specific allowances	1.5%	1.5%	1.5%	1.5%
<u>Specific Allowance</u>				
At beginning of year	338,674	339,814	694,974	662,050
Allowance made	252,798	252,860	504,273	495,596
Amount recovered	(39,761)	(34,217)	(123,315)	(114,267)
Amount written off	(246,467)	(219,843)	(473,746)	(405,409)
Allowance made and charged to deferred assets	–	–	12,947	65,946
Transferred to accumulated impairment loss in value of securities	–	(254)	–	(9,256)
Transferred to accumulated impairment loss in value of foreclosed properties	(1,124)	–	(1,124)	–
Exchange differences	(244)	314	(244)	314
At end of year	303,876	338,674	613,765	694,974
(iii) Gross NPL / NPF by sector				
Agriculture, hunting, forestry and fishing	5,262	6,850	8,565	13,440
Mining and quarrying	2,474	4,747	2,564	8,986
Manufacturing	175,956	250,812	235,000	333,302
Electricity, gas and water	74	147	613	609
Construction	95,500	76,535	402,843	428,031
Real estate	134,050	204,870	332,163	404,598
Purchase of landed properties	408,673	427,574	652,605	699,611
Residential	292,616	298,403	408,314	405,977
Non-residential	116,057	129,171	244,291	293,634
Wholesale & retail trade and restaurants & hotels	152,875	141,901	197,846	228,196
Transport, storage and communication	13,201	10,555	19,389	17,698
Finance, insurance and business services	22,062	25,419	77,246	88,623
Purchase of securities	47,256	34,036	51,517	55,389
Purchase of transport vehicles	5,611	8,808	183,036	155,464
Consumption credit	113,469	114,109	136,556	143,060
Others	39,056	19,792	53,973	37,895
	1,215,519	1,326,155	2,353,916	2,614,902

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

11. OTHER ASSETS

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Trade debt receivable	–	–	124,939	243,673
Interest receivable	10,124	21,737	16,548	25,624
Prepayment and deposits	15,747	15,894	13,431	13,820
Balances due from subsidiary companies	364,412	164,803	–	–
Tax recoverable	8,723	31,739	17,700	42,486
Other debtors and receivable	95,437	109,913	126,504	130,689
Foreclosed properties – net of accumulated impairment loss	57,194	–	76,949	12,918
	551,637	344,086	376,071	469,210

12. STATUTORY DEPOSITS WITH CENTRAL BANKS

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Deposits placed with:				
Bank Negara Malaysia	428,550	524,800	666,437	764,905
Other central bank	9,981	10,686	9,981	10,686
	438,531	535,486	676,418	775,591

The non-interest bearing statutory deposits with Bank Negara Malaysia are maintained in compliance with Section 37(1) (c) of the Central Bank of Malaysia Act, 1958 (Revised 1994), the amounts of which are determined as set percentages of total eligible liabilities. The non-interest bearing statutory deposit of the foreign branch is maintained with its respective central bank in compliance with the applicable legislation.

13. INVESTMENT IN SUBSIDIARY COMPANIES

	The Bank	
	2005 RM'000	2004 RM'000
Unquoted shares at cost		
In Malaysia	1,388,480	1,410,001
Outside Malaysia	23	23
	1,388,503	1,410,024
Less: Accumulated impairment loss	(153,000)	(153,000)
	1,235,503	1,257,024

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

13. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D)

The subsidiary companies of the Bank are as follows:

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Percentage of Equity	
			2005 %	2004 %
Direct				
Southern Nominees (Tempatan) Sdn. Bhd.	Providing nominee services	Malaysia	100	100
Southern Nominees (Asing) Sdn. Bhd.	Providing nominee services	Malaysia	100	100
S.B. Properties Sdn. Bhd.	Property ownership and management	Malaysia	100	100
S.B. Venture Capital Corporation Sdn. Bhd.	Investment holding and provision of management services	Malaysia	100	100
SBB Capital Markets Sdn. Bhd.	Investment holding	Malaysia	100	100
SBB Futures Sdn. Bhd.	Investment holding	Malaysia	100	100
BHL Venture Berhad	Investment holding	Malaysia	100	100
BHLB Properties Sdn. Bhd.	Property ownership and management	Malaysia	100	100
SBB Nominees (Tempatan) Sdn. Bhd.	Providing nominee services	Malaysia	100	100
SBB Nominees (Asing) Sdn. Bhd.	Providing nominee services	Malaysia	100	100
Southern Nominees (Singapore) Sdn. Bhd. ^(a)	Providing nominee services	Singapore	100	100
Southern Finance Berhad	Accepting deposits and advancing loans	Malaysia	100	100
Common Forge Berhad	Dormant	Malaysia	100	100
Premier Fidelity Berhad	Dormant	Malaysia	100	100
Southern Investment Bank Berhad	Merchant banking business	Malaysia	80	80
SBB Capital Corporation ^(b)	Special purpose vehicle	Malaysia	100	–

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

13. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D)

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Percentage of Equity	
			2005 %	2004 %
Indirect				
SBB Securities Sdn. Bhd.	Stock and share broking	Malaysia	100	100
RC Nominees (Tempatan) Sdn. Bhd.	Providing nominee services	Malaysia	100	100
RC Nominees (Asing) Sdn. Bhd.	Providing nominee services	Malaysia	100	100
BHLB Asset Management Sdn. Bhd.	Investment holding	Malaysia	100	100
BAM Nominees (Tempatan) Sdn. Bhd.	Providing nominee services – Dormant	Malaysia	100	100
BAM Nominees (Asing) Sdn. Bhd.	Providing nominee services – Dormant	Malaysia	100	100
SBB Unit Trust Management Berhad	Dormant	Malaysia	100	100
SBB Asset Management Sdn. Bhd.	Providing portfolio management and investment advisory services	Malaysia	100	100
SBBAM Nominees (Tempatan) Sdn. Bhd.	Providing nominee services – Dormant	Malaysia	100	100
SBBAM Nominees (Asing) Sdn. Bhd.	Providing nominee services – Dormant	Malaysia	100	100
SBB Mutual Berhad	Establishment, management and distribution of unit trust funds	Malaysia	100	100
Elite Constant Development Sdn. Bhd.	Construction of building	Malaysia	100	100
Cempaka Nominees (Tempatan) Sdn. Bhd.	Providing nominee services – Dormant	Malaysia	100	100
Perdana Visi Hartanah Sdn. Bhd.	Property investment	Malaysia	100	100
SFB Development Sdn. Bhd.	Property investment	Malaysia	100	100

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

13. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D)

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Percentage of Equity	
			2005 %	2004 %
Indirect (Cont'd)				
Seal Line Trading Sdn. Bhd.	Property investment	Malaysia	100	100
SFB Nominees (Tempatan) Sdn. Bhd.	Providing nominee services	Malaysia	100	100
SFB Nominees (Asing) Sdn. Bhd.	Providing nominee services	Malaysia	100	100
Perdana Nominees (Tempatan) Sdn. Bhd.	Providing nominee services	Malaysia	80	80
Perdana Nominees (Asing) Sdn. Bhd.	Providing nominee services	Malaysia	80	80
Perdana Mutual Fund Berhad	Dormant	Malaysia	80	80
Mohaiyani Sdn. Bhd.	Investment holding	Malaysia	100	100
Mohaiyani Nominees Sdn. Bhd.	Dormant	Malaysia	100	100
Mohaiyani Nominees (Tempatan) Sdn. Bhd.	Dormant	Malaysia	100	100
Mohaiyani Nominees (Asing) Sdn. Bhd.	Dormant	Malaysia	100	100
SBB Sec Research Sdn. Bhd. (formerly known as Mohaiyani Research Sdn. Bhd.)	Providing research and management services	Malaysia	100	100
BHLB Trustee Berhad ^(c)	Trust company	Malaysia	73.37	20

(a) Audited by a member firm of Deloitte & Touche in Singapore.

(b) Incorporated during the financial year [Note 43 (ii)].

(c) Details of the increase in shareholding on November 29, 2005 are as set out in Note 43 (iv).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

13. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D)

The effect of acquisition of BHLB Trustee Berhad (BHLBT) as a subsidiary company for the year ended December 31, 2005 is as follows:

Post-acquisition results of BHLBT included in the Income Statement of the Group

	RM'000
Revenue	329
Overhead expenses	(146)
Profit before taxation	183
Taxation	(26)
Profit after taxation	157
Minority interest	(45)
Net profit	112

Details of net assets of BHLBT included in the Balance Sheet of the Group as of December 31, 2005

	RM'000
Cash and short term funds	431
Available-for-sale securities	559
Other assets	1,393
Property, plant and equipment	1,475
Deferred tax assets	55
Goodwill	3,992
Other liabilities	(1,528)
Provision for taxation	(88)
Minority interest	(610)
Net assets	5,679

14. INVESTMENT IN AN ASSOCIATED COMPANY

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Unquoted shares at cost	-	350	-	120
Share of post-acquisition profits	-	-	-	351
	-	350	-	471

Represented by:

Share of net tangible assets	-	471
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The investment in associated company as of December 31, 2004 represents the Bank's and Group's investment in 20% equity interest of BHLB Trustee Berhad (BHLBT). During the financial year, the Group's investment in BHLBT was increased to 73.37% as a result of acquisition of additional 53.37% equity interest. Accordingly, BHLBT is reflected as a subsidiary company as of December 31, 2005.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

15. PROPERTY, PLANT AND EQUIPMENT

The Bank	Freehold land and buildings RM'000	Leasehold land and buildings		Office equipment, furniture, and renovations RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
		less than 50 years RM'000	50 years or more RM'000					
Cost								
At beginning of year	83,332	1,475	26,704	113,472	225,819	15,115	402	466,319
Additions	-	-	-	2,093	15,458	5,702	2,394	25,647
Disposals	-	-	(3,242)	(74)	(5,690)	(4,245)	-	(13,251)
Write-offs	-	-	-	(2,524)	(645)	-	-	(3,169)
Transfers	-	-	-	209	836	-	(1,045)	-
Exchange differences	-	-	-	(68)	(85)	(22)	-	(175)
At end of year	83,332	1,475	23,462	113,108	235,693	16,550	1,751	475,371
Accumulated Depreciation								
At beginning of year	11,378	266	2,027	84,738	134,811	11,037	-	244,257
Additions	1,426	44	275	6,567	26,712	1,803	-	36,827
Disposals	-	-	(132)	(62)	(5,473)	(3,836)	-	(9,503)
Write-offs	-	-	-	(2,482)	(636)	-	-	(3,118)
Exchange differences	-	-	-	(62)	(61)	(8)	-	(131)
At end of year	12,804	310	2,170	88,699	155,353	8,996	-	268,332
Net Book Value								
As of December 31, 2005	70,528	1,165	21,292	24,409	80,340	7,554	1,751	207,039
As of December 31, 2004	71,954	1,209	24,677	28,734	91,008	4,078	402	222,062
Depreciation charge for 2004	1,429	30	305	6,894	20,959	1,291	-	30,908

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

15. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Group	Freehold land and buildings RM'000	Leasehold land and buildings		Office equipment, furniture, and renovations RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
		less than 50 years RM'000	50 years or more RM'000					
Cost								
At beginning of year	200,715	5,107	52,624	182,792	268,363	24,678	402	734,681
Additions	20	-	-	3,007	18,753	5,773	2,394	29,947
Acquisition of BHLBT [Note 43 (iv)]	-	832	-	509	636	217	-	2,194
Disposals	(5,673)	(427)	(3,242)	(577)	(6,243)	(5,984)	-	(22,146)
Write-offs	-	-	-	(3,295)	(1,789)	(17)	-	(5,101)
Transfers	-	-	-	209	836	-	(1,045)	-
Exchange differences	-	-	-	(68)	(85)	(22)	-	(175)
At end of year	195,062	5,512	49,382	182,577	280,471	24,645	1,751	739,400
Accumulated Depreciation								
At beginning of year	22,595	1,834	6,238	123,510	165,738	17,306	-	337,221
Additions	3,022	135	662	10,350	30,921	2,810	-	47,900
Acquisition of BHLBT [Note 43 (iv)]	-	44	-	196	360	103	-	703
Disposals	-	(190)	(132)	(463)	(5,562)	(5,418)	-	(11,765)
Write-offs	-	-	-	(2,938)	(1,708)	(14)	-	(4,660)
Transfers	-	(57)	57	-	-	-	-	-
Exchange differences	-	-	-	(62)	(61)	(8)	-	(131)
At end of year	25,617	1,766	6,825	130,593	189,688	14,779	-	369,268
Net Book Value								
As of December 31, 2005	169,445	3,746	42,557	51,984	90,783	9,866	1,751	370,132
As of December 31, 2004	178,120	3,273	46,386	59,282	102,625	7,372	402	397,460
Depreciation charge for 2004	3,315	188	638	11,810	24,917	2,265	-	43,133

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16. DEFERRED TAXATION

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Deferred tax assets	71,870	58,706	127,958	120,751
Deferred tax liabilities	–	–	(3,731)	(3,183)
	71,870	58,706	124,227	117,568

The components and movements of net deferred tax assets / (liabilities) during the financial year are as follows:

	Allowance for loan loss RM'000	Allowance for securities, premium amortisation and discount accretion RM'000	Excess of capital allowances over depreciation RM'000	Unrealised loss on available- for-sale securities RM'000	Other temporary differences RM'000	Total RM'000
The Bank						
2005						
At beginning of year						
– As previously reported	72,689	494	(24,297)	–	(151)	48,735
– Prior year adjustments (Note 49)	–	–	–	9,971	–	9,971
As restated	72,689	494	(24,297)	9,971	(151)	58,706
Transfer to provision for taxation	–	–	–	–	(7,682)	(7,682)
Recognised in income statement (Note 34)	5,720	553	3,311	–	(2,440)	7,144
Recognised in fair valuation reserve	–	–	–	13,750	–	13,750
Exchange differences	(50)	(3)	6	–	(1)	(48)
Balance at end of year	78,359	1,044	(20,980)	23,721	(10,274)	71,870
2004						
At beginning of year						
– As previously reported	68,056	3,645	(19,847)	–	1,647	53,501
– Prior year adjustments (Note 49)	–	–	–	579	–	579
As restated	68,056	3,645	(19,847)	579	1,647	54,080
Recognised in income statement (Note 34)	4,557	(3,155)	(4,440)	–	(1,800)	(4,838)
Recognised in fair valuation reserve	–	–	–	9,392	–	9,392
Exchange differences	76	4	(10)	–	2	72
At end of year	72,689	494	(24,297)	9,971	(151)	58,706

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

16. DEFERRED TAXATION (CONT'D)

	Allowance for loan loss RM'000	Allowance for securities, premium amortisation and discount accretion RM'000	Excess of capital allowances over depreciation RM'000	Unrealised loss on available- for-sale securities RM'000	Other temporary differences RM'000	Total RM'000
The Group						
2005						
At beginning of year						
– As previously reported	115,079	6,883	(28,463)	–	10,293	103,792
– Prior year adjustments (Note 49)	–	–	–	13,776	–	13,776
As restated	115,079	6,883	(28,463)	13,776	10,293	117,568
Transfer to provision for taxation	–	–	–	–	(7,682)	(7,682)
Recognised in income statement (Note 34)	6,657	1,793	3,626	–	(9,835)	2,241
Recognised in fair valuation reserve	–	–	–	12,093	–	12,093
Acquisition of BHLBT [Note 43 (iv)]	–	–	–	–	55	55
Exchange differences	(50)	(3)	6	–	(1)	(48)
Balance at end of year	121,686	8,673	(24,831)	25,869	(7,170)	124,227
2004						
At beginning of year						
– As previously reported	110,928	2,964	(24,197)	–	20,968	110,663
– Prior year adjustments (Note 49)	–	(168)	–	855	–	687
As restated	110,928	2,796	(24,197)	855	20,968	111,350
Recognised in income statement (Note 34)	4,075	4,083	(4,256)	–	(10,677)	(6,775)
Recognised in fair valuation reserve	–	–	–	12,921	–	12,921
Exchange differences	76	4	(10)	–	2	72
Balance at end of year	115,079	6,883	(28,463)	13,776	10,293	117,568

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17. GOODWILL / INTANGIBLE ASSETS

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Goodwill on consolidation	–	–	468,455	488,182
Deferred assets	18,980	27,435	283,432	286,443
	18,980	27,435	751,887	774,625

Deferred assets of the Bank comprise mainly the capitalised development costs incurred on projects which are expected to generate future economic benefits. Deferred assets of the Group comprise mainly the carrying value of the excess of liabilities over assets of Common Forge Berhad taken over by the Group in year 2000 pursuant to a scheme of arrangement sponsored by Bank Negara Malaysia (BNM).

Movements in goodwill and deferred assets during the year are as follows:

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<u>Goodwill</u>				
Balance at beginning of year	–	–	488,182	472,006
Arising from acquisition of equity interest in subsidiary companies	–	–	3,923	38,805
Amortisation for the year	–	–	(23,650)	(22,629)
Balance at end of year	–	–	468,455	488,182
<u>Deferred assets</u>				
Balance at beginning of year	27,435	12,947	286,443	216,025
Increase in the year	–	18,809	21,472	90,382
Amortisation for the year	(8,455)	(4,321)	(24,483)	(19,964)
Balance at end of year	18,980	27,435	283,432	286,443

18. DEPOSITS FROM CUSTOMERS

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(i) By type of deposits				
Demand deposits	2,951,237	2,976,006	2,943,978	2,973,621
Savings deposits	1,509,387	1,466,819	1,724,953	1,705,123
Fixed deposits	8,879,782	8,673,351	12,952,208	13,281,164
Negotiable instruments of deposits	1,222,000	1,011,650	1,472,000	1,545,600
Others	2,788	3,012	2,800	4,505
	14,565,194	14,130,838	19,095,939	19,510,013

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18. DEPOSITS FROM CUSTOMERS (CONT'D)

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(ii) By type of customers				
Government and statutory bodies	114,221	102,305	114,221	102,305
Business enterprises	3,297,951	3,499,952	5,095,881	6,156,050
Individuals	9,422,969	9,041,887	10,609,130	10,259,617
Others	1,730,053	1,486,694	3,276,707	2,992,041
	14,565,194	14,130,838	19,095,939	19,510,013

19. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Licensed banks	1,569,241	223,908	2,539,241	870,248
Licensed finance companies	99,374	188,969	9,877	65,117
Licensed merchant banks	6,281	3,747	450,502	95,660
Central banks	396,469	355,695	761,469	720,695
Other financial institutions	584,308	811,675	805,295	896,956
	2,655,673	1,583,994	4,566,384	2,648,676

20. RECOURSE OBLIGATIONS ON LOANS SOLD TO CAGAMAS

This represents the proceeds received from housing and hire purchase loans (excluding Islamic financing) sold directly to Cagamas Berhad with recourse to the Bank and the finance subsidiary company. Under this agreement, the Bank and the finance subsidiary company undertake to administer the loans on behalf of Cagamas Berhad and to buy-back any loans which are regarded as defective based on prudential criteria set by Cagamas Berhad.

21. OTHER LIABILITIES

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Trade payable	38,643	62,309	180,088	341,478
Interest payable	126,038	103,862	161,265	140,272
Profit equalisation reserve	1,883	1,504	1,948	1,955
Dividend payable	66,063	–	66,063	–
Other payable and accrual	108,744	62,785	206,204	132,943
	341,371	230,460	615,568	616,648

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22. PROVISION FOR TAXATION AND ZAKAT

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Taxation payable	3,907	3,320	4,148	21,141
Zakat payable	–	21	164	116
	3,907	3,341	4,312	21,257

23. SUBORDINATED OBLIGATIONS

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Subordinated certificates of deposits	25,000	41,424	25,000	41,424
RM300 million subordinated bonds	300,000	300,000	300,000	300,000
USD200 million subordinated notes	740,822	743,671	740,822	743,671
USD200 million 6.62% non-cumulative guaranteed preference shares	–	–	747,626	–
USD200 million 6.62% subordinated loans	747,626	–	–	–
	1,813,448	1,085,095	1,813,448	1,085,095

- (i) The subordinated certificates of deposits (CDs) comprise ten-year certificates of deposits which bear interest of 8.50% per annum payable semi-annually in arrears for the first 5 years, after which interest is accrued in the form of preset redemption price.

On the fifth and subsequent anniversary of the issue date, the CDs will, subject to the prior approval of Bank Negara Malaysia, be redeemed at the option of the Bank.

The issue dates and amounts of the CDs are as follows:

Issue date	The Bank and The Group	
	2005 RM'000	2004 RM'000
28/03/1995	–	16,424
08/03/1996	25,000	25,000
	25,000	41,424

The CDs are subordinated to all other liabilities of the Bank and qualify as Tier-2 Capital for the purpose of the Risk Weighted Capital Ratio (RWCR) computation.

NOTES TO THE FINANCIAL STATEMENTS

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23. SUBORDINATED OBLIGATIONS (CONT'D)

- (ii) The RM300 million 10-year non-callable 5-year subordinated bonds (the Bonds) were issued by the Bank on November 29, 2002. The Bonds bear interest at 8.0% per annum payable semi-annually in arrears for the first 5 years from the issue date, after which interest rate will be reset to 10.25% per annum until maturity date. The Bonds qualify as Tier-2 Capital for the purpose of the RWCR computation.

On each anniversary subsequent to 5 years from the issue date, the Bank may redeem the Bonds in full or in part subject to the approval of Bank Negara Malaysia.

- (iii) The USD200 million 10-year subordinated notes (the Notes) were issued by the Bank on June 30, 2004. The Notes were issued at a price of 99.028% of the principal amount and are callable with step-up in 2009. The Notes bear an interest rate of 6.125% per annum payable semi-annually in arrears for the first 5 years, after which interest rate will be reset at a rate per annum equal to the 5-year US Treasury Rate plus 3.925%.

The Bank may at its option, subject to the prior approval of Bank Negara Malaysia, redeem the Notes in whole but not in part, on June 30, 2009 at their principal amount plus accrued interest.

The Notes were listed on the Luxembourg Stock Exchange on June 30, 2004 and qualify as Tier-2 Capital for the purpose of the RWCR computation.

Balance as of December 31 is as follows:

	The Bank and The Group	
	2005	2004
	RM'000	RM'000
Principal	755,860	760,000
Less: Discount and transaction costs	(15,038)	(16,329)
	740,822	743,671

- (iv) The USD200 million 6.62% Non-cumulative Guaranteed Preference Shares were issued on November 2, 2005 by SBB Capital Corporation (SCC), a wholly owned subsidiary company of the Bank incorporated in Labuan. These Preference Shares (SCC Preference Shares) are perpetual securities with no fixed or final redemption date. Dividends, when declared by the board of directors of SCC, are payable in arrears on May 2 and November 2 up to and including November 2, 2015 at a fixed rate of 6.62% per annum. On November 2, 2015 (First Optional Redemption Date) and on each dividend date thereafter, SCC may at its option, subject to the prior approval of Bank Negara Malaysia, redeem the SCC Preference Shares in whole but not in part, at their principal amount plus accrued but unpaid dividends. If the SCC Preference Shares are not called on November 2, 2015, dividends will be reset at a floating rate per annum equal to three-month LIBOR plus 2.53%, payable quarterly on February 2, May 2, August 2 and November 2.

The SCC Preference Shares were admitted to the Official List of the Singapore Exchange Securities Trading Limited and Labuan International Financial Exchange Inc on November 4, 2005 and November 24, 2005 respectively and qualify as Tier-1 Capital for the purpose of the RWCR computation, subject to the limit as prescribed in the "Guidelines on Innovative Tier 1 Capital Instruments" issued by Bank Negara Malaysia on December 24, 2004.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

23. SUBORDINATED OBLIGATIONS (CONT'D)

FRS 132 "Financial Instruments: Disclosure and Presentation" requires the issuer of a financial instrument to classify the instrument, or its component parts, as a liability or as equity in accordance with the substance of the contractual arrangement on initial recognition. As the coupon on SCC Preference Shares will step-up at the end of 10 years to a level that is considered to be sufficiently higher than market rate, the Group is deemed likely to redeem these preference shares at that time. Accordingly, these preference shares are recognised as long-term liabilities and the dividends are recognised in the income statement as interest expense.

Balance as of December 31 is as follows:

	The Group	
	2005 RM'000	2004 RM'000
Principal	755,860	–
Less: Transaction costs	(8,234)	–
	747,626	–

The SCC Preference Shares are guaranteed by the Bank on a subordinated basis. If the SCC Preference Shares have not been redeemed in full on or prior to November 2, 2055, the Bank shall cause the substitution of the SCC Preference Shares with Preference Shares issued by the Bank (Substitute Preference Shares) and the SCC Preference Shares shall be mandatorily exchanged for such Substitute Preference Shares.

- (v) The USD200 million 6.62% subordinated loans of the Bank were obtained from SCC from the net proceeds that SCC raised through the issuance of SCC Preference Shares as mentioned in (iv) above. The loans bear interest at a rate of 6.62% per annum payable semi-annually in arrears on May 2 and November 2 up to and including November 2, 2015. Thereafter, interest will be reset at a floating rate per annum equal to three-month LIBOR plus 2.53%, payable quarterly on February 2, May 2, August 2 and November 2.

The subordinated loans will mature on November 2, 2055.

24. SHARE CAPITAL

	The Bank and The Group	
	2005 RM'000	2004 RM'000
Authorised:		
<i>Ordinary shares of RM1.00 each</i>		
At beginning and end of year	10,000,000	10,000,000
<i>Preference shares of RM0.10 each</i>		
Created 200,000 preference shares during the year	20	–
	10,000,020	10,000,000

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December 31, 2005

24. SHARE CAPITAL (CONT'D)

	The Bank and The Group	
	2005 RM'000	2004 RM'000
Issued and fully paid:		
<i>Ordinary shares of RM1.00 each</i>		
At beginning of year	1,447,682	1,122,852
Special bumiputera issue	–	280,200
Shares issued for the acquisition of the remaining 30% equity interest in SBB Securities Sdn. Bhd.	–	12,660
Shares issued for the acquisition of the entire equity interest in Mohaiyani Sdn. Bhd.	–	22,071
Shares issued by virtue of exercise of warrants	67,927	9,899
At end of year	1,515,609	1,447,682

- (i) During the financial year, the Bank increased its authorised share capital from RM10,000,000,000 comprising 10,000,000,000 ordinary shares of RM1.00 each to RM10,000,020,000 comprising 10,000,000,000 ordinary shares of RM1.00 each and 200,000 preference shares of RM0.10 each. The authorised share capital was increased pursuant to the terms of the issuance of USD200 million 6.62% Non-Cumulative Guarantee Preference Shares as required under the "Guidelines on Innovative Tier 1 Capital Instruments" issued by Bank Negara Malaysia on December 24, 2004 (BNM Guidelines) whereby under certain substitution events, the Bank may be required to issue preference shares as substitution for the SCC Preference Shares [as referred to in Note 23(iv)].
- (ii) Pursuant to a trust deed dated June 13, 1996, the Bank issued RM300 million nominal value of 5.5% redeemable unsecured subordinated bonds 1996-2001 with 53,292,750 detachable warrants at 100% of the nominal value of the bonds to a primary subscriber on a bought deal basis. The detachable warrants were offered for sale by the primary subscriber to the shareholders of the Bank at an offer price of RM0.767 per warrant on the basis of one warrant for every four ordinary shares held in the Bank. The redeemable unsecured subordinated bonds were redeemed by the Bank on April 23, 2001.

The salient features of the warrants are as follows:

- (a) Each warrant carries the right to subscribe for one new ordinary share of RM1.00 each in the Bank at the subscription price of RM5.70, payable in cash at anytime within the subscription period commencing from the first anniversary date of issue of the warrants and expiring on June 17, 2001, being a period of 4 years from the date of issue of the rights to allotment of the warrants.

As approved by the shareholders at the Extraordinary General Meeting and by the warrant holders at the Warrants Holders Meeting on September 23, 1999, the exercise period of the warrants was extended for another five years to expire on June 17, 2006.

- (b) After the expiry of the subscription period, any subscription rights represented by the warrants which have not been exercised and delivered to the Registrar will lapse and every such warrant will cease thereafter to be valid for any purposes.
- (c) The warrants were listed and quoted on Bursa Malaysia Securities Berhad with effect from September 2, 1996.

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24. SHARE CAPITAL (CONT'D)

Consequential to the Bank's bonus and rights issues since the date of issue of the warrants, the number and exercise price of the then unexercised warrants have been adjusted in accordance with the applicable condition 3A(ii) and (iv) of the Second Schedule of the Deed Poll as follows:

Year	Condition for adjustment	Number of warrants		Exercise Price	
		Adjusted from	To	Adjusted from	To
1996	Bonus issue	53,292,750	79,939,125	RM5.70	RM3.80
1997	Bonus and rights issues	79,939,125	139,423,286	RM3.80	RM2.18
2000	Bonus issue	139,321,719	174,152,149	RM2.18	RM1.74

The movements in the number of warrants during the financial year are as follows:

	The Bank	
	2005 RM'000	2004 RM'000
Balance of units at beginning of year	164,222,324	174,122,169
Exercised during the year	(67,926,584)	(9,899,845)
Balance of units at end of year	96,295,740	164,222,324

25. RESERVES

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Share premium	791,682	741,551	791,682	741,551
Statutory reserves	1,012,702	721,254	1,121,875	829,824
Capital reserves	–	–	18,001	18,001
Exchange fluctuation reserves	2,510	4,675	(254)	1,900
Fair valuation reserves	(60,998)	(28,862)	(68,204)	(41,179)
Retained profit	194,435	304,501	46,462	425,677
	1,940,331	1,743,119	1,909,562	1,975,774

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

25. RESERVES (CONT'D)

Movements of statutory, capital, exchange fluctuation and fair valuation reserves during the financial year are as follows:

	Statutory reserves RM'000	Capital reserves RM'000	Exchange fluctuation reserves RM'000	Fair valuation reserves RM'000	Total RM'000
The Bank					
Balance as of January 1, 2004					
As previously reported	576,952	–	1,356	–	578,308
Prior year adjustment	–	–	–	(6,231)	(6,231)
As restated	576,952	–	1,356	(6,231)	572,077
Transfer from income statements	144,302	–	–	–	144,302
Unrealised revaluation loss					
on available-for-sale securities	–	–	–	(20,829)	(20,829)
Fair valuation reserve realised on					
disposal of available-for-sale					
securities	–	–	–	(1,802)	(1,802)
Exchange differences	–	–	3,319	–	3,319
As of December 31, 2004	721,254	–	4,675	(28,862)	697,067
Transfer from income statements	291,448	–	–	–	291,448
Unrealised revaluation loss					
on available-for-sale securities	–	–	–	(31,139)	(31,139)
Fair valuation reserve realised on					
disposal of available-for-sale					
securities	–	–	–	(997)	(997)
Exchange differences	–	–	(2,165)	–	(2,165)
As of December 31, 2005	1,012,702	–	2,510	(60,998)	954,214

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December 31, 2005

25. RESERVES (CONT'D)

	Statutory reserves RM'000	Capital reserves RM'000	Exchange fluctuation reserves RM'000	Fair valuation reserves RM'000	Total RM'000
The Group					
Balance as of January 1, 2004					
As previously reported	683,478	18,001	(1,409)	–	700,070
Prior year adjustment	–	–	–	(8,978)	(8,978)
As restated	683,478	18,001	(1,409)	(8,978)	691,092
Transfer from income statements	146,346	–	–	–	146,346
Unrealised revaluation loss					
on available-for-sale securities	–	–	–	(30,512)	(30,512)
Fair valuation reserve realised on disposal of available-for-sale securities	–	–	–	(1,689)	(1,689)
Exchange differences	–	–	3,309	–	3,309
As of December 31, 2004	829,824	18,001	1,900	(41,179)	808,546
Transfer from income statements	292,051	–	–	–	292,051
Unrealised revaluation loss					
on available-for-sale securities	–	–	–	(26,183)	(26,183)
Fair valuation reserve realised on disposal of available-for-sale securities	–	–	–	(842)	(842)
Exchange differences	–	–	(2,154)	–	(2,154)
As of December 31, 2005	1,121,875	18,001	(254)	(68,204)	1,071,418

Statutory Reserve represents amounts transferred from the income statements in accordance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividends.

Capital Reserve represents post-acquisition profits of subsidiary companies which have been capitalised by way of bonus issues. This reserve is not distributable as cash dividends.

The Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the distribution of its entire retained profit as of December 31, 2005 by way of cash dividend.

26. TREASURY SHARES

On June 27, 2005, the Bank obtained the approval of the shareholders at an Extraordinary General Meeting, to buy back up to 145,000,000 of its own shares (SBB Shares) through Bursa Malaysia.

During the financial year, the Bank bought back 55,323,400 SBB Shares from the open market at an average price of RM3.61 per share. The total consideration paid for the SBB Shares, including transaction costs was RM199,914,697.00. The SBB Shares bought back are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965. The treasury shares have no rights to voting, dividends and participation in other distribution.

None of the treasury shares held were resold or cancelled during the financial year.

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27. INTEREST INCOME

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Loans, advances and financing:				
– Other than recoveries from NPLs	892,398	851,040	1,325,474	1,293,905
– Recoveries from NPLs	72,790	86,879	99,323	124,919
	965,188	937,919	1,424,797	1,418,824
Money at call and deposit placement with financial institutions	74,275	65,067	100,398	96,040
Held-for-trading securities	3,460	3,508	3,554	3,508
Held-to-maturity investments	5,029	5,135	6,597	5,988
Available-for-sale securities	79,635	71,997	72,307	77,777
Securities purchased under resale agreements	7,784	–	15,116	–
Others	1,338	279	1,818	969
	1,136,709	1,083,905	1,624,587	1,603,106
Amortisation of premium less accretion of discount	(11,977)	(8,527)	(12,901)	(7,766)
Interest suspended	(37,844)	(41,179)	(55,376)	(59,622)
	1,086,888	1,034,199	1,556,310	1,535,718

28. INTEREST EXPENSE

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Deposits and placements of banks and other financial institutions	41,947	21,570	76,108	64,642
Deposits from other customers	335,725	331,419	456,021	468,051
Subordinated certificates of deposits	3,803	9,605	3,803	9,605
Subordinated bonds	27,187	27,048	27,187	27,048
Subordinated notes	30,315	8,102	30,315	8,102
Subordinated loans	6,806	–	–	638
Non-cumulative guaranteed preference shares	–	–	6,806	–
Loans sold to Cagamas	30,323	35,208	69,436	64,972
Obligations on securities sold under repurchase agreements	39,202	27,896	40,095	29,551
Others	12,359	6,412	12,923	7,004
	527,667	467,260	722,694	679,613

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

29. OTHER OPERATING INCOME

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Fee income:				
Fees from loans and advances	136,705	120,720	140,774	124,027
Corporate advisory fees	–	–	2,155	6,169
Guarantee fees	7,229	8,572	7,719	8,721
Net brokerage and commission from stockbroking activities	–	–	23,508	25,621
Unit trusts and fund management fee income	4,428	7,546	86,490	145,878
Other fee income	21,574	26,725	23,609	22,026
	169,936	163,563	284,255	332,442
Gain from sale/redemption of securities:				
Held-for-trading	5,124	6,235	11,916	10,781
Held-to-maturity	–	–	–	5,288
Available-for-sale	29,040	16,206	32,430	24,331
	34,164	22,441	44,346	40,400
Dividend income from:				
Held-for-trading securities	–	–	372	1,473
Held-to-maturity investments	1,723	503	1,793	835
Available-for-sale securities	5,220	6,586	6,509	6,645
Subsidiary companies	511,011	138,587	–	–
Associated company	–	140	–	–
	517,954	145,816	8,674	8,953
Gain on transfer of investment in an associated company to a subsidiary	225	–	–	–
Net gain / (loss) on settlement of derivative instruments	52,594	(307)	52,594	(307)
Unrealised loss on revaluation of held-for-trading securities and derivatives	(514)	(1,193)	(2,492)	(894)
Reversal of impairment loss / (Impairment loss) for securities	(313)	–	(4,351)	1,674
Other income:				
Foreign exchange gain / (loss)				
– Realised	14,984	8,821	14,984	8,821
– Unrealised	488	(2,054)	485	(2,023)
Rental income	1,267	1,285	2,025	2,243
Gain on disposal of property, plant and equipment	3,744	1,970	9,936	6,853
Gain on disposal of foreclosed properties	2,400	–	14,910	–
Others	10,438	7,658	23,513	15,723
	33,321	17,680	65,853	31,617
	807,367	348,000	448,879	413,885

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30. OTHER OPERATING EXPENSES

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Personnel expenses				
Salaries, allowances and bonuses	205,306	161,117	283,725	232,070
Others	12,372	15,549	19,903	21,088
	217,678	176,666	303,628	253,158
Promotion and marketing expenses				
Advertisement and publicity	18,364	16,024	19,060	17,450
Handling fees	-	-	32,898	30,296
Others	11,641	8,510	19,204	17,121
	30,005	24,534	71,162	64,867
Establishment related expenses				
Rental of premises	16,732	16,168	21,263	18,693
Depreciation of property, plant and equipment	36,827	30,908	47,900	43,133
EDP expenses	14,790	16,844	19,444	22,116
Hire of equipment	1,075	753	1,089	797
Loss on disposal of property, plant and equipment	16	1	20	101
Property, plant and equipment written off	51	35	441	306
Others	19,707	18,668	28,787	28,109
	89,198	83,377	118,944	113,255
General administrative expenses				
Auditors' fees : audit work	344	335	683	593
Auditors' fees : non-audit work	235	185	292	324
Amortisation of goodwill	-	-	23,650	22,629
Communication expenses	16,832	13,556	24,606	19,239
Printing and stationery	12,903	12,618	18,835	16,461
Loss on disposal of foreclosed properties	-	8	-	8
Others	49,005	39,499	70,165	56,245
	79,319	66,201	138,231	115,499
	416,200	350,778	631,965	546,779

NOTES TO THE FINANCIAL STATEMENTS

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31. ALLOWANCE FOR LOSSES ON LOANS AND FINANCING

	The Bank		The Group	
	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				
– Charged	252,798	252,860	504,273	495,596
– Written back	(39,761)	(34,217)	(123,315)	(114,267)
(b) General allowance				
– Charged	19,596	13,222	22,947	13,633
	232,633	231,865	403,905	394,962
Bad debts on loans and financing:				
– Recovered	(58,756)	(34,934)	(100,850)	(57,189)
– Written off	819	5,073	819	5,073
	(57,937)	(29,861)	(100,031)	(52,116)
Reversal of allowance for value impairment on amount recoverable from Danaharta	–	(707)	–	(707)
Allowance / (Reversal of allowance) for commitments and contingencies	29	(2,716)	29	(2,716)
	29	(3,423)	29	(3,423)
	174,725	198,581	303,903	339,423

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December 31, 2005

32. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) The Bank's significant transactions and balances with its subsidiary companies are as follows:

	2005	2004
	RM'000	RM'000
<u>Income</u>		
Interest on deposits and placements	1,519	757
Interest on advances	404	670
Interest on negotiable instruments of deposits	18,298	6,800
Dividend income	511,011	138,587
Management fees	821	9,444
Commissions, fees and other charges	7,391	6,454
	539,444	162,712
<u>Expenditure</u>		
Interest on deposits and placements	2,014	1,044
Interest on negotiable instruments of deposits	468	501
Management fees	859	1,604
Rental of premises	8,955	8,879
Others	3,874	3,081
	16,170	15,109
<u>Amount due from subsidiary companies</u>		
Loans and advances	5,180	6,321
Deposits and placements	321,040	100,050
Negotiable instruments of deposits	120,662	650,000
Lease and tenancy deposits	9,258	9,379
Interest receivable	480	2,805
Others	364,412	164,803
	821,032	933,358
<u>Amount due to subsidiary companies</u>		
Deposits and placements	146,137	272,221
Interest payable	85	270
	146,222	272,491

(b) During the financial year, the Bank incurred Smart Card Loyalty management fee of RM600,168 (2004: RM613,370) payable to Cassis Sdn Bhd, a company in which a director of the Bank is a shareholder.

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33. DIRECTORS' REMUNERATION

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<u>Directors of the Bank:</u>				
Executive directors and CEO				
– Salaries and other remuneration, including meeting allowances	14,264	1,726	14,264	1,726
– Bonuses	4,756	2,509	4,756	2,509
– Benefits-in-kind	185	147	185	147
Non-executive directors				
– Fees	938	625	1,088	792
– Other remuneration	896	647	1,025	703
– Benefits-in-kind	19	24	19	24
	21,058	5,678	21,337	5,901
<u>Directors of the subsidiary companies:</u>				
Executive directors				
– Salaries and other remuneration	–	–	1,860	1,374
– Bonuses	–	–	1,443	118
– Benefits-in-kind	–	–	97	43
Non-executive directors				
– Fees	–	–	364	286
– Other remuneration	–	–	175	160
– Benefits-in-kind	–	–	–	26
	–	–	3,939	2,007
Total	21,058	5,678	25,276	7,908

The remuneration attributable to the Chief Executive Director of the Bank and a resident director of a foreign branch, including benefits-in-kind, during the year amounted to RM5,100,058 and RM616,876 (2004: RM3,549,151 and RM636,509) respectively.

The number of directors of the Bank whose remuneration fall into the following bands are as follows :

Range of Remuneration	Executive Directors	Non-Executive Directors
RM100,001 – RM150,000	–	1
RM200,001 – RM250,000	–	2
RM300,001 – RM350,000	–	4
RM600,001 – RM650,000	1	–
RM5,100,001 – RM5,150,000	1	–
RM13,450,001 – RM13,500,000	1	–
Total	3	7

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34. TAXATION AND ZAKAT

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Current tax expense:				
– Malaysian tax	220,600	99,300	123,465	120,434
– Overseas tax	2,328	2,027	2,333	2,027
	222,928	101,327	125,798	122,461
Deferred taxation (Note 16)	(7,144)	4,838	(2,241)	6,775
Under / (over) provision in respect of prior years	391	–	(15)	961
Share of tax of an associated company	–	–	56	59
	216,175	106,165	123,598	130,256
Zakat	55	10	185	69
	216,230	106,175	123,783	130,325

Income tax is calculated at the Malaysia and Singapore tax rates of 28% and 20% respectively.

Reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate is as follows:

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Profit before taxation	799,126	392,166	438,785	483,575
Taxation at Malaysian statutory tax rate of 28% (2004: 28%)	223,755	109,806	122,860	135,401
Effect of different tax rate for small and medium scale companies and in other jurisdiction	(727)	(661)	(895)	(749)
Effect of reduction in tax rate in other tax jurisdiction	–	164	–	164
Effect of non taxable income	(8,048)	(7,368)	(18,959)	(20,173)
Effect of non deductible expenses	1,899	4,341	12,738	14,327
Underprovision in respect of prior years	391	–	(15)	961
Others	(1,095)	(117)	7,869	325
	216,175	106,165	123,598	130,256

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

35. EARNINGS PER SHARE (EPS)

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Basic:				
Net profit for the year after taxation, zakat and minority interest (RM'000)	582,896	285,991	314,350	347,160
Weighted average number of shares in issue ('000)	1,454,855	1,263,291	1,454,855	1,263,291
Basic earnings per share (sen)	40.1	22.6	21.6	27.5
Fully diluted:				
Net profit for the year after taxation, zakat and minority interest (RM'000)	582,896	285,991	314,350	347,160
Weighted average number of shares in issue ('000)	1,454,855	1,263,291	1,454,855	1,263,291
Shares issuable by virtue of exercise of warrants at end of year ('000)	96,296	164,222	96,296	164,222
Shares issuable by virtue of exercise of warrants at end of year if exercised at fair value ('000)	(46,934)	(94,306)	(46,934)	(94,306)
Adjusted weighted average number of shares in issue ('000)	1,504,217	1,333,207	1,504,217	1,333,207
Fully diluted earnings per share (sen)	38.8	21.5	20.9	26.0

The basic earnings per share is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue, excluding the weighted average number of treasury shares held by the Bank.

The diluted earnings per share is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue adjusted for shares issuable by virtue of the exercise of warrants.

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36. DIVIDENDS PAID / DECLARED

	The Bank and The Group		Net Dividend Per Share	
	2005 RM'000	2004 RM'000	2005 sen	2004 sen
<i>In respect of financial year ended December 31, 2003</i>				
Special interim dividend of 15% less 28% tax	–	121,268	–	10.80
Final dividend of 6% less 28% tax	–	48,507	–	4.32
<i>In respect of financial year ended December 31, 2004</i>				
First interim dividend of 6% less 28% tax	–	62,138	–	4.32
Special interim dividend of 10% less 28% tax	104,233	–	7.20	–
Final dividend of 7% less 28% tax	72,963	–	5.04	–
<i>In respect of financial year ended December 31, 2005</i>				
First interim dividend of 10% less 28% tax	105,678	–	7.20	–
Second interim dividend of 5% less 28% tax	52,577	–	3.60	–
Special interim dividend of:				
– 3.3% tax exempt	48,189	–	3.30	–
– 1.7% less 28% tax	17,874	–	1.22	–
	401,514	231,913	27.56	19.44

The directors declared a special interim dividend of 5% (gross), comprising 3.3% tax exempt dividend and 1.7% non-tax exempt dividend less 28% tax amounting to RM66,063,323 in respect of the current financial year based on the issued and fully paid-up capital of 1,460,285,649 ordinary shares of RM1.00 each.

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37. COMMITMENTS AND CONTINGENCIES (UNSECURED)

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

Risk-weighted exposure as of December 31 is as follows:

	← 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
The Bank						
Direct credit substitutes	368,345	368,345	334,064	384,546	384,546	346,699
Transaction-related contingent items	338,662	169,331	163,362	324,480	162,240	155,604
Short term self-liquidating trade-related contingencies	81,004	16,201	16,168	104,742	20,948	20,887
Obligations under underwriting agreements	36,000	18,000	18,000	36,000	18,000	18,000
Irrevocable commitments to extend credit:						
– maturity not exceeding one year	7,855,136	–	–	7,256,676	–	–
– maturity exceeding one year	1,456,276	728,138	482,304	1,134,759	567,380	388,410
Foreign exchange related contracts						
– less than one year	2,274,065	–	–	956,362	–	–
– one year to less than five years	–	–	–	–	–	–
– five years and above	755,860	83,145	16,629	–	–	–
Interest rate related contracts						
– less than one year	66,000	–	–	92,000	–	–
– one year to less than five years	990,860	22,676	4,535	851,000	30,400	6,080
Miscellaneous commitments and contingencies	197,174	–	–	161,807	–	–
	14,419,382	1,405,836	1,035,062	11,302,372	1,183,514	935,680

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

37. COMMITMENTS AND CONTINGENCIES (UNSECURED) (CONT'D)

	← 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
The Group						
Direct credit substitutes	368,345	368,345	334,064	384,546	384,546	346,699
Transaction-related contingent items	358,302	179,151	173,182	349,822	174,911	168,275
Short term self-liquidating trade-related contingencies	81,004	16,201	16,168	104,742	20,948	20,887
Islamic financing sold directly and indirectly to Cagamas with recourse	518,506	518,506	518,506	232,014	232,014	232,014
Obligations under underwriting agreements	40,200	20,100	20,100	44,550	22,275	22,275
Irrevocable commitments to extend credit:						
– maturity not exceeding one year	7,872,860	–	–	7,289,921	–	–
– maturity exceeding one year	1,573,148	786,574	533,775	1,260,493	630,247	441,710
Foreign exchange related contracts						
– less than one year	2,274,065	–	–	956,362	–	–
– one year to less than five years	–	–	–	–	–	–
– five years and above	755,860	83,145	16,629	–	–	–
Interest rate related contracts						
– less than one year	66,000	–	–	92,000	–	–
– one year to less than five years	990,860	22,676	4,535	851,000	30,400	6,080
Miscellaneous commitments and contingencies	197,174	–	–	161,807	–	–
	15,096,324	1,994,698	1,616,959	11,727,257	1,495,341	1,237,940

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

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

Principal amounts of the foreign exchange and interest rate related contracts are as follows:

	The Bank and The Group	
	2005 RM'000	2004 RM'000
Foreign exchange related contracts		
– Forwards	452,182	302,308
– Swaps	2,577,743	654,054
Interest rate related contracts		
– Futures	301,000	183,000
– Swaps	755,860	760,000
	4,086,785	1,899,362

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37. COMMITMENTS AND CONTINGENCIES (UNSECURED) (CONT'D)

Market Risk

Market risk is the potential change in value caused by movements 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 off-setting on and off-balance sheet positions. As of December 31, 2005, the amount of contracts of the Bank and of the Group which were not hedged and hence, exposed to market risk was RM107.3 million (2004 : RM38.4 million).

Credit Risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Bank or the Group has a gain position. As of December 31, 2005, the amount of credit risk of the Bank and the Group, measured in terms of the cost to replace the profitable contracts, was RM261.4 million (2004 : RM111.0 million). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

38. LEASE COMMITMENTS (UNSECURED)

- (i) Non-cancellable long term operating lease commitments of the Bank and of the Group in respect of rental of premises and equipment are as follows:

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Expiry of operating lease:				
Within one year	14,058	14,491	14,762	15,937
Between one to two years	9,351	10,311	8,779	13,294
Between two to five years	4,449	5,730	3,850	4,505
After five years	–	–	–	26

- (ii) There were no material sublease payments recognised as income during the year or expected to be received in future under non-cancellable subleases. There were no significant leasing arrangements other than normal leasing arrangements and determination on rent payments.

39. CAPITAL COMMITMENTS (UNSECURED)

Capital expenditure approved by the directors but not provided for in the financial statements are as follows:

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Contracted for	19,791	7,001	24,557	11,775
Authorised but not contracted for	–	–	500	2,499

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40. CAPITAL ADEQUACY

The capital adequacy ratios of the Bank and of the Group are as follows:

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Tier-1 capital				
Paid-up share capital	1,515,609	1,447,682	1,515,609	1,447,682
Share premium	791,682	741,551	791,682	741,551
Innovative Tier-1 capital	438,249	–	438,249	–
Treasury shares	(199,915)	–	(199,915)	–
Other reserves	1,209,647	1,030,430	1,186,084	1,275,402
Minority interest	–	–	18,289	17,161
	3,755,272	3,219,663	3,749,998	3,481,796
Less: Goodwill on consolidation	–	–	(468,455)	(488,182)
Deferred asset	–	–	(261,527)	(254,951)
Deferred tax assets	(48,149)	(48,735)	(98,358)	(103,792)
Total Tier-1 capital	3,707,123	3,170,928	2,921,658	2,634,871
Tier-2 capital				
Subordinated debt capital	1,055,860	1,065,000	1,055,860	1,065,000
Approved hybrid debt capital securities issued	309,377	–	309,377	–
General allowance for bad and doubtful debts and financing	249,095	229,665	354,521	331,740
Total Tier-2 capital	1,614,332	1,294,665	1,719,758	1,396,740
Total capital	5,321,455	4,465,593	4,641,416	4,031,611
Less: Investment in subsidiary companies	(1,235,503)	(1,257,024)	–	–
Capital base	4,085,952	3,208,569	4,641,416	4,031,611

Capital Ratios:

Before deducting proposed dividends for the
respective financial years

Core capital ratio	18.96%	17.18%	10.69%	10.06%
Risk-weighted capital ratio	20.90%	17.38%	16.99%	15.39%

After deducting proposed dividends for the
respective financial years

Core capital ratio	18.96%	16.22%	10.69%	9.38%
Risk-weighted capital ratio	20.90%	16.42%	16.99%	14.72%

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40. CAPITAL ADEQUACY (CONT'D)

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

	← The Bank →				← The Group →			
	2005		2004		2005		2004	
Credit risk:	Principal RM'000	Risk weighted RM'000	Principal RM'000	Risk weighted RM'000	Principal RM'000	Risk weighted RM'000	Principal RM'000	Risk weighted RM'000
0%	3,018,829	–	2,687,218	–	4,536,243	–	4,062,696	–
10%	131,071	13,107	132,335	13,234	201,387	20,139	243,182	24,318
20%	3,340,426	668,085	3,148,876	629,775	3,691,112	738,222	3,077,013	615,403
50%	4,128,912	2,064,456	3,850,915	1,925,458	4,575,947	2,287,974	4,436,771	2,218,386
100%	14,086,839	14,086,839	13,047,697	13,047,697	21,499,412	21,499,412	20,374,515	20,374,515
	24,706,077	16,832,487	22,867,041	15,616,164	34,504,101	24,545,747	32,194,177	23,232,622
Market risk		2,713,834		2,838,676		2,772,348		2,950,475
		19,546,321		18,454,840		27,318,095		26,183,097

41. SEGMENTAL ANALYSIS

The analysis of the Group's operations by business segments for the year ended December 31, 2005 are as follows:

	Banking RM'000	Finance RM'000	Merchant Banking RM'000	Others RM'000	Associated Company RM'000	Eliminations RM'000	Group RM'000
2005							
External revenue	1,405,335	573,754	37,806	128,588	–	–	2,145,483
Inter-segment revenue	534,132	1,964	1,483	130,951	–	(668,530)	–
Segment revenue	1,939,467	575,718	39,289	259,539	–	(668,530)	2,145,483
Finance and operating costs	(965,616)	(349,937)	(27,058)	(76,760)	–	16,340	(1,403,031)
Operating profit	973,851	225,781	12,231	182,779	–	(652,190)	742,452
Allowance for losses on loans and financing	(174,725)	(116,319)	(12,909)	50	–	–	(303,903)
Share of results of an associated company	–	–	–	–	236	–	236
Segment result before taxation and zakat	799,126	109,462	(678)	182,829	236	(652,190)	438,785
Taxation and zakat	(216,230)	(28,808)	3,698	(57,199)	(56)	174,812	(123,783)
Segment result after taxation and zakat	582,896	80,654	3,020	125,630	180	(477,378)	315,002
Segment assets	25,089,807	7,793,956	786,460	765,181	–	(1,735,166)	32,700,238
Segment liabilities	21,833,782	7,323,711	698,176	174,682	–	(573,658)	29,456,693
Capital expenditure	25,647	1,707	14	2,579	–	–	29,947
Depreciation	36,827	4,087	1,016	5,970	–	–	47,900

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December 31, 2005

41. SEGMENTAL ANALYSIS (CONT'D)

	Banking RM'000	Finance RM'000	Merchant Banking RM'000	Others RM'000	Associated Company RM'000	Eliminations RM'000	Group RM'000
2004							
External revenue	1,265,606	602,030	43,230	194,486	–	–	2,105,352
Inter-segment revenue	163,292	2,224	35	76,925	–	(242,476)	–
Segment revenue	1,428,898	604,254	43,265	271,411	–	(242,476)	2,105,352
Finance and operating costs	(838,151)	(354,069)	(29,527)	(72,954)	–	12,170	(1,282,531)
Operating profit	590,747	250,185	13,738	198,457	–	(230,306)	822,821
Allowance for losses on loans and financing	(198,581)	(139,155)	(378)	(1,309)	–	–	(339,423)
Share of results of an associated company	–	–	–	–	177	–	177
Segment result before taxation and zakat	392,166	111,030	13,360	197,148	177	(230,306)	483,575
Taxation and zakat	(106,175)	(16,055)	(3,577)	(53,608)	(59)	49,149	(130,325)
Segment result after taxation and zakat	285,991	94,975	9,783	143,540	118	(181,157)	353,250
Segment assets	23,476,745	7,722,695	595,490	974,069	471	(1,664,609)	31,104,861
Segment liabilities	20,286,294	7,052,633	509,794	330,401	–	(514,878)	27,664,244
Capital expenditure	47,100	6,288	349	3,940	–	–	57,677
Depreciation	30,908	4,941	1,049	6,235	–	–	43,133

The financial information by geographical segment is not presented as the Group's activities are principally conducted in Malaysia except for the operation of the Bank's Singapore branch and Southern Nominees (S) Sdn Bhd, activities of which are principally conducted in Singapore and are not significant in relation to the Group's activities.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING

The state of affairs as of December 31, 2005 and the results for the year ended on that date under the Operations of Islamic Banking of the Bank and of the Group which are incorporated in the financial statements of the Bank and of the Group are as follows:

BALANCE SHEETS AS OF DECEMBER 31, 2005 (29 ZULKAEDAH 1426H)

	Note	The Bank		The Group	
		2005 RM'000	2004 RM'000 Restated	2005 RM'000	2004 RM'000 Restated
ASSETS					
Cash and short term funds	(a)	883	125,499	11,368	127,955
Deposits and placements with banks and other financial institutions	(b)	–	10,009	–	10,009
Held-to-maturity investments	(c)	45,506	174,134	224,291	381,776
Available-for-sale securities	(d)	114,957	115,152	114,957	115,152
Financing, advances and other loans	(e)	483,600	601,768	1,445,925	1,422,353
Other assets	(g)	142,178	84	144,862	3,882
Statutory deposits with Bank Negara Malaysia		28,498	21,631	75,946	62,204
Property, plant and equipment	(h)	149	207	180	242
Deferred tax assets	(i)	947	2,040	10,764	11,683
TOTAL ASSETS		816,718	1,050,524	2,028,293	2,135,256
LIABILITIES					
Deposits from customers	(j)	462,093	721,855	1,144,879	1,323,742
Deposits and placements of banks and other financial institutions	(k)	285,482	247,401	666,052	561,741
Provision for taxation and zakat	(l)	198	5,010	505	5,105
Other liabilities	(m)	7,924	10,406	74,553	37,043
TOTAL LIABILITIES		755,697	984,672	1,885,989	1,927,631
ISLAMIC BANKING CAPITAL FUNDS					
Islamic banking funds		40,000	40,000	100,000	100,000
Reserves		21,021	25,852	42,304	107,625
		61,021	65,852	142,304	207,625
TOTAL LIABILITIES AND ISLAMIC BANKING CAPITAL FUNDS		816,718	1,050,524	2,028,293	2,135,256
COMMITMENTS AND CONTINGENCIES (UNSECURED)					
	(u)	345,267	196,754	867,282	433,181

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

INCOME STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005 (29 ZULKAEDAH 1426H)

	Note	The Bank		The Group	
		2005 RM'000	2004 RM'000 Restated	2005 RM'000	2004 RM'000 Restated
Income derived from investment of depositors' funds and others	(o)	42,047	42,963	118,744	129,504
Allowances for losses on financing, advances and other loans	(p)	(8,933)	(3,419)	(30,625)	(29,814)
Transfer (to) / from profit equalisation reserve		(379)	(524)	7	(975)
Other expenses directly attributable to the investment of the depositors and Islamic banking capital funds		(504)	(2,644)	(13,146)	(13,776)
Total attributable income		32,231	36,376	74,980	84,939
Income attributable to depositors	(q)	(21,370)	(19,589)	(48,379)	(55,164)
Income attributable to the Bank / Group		10,861	16,787	26,601	29,775
Income derived from investment of Islamic banking capital funds	(r)	3,165	3,736	21,550	26,245
Other operating expenses	(s)	(6,660)	(5,175)	(20,313)	(11,165)
Profit before taxation and zakat		7,366	15,348	27,838	44,855
Taxation and zakat	(t)	(1,863)	(4,266)	(7,864)	(12,359)
Net profit for the year		5,503	11,082	19,974	32,496

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2005 (29 ZULKAEDAH 1426H)

	Funds allocated from Head Office RM'000	Statutory reserves RM'000	Fair valuation reserve RM'000	Retained profit RM'000	Total RM'000
The Bank					
2005					
Balance at beginning of year					
As previously reported	40,000	10,116	–	13,994	64,110
Prior year adjustments	–	–	1,554	188	1,742
As restated	40,000	10,116	1,554	14,182	65,852
Net profit for the year	–	–	–	5,503	5,503
Unrealised revaluation loss on available-for-sale securities	–	–	(1,329)	–	(1,329)
Transfer to statutory reserves	–	2,752	–	(2,752)	–
Dividends paid and payable	–	–	–	(9,005)	(9,005)
Balance at end of year	40,000	12,868	225	7,928	61,021
2004					
Balance at beginning of year					
As previously reported	40,000	4,685	–	16,595	61,280
Prior year adjustments	–	–	384	(32)	352
As restated	40,000	4,685	384	16,563	61,632
Net profit for the year	–	–	–	11,082	11,082
Unrealised revaluation gain on available-for-sale securities	–	–	1,170	–	1,170
Transfer to statutory reserves	–	5,431	–	(5,431)	–
Dividend paid	–	–	–	(8,032)	(8,032)
Balance at end of year	40,000	10,116	1,554	14,182	65,852

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

STATEMENTS OF CHANGES IN EQUITY (Cont'd)
FOR THE YEAR ENDED DECEMBER 31, 2005 (29 ZULKAEDAH 1426H)

	Funds allocated from Head Office RM'000	Statutory reserves RM'000	Fair valuation reserve RM'000	Retained profit RM'000	Total RM'000
The Group					
2005					
Balance at beginning of year					
As previously reported	100,000	31,399	–	72,997	204,396
Prior year adjustments	–	–	1,554	1,675	3,229
As restated	100,000	31,399	1,554	74,672	207,625
Net profit for the year	–	–	–	19,974	19,974
Unrealised revaluation loss on available-for-sale securities	–	–	(1,329)	–	(1,329)
Transfer to statutory reserves	–	2,752	–	(2,752)	–
Dividends paid and payable	–	–	–	(83,966)	(83,966)
Balance at end of year	100,000	34,151	225	7,928	142,304
2004					
Balance at beginning of year					
As previously reported	100,000	25,968	–	55,001	180,969
Prior year adjustments	–	–	384	638	1,022
As restated	100,000	25,968	384	55,639	181,991
Net profit for the year	–	–	–	32,496	32,496
Unrealised revaluation gain on available-for-sale securities	–	–	1,170	–	1,170
Transfer to statutory reserves	–	5,431	–	(5,431)	–
Dividends paid	–	–	–	(8,032)	(8,032)
Balance at end of year	100,000	31,399	1,554	74,672	207,625

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

CASH FLOW STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005 (29 ZULKAEDAH 1426H)

	The Bank		The Group	
	2005 RM'000	2004 RM'000 Restated	2005 RM'000	2004 RM'000 Restated
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation and zakat	7,366	15,348	27,838	44,855
Adjustments for:				
Finance income and hibah from held-to-maturity (HTM) and available-for-sale (AFS) securities	(4,067)	(6,014)	(11,977)	(17,922)
Accretion of discount less amortisation of premium	(2,104)	(1,255)	(4,735)	(5,234)
Net profit from sale of AFS securities	–	(1,873)	–	(1,873)
Allowances for losses on financing, advances and other loans	8,933	3,419	33,260	31,612
Transfer to / (from) profit equalisation reserve	379	524	(7)	975
Depreciation of property, plant and equipment	67	66	71	92
Operating profit before working capital changes	10,574	10,215	44,450	52,505
(Increase) / Decrease in operating assets:				
Deposits and placements with banks and other financial institutions	10,009	(10,009)	10,009	(10,009)
Financing, advances and other loans	109,235	(40,979)	(56,483)	68,029
Other assets	(142,235)	26	(141,118)	(1,042)
Statutory deposits with Bank Negara Malaysia	(6,867)	(1,895)	(13,742)	11,870
Increase / (Decrease) in operating liabilities:				
Deposits from customers	(259,762)	349,304	(178,863)	(120,911)
Deposits and placements of banks and other financial institutions	38,081	(92,239)	104,311	64,101
Other liabilities	(4,002)	(64,784)	36,026	(70,705)
Cash (used in) / generated from operations	(244,967)	149,639	(195,410)	(6,162)
Income tax and zakat paid	(5,064)	(3,621)	(11,027)	(12,742)
Net cash (used in) / generated from operating activities	(250,031)	146,018	(206,437)	(18,904)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

**CASH FLOW STATEMENTS (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2005 (29 ZULKAEDAH 1426H)**

	The Bank		The Group	
	2005 RM'000	2004 RM'000 Restated	2005 RM'000	2004 RM'000 Restated
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of HTM and AFS securities	–	(410,357)	–	(804,826)
Proceeds from sale / redemption of HTM and AFS securities	129,654	325,723	161,140	867,403
Finance income and hibah received from HTM and AFS securities	4,151	6,015	12,061	10,177
Purchase of property, plant and equipment	(9)	(12)	(9)	(12)
Net cash generated from / (used in) investing activities	133,796	(78,631)	173,192	72,742
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid	(8,381)	(8,032)	(83,342)	(8,032)
Net cash used in financing activities	(8,381)	(8,032)	(83,342)	(8,032)
Net (decrease) / increase in cash and cash equivalents	(124,616)	59,355	(116,587)	45,806
Cash and cash equivalents at beginning of year	125,499	66,144	127,955	82,149
Cash and cash equivalents at end of year	883	125,499	11,368	127,955
ANALYSIS OF CASH AND CASH EQUIVALENTS				
Cash and short term funds [Note (a)]	883	125,499	11,368	127,955

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

NOTES TO THE FINANCIAL STATEMENTS

(a) Cash And Short Term Funds

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cash and balances with banks and other financial institutions	883	4,730	11,368	27,186
Money at call and deposit placements maturing within one month	–	120,769	–	100,769
	883	125,499	11,368	127,955

(b) Deposits And Placements With Banks And Other Financial Institutions

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Licensed banks	–	10,009	–	10,009

(c) Held-to-Maturity Investments

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At amortised cost:				
Government investment certificates	–	29,398	80,445	107,623
Khazanah bonds	35,232	34,199	35,232	34,199
KLIA bonds	–	–	98,052	99,419
Islamic accepted bills	–	100,639	–	100,639
Negotiable instruments of deposits	9,986	9,610	9,986	39,320
	45,218	173,846	223,715	381,200
At cost:				
Unquoted equity instruments	288	288	576	576
	45,506	174,134	224,291	381,776

(d) Available-for-Sale Securities

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At fair value:				
Government investment certificates	12,969	8,408	12,969	8,408
Khazanah bonds	68,086	58,187	68,086	58,187
Sanadat mudharabah Cagamas bonds	10,204	10,254	10,204	10,254
Negotiable instruments of deposits	23,698	38,303	23,698	38,303
	114,957	115,152	114,957	115,152

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(e) Financing, Advances And Other Loans

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(i) By Type of financing, advances and other loans				
Cash line	64,219	30,048	64,219	30,048
Term financing	694,118	692,232	2,683,648	2,103,848
House financing	605,786	584,254	670,327	659,785
Hire purchase receivables	-	-	1,837,124	1,237,642
Lease receivables	-	11,246	-	11,246
Other term financing	88,332	96,732	176,197	195,175
Bills receivable	2,561	900	2,561	900
Trust receipts	3,851	1,955	3,851	1,955
Claims on customers under acceptance credits	23,135	128,953	23,135	128,953
Staff financing	34	23	34	23
To Directors	-	-	-	-
To staff other than Directors	34	23	34	23
Revolving credits	41,718	58,587	41,718	58,587
Less: Unearned income	(321,639)	(295,466)	(765,897)	(596,265)
	507,997	617,232	2,053,269	1,728,049
Less: Financing sold to Cagamas	-	-	(518,506)	(232,014)
Gross financing, advances and other loans	507,997	617,232	1,534,763	1,496,035
Less: Allowance for bad and doubtful debts and financing				
General	(7,366)	(9,164)	(31,679)	(32,853)
Specific	(17,031)	(6,300)	(57,159)	(40,829)
Net financing, advances and other loans	483,600	601,768	1,445,925	1,422,353
(ii) By contract				
Al-Bai' Bithaman Ajil	476,153	471,643	555,276	562,786
Al-Murabahah	6,209	4,630	6,209	4,630
Al-Ijarah/Al-Ijarah Thumma Al-Bai'	-	11,246	1,466,149	1,030,920
Other principles	25,635	129,713	25,635	129,713
	507,997	617,232	2,053,269	1,728,049
Less: Financing sold to Cagamas	-	-	(518,506)	(232,014)
	507,997	617,232	1,534,763	1,496,035

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(e) Financing, Advances And Other Loans (Cont'd)

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(iii) By type of customers				
Other domestic non-bank financial institutions	–	–	5,912	10,612
Domestic business enterprises				
– Small medium enterprises	133,599	102,627	183,994	316,263
– Others	32,105	171,274	35,364	28,963
Individuals	342,293	343,331	1,825,925	1,370,972
Other domestic entities	–	–	–	8
Foreign entities	–	–	2,074	1,231
	507,997	617,232	2,053,269	1,728,049
Less: Financing sold to Cagamas	–	–	(518,506)	(232,014)
	507,997	617,232	1,534,763	1,496,035
(iv) By profit rate sensitivity				
Fixed rate				
House financing	303,231	309,941	303,602	310,310
Hire purchase receivables	–	–	1,465,928	1,020,204
Other financing	204,766	307,291	254,396	337,902
Variable rate				
Other financing	–	–	29,343	59,633
	507,997	617,232	2,053,269	1,728,049
Less: Financing sold to Cagamas	–	–	(518,506)	(232,014)
	507,997	617,232	1,534,763	1,496,035
(v) By sector				
Agriculture, hunting, forestry and fishing	8,643	28,497	9,274	28,883
Mining and quarrying	–	–	118	56
Manufacturing	16,095	8,477	22,677	14,146
Electricity, gas and water	–	100,175	326	100,559
Construction	11,970	13,369	22,173	20,916
Real estate	11,232	9,005	11,685	26,243
Purchase of landed property	335,619	330,800	409,581	402,369
– Residential	303,124	307,250	344,177	353,410
– Non-residential	32,495	23,550	65,404	48,959
Wholesale & retail trade and restaurants & hotels	33,333	33,113	50,506	50,311
Transport, storage and communication	707	11,763	4,855	15,592
Finance, insurance and business services	2,129	1,555	4,628	3,162
Purchase of securities	62,863	59,666	62,943	59,752
Purchase of transport vehicles	–	–	1,421,947	980,147
Consumption credits	22,946	17,955	23,678	18,876
Others	2,460	2,857	8,878	7,037
	507,997	617,232	2,053,269	1,728,049
Less: Financing sold to Cagamas	–	–	(518,506)	(232,014)
	507,997	617,232	1,534,763	1,496,035

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(f) Non-Performing Financing, Advances And Other Loans (NPF)

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(i) Movements in NPF				
At beginning of year	64,155	62,291	146,720	152,532
Classified as non-performing during the year	83,309	117,172	140,878	168,689
Reclassified as performing during the year	(33,568)	(105,628)	(47,450)	(125,261)
Amount recovered	(8,992)	(9,680)	(33,212)	(25,666)
Amount written off	-	-	(17,928)	(23,574)
At end of year	104,904	64,155	189,008	146,720
Less: Specific allowance	(17,031)	(6,300)	(57,159)	(40,829)
Net non-performing financing, advances and other loans	87,873	57,855	131,849	105,891
Ratio of net non-performing financing, advances and other loans to total net financing, advances and other loans	17.9%	9.5%	6.6%	6.3%
(ii) Movements in allowance for bad and doubtful debts and financing				
<u>General Allowance</u>				
At beginning of year	9,164	8,592	32,853	34,050
Allowance made/(written back)	(1,798)	572	(1,174)	(1,197)
At end of year	7,366	9,164	31,679	32,853
As % of total financing less specific allowances	1.5%	1.5%	1.6%	1.9%
<u>Specific Allowance</u>				
At beginning of year	6,300	3,453	40,829	33,111
Allowance made	14,371	3,476	51,990	46,721
Amount recovered	(3,640)	(629)	(17,556)	(13,912)
Amount written off	-	-	(18,104)	(25,091)
At end of year	17,031	6,300	57,159	40,829

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(f) Non-Performing Financing, Advances And Other Loans (NPF)

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(iii) Gross NPF by sector				
Agriculture, hunting, forestry and fishing	–	–	14	7
Manufacturing	4,875	3,380	5,073	3,597
Electricity, gas and water	–	–	–	17
Construction	6,418	5,078	6,843	6,498
Real estate	–	–	17,011	17,059
Purchase of landed property	48,702	48,086	72,152	76,803
– Residential	45,802	45,811	60,727	61,526
– Non-residential	2,900	2,275	11,425	15,277
Wholesale & retail trade and restaurants & hotels	964	259	1,888	1,195
Transport, storage and communication	308	306	786	1,028
Finance, insurance and business services	–	–	–	6
Purchase of securities	33,117	–	33,228	67
Purchase of transport vehicles	–	–	41,318	33,108
Consumption credits	10,470	6,971	10,623	7,249
Others	50	75	72	86
	104,904	64,155	189,008	146,720

(g) Other Assets

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Profit receivable	–	84	2,611	2,695
Amount due from Head Office	142,171	–	142,171	1,154
Other debtors and receivable	7	–	80	33
	142,178	84	144,862	3,882

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(h) Property, Plant And Equipment

	Office equipment, furniture, fittings and renovations RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
The Bank				
Cost				
At beginning of year	330	1,099	567	1,996
Additions	3	6	–	9
Disposal	–	–	(293)	(293)
Write-offs	–	(22)	–	(22)
At end of year	333	1,083	274	1,690
Accumulated Depreciation				
At beginning of year	200	1,022	567	1,789
Additions	36	31	–	67
Disposal	–	–	(293)	(293)
Write-offs	–	(22)	–	(22)
At end of year	236	1,031	274	1,541
Net Book Value				
As of December 31, 2005	97	52	–	149
As of December 31, 2004	130	77	–	207
Depreciation charge for 2004	36	30	–	66
The Group				
Cost				
At beginning of year	439	1,099	567	2,105
Additions	3	6	–	9
Disposal	–	–	(293)	(293)
Write-offs	–	(22)	–	(22)
At end of year	442	1,083	274	1,799
Accumulated Depreciation				
At beginning of year	274	1,022	567	1,863
Additions	40	31	–	71
Disposal	–	–	(293)	(293)
Write-offs	–	(22)	–	(22)
At end of year	314	1,031	274	1,619
Net Book Value				
As of December 31, 2005	128	52	–	180
As of December 31, 2004	165	77	–	242
Depreciation charge for 2004	62	30	–	92

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(i) Deferred Tax Assets

The components and movements of deferred tax assets during the financial year are as follows:

	Allowance for loan loss RM'000	Accretion of discount RM'000	Other temporary differences RM'000	Total RM'000
The Bank				
2005				
Balance at beginning of year				
As previously reported	2,566	(68)	147	2,645
Prior year adjustment	–	–	(605)	(605)
As restated	2,566	(68)	(458)	2,040
Recognised in income statements (Note t)	(504)	(1,487)	380	(1,611)
Recognised in fair valuation reserve	–	–	518	518
At end of year	2,062	(1,555)	440	947
2004				
Balance at beginning of year				
As previously reported	2,406	(494)	–	1,912
Prior year adjustment	–	–	(150)	(150)
As restated	2,406	(494)	(150)	1,762
Recognised in income statements (Note t)	160	426	147	733
Recognised in fair valuation reserve	–	–	(455)	(455)
At end of year	2,566	(68)	(458)	2,040
The Group				
2005				
Balance at beginning of year				
As previously reported	9,199	(68)	3,157	12,288
Prior year adjustment	–	–	(605)	(605)
As restated	9,199	(68)	2,552	11,683
Recognised in income statements (Note t)	(329)	(1,487)	379	(1,437)
Recognised in fair valuation reserve	–	–	518	518
At end of year	8,870	(1,555)	3,449	10,764
2004				
Balance at beginning of year				
As previously reported	9,534	(494)	3,011	12,051
Prior year adjustment	–	–	(150)	(150)
As restated	9,534	(494)	2,861	11,901
Recognised in income statements (Note t)	(335)	426	146	237
Recognised in fair valuation reserve	–	–	(455)	(455)
At end of year	9,199	(68)	2,552	11,683

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(j) Deposits From Customers

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(i) By type of deposits				
Non-Mudharabah Fund:				
Demand deposits	124,034	150,304	124,034	150,304
Savings deposits	65,483	62,567	70,632	68,778
	189,517	212,871	194,666	219,082
Mudharabah Fund:				
Savings deposits	–	–	26,931	31,107
General investment deposits	272,576	508,984	923,282	1,073,553
	462,093	721,855	1,144,879	1,323,742
(ii) By type of customers				
Government and statutory bodies	52,904	46,168	149,472	110,591
Business enterprises	245,774	480,659	506,717	665,962
Individuals	121,469	117,885	164,737	174,104
Others	41,946	77,143	323,953	373,085
	462,093	721,855	1,144,879	1,323,742

(k) Deposits And Placements Of Banks And Other Financial Institutions

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Non-Mudharabah Fund:				
Licensed finance companies	–	19,697	–	19,697
Other financial institutions	–	12,223	–	12,223
	–	31,920	–	31,920
Mudharabah Fund:				
Licensed banks	99,000	–	294,000	176,340
Licensed finance companies	31,517	100	31,517	30,100
Bank Negara Malaysia	4,001	7	4,001	7
Other financial institutions	150,964	215,374	336,534	323,374
	285,482	247,401	666,052	561,741

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(l) Provision For Taxation And Zakat

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Taxation payable	198	4,989	341	4,989
Zakat payable	–	21	164	116
	198	5,010	505	5,105

Zakat payable represents tithes payable by the Bank and the Group to comply with the principles of Syariah as approved by the Syariah Supervisory Council. Zakat is provided at a rate of 2.5%.

(m) Other Liabilities

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Dividend payable	624	–	624	–
Profit payable	3,623	5,840	10,129	10,656
Profit equalisation reserve	1,883	1,504	1,948	1,955
Amount due to Head Office	–	1,652	46,233	1,652
Other payable and accrual	1,794	1,410	15,619	22,780
	7,924	10,406	74,553	37,043

Profit equalisation reserve (PER) refers to the amount appropriated out of the total gross income in order to maintain a certain level of return to depositors. The mechanism of PER is approved and endorsed by the National Advisory Council for Islamic Banking and Takaful of Bank Negara Malaysia. PER is deducted from the total gross income in deriving income attributable to the Bank. This appropriated amount is shared by the depositors and the Bank. Movements in PER during the year are as follows:

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At beginning of year	1,504	980	1,955	980
Provided / (Written back) during the year	379	524	(7)	975
At end of year	1,883	1,504	1,948	1,955

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(n) Income From Islamic Banking Operations

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Income derived from investment of depositors' funds	42,047	42,963	118,744	129,504
Transfer (to) / from profit equalisation reserve	(379)	(524)	7	(975)
Income attributable to depositors	(21,370)	(19,589)	(48,379)	(55,164)
Income derived from investment of Islamic Banking Capital Funds	3,165	3,736	21,550	26,245
Income from Islamic Banking Operations	23,463	26,586	91,922	99,610

(o) Income Derived From Investment Of Depositors' Funds And Others

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Income derived from investment of:				
General investment deposits	28,032	28,953	101,035	110,080
Other deposits	14,015	14,010	17,709	19,424
	42,047	42,963	118,744	129,504

(i) Income derived from investment of general investment deposits:				
Finance income and hibah:				
Financing, advances and other loans	21,009	21,254	85,805	90,505
Money at call and deposit with financial institutions	2,333	1,766	2,333	1,766
Held-to-maturity investments	877	982	7,032	9,874
Available-for-sale securities	1,645	2,747	1,645	2,747
	25,864	26,749	96,815	104,892
Accretion of discount less amortisation of premium	1,305	778	3,357	3,762
Finance income and hibah	27,169	27,527	100,172	108,654
Gain from sale of available-for-sale securities	-	1,161	-	1,161
Service charges and fees	770	243	770	243
Other income	93	22	93	22
	28,032	28,953	101,035	110,080

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(o) Income Derived From Investment Of Depositors' Funds And Others (Cont'd)

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(ii) Income derived from investment of other deposits:				
Finance income and hibah:				
Financing, advances and other loans	10,504	10,285	13,827	14,902
Money at call and deposit with financial institutions	1,167	854	1,167	854
Held-to-maturity investments	438	475	704	1,073
Available-for-sale securities	822	1,329	822	1,329
	12,931	12,943	16,520	18,158
Accretion of discount less amortisation of premium	652	377	757	576
	13,583	13,320	17,277	18,734
Gain from sale of available-for-sale securities	–	562	–	562
Service charges and fees	385	117	385	117
Other income	47	11	47	11
	14,015	14,010	17,709	19,424

(p) Allowances For Losses On Financing, Advances And Other Loans

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Allowance for bad and doubtful debts on financing:				
(a) Specific allowance				
– Charged	14,371	3,476	51,990	46,721
– Written back	(3,640)	(629)	(17,556)	(13,912)
(b) General allowance				
– Charged / (Written back)	(1,798)	572	(1,174)	(1,197)
Recovery of bad debts on loans and financing	–	–	(2,635)	(1,798)
	8,933	3,419	30,625	29,814

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(q) Income Attributable To Depositors

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Deposits from customers:				
Mudharabah fund	16,255	15,994	39,479	47,741
Non-Mudharabah fund	3,164	3,019	4,030	4,182
Deposits and placements of banks and other financial institutions:				
Mudharabah fund	1,947	575	4,866	3,240
Non-Mudharabah fund	4	1	4	1
	21,370	19,589	48,379	55,164

(r) Income Derived From Investment Of Islamic Banking Capital Funds

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Finance income and hibah:				
Financing, advances and other loans	2,372	2,743	17,324	21,210
Money at call and deposit with financial institutions	263	228	263	228
Held-to-maturity investments	99	127	1,588	2,545
Available-for-sale securities	186	354	186	354
	2,920	3,452	19,361	24,337
Accretion of discount less amortisation of premium	147	100	621	896
	3,067	3,552	19,982	25,233
Gain from sale of available-for-sale securities	-	150	-	150
Service charges and fees	87	32	1,023	590
Other income	11	2	545	272
	3,165	3,736	21,550	26,245

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(s) Other Operating Expenses

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Personnel expenses				
Salaries, allowances and bonuses	2,277	2,630	2,883	3,349
Others	147	179	273	313
	2,424	2,809	3,156	3,662
Promotion and marketing expenses				
Handling fees	–	–	11,663	3,833
Others	3,023	1,380	3,059	1,448
	3,023	1,380	14,722	5,281
Establishment related expenses				
Rental of premises	165	164	320	349
Depreciation of property, plant and equipment	67	66	71	92
EDP expenses	219	30	109	47
Hire of equipment	8	–	8	–
Others	83	151	369	372
	542	411	877	860
General administrative expenses				
Shariah committee remuneration	26	–	26	–
Communication expenses	38	49	100	156
Printing and stationery	73	44	92	64
Others	534	482	1,340	1,142
	671	575	1,558	1,362
	6,660	5,175	20,313	11,165

(t) Taxation And Zakat

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Current tax expense	197	4,989	6,242	12,527
Deferred taxation [Note (i)]	1,611	(733)	1,437	(237)
	1,808	4,256	7,679	12,290
Zakat	55	10	185	69
	1,863	4,266	7,864	12,359

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(u) Commitments And Contingencies (Unsecured)

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

Risk-weighted exposure as of December 31 is as follows:

	← 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
The Bank						
Direct credit substitutes	35,571	35,571	35,571	10,561	10,561	10,561
Transaction-related contingent items	27	14	14	19	10	10
Short term self-liquidating trade-related contingencies	297	59	59	235	47	47
Irrevocable commitments to extend credits:						
– maturity not exceeding one year	279,458	–	–	146,704	–	–
– maturity exceeding one year	29,914	14,957	14,957	39,235	19,618	19,618
	345,267	50,601	50,601	196,754	30,236	30,236
The Group						
Direct credit substitutes	35,571	35,571	35,571	10,561	10,561	10,561
Transaction-related contingent items	27	14	14	19	10	10
Short term self-liquidating trade-related contingencies	297	59	59	235	47	47
Financing sold directly and indirectly to Cagamas with recourse	518,506	518,506	518,506	232,014	232,014	232,014
Irrevocable commitments to extend credits:						
– maturity not exceeding one year	279,458	–	–	146,704	–	–
– maturity exceeding one year	33,423	16,712	16,712	43,648	21,824	21,824
	867,282	570,862	570,862	433,181	264,456	264,456

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(v) Capital Adequacy

The capital adequacy ratios of the Bank and of the Group are as follows:

	The Bank		The Group	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Tier-1 capital				
Islamic banking funds	40,000	40,000	100,000	100,000
Statutory reserves	12,868	10,116	34,151	31,399
Retained profit	7,928	14,182	7,928	74,672
Less: Deferred taxation	(1,034)	(2,645)	(10,851)	(12,288)
Total Tier-1 capital	59,762	61,653	131,228	193,783
Tier-2 capital				
General allowance for bad and doubtful debts and financing	7,366	9,164	31,679	32,853
Capital Base	67,128	70,817	162,907	226,636

Capital Ratios:

Before deducting proposed dividends

Core capital ratio	10.69%	11.58%	6.36%	12.09%
Risk-weighted capital ratio	12.01%	13.30%	7.90%	14.14%

After deducting proposed dividends

Core capital ratio	10.69%	10.48%	6.36%	11.72%
Risk-weighted capital ratio	12.01%	12.20%	7.90%	13.78%

Breakdown of risk-weighted assets in the various categories of risk-weights:

		The Bank			
		2005		2004	
		Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
Credit risk:	0%	147,902	–	165,252	–
	10%	10,204	1,020	10,339	1,034
	20%	33,684	6,737	273,908	54,782
	50%	269,740	134,870	324,679	162,340
	100%	416,036	416,036	314,064	314,064
		877,566	558,663	1,088,242	532,220
Market risk			–		–
Total risk weighted assets			558,663		532,220

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

42. OPERATIONS OF ISLAMIC BANKING (CONT'D)

(v) Capital Adequacy (Cont'd)

		← The Group →			
		2005		2004	
		Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
Credit risk:	0%	376,667	-	384,746	-
	10%	10,204	1,020	10,339	1,034
	20%	41,004	8,201	304,118	60,824
	50%	290,764	145,382	359,174	179,587
	100%	1,906,325	1,906,325	1,360,638	1,360,638
		<u>2,624,964</u>	<u>2,060,928</u>	<u>2,419,015</u>	<u>1,602,083</u>
Market risk			-		-
Total risk weighted assets			<u>2,060,928</u>		<u>1,602,083</u>

43. SIGNIFICANT EVENTS

The significant events during the financial year are as follows:

(i) Proposed Acquisition of Asia General Holdings Limited, Singapore.

On July 7, 2005, the Bank obtained approval from Bank Negara Malaysia (BNM) to commence negotiation with the shareholders of Asia General Holdings Limited (AGHL) for the proposed acquisition of the entire equity interest in AGHL (Proposed AGHL Acquisition).

On August 18, 2005, the Bank successfully won the bid for the Proposed AGHL Acquisition which involves the following:

- (a) Proposed acquisition of approximately 43.42% equity interest in AGHL from the group of existing shareholders of AGHL who collectively hold 32,568,593 AGHL Shares representing approximately 43.42% equity interest in AGHL (Original Vendors);
- (b) Proposed acquisition of approximately 8.16% equity interest in AGHL from the group of existing shareholders of AGHL who collectively hold 6,119,150 AGHL Shares representing approximately 8.16% equity interest in AGHL (New Vendors); and
- (c) Proposed unconditional mandatory offer for the remaining 48.42% equity interest in AGHL not already owned by SBB and Concerted Parties, if any, after the above acquisitions.

On December 6, 2005, BNM informed the Bank that the Proposed AGHL Acquisition has not been approved.

On January 16, 2006, the Bank announced that the Board has decided not to pursue with the acquisition of AGHL.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

43. SIGNIFICANT EVENTS (CONT'D)

(ii) Issuance of Innovative Hybrid Tier 1 Capital Instruments.

On October 19, 2005, a wholly owned subsidiary company, SBB Capital Corporation (SCC) was incorporated in Labuan to facilitate the issuance of Innovative Hybrid Tier 1 Capital Instruments of the Group. The Innovative Hybrid Tier 1 Capital Instruments is a form of hybrid capital instruments with the characteristics of both equity and debt.

On November 2, 2005, SCC issued USD200 million 6.62% Non-cumulative Guaranteed Preference Shares [SCC Preference Shares, details as described in Note 23(iv)].

As part of the terms of the issuance of Innovative Hybrid Tier 1 Capital Instruments as required under BNM Guidelines of December 24, 2004, under certain substitution events the Bank may be required to issue preference shares as substitution for the SCC Preference Shares.

On October 31, 2005, the Bank announced the following proposals (The Proposals):

- (a) Issuance of up to 200,000 new SBB Preference Shares of RM0.10 each in the event of certain substitution events pursuant to the terms of the issuance of Innovative Hybrid Tier 1 Capital Instruments;
- (b) Increase in the authorised share capital of the Bank from RM10,000,000,000 comprising 10,000,000,000 ordinary shares of RM1.00 each to RM10,000,020,000 comprising 10,000,000,000 ordinary shares of RM1.00 each and 200,000 preference shares of RM0.10 each;
- (c) Amendments to the Bank's memorandum and articles of association (M&A) to reflect the increase in the authorised share capital.

The Proposals have been approved by the relevant authorities, bondholders of the Bank via the bondholder's letter dated October 6, 2005 and shareholders of the Bank at the Extraordinary General Meeting held on December 12, 2005.

(iii) Memorandum of Understanding with Takaful International Company of Bahrain.

On October 31, 2005, the Bank announced that it had on October 28, 2005 executed a Memorandum of Understanding with Takaful International Company of Bahrain to apply for a Takaful Insurance licence from Bank Negara Malaysia. It is proposed that upon a licence being granted, a joint venture company will be set up to operate an Islamic or Takaful Insurance business in Malaysia.

(iv) Acquisition of Additional 53.37% Equity Interest in BHLB Trustee Berhad.

On November 29, 2005, SBB Capital Markets Sdn. Bhd. (SBBCM), S.B. Properties Sdn Bhd (SBP) and S.B. Venture Capital Corporation Sdn Bhd (SBVC), completed the acquisition of 53.37% equity interest collectively, in BHLB Trustee Berhad (BHLBT) comprising 186,783 ordinary shares of RM10.00 each, of which RM5.00 has been paid up, for a total cash consideration of RM5,603,490. On the same date, the Bank also completed the transfer of its 20% equity interest in BHLBT to SBB Futures Sdn Bhd (SBBF) for a cash consideration of RM575,400. SBBCM, SBP, SBVC and SBBF are all wholly owned subsidiary companies of the Group.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

43. SIGNIFICANT EVENTS (CONT'D)**(v) Merger of The Businesses of Southern Finance Berhad with Southern Bank Berhad.**

On December 20, 2005, the Minister of Finance through Bank Negara Malaysia, approved the Bank's proposal to acquire the entire business of Southern Finance Berhad (SFB), a wholly owned subsidiary company of the Bank.

On December 29, 2005, an "Order" of the High Court of Malaya at Kuala Lumpur was obtained for the transfer of the assets, liabilities, activity, business and the undertaking of the finance company business and other business of SFB pursuant to SFB's finance company's licence issued under the Banking and Financial Institutions Act 1989.

In accordance to the Vesting Order, the proposed transfer of business from SFB to the Bank was effected on January 1, 2006.

44. SUBSEQUENT EVENT**Proposed Disposal of the Entire Business and Undertaking of Southern Bank Berhad (SBB) to Bumiputra-Commerce Holdings Berhad.**

On March 15, 2006, the Board of Directors (Board) of SBB had received the revised proposals from Bumiputra-Commerce Holdings Berhad (BCHB) as follows:

- (i) proposed acquisition by BCHB of the entire business and undertaking of SBB, including all assets and liabilities of SBB, subject to the terms and conditions as set out in the revised offer letter of BCHB dated March 15, 2006 (Proposed Business Disposal); and
- (ii) the revised conditional voluntary offer to the shareholders and warrant holders of SBB by Commerce International Merchant Bankers Berhad on behalf of BCHB dated March 15, 2006 to acquire:
 - (a) all ordinary shares of RM1.00 each in SBB (SBB Shares) at the offer price of a cash consideration of RM4.30 for each SBB Share or a combination of cash and redeemable convertible unsecured loan stocks in the proportion of approximately 75%:25% in value terms for each SBB Share; and
 - (b) all outstanding ten (10)-year warrants 1996/2006 in SBB (SBB Warrants) at a cash consideration of RM2.56 for each SBB Warrant.

(Proposed Voluntary Offer)

The Proposed Business Disposal and the Proposed Voluntary Offer are collectively referred to as the Revised Proposals.

The Proposed Business Disposal is conditional upon the approvals being obtained from the following authorities/parties:

- (i) BNM/Minister of Finance, to be obtained by both SBB and BCHB respectively;
- (ii) SC, to be obtained by both SBB and BCHB respectively;
- (iii) Foreign Investment Committee, to be obtained by BCHB;
- (iv) Shareholders of SBB in an Extraordinary General Meeting (EGM) to be convened;
- (v) Shareholders of BCHB in an EGM to be convened; and
- (vi) Any other relevant authorities or parties, if required.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

44. SUBSEQUENT EVENT (CONT'D)

The completion of the Proposed Business Disposal is also conditional upon the despatch of the offer document in relation to the Proposed Voluntary Offer but is not subject to the Proposed Voluntary Offer becoming unconditional.

The Proposed Voluntary Offer is conditional upon the relevant approvals for the Proposed Business Disposal being obtained.

SBB had on April 19, 2006 announced that an EGM will be held on May 5, 2006 and the circular in relation to the Proposed Business Disposal has been despatched to shareholders on April 20, 2006.

45. CREDIT RATING

As at December 31, 2005, the Bank was accorded the following ratings:

Agencies	Date accorded / reaffirmed	Rating
Rating Agency Malaysia Berhad	September 28, 2005	Long term: A1 (Reaffirmed) Short term: P1 (Reaffirmed) RM300 million subordinated bonds: A2 (Reaffirmed)
Fitch Ratings Limited	October 24, 2005	USD200 million subordinated notes: BBB (Reaffirmed) USD 200 million non-cumulative guaranteed preference shares: BB+
Moody's Investors Service Limited	October 24, 2005	USD200 million subordinated notes: Baa3 (Reaffirmed) USD 200 million non-cumulative guaranteed preference shares : Ba2

46. FINANCIAL RISK MANAGEMENT

Risk Management

Managing risks is one of the core activities of the Bank to strike a balance between sound practices and risk-return. The financial risk management policies and objectives adopted by the Bank and the Group include incorporating various measures and limits structure to ensure potential risks, whether credit, market and/or operational risks are actively and properly managed.

Market Risk

Market risk is defined as the risk of losses in position on and off balance sheet, arising from movements in market prices. Market risk encompasses adverse changes in interest rates (interest rate risk), asset prices (pricing risk) and foreign exchange rates (currency risk) and cash flow position (liquidity risk). To facilitate the control of these risks, the Bank and the Group monitor the money market and foreign exchange trading limits on a daily basis and set and review counter-party limits regularly. The Bank and the Group also conduct simulations and portfolio stress tests on a regular basis to assess market risk exposures.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

46. FINANCIAL RISK MANAGEMENT (CONT'D)**Credit Risk**

Credit risk is the risk of financial loss resulting from the failure of customers or counter-parties to settle their financial and contractual obligations, as and when they fall due. Credit risk is managed through prudent credit underwriting & rating system, independent credit administration, legal documentation, collections and recovery systems as governed by clear established credit policies, procedures and processes.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The guiding principle is that management at all levels is responsible for directing and managing operational risks. The day-to-day management of operational risk is through the maintenance of a robust system incorporating sound internal controls, segregation of duties and authorizations and reporting functions to facilitate close monitoring of transaction positions and documentation. Regular review and audit of the systems and processes by the Risk Management Group and Internal Audit Group are paramount to ensuring compliance and integrity of the system.

Liquidity Risk

Liquidity risk arises from mismatches in cash flows. The objective of the liquidity management process is to ensure that the Bank and the Group have sufficient liquidity to meet obligations under normal and adverse circumstances and to take advantages of lending and investment opportunities as they arise. To fulfil this objective, the Bank and the Group measure and forecast their cash commitments, apply controls to cash flow gaps, maintain diversified sources of funding, set prudent limits and ensure immediate access to liquid assets.

Interest Rate Risk

Financial instruments both on and off balance sheet are entered into by the Bank and the Group in the course of providing financial services to its customers to manage its exposure to risk and for trading purposes. The financial instruments are exposed to the interest rate risk due to effects of fluctuations in the market interest rates on its financial and cash flow position. Sensitivity to interest rates arises from the differences in the maturities and repricing dates of assets, liabilities and off balance sheet items. These mismatches are actively monitored and managed as part of the overall interest rate risk management process which is conducted in accordance with the Bank's and the Group's policies. The tables below summarise the Bank's and the Group's exposure to interest rate risk. The assets and liabilities at carrying amount as of December 31, 2005 are categorised by the earlier of contractual repricing or maturity dates.

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December 31, 2005

46. FINANCIAL RISK MANAGEMENT (CONT'D)

The Bank 2005

	Non-trading book						Trading Book RM'000	Total RM'000	Effective interest rate %
	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 sensitive RM'000			
Assets									
Cash and short term funds	2,848,912	-	-	-	-	122,920	-	2,971,832	3.50
Deposits and placements with banks and other financial institutions	-	208,692	207,848	-	-	1,613	-	418,153	3.95
Held-for-trading securities	-	-	-	-	-	-	100,692	100,692	4.45
Held-to-maturity investments	25,982	50,630	41,867	102,312	23,868	25,918	-	270,577	2.98
Available-for-sale securities	552,552	491,341	477,956	311,690	-	690,764	-	2,524,303	3.88
Loans, advances and financing									
- Performing	9,406,922	2,395,171	1,277,997	2,098,166	439,886	-	-	15,618,142	7.17
- Non-performing	-	-	-	-	-	662,548	-	662,548	-
Other assets	-	-	-	-	-	2,523,560	-	2,523,560	-
Total assets	12,834,368	3,145,834	2,005,668	2,512,168	463,754	4,027,323	100,692	25,089,807	
Liabilities									
Deposits from customers	8,449,799	2,258,037	3,642,478	162,838	35	52,007	-	14,565,194	2.44
Deposits and placements of banks and other financial institutions	1,128,102	452,483	753,916	298,490	21,498	1,184	-	2,655,673	3.61
Obligations on securities sold under repurchase agreements	1,103,843	71,300	-	-	-	-	-	1,175,143	2.79
Bills and acceptances payable	247,412	255,070	28,474	-	-	118,797	-	649,753	3.00
Recourse obligations on loans sold to Cagamas	-	6,875	164,787	457,631	-	-	-	629,293	4.07
Subordinated obligations	-	25,000	-	-	1,788,448	-	-	1,813,448	6.74
Other liabilities	-	-	-	-	-	345,278	-	345,278	-
Total liabilities	10,929,156	3,068,765	4,589,655	918,959	1,809,981	517,266	-	21,833,782	
Shareholders' funds	-	-	-	-	-	3,256,025	-	3,256,025	
Total liabilities and shareholders' funds	10,929,156	3,068,765	4,589,655	918,959	1,809,981	3,773,291	-	25,089,807	
On-balance sheet interest sensitivity gap	1,905,212	77,069	(2,583,987)	1,593,209	(1,346,227)	254,032	100,692		
Off-balance sheet interest sensitivity gap	-	-	-	755,860	755,860	-	2,575,065		
Total interest sensitivity gap	1,905,212	77,069	(2,583,987)	2,349,069	(590,367)	254,032	2,675,757		

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

46. FINANCIAL RISK MANAGEMENT (CONT'D)

Interest Rate Risk (Cont'd)

The Bank
2004

	Non-trading book						Trading Book RM'000	Total RM'000	Effective interest rate %
	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 sensitive RM'000			
Assets									
Cash and short term funds	2,006,129	-	-	-	-	124,880	-	2,131,009	2.32
Deposits and placements with banks and other financial institutions	-	111,893	-	-	-	262	-	112,155	1.73
Held-for-trading securities	-	-	-	-	-	-	61,193	61,193	3.75
Held-to-maturity investments	47,366	130,402	29,398	126,605	44,195	25,292	-	403,258	3.18
Available-for-sale securities	635,208	390,068	592,125	859,993	15,262	813,166	-	3,305,822	3.00
Loans, advances and financing									
- Performing	9,358,944	1,957,661	914,624	1,490,877	538,587	-	-	14,260,693	6.82
- Non-performing	-	-	-	-	-	757,816	-	757,816	-
Other assets	-	-	-	-	-	2,445,149	-	2,445,149	-
Total assets	12,047,647	2,590,024	1,536,147	2,477,475	598,044	4,166,565	61,193	23,477,095	
Liabilities									
Deposits from customers	8,440,828	2,067,599	3,523,926	51,415	133	46,937	-	14,130,838	2.40
Deposits and placements of banks and other financial institutions	618,083	61,760	584,631	289,078	29,138	1,304	-	1,583,994	2.21
Obligations on securities sold under repurchase agreements	1,357,203	171,837	-	-	-	-	-	1,529,040	2.64
Bills and acceptances payable	251,261	431,283	121,254	-	-	141,849	-	945,647	2.82
Recourse obligations on loans sold to Cagamas	-	-	-	690,925	86,954	-	-	777,879	4.07
Subordinated obligations	-	16,424	25,000	-	1,043,671	-	-	1,085,095	7.21
Other liabilities	-	-	-	-	-	233,801	-	233,801	-
Total liabilities	10,667,375	2,748,903	4,254,811	1,031,418	1,159,896	423,891	-	20,286,294	
Shareholders' funds	-	-	-	-	-	3,190,801	-	3,190,801	
Total liabilities and shareholders' funds	10,667,375	2,748,903	4,254,811	1,031,418	1,159,896	3,614,692	-	23,477,095	
On-balance sheet interest sensitivity gap	1,380,272	(158,879)	(2,718,664)	1,446,057	(561,852)	551,873	61,193		
Off-balance sheet interest sensitivity gap	-	-	-	760,000	-	-	1,139,362		
Total interest sensitivity gap	1,380,272	(158,879)	(2,718,664)	2,206,057	(561,852)	551,873	1,200,555		

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

46. FINANCIAL RISK MANAGEMENT (CONT'D)

Interest Rate Risk (Cont'd)

The Group
2005

	Non-trading book						Trading Book RM'000	Total RM'000	Effective interest rate %
	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 sensitive RM'000			
Assets									
Cash and short term funds	3,790,885	-	-	-	-	224,883	-	4,015,768	3.37
Deposits and placements with banks and other financial institutions	110,717	88,415	210,001	1,897	-	1,613	-	412,643	3.45
Held-for-trading securities	-	-	-	-	-	-	123,553	123,553	4.45
Held-to-maturity investments	30,719	50,630	45,309	191,627	121,920	34,198	-	474,403	3.26
Available-for-sale securities	512,134	471,097	498,721	480,856	13,177	696,373	-	2,672,358	3.89
Loans, advances and financing									
- Performing	10,068,110	2,526,019	2,039,126	5,372,089	1,311,804	-	-	21,317,148	7.67
- Non-performing	-	-	-	-	-	1,385,630	-	1,385,630	-
Other assets	-	-	-	-	-	2,298,735	-	2,298,735	-
Total assets	14,512,565	3,136,161	2,793,157	6,046,469	1,446,901	4,641,432	123,553	32,700,238	
Liabilities									
Deposits from customers	10,099,349	3,529,048	5,219,859	195,629	35	52,019	-	19,095,939	2.61
Deposits and placements of banks and other financial institutions	1,637,225	1,005,503	1,237,484	298,490	386,498	1,184	-	4,566,384	3.22
Obligations on securities sold under repurchase agreements	1,033,486	21,300	-	-	-	-	-	1,054,786	2.79
Bills and acceptances payable	247,412	255,070	28,474	-	-	118,797	-	649,753	3.00
Recourse obligations on loans sold to Cagamas	37,202	90,618	484,679	1,044,004	-	-	-	1,656,503	3.85
Subordinated obligations	-	25,000	-	-	1,788,448	-	-	1,813,448	6.74
Other liabilities	-	-	-	-	-	619,880	-	619,880	-
Total liabilities	13,054,674	4,926,539	6,970,496	1,538,123	2,174,981	791,880	-	29,456,693	
Minority interest and shareholders' funds	-	-	-	-	-	3,243,545	-	3,243,545	
Total liabilities and shareholders' funds	13,054,674	4,926,539	6,970,496	1,538,123	2,174,981	4,035,425	-	32,700,238	
On-balance sheet interest sensitivity gap	1,457,891	(1,790,378)	(4,177,339)	4,508,346	(728,080)	606,007	123,553		
Off-balance sheet interest sensitivity gap	-	-	-	755,860	755,860	-	2,575,065		
Total interest sensitivity gap	1,457,891	(1,790,378)	(4,177,339)	5,264,206	27,780	606,007	2,698,618		

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

46. FINANCIAL RISK MANAGEMENT (CONT'D)

Interest Rate Risk (Cont'd)

The Group
2004

	Non-trading book						Trading Book RM'000	Total RM'000	Effective interest rate %
	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 sensitive RM'000			
Assets									
Cash and short term funds	2,772,220	-	-	-	-	212,044	-	2,984,264	2.46
Deposits and placements with banks and other financial institutions	7,159	333,428	-	2,103	-	262	-	342,952	2.48
Held-for-trading securities	-	-	-	-	-	-	71,566	71,566	3.75
Held-to-maturity investments	25,662	55,032	34,447	162,997	158,780	219,997	-	656,915	3.14
Available-for-sale securities	800,003	224,355	61,593	933,207	18,948	969,332	-	3,007,438	3.06
Loans, advances and financing									
- Performing	10,090,654	2,178,736	1,766,518	4,753,850	1,128,855	-	-	19,918,613	7.46
- Non-performing	-	-	-	-	-	1,588,188	-	1,588,188	-
Other assets	-	-	-	-	-	2,534,925	-	2,534,925	-
Total assets	13,695,698	2,791,551	1,862,558	5,852,157	1,306,583	5,524,748	71,566	31,104,861	
Liabilities									
Deposits from customers	10,424,001	3,107,577	5,861,942	69,417	133	46,943	-	19,510,013	2.56
Deposits and placements of banks and other financial institutions	862,824	330,040	771,292	289,078	394,138	1,304	-	2,648,676	2.33
Obligations on securities sold under repurchase agreements	847,845	171,837	-	-	-	-	-	1,019,682	2.64
Bills and acceptances payable	251,261	431,283	121,254	-	-	141,849	-	945,647	2.82
Recourse obligations on loans sold to Cagamas	24,096	48,419	301,607	1,356,150	86,954	-	-	1,817,226	3.89
Subordinated obligations	-	16,424	25,000	-	1,043,671	-	-	1,085,095	7.21
Other liabilities	-	-	-	-	-	637,905	-	637,905	-
Total liabilities	12,410,027	4,105,580	7,081,095	1,714,645	1,524,896	828,001	-	27,664,244	
Minority interest and shareholders' funds	-	-	-	-	-	3,440,617	-	3,440,617	
Total liabilities and shareholders' funds	12,410,027	4,105,580	7,081,095	1,714,645	1,524,896	4,268,618	-	31,104,861	
On-balance sheet interest sensitivity gap	1,285,671	(1,314,029)	(5,218,537)	4,137,512	(218,313)	1,256,130	71,566		
Off-balance sheet interest sensitivity gap	-	-	-	760,000	-	-	1,139,362		
Total interest sensitivity gap	1,285,671	(1,314,029)	(5,218,537)	4,897,512	(218,313)	1,256,130	1,210,928		

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

46. FINANCIAL RISK MANAGEMENT (CONT'D)

Interest Rate Risk (Cont'd)

Details of off-balance sheet interest sensitivity gap is as below:

	← Non-trading book →					Trading Book	Total	Margin requirement
	Up to 1 month	> 1 - 3 months	> 3 - 12 months	> 1 - 5 years	Over 5 years			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
The Bank and The Group								
2005								
Foreign exchange related contracts								
Forwards	-	-	-	-	-	452,182	452,182	-
Swaps	-	-	-	-	755,860	1,821,883	2,577,743	-
Interest rate related contracts								
Future	-	-	-	-	-	301,000	301,000	-
Swaps	-	-	-	755,860	-	-	755,860	-
Total	-	-	-	755,860	755,860	2,575,065	4,086,785	-
2004								
Foreign exchange related contracts								
Forwards	-	-	-	-	-	302,308	302,308	-
Swaps	-	-	-	-	-	654,054	654,054	-
Interest rate related contracts								
Futures	-	-	-	-	-	183,000	183,000	-
Swaps	-	-	-	760,000	-	-	760,000	-
Total	-	-	-	760,000	-	1,139,362	1,899,362	-

47. FAIR VALUE

In accordance with FRS132 "Financial Instruments : Disclosure and Presentation", the fair value of financial instruments is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction.

Fair values of principal financial instruments, comprising financial assets and liabilities and off-balance sheet financial instruments as of balance sheet date approximate their carrying values as shown in the balance sheets. The methodologies and assumptions used in arriving at the fair values of such instruments are as follows:

(i) Loans, advances and financing

In the computation of fair values, the instruments are differentiated into performing and non-performing accounts, which are then categorised into homogenous groups by repayment tenors, maturity and pricing. Estimated market interest rates, future expected cash flows and forced sale values of collaterals are then applied.

(ii) Cash and short term funds, securities purchased under resale agreements, deposits and placements with banks and other financial institutions and statutory deposits with Central Banks

The fair values are considered to approximate their carrying values as they either carry negligible credit risk or are short term in nature or repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

47. FAIR VALUE (CONT'D)**(iii) Deposits, including deposits from customers, deposits and placements of banks and financial institutions, bills and acceptances payable**

The fair values of deposits with no stated maturity including non-interest bearing deposits are considered to approximate their carrying values as they are repayable on demand whilst the fair values of other deposits are based on discounted cash flows model using current interest rates.

(iv) Subordinated obligations

The computation of fair values are based on discounted cash flows model using a current yield curve appropriate for the remaining term of maturity.

(v) Securities portfolio

Fair values are based on market prices where available. In the absence of market prices, net tangible asset backing are used to estimate the fair values.

(vi) Commitments and contingencies

No fair values have been ascribed to commitments and contingencies on the basis that these financial instruments generate ongoing fees at the Bank's and the Group's current pricing levels, which are in line with market prices for similar arrangements. The fair values are thus considered to be represented by the present value of the fees expected to be received, less associated costs.

Fixed assets, investments in subsidiaries and associates, goodwill and other intangibles, provision for taxation and other assets and liabilities which are outside the definition of financial instruments under FRS132 "Financial Instruments : Disclosure and Presentation" are thus excluded.

48. COMPARATIVE FIGURES

The following comparative figures have been reclassified to conform with the current year's presentation:

	The Bank		The Group	
	As previously reported RM'000	As reclassified RM'000	As previously reported RM'000	As reclassified RM'000
<u>Balance Sheet</u>				
Other assets	663,287	344,191	788,411	469,315
Deposits from customers	14,172,425	14,130,838	19,551,600	19,510,013
Other liabilities	501,195	223,686	887,381	609,872

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

49. PRIOR YEAR ADJUSTMENTS

During the financial year, the Bank and the Group adopted the "Revised Guidelines on Financial Reporting for Licensed Institutions" (Revised BNM/GP8) issued by Bank Negara Malaysia on October 5, 2004. The major changes in accounting policy arising from the adoption of the revised BNM/GP8 are as follows:

(i) Classification and Accounting for Securities

Previously, securities of the Bank and the Group 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 according to type, were either stated at the lower of cost and market value or at cost less provision for permanent diminution in value or at cost adjusted for amortisation of premium or accretion of discount to maturity date.

With the implementation of revised BNM/GP8, securities of the Bank and the Group are now classified under three categories viz. "Held-for-trading Securities", "Held-to-maturity Investments" and "Available-for-sale Securities". The accounting policy for the respective category of securities are as disclosed in Note 3(g) to 3(i).

(ii) Interest Income Recognition on Loans, Advances and Financing

As referred to in Note 3(o), interest accrued and recognised as income prior to the date the loans are classified as non-performing is now reversed by debiting interest income in the income statement and crediting the accrued interest receivable account in the balance sheet. Accordingly, interest earned on non-performing loans is recognised on a cash basis instead of simultaneous accrued and suspension basis as practised previously.

(iii) Interest Recognition on Securities Portfolio and Financial Liabilities

Interest income from securities portfolio and interest expense from financial liabilities of the Bank and the Group which were previously recognised on an accrual basis using the straight line method are now using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

49. PRIOR YEAR ADJUSTMENTS (CONT'D)

The change of the accounting policies as mentioned above has been accounted for retrospectively and, accordingly certain comparative figures have been restated as follows:

	As previously reported RM'000	Effect of change in accounting policies RM'000	As restated RM'000
The Bank			
2004			
<u>Balance Sheet</u>			
Dealing securities	161,356	(161,356)	–
Investment securities	3,649,113	(3,649,113)	–
Held-for-trading securities	–	61,193	61,193
Held-to-maturity investments	–	403,258	403,258
Available-for-sale securities	–	3,305,822	3,305,822
Other assets	344,191 *	(105)	344,086
Deferred tax assets	48,735	9,971	58,706
Other liabilities	223,686 *	6,774	230,460
Subordinated obligations	1,085,381	(286)	1,085,095
Reserves	1,779,937	(36,818)	1,743,119
<u>Income Statement</u>			
Interest income	1,034,800	(601)	1,034,199
Interest expense	466,222	1,038	467,260
Other operating income	349,193	(1,193)	348,000
Income from Islamic banking operations	26,367	219	26,586
Profit before taxation and zakat	394,779	(2,613)	392,166
Net profit for the year	288,604	(2,613)	285,991
<u>Earnings per share</u>			
Basic (sen)	22.8	(0.2)	22.6
Fully diluted (sen)	21.6	(0.1)	21.5

* Reclassified as mentioned in Note 48.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

49. PRIOR YEAR ADJUSTMENTS (CONT'D)

	As previously reported RM'000	Effect of change in accounting policies RM'000	As restated RM'000
The Group			
2004			
<u>Balance Sheet</u>			
Dealing securities	172,371	(172,371)	–
Investment securities	3,619,361	(3,619,361)	–
Held-for-trading securities	–	71,566	71,566
Held-to-maturity investments	–	656,915	656,915
Available-for-sale securities	–	3,007,438	3,007,438
Other assets	469,315 *	(105)	469,210
Deferred tax assets	103,792	13,776	117,568
Other liabilities	609,872 *	6,776	616,648
Subordinated obligations	1,085,381	(286)	1,085,095
Minority interest	16,939	222	17,161
Reserves	2,024,628	(48,854)	1,975,774
<u>Income Statement</u>			
Interest income	1,536,823	(1,105)	1,535,718
Interest expense	678,575	1,038	679,613
Other operating income	415,697	(1,812)	413,885
Income from Islamic banking operations	98,574	1,036	99,610
Other operating expenses	546,469	310	546,779
Profit before taxation and zakat	486,804	(3,229)	483,575
Taxation and zakat	130,493	(168)	130,325
Profit after taxation and zakat	356,311	(3,061)	353,250
Minority interest	6,176	(86)	6,090
Net profit for the year	350,135	(2,975)	347,160
<u>Earnings per share</u>			
Basic (sen)	27.7	(0.2)	27.5
Fully diluted (sen)	26.3	(0.3)	26.0

* Reclassified as mentioned in Note 48.

Statement by Directors

The directors of SOUTHERN BANK BERHAD state that, in their opinion, the financial statements set out on pages 31 to 118 are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Bank and of the Group as of December 31, 2005 and of the results and the cash flows of the Bank and of the Group for the year ended on that date.

Signed on behalf of the Board in accordance with a resolution of the directors,

YBhg Tan Sri Dato' Tan Teong Hean
Chief Executive Director

YBhg Dato' Yeap Leong Huat
Director

Kuala Lumpur
April 25, 2006

Statutory Declaration

I, CHEW HOY PING, being the officer primarily responsible for the financial management of SOUTHERN BANK BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 31 to 118 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared
by the abovenamed **CHEW HOY PING**
at KUALA LUMPUR
April 25, 2006

Before me,

S. Masood Omar
Commissioner for Oaths
Kuala Lumpur

Report of the Auditors

to the Members of Southern Bank Berhad

We have audited the accompanying balance sheets as of December 31, 2005 and the related statements of income, cash flows and changes in equity for the year then ended. 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 towards any other person for the content of this report.

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

In our opinion,

- (a) the abovementioned financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia as modified by Bank Negara Malaysia's Guidelines so as to give a true and fair view of:
 - (i) the state of affairs of the Bank and of the Group as of December 31, 2005 and of the results and the cash flows of the Bank and of the Group for the year ended on that date; and
 - (ii) the matters required by Section 169 of the Act to be dealt with in the financial statements and consolidated financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Bank and the 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 financial statements and the auditors' report of the subsidiary company of which we have not acted as auditors as indicated in Note 13 to the financial statements, being financial statements that have been included in the consolidated financial statements.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Bank 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 as required by us for these purposes.

The auditors' reports on the financial statements of the subsidiary companies that have been included in the consolidated financial statements were not subject to any qualification and did not include any comment made under Sub-section (3) of Section 174 of the Act.

DELOITTE KASSIMCHAN

AF 0080

Chartered Accountants

KEK AH FONG

1880/04/08 (J)

Partner

April 25, 2006

Analysis of Shareholdings

as at 25 May 2006

Authorised Share Capital	:	RM10,000,020,000 comprising 10,000,000,000 ordinary shares of RM1.00 each and 200,000 non-cumulative redeemable preference shares of RM0.10 each
Issued and Paid-up Share Capital	:	RM1,525,451,130 comprising 1,525,451,130 ordinary shares of RM1.00 each
Class of Shares	:	Ordinary Shares of RM1.00 each Non-Cumulative Redeemable Preference Shares of RM0.10 each
Voting rights	:	One vote per shareholder on a show of hands One vote per ordinary share on a poll

Size of Shareholding	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Issued Capital
Less than 100	675	4.54	26,107	*
100 to 1,000	2,969	19.99	2,432,740	0.16
1,001 to 10,000	8,792	59.19	35,939,786	2.45
10,001 to 100,000	2,043	13.75	56,120,076	3.82
100,001 to less than 5% of issued shares	375	2.52	1,147,038,503	78.05
5% and above of issued shares	1	0.01	228,015,818	15.52
Total	14,855	100.00	1,469,573,030[#]	100.00

* Less than 0.01%

[#] Excluding a total of 55,878,100 SBB Shares bought-back by SBB and retained as treasury shares as at 25 May 2006

TOP 30 MAJOR SHAREHOLDERS as at 25 May 2006

(Without aggregating the securities from different securities accounts belonging to the same depositor)

	Shareholdings	%
1. Killinghall (Malaysia) Bhd	228,015,818	15.52
2. Citicorp Nominees (Asing) Sdn Bhd	64,716,252	4.40
– Oversea-Chinese Banking Corporation Limited		
3. HDM Nominees (Tempatan) Sdn Bhd	62,500,000	4.25
– Dato' Syed Mohd Yusof bin Tun Syed Nasir		
4. HDM Nominees (Tempatan) Sdn Bhd	62,500,000	4.25
– DYMM Sultan Sharafuddin Idris Shah Ibni Almarhum Sultan Salahuddin Abdul Aziz Shah Al Haj		
5. Amalan Istimewa Sdn Bhd	60,975,236	4.15
6. Kumpulan Wang Amanah Pencen	54,019,600	3.68
7. Mayban Securities Nominees (Asing) Sdn Bhd	50,362,001	3.43
– KI Investments (HK) Limited		
8. Cimsec Nominees (Tempatan) Sdn Bhd	49,060,000	3.34
– Exempt AN for Bumiputra-Commerce Trustee Berhad		
9. Kuala Lumpur City Nominees (Asing) Sdn Bhd	38,100,000	2.59
– Altima Inc		
10. UOBM Nominees (Tempatan) Sdn Bhd	37,422,000	2.55
– Heng Lee & Company Sdn Bhd		

ANALYSIS OF SHAREHOLDINGS

as at 25 May 2006

TOP 30 MAJOR SHAREHOLDERS as at 25 May 2006 (CONT'D)

(Without aggregating the securities from different securities accounts belonging to the same depositor)

	Shareholdings	%
11. Employees Provident Fund Board	33,302,687	2.27
12. Citigroup Nominees (Asing) Sdn Bhd	28,625,300	1.95
– Exempt AN For Merrill Lynch International		
13. Bumiputra-Commerce Nominees (Tempatan) Sdn Bhd	28,600,000	1.95
– Ramuda Sdn Berhad		
14. Citigroup Nominees (Asing) Sdn Bhd	22,060,100	1.50
– Exempt AN For Merrill Lynch International		
15. Yeap Lean Seng Sdn Berhad	19,981,504	1.36
16. Malaysia Focus Investment Fund Limited	18,200,000	1.24
17. Cimsec Nominees (Tempatan) Sdn Bhd	17,648,600	1.20
– Exempt AN For Bumiputra-Commerce Trustee Berhad		
18. Heng Lee And Company Sdn Berhad	16,378,000	1.11
19. HSBC Nominees (Asing) Sdn Berhad	14,138,300	0.96
– ABN Amro Bank N.V. (London Branch)		
20. Asia Life (M) Berhad	13,505,950	0.92
– As Beneficial Owner (PF)		
21. Citigroup Nominees (Asing) Sdn Bhd	12,561,600	0.85
– Farallon Capital Mgmt Llc Fao Farallon Capital Offshore Investors, Inc.		
22. HSBC Nominees (Asing) Sdn Berhad	11,961,100	0.81
– Exempt AN for Morgan Stanley & Co. International Limited		
23. GET Holdings Sdn Berhad	10,085,208	0.69
24. Citigroup Nominees (Asing) Sdn Bhd	8,632,000	0.59
– Farallon Capital Offshore Investors II		
25. Employees Provident Fund Board	8,565,300	0.58
26. UOBM Nominees (Tempatan) Sdn Bhd	8,539,670	0.58
– Yeap Leong Huat		
27. RC Nominees (Tempatan) Sdn Bhd	8,516,836	0.58
– Raja Noora Ashikin binti Raja Abdullah		
28. Capital Properties Berhad	8,483,750	0.58
29. EB Nominees (Tempatan) Sendirian Berhad	8,477,000	0.58
– Heng Lee & Company Sdn Bhd		
30. Citigroup Nominees (Asing) Sdn Bhd	8,215,300	0.56
– Farallon Capital Institutional Partners L.P.		
Total	1,014,149,112	69.01

ANALYSIS OF SHAREHOLDINGS

as at 25 May 2006

SUBSTANTIAL SHAREHOLDERS

Name	Direct	Indirect	% of Issued Capital
Killinghall (Malaysia) Bhd	246,868,318	–	16.80
Ramuda Sdn Bhd	28,749,206	246,872,056 ¹	18.75
Tan Sri Dato' Tan Teong Hean	3,485,727	343,429,818 ²	23.60
DYMM Sultan Sharafuddin Idris Shah	66,368,750	275,621,262 ³	23.27
Dato' Syed Mohd Yusof bin Tun Syed Nasir	62,500,000	275,621,262 ³	23.00

Notes:

1. By virtue of its direct shareholdings in Killinghall (Malaysia) Bhd and Ramuda Mining Sdn Bhd.
2. By virtue of his direct shareholding in Ramuda Sdn Bhd, direct and indirect shareholdings in Killinghall (Malaysia) Bhd and indirect shareholdings in Ramuda Mining Sdn Bhd and Amalan Istimewa Sdn Bhd.
3. By virtue of his direct and/or indirect shareholdings in Ramuda Sdn Bhd, Killinghall (Malaysia) Bhd and Ramuda Mining Sdn Bhd.

Tan Sri Dato' Tan Teong Hean, by virtue of his total direct and indirect interests of 346,915,545 shares in the Company, is deemed interested in the shares in all of the Company's subsidiary companies to the extent that the Company has interests.

DYMM Sultan Sharafuddin Idris Shah, by virtue of his total direct and indirect interests of 341,990,012 shares in the Company, is deemed interested in the shares in all of the Company's subsidiary companies to the extent that the Company has interests.

Dato' Syed Mohd Yusof bin Tun Syed Nasir by virtue of his total direct and indirect interests of 338,121,262 shares in the Company, is deemed interested in the shares in all of the Company's subsidiary companies to the extent that the Company has interests.

Analysis of Warrant Holdings

as at 25 May 2006

No. of Warrants in Issue	:	86,168,343
Exercise Price of Warrants	:	RM1.74
Exercise Period of Warrants	:	18 June 1997 – 17 June 2006
Exercise Rights	:	Each warrant entitles the holder to subscribe for one (1) new ordinary share of RM1.00 each in the Company at any time during the Exercise Period

Size of Warrant Holdings	No. of Warrant Holders	% of Warrant Holders	No. of Warrants Held	% of Warrant Holdings
Less than 100	584	24.67	20,563	0.02
100 to 1,000	456	19.26	260,044	0.30
1,001 to 10,000	1,064	44.95	3,571,241	4.14
10,001 to 100,000	214	9.04	6,453,595	7.50
100,001 to less than 5% of warrants in issue	47	2.00	42,257,220	49.04
5 % and above of warrants in issue	2	0.08	33,605,680	39.00
Total	2,367	100.00	86,168,343	100.00

TOP 30 MAJOR WARRANT HOLDERS as at 25 May 2006

(Without aggregating the securities from different securities accounts belonging to the same depositor)

	Warrant Holdings	%
1. Southern Nominees (Tempatan) Sdn Bhd – Killinghall (Malaysia) Bhd	27,763,195	32.22
2. Southern Nominees (Tempatan) Sdn Bhd – Ramuda Mining Sdn Bhd	5,842,485	6.78
3. HSBC Nominees (Asing) Sdn Bhd – Exempt AN for Credit Suisse (SG BR-TST-Asing)	4,115,478	4.78
4. Citigroup Nominees (Asing) Sdn Bhd – Farallon Capital Mgmt Llc Fao Farallon Capital Offshore Investors, Inc.	4,024,200	4.67
5. HSBC Nominees (Asing) Sdn Bhd – Exempt AN for Morgan Stanley & Co. Incorporated	3,226,800	3.75
6. HSBC Nominees (Asing) Sdn Bhd – HSBC-FS I for Lim Asia Arbitrage Fund Inc.	3,055,000	3.55
7. Alliancegroup Nominees (Tempatan) Sdn Bhd – Employees Provident Fund	2,981,400	3.46
8. Malaysia Focus Investment Fund Limited	2,630,968	3.05
9. PM Nominees (Tempatan) Sdn Bhd – MUI Continental Insurance Berhad	2,354,000	2.73
10. Cesuco Trading Limited	1,806,400	2.10

ANALYSIS OF WARRANT HOLDINGS

as at 25 May 2006

TOP 30 MAJOR WARRANT HOLDERS as at 25 May 2006 (Cont'd)

(Without aggregating the securities from different securities accounts belonging to the same depositor)

	Warrant Holdings	%
11. Citigroup Nominees (Asing) Sdn Bhd	1,801,300	2.09
– Farallon Capital Offshore Investors II		
12. Capital Properties Berhad	1,785,705	2.07
13. HSBC Nominees (Asing) Sdn Bhd	1,783,600	2.07
– Exempt AN for Morgan Stanley & Co. Incorporated		
14. Glenmarie Estates Sdn Berhad	1,494,225	1.73
15. Mayban Nominees (Asing) Sdn Bhd	958,677	1.11
– Sword Investments Private Limited		
16. CIMB Nominees (Tempatan) Sdn Bhd	863,700	1.00
– CIMB Securities Sdn Bhd		
17. BHLB Trustee Bhd	709,800	0.82
– Prubalanced Fund		
18. Citigroup Nominees (Asing) Sdn Bhd	689,900	0.80
– Farallon Capital Partners, L.P.		
19. HSBC Nominees (Asing) Sdn Bhd	605,650	0.70
– Exempt AN for Credit Suisse (SG BR-TST-Asing)		
20. CIMB Nominees (Tempatan) Sdn Bhd	515,300	0.60
– CIMB Securities Sdn Bhd		
21. Mohammad Abdus Salim bin S Cassim	499,641	0.58
22. Citigroup Nominees (Asing) Sdn Bhd	498,200	0.58
– Noonday Offshore Inc		
23. Public Nominees (Tempatan) Sdn Bhd	489,090	0.57
– Dato' Tan Tiong Hian		
24. Ong Swee Keng	450,000	0.52
25. Citigroup Nominees (Asing) Sdn Bhd	421,600	0.49
– Farallon Capital Institutional Partners L.P.		
26. Citigroup Nominees (Asing) Sdn Bhd	400,000	0.46
– CLSA Capital Limited (Cust-Non Res)		
27. Citicorp Nominees (Asing) Sdn Bhd	370,000	0.43
– Farallon Capital Mgmt Llc Fao Farallon Capital Offshore Investors, Inc.		
28. Syarikat Senky Dredging Sdn Bhd	343,071	0.40
29. Lim Kuan Gin	256,200	0.30
30. RHB Capital Nominees (Tempatan) Sdn Bhd	250,890	0.29
– Dato' (Dr) Yahya bin Ismail		
Total	72,986,475	84.70

Directors' Direct and Indirect Interests

in Shares and Warrants in the Company

Other than as set forth below, none of the other directors of the Company had any interest, in shares and warrants, direct or indirect, in the Company and its related corporations.

SHAREHOLDINGS

	Direct	% of Issued Capital	Indirect	% of Issued Capital
Tan Sri Dato' Tan Teong Hean	3,485,727	0.24	343,429,818 ^a	23.37
Dato' Yeap Leong Huat	10,210,298	0.70	2,786,511 ^b	0.19
Mr Yeap Lam Yang	6,461,723	0.44	2,786,511 ^c	0.19
Tengku Zaitun binti Tengku Mahadi	1,902	*	–	–

* Less than 0.01%

Notes

- (a) By virtue of his direct shareholding in Ramuda Sdn Bhd, direct and indirect shareholdings in Killinghall (Malaysia) Bhd and indirect shareholdings in Ramuda Mining Sdn Bhd and Amalan Istimewa Sdn Bhd.
- (b) By virtue of his shareholding in Ban Hin Lee Investment Limited.
- (c) By virtue of his shareholding in Ban Hin Lee Investment Limited.

WARRANT HOLDINGS

	Direct	% of Warrants in Issue	Indirect	% of Warrants in Issue
Tan Sri Dato' Tan Teong Hean	643,961	0.75	33,634,117 ^a	39.03
Tengku Zaitun binti Tengku Mahadi	547	*	–	–

Notes

- (a) By virtue of his direct shareholding in Ramuda Sdn Bhd, direct and indirect shareholdings in Killinghall (Malaysia) Bhd and indirect shareholdings in Ramuda Mining Sdn Bhd and Amalan Istimewa Sdn Bhd

Additional Compliance Information

The following information is presented in compliance with the Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Malaysia):

1. SHARE BUY BACK

On June 27, 2005, the Bank obtained the approval of the shareholders at an Extraordinary General Meeting, to buy back up to 145,000,000 of its own shares (SBB Shares) through Bursa Malaysia.

During the financial year, the Bank bought back 55,323,400 SBB Shares from the open market at an average price of RM3.61 per share. The total consideration paid for the SBB Shares, including transaction costs was RM199,914,697. The SBB Shares bought back are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965. The treasury shares have no rights to voting, dividends and participation in other distribution.

Month	No. of shares bought back	Lowest price paid (RM)	Highest price paid (RM)	Average price paid (RM)	Total consideration (RM)
June	801,800	3.16	3.22	3.19	2,559,629
July	8,573,200	3.18	3.44	3.33	28,594,263
August	8,853,100	3.38	3.62	3.51	31,154,220
September	16,301,200	3.46	3.60	3.55	57,889,557
October	10,470,200	3.36	4.02	3.66	38,429,202
November	8,925,300	3.84	4.20	3.99	35,686,823
December	1,398,600	3.90	4.06	4.00	5,601,003
Total	55,323,400	3.16	4.06	3.61	199,914,697

None of the treasury shares held were resold or cancelled during the financial year.

2. MATERIAL CONTRACTS

There was no material contract (not being contracts entered into in the ordinary course of business) entered into by the Company, and/ or its subsidiary companies which involve directors and major shareholders, either still subsisting at the end of the financial year ended 31 December 2005 or entered into since the end of the previous financial year that have been entered by the Company or its subsidiary companies involving directors and major shareholders in the past two years preceding the date of this annual report.

3. IMPOSITION OF SANCTION AND/OR PENALTIES

There were no public sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or the Management by any regulatory body during the financial year under review. However, Bank Negara Malaysia has compounded the Company in the sum of RM2,555,000 for non reporting under Section 51 of the Banking and Financial Institutions Act 1989 and the Company had paid the said sum of money on 31 May 2006.

Southern Bank Branches

as at November 2005



WILAYAH PERSEKUTUAN

1. Kuala Lumpur Main

Ground Floor
Wisma Genting
28 Jalan Sultan Ismail
50250 Kuala Lumpur
Tel: 03-21636358
Fax: 03-20316320

2. P. Ramlee

Ground Floor, MUI Plaza
Jalan P. Ramlee
50250 Kuala Lumpur
Tel: 03-21453311
Fax: 03-27151454

3. Bangsar

19 Lorong Ara Kiri 1
Taman Lucky Bangsar
59100 Kuala Lumpur
Tel: 03-20935129
Fax: 03-20931913

4. Mid Valley

Lot No S-067,
2nd Floor (South Wing)
Mid Valley Megamall
Mid Valley City
Lingkar Syed Putra
59200 Kuala Lumpur
Tel: 03-22877800
Fax: 03-22878215

5. Bukit Tunku

J2 & K1 Taman Tunku
Bukit Tunku
50480 Kuala Lumpur
Tel: 03-62013136
Fax: 03-62013328

6. Jalan Hang Lekiu

49 Jalan Hang Lekiu
50100 Kuala Lumpur
Tel: 03-20700222
Fax: 03-20701853

7. Jalan Imbi

43 Jalan Barat
Off Jalan Imbi
55100 Kuala Lumpur
Tel: 03-21426018
Fax: 03-21451329

8. Jalan Kuchai Lama

5 Jalan 2/116 B
Kuchai Entrepreneurs'
Park
Off Jalan Kuchai Lama
58200 Kuala Lumpur
Tel: 03-79803164
Fax: 03-79804286

9. Jalan Pudu

317-319 Jalan Pudu
55100 Kuala Lumpur
Tel: 03-92224372
Fax: 03-92217688

10. Jalan Raja Laut

338 Jalan Raja Laut
50350 Kuala Lumpur
Tel: 03-40446306
Fax: 03-40434909

11. Jalan Sentul

704 & 706 Jalan Sentul
51000 Kuala Lumpur
Tel: 03-40412423
Fax: 03-40433787

12. Jalan Sultan

59 Jalan Sultan
50000 Kuala Lumpur
Tel: 03-20722654
Fax: 03-20725758

13. Jinjang

6055 Jalan Jambu Gajus
Jinjang Selatan
52000 Kuala Lumpur
Tel: 03-62501701
Fax: 03-62570179

14. Kampung Pandan

63 & 65 Jalan Kampung
Pandan
Kampung Pandan
55100 Kuala Lumpur
Tel: 03-92846386
Fax: 03-92828043

15. Kepong

47 Jalan 3 / 34 A
Kepong Entrepreneurs'
Park
52100 Kuala Lumpur
Tel: 03-62509691
Fax: 03-62514122

16. Plaza Damansara

Menara Southern Bank
83, Medan Setia Satu
Plaza Damansara
Bukit Damansara
50490 Kuala Lumpur
Tel: 03-20873044
Fax: 03-27104840

17. Taman Connaught

197 & 199 Jalan Sarjana
Taman Connaught
Cheras
56000 Kuala Lumpur
Tel: 03-91322051
Fax: 03-91326392

18. Taman Maluri

Ground Floor
No. 27, Jalan Jejaka 7
Taman Maluri Off Jalan
Cheras
55100 Kuala Lumpur
Tel: 03-92069600
Fax: 03-92842327

SOUTHERN BANK BRANCHES

as at November 2005

19. Taman Sri Rampai
21 & 23 Jalan 46A / 26
Taman Sri Rampai
Setapak
53300 Kuala Lumpur
Tel: 03-41494677
Fax: 03-41424959

20. Taman Tun Dr Ismail
1 Jalan 2 / 71
Taman Tun Dr Ismail
60000 Kuala Lumpur
Tel: 03-77283686
Fax: 03-77290878

TTDI-DRIVE- IN WIM

No. 7, Jalan Abang Haji
Gopeng
Taman Tun Dr. Ismail
60000 Kuala Lumpur
Tel: 03-77264032
Fax: 03-77264053

21. Wisma Idris
No. 17, Jalan Sultan
Ismail
50250 Kuala Lumpur
Tel: 03-20717110
Fax: 03-20262631

PULAU PINANG

22. Penang Main
Menara BHL
Jalan Sultan Ahmad
Shah
10050 Pulau Pinang
Tel: 04-2274397
Fax: 04-2274822

23. Ayer Itam
21 Jalan Ayer Itam
11400 Pulau Pinang
Tel: 04-8284769
Fax: 04-8299358

24. Balik Pulau
72 Jalan Besar
11000 Balik Pulau
Pulau Pinang
Tel: 04-8667986
Fax: 04-8667992

25. Bayan Baru
90 Jalan Mayang Pasir
Taman Sri Tunas
Bandar Bayan Baru
11950 Bayan Lepas
Tel: 04-6432533
Fax: 04-6438577

26. Batu Ferringgi
No. 2 Jalan Sungai Emas
11100 Batu Ferringgi
Pulau Pinang
Tel: 04-8813471
Fax: 04-8813476

27. Bayan Lepas
1223-4 Jalan Raya
11900 Bayan Lepas
Tel: 04-6436002
Fax: 04-6448426

28. Bukit Mertajam
70 Jalan Stesen
14000 Bukit Mertajam
Tel: 04-5393567
Fax: 04-5389630

29. Butterworth
4992-4993 Jalan New
Ferry
12100 Butterworth
Tel: 04-3332873
Fax: 04-3321408

30. Dato Kramat
450 Jalan Dato Kramat
10460 Pulau Pinang
Tel: 04-2292066
Fax: 04-2284207

31. Kampung Gajah
7087 Jalan Kampung
Gajah
12200 Butterworth
Tel: 04-3314987
Fax: 04-3331632

32. Nibong Tebal
2904 High Street
14300 Nibong Tebal
Tel: 04-5933236
Fax: 04-5934800

33. Paya Terubong
1228T Jalan Paya
Terubong
11060 Pulau Pinang
Tel: 04-8275244
Fax: 04-8275242

34. Jalan Burmah
202A, Jalan Burmah
10350 Pulau Pinang
Tel: 04-2270641
Fax: 04-2270690

35. Prai
1284 Jalan Bahru
13700 Prai
Tel: 04-3901212
Fax: 04-3997840

36. Prangin Mall
Lot 33-G-08
Prangin Mall
Jln. Dr. Lim Chwee
Leong
10100 Pulau Pinang
Tel: 04-2620021
Fax: 04-2635716

37. Prima Tanjung
98-G-29&30,
Prima Tanjung,
Jalan Fettes,
Tanjung Tokong
11200 Pulau Pinang
Tel: 04-8990144
Fax: 04-8990722

38. Pulau Tikus
368-1-14 & 15 Jln
Burmah
10350 Pulau Pinang
Tel: 04-2267426
Fax: 04-2280084

39. Seberang Jaya
D20-638 Gerbang Tuna
Seberang Jaya
13700 Perai
Tel: 04-3906402
Fax: 04-3901157

40. Seri Damai
1-G-2B Medan Batu
Lanchang
11600 Pulau Pinang
Tel: 04-6571458
Fax: 04-6562550

41. Sri Rambai
38 Lebu Nangka Dua
14000 Bukit Mertajam
Tel: 04-5305862
Fax: 04-5305854

42. Sungai Bakap
1308 Jalan Besar
Sungai Bakap
14200 Sungai Jawi
Tel: 04-5824452
Fax: 04-5821373

43. Tanjung
43 Lebu Pantai
10300 Pulau Pinang
Tel: 04-2628173
Fax: 04-2627917

KEDAH

44. Alor Setar
1302, Jalan Tunku
Ibrahim
05000 Alor Setar
Tel: 04-7319473
Fax: 04-7318058

45. Gurun
18-A Jalan Raya
08300 Gurun
Tel: 04-4689645
Fax: 04-4689606

46. Kulim
201-A Jalan Tunku Putra
09000 Kulim
Tel: 04-4905392
Fax: 04-4901855

47. Mergong
106-A Seberang
Jalan Putra,
Mergong, 05150 Alor
Setar
Tel: 04-7339122
Fax: 04-7318981

48. Sungai Petani
24-A Jalan Kampung
Baru
08000 Sungai Petani
Tel: 04-4229325
Fax: 04-4229332

49. Pekan Baru
90, Jalan Pengkalan
Susur Kiri, Taman Pekan
Baru
08000 Sungai Petani
Tel: 04-4231549
Fax: 04-4231468

PERLIS

50. Kuala Perlis
No. 69 Jalan Besar
02000 Kuala Perlis
Tel: 04-9855861
Fax: 04-9854598

SOUTHERN BANK BRANCHES

as at November 2005

PERAK

- 51. Bercham**
194 Jalan Bercham
31400 Ipoh
Tel: 05-5452894
Fax: 05-5452899
- 52. Jalan Kampar**
Ground Floor
Plaza Teh Teng Seng
227 Jalan Kampar
30250 Ipoh
Tel: 05-2555450
Fax: 05-2530154
- 53. Ipoh**
45 Jalan Tun
Sambanthan
30000 Ipoh
Tel: 05-2411355
Fax: 05-2535962
- 54. Kamunting**
51 Jalan Taiping Utara
34600 Kamunting
Tel: 05-8058561
Fax: 05-8058564
- 55. Kampar**
99 & 101 Jalan Gopeng
31900 Kampar
Tel: 05-4651157
Fax: 05-4651854
- 56. Kuala Kangsar**
Plot 55, Fasa 2,
Bandar Baru
33000 Kuala Kangsar
Tel: 05-7765866
Fax: 05-7765863
- 57. Langkap**
3104 C & D Jalan
Kampar
36700 Langkap
Tel: 05-6591250
Fax: 05-6592313
- 58. Menglembu**
31 & 33 Jalan Lee Ming
Hin
31450 Menglembu
Tel: 05-2813657
Fax: 05-2826416

- 59. Persiaran Greentown**
54-56, Persiaran
Greentown 1
Green Town Business
Centre
30450 Ipoh
Tel: 05-2410319
Fax: 05-2410236
- 60. Simpang**
655, Jalan Taman
Kota Jaya Luar
34700 Simpang
Tel: 05-8472229
Fax: 05-8473406
- 61. Tasik**
613 & 615 Jalan Tasik
Taman Sri Tasik 31400
Ipoh
Tel: 05-5465623
Fax: 05-5460632

SELANGOR

- 62. Ampang**
16 & 17 Jalan Besar
68000 Ampang
Tel: 03-42944602
Fax: 03-42934399
- 63. Bandar Sunway**
101, Jalan PJ S 11 / 2
Subang Indah
46000 Petaling Jaya
Tel: 03-56326935
Fax: 03-56366859
- 64. Cheras**
1 & 3 Jalan PCR I
Kawasan Perniagaan
Cheras Raya Off Jalan
Balakong Batu 11
Cheras, 43200 Cheras
Tel: 03-90768375
Fax: 03-90768395
- 65. Dengkil**
195 Jalan Besar
43800 Dengkil
Tel: 03-87686896
Fax: 03-87687670
- 66. Jalan Barat**
3 Jalan Barat
46200 Petaling Jaya
Tel: 03-79550154
Fax: 03-79562496
- 67. Jalan Gasing**
111 & 113 Jalan Gasing
46000 Petaling Jaya
Tel: 03-79546640
Fax: 03-79586422
- 68. Jalan Klang Lama**
14 & 16 Jalan MJ / 7
Medan Maju Jaya Batu 7
Jalan Klang Lama
46000 Petaling Jaya
Tel: 03-77836925
Fax: 03-77836927
- 69. Kajang**
21 Jalan S10/2
Section 10 Jalan Bukit
43000 Kajang
Tel: 03-87374209
Fax: 03-87374282
- 70. Kelana Jaya**
A201, Block A,
Glomac Business Centre,
No. 10 Jalan SS6/1,
Kelana Jaya
47301 Petaling Jaya
Tel: 03-78031446
Fax: 03-78037153
- 71. Kinrara**
17 Jalan TK1/11A
Plaza Kinrara
Off Jalan Puchong
47100 Puchong
Tel: 03-80757854
Fax: 03-80759193
- 72. Klang**
113 & 113A, Jalan
Kapar
41400 Klang
Tel: 03-33437486
Fax: 03-33437551
- 73. Pelabuhan Klang**
55-59 Jalan Cungah
42000 Pelabuhan Klang
Tel: 03-31670997
Fax: 03-31681062
- 74. Petaling Jaya**
Ground Floor
62, Jalan SS2/60
47300 Petaling Jaya
Tel: 03-78759154
Fax: 03-78758418

- 75. Puchong**
12 & 13 Jalan Kenari 1
Bandar Puchong Jaya
47100 Puchong
Tel: 03-58825007
Fax: 03-58825009
- 76. Rawang**
49 Jalan Maxwell
48000 Rawang
Tel: 03-60912775
Fax: 03-60912844
- 77. Seksyen 14**
22 & 24 Jalan 14 / 14
Seksyen 14
46100 Petaling Jaya
Tel: 03-79566241
Fax: 03-79573872
- 78. Seksyen 17**
933 Jalan 17 / 38
Seksyen 17
46400 Petaling Jaya
Tel: 03-79553782
Fax: 03-79568567
- 79. Selayang**
14 Jalan Sri Selayang
Taman Sri Selayang
68100 Batu Caves
Tel: 03-61897766
Fax: 03-61862102
- 80. Seri Kembangan**
26368 Jalan College
43300 Seri Kembangan
Tel: 03-89422734
Fax: 03-89424236
- 81. Shah Alam**
14 Jalan Tengku
Ampuan
Zabedah D9/D
Seksyen 9
40100 Shah Alam
Tel: 03-55100633
Fax: 03-55106701
- 82. Seksyen 15**
8, Jalan UTAS D15/D
Seksyen 15
40000 Shah Alam
Tel: 03-55196986
Fax: 03-55197380
- 83. Subang Jaya**
40 & 42 Jalan SS15 / 4D
Subang Jaya
47500 Petaling Jaya
Tel: 03-56346723
Fax: 03-56352555

SOUTHERN BANK BRANCHES

as at November 2005

84. Sungai Buloh
386 Jalan 1A / 3
Bandar Baru Sungai
Buloh
47000 Sungai Buloh
Tel: 03-61561387
Fax: 03-61561589

85. Rahman Putra
54, Jalan BRP 1/2
Bukit Rahman Putra
47000 Sungai Buloh
Tel: 03-61573285
Fax: 03-61573280

86. Sungai Chua (Kajang)
3 Taman Cahaya
Sungai Chua 43000
Kajang
Tel: 03-87335382
Fax: 03-87369031

87. Taman Intan (Klang)
49 & 51 Jalan Batai
Laut Taman Intan 41300
Klang
Tel: 03-33423476
Fax: 03-33424832

NEGERI SEMBILAN

88. Ampangan
45 Jalan Cempaka
Bandar Baru Ampangan
70400 Seremban
Tel: 06-7622844
Fax: 06-7620351

89. Bahau
95 & 96, Jalan Gurney
72100 Bahau
Tel: 06-4542611
Fax: 06-4545628

90. Lukut
Lot 3110 Jalan Besar
Lukut
71010 Port Dickson
Tel: 06-6511946
Fax: 06-6511858

91. Nilai
Jalan BBN 1/1F
Bandar Baru Nilai
71800 Nilai
Tel: 06-8500153
Fax: 06-8500137

92. Rembau
30, Jalan Terentang
71300 Rembau
Tel: 06-6851122
Fax: 06-6851287

93. Seremban
9/G Arab Malaysian
Business Centre
Jalan Tuanku Munawir
70000 Seremban
Tel: 06-7617519
Fax: 06-761 7506

PAHANG

94. Bentong
87 Jalan Loke Yew
28700 Bentong
Tel: 09-2222966
Fax: 09-2226113

95. Jalan Beserah
B-338 Jalan Beserah
25300 Kuantan
Tel: 09-5663387
Fax: 09-5665487

96. Kuantan
34-40 Jalan Telok Sisek
25050 Kuantan
Tel: 09-5163211
Fax: 09-5161927

97. Ringlet
31 Main Road
39200 Ringlet
Tel: 05-4956877
Fax: 05-4957096

MELAKA

98. Alor Gajah
AG 9495,
Jalan Simpang 4
78000 Alor Gajah
Tel: 06-5562935
Fax: 06-5562937

99. Air Keroh
36 & 37 Lorong Setia 1
Air Keroh Heights
75450 Melaka
Tel: 06-2322189
Fax: 06-2315128

100. Melaka
110, Jalan Bendahara
75100 Melaka
Tel: 06-2841460
Fax: 06-2841436

101. Jalan Bendahara
Ground Floor
80 & 82, Jalan
Bendahara
75100 Melaka
Tel: 06-2823540
Fax: 06-2863727

JOHOR

102. Batu Pahat
Ground Floor
Kompleks Penggaram
No. 1 Jalan Abdul
Rahman
83000 Batu Pahat
Tel: 07-4328201
Fax: 07-4328244

103. Bukit Gambir
167 Jalan Besar
84800 Bukit Gambir
Muar
Tel: 06-9762489
Fax: 06-9762606

104. Johor Bahru
75 Jalan Kuning Dua
Taman Pelangi
80400 Johor Bahru
Tel: 07-3312090
Fax: 07-3343734

105. Johor
Ground Floor
61-61C, Jalan Ibrahim
80000 Johor Bahru
Tel: 07-2241988
Fax: 07-2271948

106. Johor Jaya
2, 4 & 6 Jalan Dedap 20
Taman Johor Jaya
81100 Johor Bahru
Tel: 07-3544501
Fax: 07-3548669

107. Kluang
2 Jalan Haji Manan
86000 Kluang
Tel: 07-7725921
Fax: 07-7715677

108. Perling
382 Jalan Simbang
Taman Perling
81200 Johor Bahru
Tel: 07-2389770
Fax: 07-2380129

109. Pontian Kecil
Ground Floor
753, Jalan Taib
82000 Pontian Kecil
Tel: 07-6872677
Fax: 07-6868277

110. Senai
18 Jalan Belimbing
81400 Senai
Tel: 07-5992155
Fax: 07-5994855

111. Skudai
48 Jalan Hang Tuah 4
Taman Skudai Baru
81300 Skudai
Tel: 07-5584549
Fax: 07-5583803

112. Tampoi
24 & 26 Jalan Padi 1
Bandar Baru UDA
Tampoi
81200 Johor Bahru
Tel: 07-2379645
Fax: 07-2379653

KELANTAN

113. Kota Bharu
681-J Jalan Che Su
15000 Kota Bharu
Tel: 09-7448789
Fax: 09-7449019

114. Kebun Sultan
4262-T, Ground Floor
Jalan Kebun Sultan
15350 Kota Bharu
Tel: 09-7445500
Fax: 09-7442837

TERENGGANU

115. Kemaman
K3757 Jalan Sulaimani
24000 Kemaman
Tel: 09-8593234
Fax: 09-8593236

116. Kuala Terengganu
104A-B Jalan Sultan
Ismail
20200 Kuala
Terengganu
Tel: 09-6223213
Fax: 09-6229058

SOUTHERN BANK BRANCHES

as at November 2005

SARAWAK

117. Kuching

282 Jalan Rubber
93400 Kuching
Tel: 082-238072
Fax: 082-238069

118. Miri

945 Jalan Parry
98000 Miri
Tel: 085-437729
Fax: 085-437735

SABAH

119. Kota Kinabalu

Lot No. 62 & 63,
Inanam Commercial
Centre
88450 Kota Kinabalu
Tel: 088-439731
Fax: 088-439709

120. Api-Api

Ground Floor,
4/G1 & F1,
Lorong Api-Api 1,
Api-Api Centre,
Jalan Tun Razak
88000 Kota Kinabalu
Tel: 088-267617
Fax: 088-265100

121. Kampung Air

(Kota Kinabalu)
Jalan Kampung Air 4
88000 Kota Kinabalu
Tel: 088-249688
Fax: 088-254388

122. Sandakan

Blok B, Lot No 2
Bandar Ramai-Ramai
Jalan Leila
90000 Sandakan
Tel: 089-218366
Fax: 089-210175

SINGAPORE

123. Singapore

39 Robinson Road
#01-02 Robinson Point
Singapore 068911
Tel: 02-65321318
Fax: 02-65355366

Auto Finance Service Centres

WILAYAH PERSEKUTUAN

- 1. Nusantara**
Level 11, Wisma
Nusantara Jalan Puncak
Off Jalan P. Ramlee
50250 Kuala Lumpur
Tel: 03-20581000
Fax: 03-20310506
- 2. Taman Maluri**
No. 27, Jalan Jejaka
Taman Maluri
Off Jalan Cheras
55100 Kuala Lumpur
Tel: 03-92069600
Fax: 03-92842328

SELANGOR

- 3. Klang**
113 & 113A,
Jalan Kapar
41400 Klang
Tel: 03-33432827
Fax: 03-33453606
- 4. Petaling Jaya**
62, Jalan SS2/60
47300 Petaling Jaya
Tel: 03-7876 7575
Fax: 03-78758418

NEGERI SEMBILAN

- 5. Seremban**
9/G Arab Malaysian
Business Centre
Jalan Tuanku Munawir
70100 Seremban
Tel: 06-7640458
Fax: 03-7632781

MELAKA

- 6. Melaka**
80 & 82, Jalan Bendahara
75100 Melaka
Tel: 06-2823540
Fax: 06-2834816

JOHOR

- 7. Batu Pahat**
Kompleks Penggaram
No. 1, Jalan Abdul
Rahman
83000 Batu Pahat
Tel: 07-4343860
Fax: 07-4314670

- 8. Johor Bahru**
61-61C, Jalan Ibrahim
80000 Johor Bahru
Tel: 07-2274402
Fax: 07-2271948

PERAK

- 9. Ipoh**
54-56, Persiaran
Greentown 1
Greentown Business
Centre
30450 Ipoh
Tel: 05-2439692
Fax: 05-2439690

KEDAH

- 10. Alor Setar**
1302, Jalan Tunku Ibrahim,
05000 Alor Setar
Tel: 04-7337903
Fax: 04-7319566

PULAU PINANG

- 11. Penang**
202A, Jalan Burmah
10350 Penang
Tel: 04-2274444
Fax: 04-2270566

- 12. Bukit Mertajam**
70 Jalan Stesen
14000 Bukit Mertajam
Tel: 04-5371217
Fax: 04-5389148

SABAH

- 13. Kota Kinabalu**
Ground Floor 4/G1 & F1,
Lorong Api-Api 1
Api-Api Centre
Jalan Tun Razak
88000 Kota Kinabalu
Tel: 088-265222
Fax: 088-267858

KELANTAN

- 14. Kota Bahru**
4262T-Ground Floor
Jalan Kebun Sultan
15350 Kota Bahru
Tel: 09-744 5500
Fax: 09- 7447701

TERENGGANU

- 15. Kuala Terengganu**
104A-B,
Jalan Sultan Ismail
20200 Kuala Terengganu
Tel: 09-6231133
Fax: 09-6231135

SARAWAK

- 16. Kuching**
282, Jalan Rubber
93400 Kuching
Tel: 082-253440
Fax: 082-230382

- 17. Miri**
945, Jalan Parry
98000 Miri
Tel: 085-438140
Fax: 085-438072

PAHANG

- 18. Kuantan**
34-40, Jalan Telok Sisek
25050 Kuantan
Tel: 09-5156539
Fax: 09-5162614

Bank Group Directory

SOUTHERN BANK BERHAD

Corporate Headquarters

Tan Sri Dato' Tan Teong Hean

Chief Executive Director

Level 3, Menara Southern Bank
83, Medan Setia 1
Plaza Damansara
Bukit Damansara
50490 Kuala Lumpur
Tel : 03-20873000
Fax : 03-20933157
<http://www.southernbank.com.my>

SBB SECURITIES SDN BHD

RC NOMINEES (TEMPATAN) SDN BHD

RC NOMINEES (ASING) SDN BHD

James Lau Yew Kong

Chief Executive Officer

3rd Floor, Plaza Damansara Utama
No. 2, Jalan SS 21/60
Damansara Utama
47400 Petaling Jaya
Selangor Darul Ehsan
Tel : 03-77297345
Fax : 03-77281357

SBB ASSET MANAGEMENT SDN BHD

Pearl Wong

Chief Executive Officer

Level 5, Bangunan Setia 1
Lorong Dungun
Damansara Heights
50490 Kuala Lumpur
Tel : 03-20845000
Fax : 03-20845001

S.B. VENTURE CAPITAL CORPORATION SDN BHD

Eu Sim Wai

Executive Vice President

Level 2, Menara Southern Bank
83, Medan Setia 1
Plaza Damansara
Bukit Damansara
50490 Kuala Lumpur
Tel : 03-20925128
Fax : 03-20921672

S.B. PROPERTIES SDN BHD

ELITE CONSTANT DEVELOPMENT SDN BHD

Lee Bee Suan

Executive Vice President

2nd Floor, 1, Jalan Ampang
50450 Kuala Lumpur
Tel : 03-20789000
Fax : 03-20729702

SOUTHERN NOMINEES (TEMPATAN) SDN BHD

SOUTHERN NOMINEES (ASING) SDN BHD

Tan Ghee Kay

Executive Vice President & Company Secretary

Level 3, Menara Southern Bank
83, Medan Setia 1
Plaza Damansara
Bukit Damansara
50490 Kuala Lumpur
Tel : 03-20873000
Fax : 03-20933157

SBB CAPITAL MARKETS SDN BHD

Kong Sooi Peng

Company Secretary

Level 3, Menara Southern Bank
83, Medan Setia 1
Plaza Damansara
Bukit Damansara
50490 Kuala Lumpur
Tel : 03-20873000
Fax : 03-20933157

SOUTHERN INVESTMENT BANK BERHAD

PERDANA NOMINEES (TEMPATAN) SDN BHD

PERDANA NOMINEES (ASING) SDN BHD

Goh Ching Yin

Chief Executive Officer

16th Floor, Wisma Genting
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel : 03-20594188
Fax : 03-20722964

SBB MUTUAL BERHAD

Tan Beng Wah

Chief Executive Officer

50, 52 & 54, Jalan SS21/39
Damansara Utama
47400 Petaling Jaya
Selangor
Tel : 03-77122888
Fax : 03-77265088

BHLB TRUSTEE BERHAD

Joshua Lim Yoke Long

Chief Executive Officer

Ground & First Floor
No. 24, Jalan 14/22
Right Angle, Seksyen 14
46100 Petaling Jaya
Selangor
Tel : 03-79583637/79582761
Fax : 03-79554071

BHLB PROPERTIES SDN BHD

Koay Beng Tin

Vice President

2nd Floor, 1, Jalan Ampang
50450 Kuala Lumpur
Tel : 03-20789000
Fax : 03-20729702

List of Bank Group Properties

as at December 31, 2005

Address	Brief Description	Existing Use	Land/Built-up* Area (Sq. M.)	Tenure & Expiry Date	Age of Building (Years)	Net Book Value (RM'000)	Date of Revaluation*/ Acquisition
OWNED BY SOUTHERN BANK BERHAD							
Wilayah Persekutuan							
No. 34, Jalan Tun Perak, 50050 Kuala Lumpur	4 storey building	Administrative Office	354	Freehold	23	4,209	01-07-2000
Pulau Pinang							
Menara BHL Jalan Sultan Ahmad Shah 10050, Georgetown	11 floors of a 30 storey office building	Branch, Administrative Office & Tenanted	14,480*	Freehold	10	46,618	01-07-2000
No. 43, Lebu Pantai, 10300 Georgetown	5 storey building	Branch & Administrative Office	987	Freehold	Pre 1948	9,809	01-07-2000
No. 1284, Jalan Bahru, 13700 Prai	1 unit 2 storey shophouse	Branch	375	Freehold	31	1,304	01-07-2000
No. 1307, 1308 & 1309 Jalan Besar, Sungai Bakap, 14200 Sungai Jawi	3 units 2 storey shophouse	Branch	334	Freehold	28	1,105	01-07-2000
No. 21, Jalan Ayer Itam, 11400	2 storey detached building	Branch	1,708	Freehold	12	2,349	01-07-2000
No. 7086 & 7087, Jalan Kampung Gajah, 12200 Butterworth	2 units 3 storey shophouse	Branch	269	99 Year Lease 30-09-2085	8	1,464	01-07-2000
No. 2, Jalan Sungai Emas, 11100 Batu Feringgi	2 units shoplots on ground floor of commercial complex	Branch	111*	Freehold	10	528	01-07-2000
No. 1228T, Jalan Paya Terubong, 11060	shop unit on ground and first floor of commercial complex	Branch	292*	Freehold	10	688	01-07-2000
G-08, Prangin Mall Komtar, Jalan Dr. Lim Chwee Leong, 10100, Georgetown	1 shoplot on ground floor of shopping complex	Branch	335*	99 Year Lease 2096	5	3,094	01-07-2000
No. 98 - 29 & 30, Jalan Fettes Park, Bandar Tanjung Tokong, 11200	2 units 4 storey shophouse	Branch	630*	Freehold	6	2,874	01-07-2000
1-G - 2B, Medan Batu Lanchang, 11600, Georgetown	1 shoplot on ground floor of 3 storey commercial complex	Branch	289*	99 Year Lease 2086	7	2,184	01-07-2000

LIST OF BANK GROUP PROPERTIES

as at December 31, 2005

Address	Brief Description	Existing Use	Land/Built-up* Area (Sq. M.)	Tenure & Expiry Date	Age of Building (Years)	Net Book Value (RM'000)	Date of Revaluation*/ Acquisition
Unit G01 Sub-centre Kompleks, Medan Mayang Pasir, 11950 Bayan Baru	shop unit on ground floor of subcentre complex	Store	186	99 Year Lease 31-10-2076	27	446	01-07-2000
Kedah							
No. 1571, Jalan Kota, 05000 Alor Setar	2 units 4 storey shophouse	Vacant	203	60 Year Lease 25-03-2029	7	1,164	01-07-2000
Selangor							
No. 14 Jalan Tengku Ampuan Zabedah, D9/D, Seksyen 9, 40100 Shah Alam	1 unit 4 storey shophouse	Branch	167	99 Year Lease 29-08-2094	9	1,165	01-07-2000
No. 2, Jalan PJS 11/2, Subang Indah, 46000 Petaling Jaya	1 unit 2 1/2 storey shophouse	Branch	210	99 Year Lease 2086	10	1,245	01-07-2000
Negeri Sembilan							
No. 9/G, Arab Malaysian Business Centre, Jalan Tunku Munawir, 70000 Seremban	3 units ground & first floor of 6 storey office complex	Branch	850*	99 Year Lease 2082	11	2,890	01-07-2000
Jalan BBN 1/1F, Bandar Baru Nilai, 718000 Nilai	1 unit 3 storey shophouse	Branch	296	Freehold	8	1,043	01-07-2000
Johor							
No. 2, Jalan Haji Manan, 86000 Kluang	2 units 3 storey shophouse	Branch	293	99 Year Lease 2096	9	1,744	01-07-2000
Sabah							
Jalan Kampung Air 4, 88000 Kota Kinabalu	1 unit 4 storey shophouse	Branch	114	99 Year Lease 31-12-2073	29	2,323	01-07-2000
Sarawak							
No. 944 & 945, Jalan Parry, 98000 Miri	2 units 4 storey shophouse	Branch & Tenanted	277	99 Year Lease 06-04-2057	10	2,618	01-07-2000
No. 281 & 282, Jalan Rubber, 93400 Kuching	2 units 3 storey shophouse	Branch	275	875 Year Lease 09-03-2812	11	1,581	01-07-2000

LIST OF BANK GROUP PROPERTIES

as at December 31, 2005

Address	Brief Description	Existing Use	Land/Built-up* Area (Sq. M.)	Tenure & Expiry Date	Age of Building (Years)	Net Book Value (RM'000)	Date of Revaluation*/ Acquisition
OWNED BY SOUTHERN FINANCE BERHAD							
Wilayah Persekutuan							
No. 27, Jalan Jejaka Tujuh, Taman Maluri, Jalan Cheras, 55100 Kuala Lumpur	1 unit 4 storey shophouse	Sales, Service & Collection Centre	205	99 Year Lease 24-05-2076	20	771	27-06-2003*
Kedah							
No. 1302, Jalan Tunku Ibrahim, 06000 Alor Setar	1 unit 3 storey shophouse	Sales, Service & Collection Centre	250	99 Year Lease 22-10-2076	28	707	24-09-2003*
No. 1552, Jalan Kota 05000 Alor Setar	1 unit 3 1/2 storey shophouse	Tenanted	111	99 Year Lease 14-01-2029	35	373	04-09-2003*
Perak							
No. 665, Jalan Kota Jaya Luar, 34700 Simpang, Taiping	1 unit 2 storey shophouse	Service & Collection Centre	393	99 Year Lease 16-11-2065	27	308	04-09-2003*
No. 55, Bandar Baru Fasa 2, 33000 Kuala Kangsar	1 unit 2 storey shophouse	Service Centre	123	99 Year Lease 06-06-2083	14	218	10-09-2003*
Selangor							
No. 54, Jalan BRP 1/2, Bukit Rahman Putra, 47000 Sungai Buloh	1 unit 3 storey shophouse & sub-basement	Service Centre	153	Freehold	8	776	09-09-2003*
Melaka							
No. AG 9495, Jalan Simpang Empat, 78000 Alor Gajah	1 unit 3 storey shophouse	Service Centre	149	Freehold	21	232	01-07-2003*
Johor							
No. 61-62, Jalan Ibrahim 80000 Johor Bharu	2 units 4 storey shophouse	Service & Collection Centre	190	Freehold	15	1,598	04-09-2003*
No. 36, Jalan Padi Satu, Bandar Baru UDA, 81200 Johor Bahru	1 unit 2 storey shophouse	Vacant	164	99 Year Lease 11-08-2078	8	865	27-12-2002*
Pahang							
No. 5, Jalan Dato Bahaman 4, Pusat Komersial Temerloh, Temerloh	1 unit 2 storey shophouse	Store	130	99 Year Lease 19-02-2096	7	408	09-09-2003*

LIST OF BANK GROUP PROPERTIES

as at December 31, 2005

Address	Brief Description	Existing Use	Land/Built-up* Area (Sq. M.)	Tenure & Expiry Date	Age of Building (Years)	Net Book Value (RM'000)	Date of Revaluation*/ Acquisition
Trengganu							
No. 1C, Jalan Air Jernih 23000 Kuala Terengganu	1 unit 3 1/2 storey shophouse	Sales, Service & Collection Centre	111	Freehold	21	604	27-06-2003*
OWNED BY SFB DEVELOPMENT SDN. BHD.							
Pulau Pinang							
No. 2, Jalan Muthupalaniappa, 14000 Seberang Prai, Bukit Mertajam	1 unit 4 1/2 storey shophouse	Sales, Service & Collection Centre	521	Freehold	20	3,390	25-06-2003*
No. 202A, Jalan Burmah, 10350 Georgetown	1 unit 4 storey shophouse	Sales, Service & Collection Centre	337	Freehold	12	3,035	04-09-2003*
Perak							
No. 1, Jalan Bidor Raya, Off Jalan Persatuan, 35000 Bidor	1 unit 3 storey shophouse	Service Centre	301	99 Year Lease 23-12-2080	25	626	22-06-2003*
Melaka							
No. 80 & 82, Jalan Bendahara, 75100 Melaka	2 units 4 1/2 storey shophouse	Sales, Service & Collection Centre	569	Freehold	19	2,233	02-07-2003*
Johor							
No. 753, Jalan Taib, 82000 Pontian Kecil	1 unit 3 storey shophouse	Service & Collection Centre	184	Freehold	21	621	15-07-2003*
87-88, Jalan Rahmat, 83000 Batu Pahat	2 units 4 storey shophouse	Sales, Service & Collection Centre	307	Freehold	22	1,123	15-07-2003*
OWNED BY PERDANA VISI HARTANAH SDN. BHD.							
Selangor							
No. 292, Jalan Batu Unjur 7, Bayu Perdana, 41200 Klang	1 unit 3 storey shophouse	Tenanted	139	Freehold	7	625	02-12-2002*
Melaka							
No. 161, Taman Melaka Raya, 75000 Melaka	1 unit 2 storey shophouse	Tenanted	270	99 Year Lease 19-08-0275	24	527	07-01-2003*

LIST OF BANK GROUP PROPERTIES

as at December 31, 2005

Address	Brief Description	Existing Use	Land/Built-up* Area (Sq. M.)	Tenure & Expiry Date	Age of Building (Years)	Net Book Value (RM'000)	Date of Revaluation*/ Acquisition
OWNED BY SEAL LINE TRADING SDN. BHD.							
Wilayah Persekutuan							
Lot 23 & 24, Seksyen 87, Bandar Kuala Lumpur, Jalan Tun Razak, 53200 Kuala Lumpur	Vacant land	Vacant	3,518	Freehold	Pending Devt.	15,000	27-06-1996
OWNED BY S.B. PROPERTIES SDN. BHD.							
Wilayah Persekutuan							
No. 83 , Medan Setia 1, Plaza Damansara Bukit Damansara, 50490 Kuala Lumpur	7 storey building	Corporate Headquarters & Branch	4,025	Freehold	6	49,270	28-09-1994
No. 43, Jalan Barat Off Jalan Imbi, 55100 Kuala Lumpur	4 ½ storey building	Branch & Administrative Office	374	99 Year Lease 30-01-2073	28	3,144	1993
No. 13, Jalan Barat Off Jalan Imbi, 55100 Kuala Lumpur	1 unit 2 storey shophouse	Tenanted	163	99 Year Lease 30-03-2025	78	249	03-09-1991
Pulau Pinang							
Lot 636-640, Block D 20, Gerbang Tuna Seberang Jaya, 13700 Perai	5 units 2 storey shophouse	Branch & Tenanted	393*	99 Year Lease 28-08-2082	19	333	30-12-1983
No. 98 -21& 22, Jalan Fettes Park, Bandar Tanjung Tokong 11200	2 units 4 storey shophouse	Tenanted	209	Freehold	5	2,416	10-06-1997
Kedah							
No. 1564, Jalan Kota, 05000 Alor Setar	4 ½ storey building	Branch & Tenanted	393	60 Year Lease 25-11-2023	23	736	1984
Perak							
No. 33, Jalan Lee Ming Hin, 31450 Menglembu	1 unit 2 ½ storey shophouse	Branch	180	Freehold	19	149	11-04-1986

LIST OF BANK GROUP PROPERTIES

as at December 31, 2005

Address	Brief Description	Existing Use	Land/Built-up* Area (Sq. M.)	Tenure & Expiry Date	Age of Building (Years)	Net Book Value (RM'000)	Date of Revaluation*/ Acquisition
Lot No. 2673 & 2674, Main Road, 36700 Langkap	2 units 2 storey shophouse	Branch	298	99 Year Lease 18-08-2085	16	357	27-12-1985
No. 99 & 101, Jalan Gopeng, 31900 Kampar	2 units 2 storey shophouse	Branch	446	Freehold	81	307	1992
No. 613 & 615, Jalan Tasik, 31400 Ipoh	2 units 2 storey shophouse	Branch	286	88 Year Lease 11-03-2079	20	174	1991
Selangor							
No. 14, Jalan Sri Selayang, Taman Sri Selayang, 68100 Batu Caves	2 units 4 storey shophouse	Branch	334	Freehold	20	1,416	14-08-1985
Negeri Sembilan							
No. 111 & 113, Jalan Yam Tuan, 70000 Seremban	5 storey building	Tenanted	357	Freehold	8	2,026	11-11-1997
Melaka							
No. 110, Jalan Bendahara, 75100 Melaka	2 storey building	Branch	1335	Freehold	78	1,301	1992
Pahang							
Unit 5426, 5th Floor, Kayangan Apartment, Genting Highland	Apartment	Staff Recreation	186*	Freehold	25	217	23-07-1999
OWNED BY BHLB PROPERTIES SDN. BHD.							
Pulau Pinang							
No. 90, 92 & 94, Jalan Mayang Pasir Taman Sri Tunas, Bayan Baru, 11950 Bayan Lepas	3 units 3 storey shophouse	Branch	473	Freehold	13	2,256	01-07-2000
No. 125B, Desa Tanjung Tokong, Jalan Tanjung Tokong, 10470	1 shoplots on ground floor of 3 storey commercial block	Vacant	77*	Freehold	12	358	01-07-2000
No. 49, Arked Penang Satu Komtar 10000 Georgetown	3 shoplots ground floor of shopping complex	Tenanted	249*	99 Year Lease 06-01-2082	19	2,116	01-07-2000

LIST OF BANK GROUP PROPERTIES

as at December 31, 2005

Address	Brief Description	Existing Use	Land/Built-up* Area (Sq. M.)	Tenure & Expiry Date	Age of Building (Years)	Net Book Value (RM'000)	Date of Revaluation*/ Acquisition
Perlis							
No. 69 & 71, Jalan Besar, 02000 Kuala Perlis	2 units 3 storey shophouse	Branch	297	Freehold	12	674	01-07-2000
Kedah							
No. 106A & B, Jalan Seberang Putra Mergong, 05150 Alor Setar	2 units 2 storey shophouse	Branch	446	99 Year Lease 07-11-2037	24	684	01-07-2000
No. 24A, Jalan Kampung Baru, 08000 Sungai Petani	2 units 3 storey shophouse	Branch	315	Freehold	14	1,256	01-07-2000
Perak							
No. 51 & 53, Jalan Taiping Utara, Taman Taiping Utara, 34600 Kamunting, Taiping	2 units 3 storey shophouse	Branch	315	Freehold	10	524	01-07-2000
Selangor							
No. 3, Jalan Barat, 46200 Petaling Jaya, Selangor	5 storey shophouse and upper ground floor of adjoining shophouse	Branch	1,807*	99 Year Lease 22-06-2069	14	5,874	01-07-2000
No. 5227, Persiaran Raja Muda Musa, 42000 Pelabuhan Klang	1 unit 4 1/2 storey shophouse	Vacant	319	Freehold	14	1,302	01-07-2000
Melaka							
No. 128, Kompleks Munshi Abdullah, Jalan Munshi Abdullah, 75100 Melaka.	2 units 4 1/2 storey shophouse	Vacant	307	99 Year Lease 24-02-2084	15	1,712	01-07-2000
Johor							
No. 75, 77 & 79, Jalan Kuning Dua, Taman Pelangi 80400 Johor Bahru	3 units 3 storey shophouse	Branch	468	Freehold	13	4,510	01-07-2000
Ground Floor, Kompleks Penggaram, No. 1, Jalan Abdul Rahman, 83000 Batu Pahat	part of ground and mezzanine floor of 5 storey commercial complex	Branch	607*	Freehold	13	1,082	01-07-2000
No. 382, Jalan Simbang, Taman Perling, 81200 Johor Bahru	1 unit 2 storey shophouse	Branch	156	Freehold	13	499	01-07-2000

LIST OF BANK GROUP PROPERTIES

as at December 31, 2005

Address	Brief Description	Existing Use	Land/Built-up* Area (Sq. M.)	Tenure & Expiry Date	Age of Building (Years)	Net Book Value (RM'000)	Date of Revaluation*/ Acquisition
OWNED BY SBB SECURITIES SDN. BHD.							
Perak							
No. 51-53, Persiaran Greenhill, 30450 Ipoh	2 units 4 storey shophouse	Securities dealing & offices	445	999 Year Lease 21-09-2894	12	1,445	03-05-1997*
OWNED BY SBB MUTUAL BERHAD							
Selangor							
No. 52 & 54, Jalan SS21/39, Damansara Utama, 47400 Petaling Jaya	2 units 3 1/2 storey shophouse	Head Office	307	Freehold	26	3,180	01-03-1995
No. 50, Jalan SS21/39, Damansara Utama, 47400 Petaling Jaya	1 unit 3 1/2 storey shophouse	Head Office	153	Freehold	26	2,043	28-02-2001
Sabah							
No. 1, Jalan Kampong Pasar, Kampong Air, 88000 Kota Kinabalu	1 unit 3 1/2 storey shophouse	Regional Office	107	99 Year Lease 30-06-2060	44	508	01-07-1995
Sarawak							
No. 5-B, Lot 414, Section 10 KTLD Jalan Rubber, 93400 Kuching	1 unit 3 storey shophouse	Regional Office	133	869 Year Lease 05-03-2806	68	1,262	01-10-1996

Form of Proxy

Southern Bank Berhad (5303-W) (Incorporated in Malaysia)

44TH ANNUAL GENERAL MEETING

No. of Shares Held

I/We _____ NRIC No. /Co. No. _____
(FULL NAME)

of _____
(ADDRESS)

being a Member of **Southern Bank Berhad**, hereby appoint

_____ NRIC No. _____
(FULL NAME)

of _____
(ADDRESS)

or failing him, _____ NRIC No. _____
(FULL NAME)

of _____
(ADDRESS)

or failing him, the CHAIRMAN OF THE MEETING as my/our proxy, to vote for me/us on my/our behalf at the 44th Annual General Meeting of the Bank, to be held in The Auditorium, Level 6, Menara Southern Bank, 83 Medan Setia 1, Plaza Damansara, Bukit Damansara, 50490 Kuala Lumpur, on Friday, 30 June 2006 at 9.30 a.m. and at any adjournment thereof.

Resolution	Description of Resolution	For	Against
1	Receive and adopt the Audited Financial Statements for the year ended 31 December 2005 and the Reports of the Directors and Auditors thereon.		
2	Re-election of Mr Yeap Lam Yang as a Director in accordance with Article 111 of the Bank's Articles of Association.		
3	Appointment of Auditors		

Please indicate with an "X" in the spaces how you wish your votes to be cast. If you do not indicate how you wish your proxy to vote on the resolution, the proxy will vote as he thinks fit, or, at his discretion, abstain from voting.

Dated this _____ day of _____, 2006.

Witness

Signature or Common Seal of Member

Notes:

The right of Foreigners to vote in respect of their deposited securities is subject to Section 41(1)(e) and Section 41(2) of the Securities Industry (Central Depositories) Act, 1991 and Securities Industry (Central Depositories) (Foreign Ownership) Regulations, 1996. The position of such Depositors in this regard will be determined based on the General Meeting Record of Depositors. Such Depositors, whose shares exceed the Company's foreign shareholding limit of 30% as at the date of the General Meeting Record of Depositors, may attend the above meeting but are not entitled to vote. Consequently, a proxy appointed by such Depositor who is not entitled to vote will also not be entitled to vote at the above meeting.

A member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy to vote on his behalf. A proxy need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. The instrument appointing the proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, under its Common Seal or under the hand of its attorney. An instrument appointing a proxy executed in Malaysia need not be witnessed. The signature to an instrument appointing a proxy executed outside Malaysia shall be attested by a solicitor, notary public, consul or magistrate.

Where a member appoints two proxies, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy. In the case of joint holdings, the signatures of all joint holders are required.

The instrument appointing a proxy must be deposited at the Registered Office of the Company at Level 3, Menara Southern Bank, 83, Medan Setia 1, Plaza Damansara, Bukit Damansara, 50490 Kuala Lumpur not less than 48 hours before the time set for the meeting and any adjournment thereof.

fold here

Affix
Postage
Stamp

SOUTHERN BANK BERHAD
Level 3, Menara Southern Bank,
83, Medan Setia 1,
Plaza Damansara,
Bukit Damansara,
50490 Kuala Lumpur.

fold here
