

BANK SIMPANAN NASIONAL
(Incorporated under the Bank Simpanan Nasional Act, 1974)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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BANK SIMPANAN NASIONAL
(Incorporated under the Bank Simpanan Nasional Act, 1974)

BALANCE SHEETS AS AT 31 DECEMBER 2005

	Note	Group		Bank	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
ASSETS					
Cash and short-term funds	4	1,241,914	1,793,709	1,241,438	1,788,629
Deposits and placements with financial institutions	5	338,250	730,334	328,053	726,270
Investment securities	6	7,486,471	5,308,947	7,485,577	5,308,752
Loans, advances and financing	7	3,641,995	2,903,514	3,641,995	2,903,514
Other assets	9	233,292	94,401	233,938	92,843
Tax recoverable		9,543	5,928	9,310	5,937
Investment in associated companies	10	97,141	100,368	609	609
Investment in subsidiary companies	11	-	-	436,388	84,797
Other investments		1,036	1,036	-	-
Property, plant and equipment	12	381,701	398,872	381,460	398,600
Goodwill	13	236	247	-	-
Total Assets		<u>13,431,579</u>	<u>11,337,356</u>	<u>13,758,768</u>	<u>11,309,951</u>
LIABILITIES AND RESERVES					
Deposits from customers	14	12,937,181	10,903,602	12,937,181	10,903,602
Deposits and placements of financial institutions	15	148,006	83,170	148,006	83,170
Borrowing from institution	16	300,000	300,000	300,000	300,000
Other liabilities	17	266,343	271,374	266,050	270,696
Provision for taxation and zakat	18	260	260	260	260
Deferred taxation	19	-	51	-	-
Total Liabilities		<u>13,651,790</u>	<u>11,558,457</u>	<u>13,651,497</u>	<u>11,557,728</u>
Reserves		<u>(220,211)</u>	<u>(221,101)</u>	<u>107,271</u>	<u>(247,777)</u>
Total Liabilities and Reserves		<u>13,431,579</u>	<u>11,337,356</u>	<u>13,758,768</u>	<u>11,309,951</u>
COMMITMENTS AND CONTINGENCIES					
	32	<u>524,776</u>	<u>188,979</u>	<u>524,776</u>	<u>188,979</u>

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

BANK SIMPANAN NASIONAL
(Incorporated under the Bank Simpanan Nasional Act, 1974)

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	Group		Bank	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Revenue	20	642,655	516,024	639,507	513,351
Interest income	21	420,579	339,157	420,554	338,968
Less: Interest expense	22	(257,362)	(241,609)	(257,362)	(241,609)
Net interest income		163,217	97,548	163,192	97,359
Fees and commission income	23	73,477	57,069	73,477	57,069
Income from Islamic banking operations	38	71,284	32,878	71,284	32,878
Other operating income	24	77,315	86,920	425,783	84,436
Total net income		385,293	274,415	733,736	271,742
Personnel expenses	25	(163,055)	(171,773)	(161,791)	(170,772)
Other overheads	26	(387,355)	(475,547)	(384,707)	(580,514)
Operating loss before allowance/impairment loss		(165,117)	(372,905)	187,238	(479,544)
Allowance for losses on loans and financing	28	(222,190)	(96,108)	(222,190)	(96,108)
Operating loss after allowance/impairment loss		(387,307)	(469,013)	(34,952)	(575,652)
Fund received from government	29	390,000	-	390,000	-
Share of (loss)/profit of associated companies		(1,646)	(75,973)	-	-
Profit/(loss) before taxation		1,047	(544,986)	355,048	(575,652)
Taxation	30	(157)	23,651	-	25,900
Net profit/(loss) for the year		890	(521,335)	355,048	(549,752)

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

BANK SIMPANAN NASIONAL
(Incorporated under the Bank Simpanan Nasional Act, 1974)

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2005

Group

	Government Fund RM'000	Capital reserves RM'000	Retained earnings/ (losses) RM'000	Total RM'000
At 1 January 2004	100,000	1,152	200,057	301,209
Share of post-acquisition capital reserve in associated companies	-	(975)	-	(975)
Net loss for the year	-	-	(521,335)	(521,335)
At 31 December 2004	<u>100,000</u>	<u>177</u>	<u>(321,278)</u>	<u>(221,101)</u>
At 1 January 2005	100,000	177	(321,278)	(221,101)
Net profit for the year	-	-	890	890
At 31 December 2005	<u>100,000</u>	<u>177</u>	<u>(320,388)</u>	<u>(220,211)</u>

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

BANK SIMPANAN NASIONAL
(Incorporated under the Bank Simpanan Nasional Act, 1974)

STATEMENTS OF CHANGES IN RESERVES (CONTD.)
FOR THE YEAR ENDED 31 DECEMBER 2005

Bank

	Government fund RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2004	100,000	201,975	301,975
Net loss for the year	-	(549,752)	(549,752)
At 31 December 2004	<u>100,000</u>	<u>(347,777)</u>	<u>(247,777)</u>
At 1 January 2005	100,000	(347,777)	(247,777)
Net profit for the year	-	355,048	355,048
At 31 December 2005	<u>100,000</u>	<u>7,271</u>	<u>107,271</u>

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

BANK SIMPANAN NASIONAL
(Incorporated under the Bank Simpanan Nasional Act, 1974)

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

	Group		Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before taxation	1,047	(544,986)	355,048	(575,652)
Adjustments for:				
Net amortisation of premiums	14,408	17,158	14,408	17,158
Depreciation	30,188	29,028	30,061	28,847
Property, plant and equipment written off	2,487	6	2,487	6
Gain on disposal of property, plant and equipment	(918)	(5,144)	(918)	(5,144)
Net interest suspended	25,660	13,700	25,660	13,700
Allowance for bad and doubtful debts	260,412	126,898	260,412	126,898
Written back allowance for bad and doubtful debts	(37,884)	(30,675)	(37,884)	(30,675)
Allowance for doubtful debts of receivables included in other assets	-	139	-	139
Bad debts (recovered)/ written off	(338)	(115)	(338)	(115)
Provision for diminution in value of investment in quoted shares	201,975	107,422	201,975	107,422
Share of loss/(profit) retained in associated companies	1,646	75,973	-	-
Net gain from disposal of investment securities	(22,116)	(23,274)	(22,116)	(23,274)
Net loss from disposal of investment securities	106,757	-	106,757	-
Dividend income	(25,738)	(32,943)	(25,738)	(32,943)
Fund received from government	(390,000)	-	(390,000)	-
Amortisation of goodwill	11	11	-	-
Amortisation of goodwill on acquisition of associated companies	-	12,440	-	-
Balance carried forward	167,597	(254,362)	519,814	(373,633)

BANK SIMPANAN NASIONAL
(Incorporated under the Bank Simpanan Nasional Act, 1974)

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTD.)

	Group		Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONTD.)				
Balance carried forward	167,597	(254,362)	519,814	(373,633)
Impairment losses on investment in an associate	-	232,857	-	-
Impairment losses on investment in a subsidiary	-	-	-	351,591
Impairment losses on investment in a subsidiary write back	-	-	(351,591)	-
Profit Equalisation Reserve	(3,053)	284	(3,053)	284
Operating profit/(loss) before working capital changes	164,544	(21,221)	165,170	(21,758)
Increase/(decrease) in deposits and placements with financial institutions	392,084	(305,346)	392,084	(309,414)
Increase in loans and advances	(986,669)	(747,428)	(986,669)	(747,428)
Increase in other assets	(5,379)	(5,546)	(1,807)	(3,468)
Increase in deposits from customers	2,033,579	1,547,298	2,033,579	1,547,298
Increase in deposits and placements of financial institutions	64,836	4,307	64,836	4,307
Increase/(decrease) in other liabilities	(1,810)	50,934	(1,593)	49,878
Cash generated from operations	1,661,185	522,998	1,665,600	519,415
Taxes paid	(87)	(147)	-	-
Net cash generated from operating activities	1,661,098	522,851	1,665,600	519,415

BANK SIMPANAN NASIONAL
(Incorporated under the Bank Simpanan Nasional Act, 1974)

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTD.)

	Group		Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	1,941	6,173	1,941	6,173
Purchases of property, plant and equipment	(16,532)	(76,306)	(16,430)	(76,230)
Net purchases of investment securities	(2,471,082)	(91,639)	(2,471,082)	(92,118)
Dividends received	22,780	22,916	22,780	22,916
Proceeds from disposal of other investments	-	30	-	30
Net cash used in investing activities	<u>(2,462,893)</u>	<u>(138,826)</u>	<u>(2,462,791)</u>	<u>(139,229)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Loans received from Employees Provident Funds (EPF)	-	300,000		300,000
Funds received from Government representing net cash generated from financing activities	250,000	-	250,000	-
Net cash received from financing activities	<u>250,000</u>	<u>300,000</u>	<u>250,000</u>	<u>300,000</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
	(551,795)	684,025	(547,191)	680,186
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>1,793,709</u>	<u>1,109,684</u>	<u>1,788,629</u>	<u>1,108,443</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>1,241,914</u>	<u>1,793,709</u>	<u>1,241,438</u>	<u>1,788,629</u>
CASH AND CASH EQUIVALENTS REPRESENT:				
Cash and short-term funds (Note 4)	<u>1,241,914</u>	<u>1,793,709</u>	<u>1,241,438</u>	<u>1,788,629</u>

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

BANK SIMPANAN NASIONAL
(Incorporated under the Bank Simpanan Nasional Act, 1974)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2005

1. GENERAL INFORMATION

The principal activity of the Bank is to carry out the functions of a Savings Bank, that is to accept funds and to provide loans to customers.

The principal activities of the subsidiaries are described in Note 11 to the financial statements.

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

The Bank is incorporated under the Bank Simpanan Nasional Act, 1974 and domiciled in Malaysia. The principal place of operations of the Bank is at Wisma BSN, 117 Jalan Ampang, 50450 Kuala Lumpur.

The numbers of employees in the Group and in the Bank at the end of the financial year were 5,256 (2004: 5,239) and 5,5098 (2004: 5,220) respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 10 March 2006.

2. FINANCIAL RISK MANAGEMENT

The Group's primary risk management policy seeks to protect the capital and enhance overall profitability against any adverse effect in the event of unavoidable loss from any component of the Group's business through effective management of the Group's risks. During the year, the Bank's risk management oversight structure was enhanced in which Board Risk Management Committee was established and the Bank's Risk Management Department reports directly to the Committee. Members of the Committee comprise independent and non-executive directors.

(a) Interest Rate Risk

Interest rate risk refers to volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Interest rate risk is managed through interest rate sensitivity gap analysis. The objective of interest rate risk management is to ensure the Group maximises returns through strategic decisions made with acceptable interest rate risk exposure.

2. FINANCIAL RISK MANAGEMENT (CONTD.)

(b) Credit Risk

Credit risk is the potential loss of revenue and principal losses in the form of specific allowances as a result of partial or total default of a loan by the borrower. The Group manages its credit risk through proper credit evaluation, collateral and repayment analysis and segregation of approving authority. The objective of credit risk management is to ensure that credit activities are conducted in a proper manner so as to minimise the risk exposure.

(c) Liquidity Risk

Liquidity risk relates to the activity to maintain sufficient liquid assets to meet its financial commitment and obligations when they fall due in a cost effective manner.

It is the Group's policy to maintain sufficient liquidity to fund daily operations and to meet its obligations to depositors and borrowers. Liquidity risk is controlled through the liquidity gap analysis.

(d) Operational Risk

Operational risk is the risk of direct and indirect loss resulting from inadequate or failed internal processes, people and system.

The Group has established appropriate policies and procedures with the objective to minimise losses arising from operational risk.

(e) Market Risk

The risk that the value of the fixed income and equity investment will fluctuate as a result of changes in market prices where those changes are caused by interest rate changes or rating change, in the case of fixed income investment, or are caused by factors specific to the individual company or factors affecting all shares traded in the market, in the case of equity investment.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of the financial statements

The financial statements of the Group and the Bank have been prepared in accordance with the provisions of Bank Simpanan Nasional Act, 1974 and applicable MASB Approved Accounting Standards in Malaysia.

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

Under Section 20 of the Bank Simpanan Nasional Act, 1974, the repayment of all monies deposited in the Bank together with interest thereon is guaranteed by the Government and accordingly, in the event that the assets of the Bank shall be insufficient to pay the lawful claims of every depositor, such deficiency shall be charged on and paid out of the Consolidated Fund and the Minister shall certify such deficiency to the Dewan Rakyat at the earliest possible opportunity.

(b) Basis of Consolidation

(i) Subsidiaries

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries. Subsidiaries are those companies in which the Bank has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet at goodwill or negative goodwill arising on consolidation.

Intra-group transactions and balances are eliminated on consolidation and the consolidated financial statements reflect external transactions only.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences which were not previously recognised in the consolidated income statement.

(ii) Associates

Associates are those companies in which the Group has a long term equity interest and where it exercises significant influence over the financial and operating policies.

Investment in associates is accounted for in the consolidated financial statements by the equity method of accounting based on the audited or management financial statements of the associates. Under the equity method of accounting, the Group's share of profits less losses of associates during the year is included in the consolidated income statement. The Group's interest in associates is carried in the consolidated balance sheet at cost plus the Group's share of post-acquisition retained profits or accumulated losses and other reserves less accumulated goodwill or negative goodwill amortised.

Unrealised gains on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are eliminated unless cost cannot be recovered.

(c) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill is stated at cost less accumulated amortisation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3(m). Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet while goodwill arising on the acquisition of associate is included within the carrying amount of investment in associates.

Goodwill is amortised on a straight-line basis over its estimated useful life of not more than 25 years.

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition.

Negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

To the extent that negative goodwill relates to expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which are not identifiable liabilities, at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised.

(d) Investment in Subsidiaries and Associates

The Bank's investment in subsidiaries and associates are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3(m).

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is recognised in the income statement.

(e) Income Recognition

Interest income is recognised on an accrual basis.

Where an account is classified as non-performing, interest is suspended and claw back to day one until it is realised on a cash basis. Customers' accounts are classified as non-performing where repayments are in arrears for six months or more from the first day of default for loan and advances, except for credit card accounts, which are classified as non-performing where payments are in arrears for more than three months.

The policy on suspension of interest is in accordance with the directives issued by Bank Negara Malaysia on "Guidelines on the Suspension of Interest on Non-Performing Loans and Provision for Bad and Doubtful Debts, BNM/GP3".

Income from the various activities of the Group and of the Bank is accrued using the following bases:

- (i) Interest income on hire purchase is recognised on the "sum-of-digits" method.
- (ii) Interest income on housing and term loans are recognised by reference to rest periods which are either monthly, quarterly or yearly.
- (iii) Interest income from private debt securities are recognised on an accrual basis.
- (iv) Accretion of discounts and amortisation of premiums on investment securities are recognised on time proportion basis to maturity dates that takes into account the effective yield on investment securities.
- (v) Dividend income from investment in subsidiaries, associated companies and other investments are recognised when the shareholders' right to receive payment is established.
- (vi) Fees on a variety of services and facilities extended to customers are recognised on inception of such transactions.

(e) Income Recognition (CONTD.)

(vii) Income derived from Bai-Bithaman Ajil financing is recognised on an accrual basis.

(viii) Income from placements with financial institutions under the Syariah principles is recognised on an accrual basis.

(f) Allowance for Bad and Doubtful Debts

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

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

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

(g) Investment securities

Investment securities are securities that are acquired and held for yield or capital growth.

Malaysian Government Securities, Cagamas bonds, Government Guaranteed bonds, Islamic debt securities and private debt securities held for investments are stated at cost adjusted for amortisation of premiums and accretion of discounts to maturity date, less provision for diminution in value which is other than temporary.

Quoted and unquoted equity securities are held as long term investments and are stated at cost and provision is made for diminution in value which is other than temporary.

Provision for diminution in value which is other than temporary on quoted investment securities is provided partially on the difference between the aggregate carrying value of the investment securities and market values.

(h) Interest, Financing and Related Expense Recognition

Interest expense and attributable profit (on activities relating to SPI business) on deposits and borrowings of the Group and Bank are expensed as incurred and is recognised on accrual basis.

(i) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3(m).

Work-in-progress is not depreciated. Leasehold land is depreciated over the period of the lease which is 99 years. Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates :

Long term leasehold land	over the period of the lease
Buildings	2%
Renovations	15%
Office equipments, furniture and fittings	15%
Computer equipments and software	20%
Motor vehicles	20%

Upon the disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

(j) Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

All exchange rate differences are taken to the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(j) Foreign Currency Transactions

The principal exchange rates used for every unit of foreign currency ruling at the balance sheet date are as follows:

	2005	2004
	RM	RM
United States Dollar	3.78	3.84
Great Britain Sterling Pound	6.52	7.46
Australian Dollar	2.77	3.02
Singapore Dollar	2.27	2.36
100 Indonesian Rupiah	0.04	0.05
100 Japanese Yen	3.22	3.78
100 Thailand Baht	9.20	10.10

(k) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(k) Income Tax (Contd.)

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

(l) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash and bank balances and placements maturing within one month.

(m) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at a revalued amount. Any impairment loss or a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset.

(n) Profit Equalisation Reserve (“PER”) for the Islamic Banking Scheme

Profit equalisation reserve is the amount provided in order to maintain a certain level of return for depositors in conformity with Bank Negara Malaysia’s Guidelines - “The Framework of the Rate of Return”. The PER is deducted at a maximum amount of 15% of the total gross income and is maintained to the maximum of 30% of total Islamic banking capital funds.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(o) Employee Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increases their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plan

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund (“EPF”). Such contributions are recognised as an expense in the income statement as incurred.

(p) Financial Instruments

Financial instruments that are recognised in the balance sheet include cash and bank balances, investment securities, sundry receivables, loans and advances, sundry payables and deposits from customers. The accounting policies on recognition and measurement of these items are disclosed in their respective accounting policies.

Financial instruments are offset when the Bank has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

4. CASH AND SHORT TERM FUNDS

	Group		Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	281,590	412,070	281,115	406,990
Money at call and deposit placements maturing within one month	960,324	1,381,639	960,323	1,381,639
	<u>1,241,914</u>	<u>1,793,709</u>	<u>1,241,438</u>	<u>1,788,629</u>

5. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group		Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Licensed banks	93,993	68,000	85,800	68,000
Licensed finance companies	-	44,627	-	40,563
Licensed merchant banks	-	144,417	-	198,681
Development financial institutions	234,257	274,609	232,253	274,609
Other financial institutions	10,000	198,681	10,000	144,417
	<u>338,250</u>	<u>730,334</u>	<u>328,053</u>	<u>726,270</u>

6. INVESTMENT SECURITIES

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Money Market Instruments				
Malaysian Government Securities	3,626,587	2,267,054	3,626,587	2,267,054
Cagamas Bonds	675,346	727,047	675,346	727,047
Malaysian Government Investment Issues	233,882	34,361	233,882	34,361
State Government Guaranteed Bonds	23,519	22,215	23,519	22,215
Government Guaranteed private debt securities	205,092	208,953	205,092	208,953
Danaharta bonds	-	-	-	-
Khazanah bonds	484,050	99,309	484,050	99,309
KLIA bonds	5,912	6,115	5,912	6,115
Private debt securities	796,723	312,116	796,723	312,116
Islamic debt securities	542,095	491,590	542,095	491,590
	<u>6,593,206</u>	<u>4,168,760</u>	<u>6,593,206</u>	<u>4,168,760</u>
Quoted securities in Malaysia				
Shares	1,147,736	1,277,693	1,147,736	1,277,693
Unit Trust Investment	122,442	121,743	121,548	121,548
	<u>1,270,178</u>	<u>1,399,436</u>	<u>1,269,284</u>	<u>1,399,241</u>
Less : Net amortisation of premiums less accretion of discounts	(26,193)	(44,405)	(26,193)	(44,405)
Less : Accumulated impairment losses - Quoted shares and unit trust in Malaysia	(350,720)	(214,844)	(350,720)	(214,844)
Total investment securities	<u>7,486,471</u>	<u>5,308,947</u>	<u>7,485,577</u>	<u>5,308,752</u>

6. INVESTMENT SECURITIES (CONTD.)

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Indicative market value of money market instruments				
Malaysian Government Securities	3,563,552	2,196,859	3,563,552	2,196,859
Cagamas Bonds	665,866	682,834	665,866	682,834
Malaysian Government Investment Issues	237,694	36,348	237,694	36,348
State Government Pledged Bonds	22,216	22,216	22,216	22,216
Government Guaranteed private debt securities	202,589	203,035	202,589	203,035
Danaharta bonds	-	-	-	-
Khazanah bonds	494,596	66,665	494,596	66,665
KLIA bonds	6,176	6,026	6,176	6,026
Private debt securities	788,452	322,191	788,452	322,191
Islamic debt securities	518,989	454,345	518,989	454,345
	<u>6,500,130</u>	<u>3,990,519</u>	<u>6,500,130</u>	<u>3,990,519</u>
Market value of quoted securities in Malaysia				
Shares	904,504	994,164	904,504	994,164
Unit Trust Investment	41,736	52,395	41,736	52,200
	<u>946,240</u>	<u>1,046,559</u>	<u>946,240</u>	<u>1,046,364</u>
	<u>7,446,370</u>	<u>5,037,078</u>	<u>7,446,370</u>	<u>5,036,883</u>

As at 31 December 2005, the aggregate carrying value (net of provision for diminution in value of RM350,720,795) and market value of investments in quoted shares and unit trust amounted to RM918,564,000 and RM946,240,000 respectively. The Directors are of the opinion that the difference between the aggregate carrying value and the market values of these investments indicates the diminution in value which is other than temporary.

7. LOAN, ADVANCES AND FINANCING

	Group/Bank	
	2005	2004
	RM'000	RM'000
(i) By loan type		
Housing loans/financing	1,663,726	1,185,082
Personal loans	2,262,905	1,018,195
Micro credit	517,129	610,746
Staff loans	120,860	119,608
Credit cards	32,593	24,290
Hire Purchase financing	162,456	257,007
Other term loans/financing *	392,547	443,713
Less: Unearned interest/income	(990,612)	(468,084)
Gross loans, advances and financing	<u>4,161,604</u>	<u>3,190,557</u>
Less: Allowance for bad and doubtful debts and financing:		
- General	(132,185)	(66,917)
- Specific	(321,333)	(166,711)
Interest/income-in-suspense	(66,091)	(53,415)
Total net loans, advances and financing	<u>3,641,995</u>	<u>2,903,514</u>

* Included in the Bank's term loans is a subordinated term loan given to BSNC Corporation (M) Berhad, an associated company amounting to RM150 million and settlement had been made for RM90 million through shares transferring of Affin Holdings Berhad for a sum of 45 million units at RM2 per unit. The balance of 60 million had been restructured at 2.00% per annum yearly rest and payment been made at every quarterly and ended at December 2010

	Group/Bank	
	2005	2004
	RM'000	RM'000
(ii) By type of customer		
Individuals	4,091,459	3,025,683
Subordinate	55,956	150,000
Corporate	14,189	14,874
	<u>4,161,604</u>	<u>3,190,557</u>

7. LOAN, ADVANCES AND FINANCING (CONTD.)

(iii) By interest/profit rate sensitivity

	Group/Bank	
	2005	2004
	RM'000	RM'000
Fixed rate		
Personal loans	1,599,025	1,018,195
Micro credit	517,129	610,746
Housing loans/financing	287,041	130,308
Hire purchase receivables	158,141	240,540
Variable rate		
Cost-plus	772,210	841,507
Market rate	828,058	349,261
	<u>4,161,604</u>	<u>3,190,557</u>

(iv) By sector

Residential	1,490,689	1,177,001
Retail trade	4,189	4,807
Finance, insurance and business services	55,956	150,000
Manufacturing	10,000	10,000
Purchase of securities	11,015	13,740
Purchase of transport vehicles	384,784	446,819
Consumption credit	1,687,842	777,444
Micro credit	517,129	610,746
	<u>4,161,604</u>	<u>3,190,557</u>

8. NON-PERFORMING LOANS/FINANCING

	Group/Bank	
	2005	2004
	RM'000	RM'000
(i) Movements in non-performing loans/financing ("NPLs")		
At beginning of year	599,895	298,704
Classified as non-performing during the year	233,918	334,170
Reclassified as performing during the year *	(149,059)	(27,571)
Amount written off	(2,790)	(5,408)
At end of year	<u>681,964</u>	<u>599,895</u>
Specific allowance ("SA")	(321,333)	(166,711)
Interest/income-in-suspense ("IIS")	(66,091)	(53,415)
Net non-performing loans/financing	<u>294,540</u>	<u>379,769</u>
Ratio of net non-performing loans/financing to net loans and financing	<u>7.80%</u>	<u>12.78%</u>
(ii) Movements in allowance for bad and doubtful debts and interest/income-in-suspense		
General allowance		
At beginning of year	66,917	38,582
Allowance made during the year (Note 28)	65,268	28,335
At end of year	<u>132,185</u>	<u>66,917</u>
(as % of total loans/financing less SA less IIS)	<u>3.50%</u>	<u>2.25%</u>
Specific allowance		
At beginning of year	166,711	102,422
Allowance made during the year (Note 28)	195,144	98,563
Amount recovered (Note 28)	(37,884)	(30,675)
Amount written off	(2,638)	(3,599)
At end of year	<u>321,333</u>	<u>166,711</u>

8. NON-PERFORMING LOANS/FINANCING (CONTD.)

- (ii) Movements in allowance for bad and doubtful debts and interest/income-in-suspense (Contd.)

	Group/Bank	
	2005	2004
	RM'000	RM'000
Interest/income-in-suspense		
At beginning of year	53,415	40,462
Allowance made during the year	33,313	28,962
Amount recovered	(20,469)	(15,262)
Write off	(168)	(747)
At end of year	<u>66,091</u>	<u>53,415</u>

- (iii) Non Performing Loan/Financing

Manufacturing	10,000	10,000
Purchase of residential landed property	226,517	192,392
Purchase of securities	9,883	10,786
Purchase of transport vehicles	106,842	111,980
Consumption credit	29,263	14,017
Micro credit	243,503	110,720
Subordinated loan	55,956	150,000
	<u>681,964</u>	<u>599,895</u>

9. OTHER ASSETS

	Group		Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Due from subsidiaries	-	-	1,094	2,075
Interest/income receivable	75,288	75,810	75,224	75,780
Deposits and prepayments	5,861	6,849	5,861	6,849
Dividend receivable	3,103	6,292	3,103	6,292
Sundry receivables *	154,863	11,374	154,479	7,771
	<u>239,115</u>	<u>100,325</u>	<u>239,761</u>	<u>98,767</u>
Less :				
Allowance for doubtful debts	(5,823)	(5,924)	(5,823)	(5,924)
	<u>233,292</u>	<u>94,401</u>	<u>233,938</u>	<u>92,843</u>

* Included in is a fund received from government amounted to RM140 million that been received at 27 January 2006 (refer to note 29)

10. INVESTMENT IN ASSOCIATED COMPANIES

	Group		Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Unquoted shares, at cost	662,809	662,809	231,809	231,809
Add: Group's share of post-acquisition results	(244,558)	(241,331)	-	-
Add: Group's share of post-acquisition reserves	177	177	-	-
Less: Amortisation of goodwill	(40,430)	(40,430)	-	-
Less: Accumulated impairment losses	(280,857)	(280,857)	(231,200)	(231,200)
	<u>97,141</u>	<u>100,368</u>	<u>609</u>	<u>609</u>

	Group	
	2005	2004
	RM'000	RM'000
Represented by:		
Share of net tangible assets	<u>97,141</u>	<u>100,368</u>

10. INVESTMENT IN ASSOCIATED COMPANIES (CONTD.)

Details of the associated companies are as follows:

Name	Principal activities	Country of incorporation	Effective equity interest		Financial year end
			2005 %	2004 %	
(i) BSNC Corporation (M) Berhad	Investment holding	Malaysia	41.34	41.34	31 December
(ii) Aroma Teraju Sdn. Bhd.	Investment holding	Malaysia	45.00	45.00	30 June
(iii) Avenue Capital Resources Berhad (formerly known as Avenue Assets Berhad) *	Investment holding	Malaysia	13.29	13.53	31 January

On 7th October 2005 investment stake in POS Malaysia & Services Holdings Berhad had been taken over by Khazanah Holdings.

- * Held through Seleksi Ariff Sdn.Bhd via Aroma Teraju Sdn. Bhd. Deemed as associated companies as the Bank, through representation on the Board, exercise significant influence over the financial and operating policies of these companies.

11. INVESTMENT IN SUBSIDIARY COMPANIES

	Bank	
	2005	2004
	RM'000	RM'000
Unquoted shares, at cost	437,834	437,834
Less: Accumulated impairment losses	(1,446)	(353,037)
	<u>436,388</u>	<u>84,797</u>

On 27th January 2006, Bank Simpanan Nasional (BSN) received cash from Ministry of Finance amounting RM440 million for the purpose of taking over the whole interest in Seleksi Arif Sdn Bhd by Syarikat Piramid Pertama Sdn Bhd. Eventhough untill to date, no sale and purchase agreement been signed.

Details of the subsidiary companies are as follows:

Name	Principal activities	Country of incorporation	Percentage of equity held directly		Paid up capital RM'000
			2005 %	2004 %	
Permodalan BSN Berhad *	Management of Unit Trust Fund	Malaysia	100	100	2,000
Seleksi Arif Sdn. Bhd.*	Investment holding	Malaysia	100	100	50
Permodalan BSN Venture Sendirian Berhad *	Venture capital	Malaysia	100	100	2,500

* Not audited by Auditor General of Malaysia

12. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings* RM'000	Other property, plant and equipment** RM'000	Renovations RM'000	Total RM'000
Cost				
At 1 January 2005	340,513	398,961	66,454	805,928
Additions	1,466	11,977	3,083	16,526
Disposals	(599)	(6,399)	-	(6,998)
Write-offs	-	(51,442)	-	(51,442)
	-	(2,458)	2,458	-
At 31 December 2005	<u>341,380</u>	<u>350,639</u>	<u>71,995</u>	<u>764,014</u>
Accumulated Depreciation				
At 1 January 2005	54,495	301,905	50,656	407,056
Depreciation charge for the year (Note 26)	6,197	19,121	4,870	30,188
Disposals	(122)	(6,375)	-	(6,497)
Written-offs	-	(48,434)	-	(48,434)
At 31 December 2005	<u>60,570</u>	<u>266,217</u>	<u>55,526</u>	<u>382,313</u>
Net Book Value				
At 31 December 2005	<u>280,810</u>	<u>84,422</u>	<u>16,469</u>	<u>381,701</u>
At 31 December 2004	<u>286,018</u>	<u>97,056</u>	<u>15,798</u>	<u>398,872</u>
Details at 1 January 2004				
Cost	342,038	374,778	59,480	776,296
Accumulated Depreciation	48,766	328,723	45,927	423,416
Depreciation charge for 2004 (Note 26)				
	<u>6,223</u>	<u>18,076</u>	<u>4,729</u>	<u>29,028</u>

12. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Land and buildings*	Other property, plant and equipment**	Renovations	Total
	RM'000	RM'000	RM'000	RM'000
Bank				
Cost				
At 1 January 2005	340,513	396,235	66,390	803,138
Additions	1,466	11,881	3,083	16,430
Disposals	(599)	(6,399)	-	(6,998)
Write-offs	-	(51,442)	-	(51,442)
	-	(2,458)	2,458	-
At 31 December 2005	<u>341,380</u>	<u>347,817</u>	<u>71,931</u>	<u>761,128</u>
Accumulated Depreciation				
At 1 January 2005	54,495	299,466	50,577	404,538
Depreciation charge for the year (Note 26)	6,197	18,994	4,870	30,061
Disposals	(122)	(6,375)	-	(6,497)
Write-offs	-	(48,434)	-	(48,434)
At 31 December 2005	<u>60,570</u>	<u>263,651</u>	<u>55,447</u>	<u>379,668</u>
Net Book Value				
At 31 December 2005	<u>280,810</u>	<u>84,166</u>	<u>16,484</u>	<u>381,460</u>
At 31 December 2004	<u>286,018</u>	<u>96,769</u>	<u>15,813</u>	<u>398,600</u>
Details at 1 January 2004				
Cost	342,038	372,129	59,416	773,583
Accumulated Depreciation	48,766	326,465	45,848	421,079
Depreciation charge for 2004 (Note 26)				
	<u>6,223</u>	<u>17,895</u>	<u>4,729</u>	<u>28,847</u>

12. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

* LAND AND BUILDINGS

Group/Bank	Long term leasehold land RM'000	Buildings on leasehold land RM'000	Total RM'000
Cost			
At 1 January 2005	61,003	279,510	340,513
Additional	1,466	-	1,466
Disposals	-	(599)	(599)
At 31 December 2005	62,469	278,911	341,380
Accumulated Depreciation			
At 1 January 2005	5,399	49,096	54,495
Depreciation charge for the year	619	5,578	6,197
Disposals	-	(122)	(122)
At 31 December 2005	6,018	54,552	60,570
Net Book Value			
At 31 December 2005	56,451	224,359	280,810
At 31 December 2004	55,604	230,414	286,018
Details at 1 January 2004			
Cost	61,003	281,035	342,038
Accumulated Depreciation	4,780	43,986	48,766
Depreciation charge for 2004	619	5,604	6,223

12. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

** OTHER PROPERTY, PLANT AND EQUIPMENT

	Office equipment, furniture and fittings RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
Group					
Cost					
At 1 January 2005	72,527	276,455	19,364	30,615	398,961
Additions	1,296	3,738	4,205	2,738	11,977
Disposals	(62)	(4,514)	(1,823)	-	(6,399)
Write-offs	(6)	(48,949)	-	(2,487)	(51,442)
Transfers	1,945	22,039	-	(26,442)	(2,458)
At 31 December 2005	75,700	248,769	21,746	4,424	350,639
Accumulated Depreciation					
At 1 January 2005	64,059	226,811	11,035	-	301,905
Depreciation charge for the year	2,208	14,258	2,640	15	19,121
Disposals	(60)	(4,492)	(1,823)	-	(6,375)
Write-offs	(6)	(48,428)	-	-	(48,434)
At 31 December 2005	66,201	188,149	11,852	15	266,217
Net Book Value					
At 31 December 2005	9,499	60,620	9,894	4,409	84,422
At 31 December 2004	8,468	49,644	8,329	30,615	97,056

12. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

** OTHER PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Office equipment, furniture and fittings RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
Group (Contd.)					
Details at 1 January 2004					
Cost	69,852	278,704	14,013	12,209	374,778
Accumulated Depreciation	61,038	255,101	12,584	-	328,723
Depreciation charge for 2004	3,088	13,565	1,423	-	18,076
Bank					
Cost					
At 1 January 2005	72,218	274,617	18,785	30,615	396,235
Additions	1,296	3,650	4,205	2,730	11,881
Disposals	(62)	(4,514)	(1,823)	-	(6,399)
Write-offs	(6)	(48,949)	-	(2,487)	(51,442)
Transfers	1,945	22,039	-	(26,442)	(2,458)
At 31 December 2005	75,391	246,843	21,167	4,416	347,817

12. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

** OTHER PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Office equipment, furniture and fittings RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
Bank (Contd.)					
Accumulated Depreciation					
At 1 January 2005	63,831	225,086	10,549	-	299,466
Depreciation charge for the year	2,208	14,177	2,609	-	18,994
Disposals	(60)	(4,492)	(1,823)	-	(6,375)
Write-offs	(6)	(48,428)	-	-	(48,434)
At 31 December 2005	<u>65,973</u>	<u>186,343</u>	<u>11,335</u>	-	<u>263,651</u>
Net Book Value					
At 31 December 2005	<u>9,418</u>	<u>60,500</u>	<u>9,832</u>	<u>4,416</u>	<u>84,166</u>
At 31 December 2004	<u>8,387</u>	<u>49,531</u>	<u>8,236</u>	<u>30,615</u>	<u>96,769</u>
Details at 1 January 2004					
Cost	69,554	276,931	13,435	12,209	372,129
Accumulated Depreciation	<u>60,828</u>	<u>253,437</u>	<u>12,200</u>	-	<u>326,465</u>
Depreciation charge for 2004	<u>3,070</u>	<u>13,504</u>	<u>1,321</u>	-	<u>17,895</u>

Included in property, plant and equipment of the Group and of the Bank are fully depreciated assets which are still in use costing RM257,414,983 (2004: RM305,793,000) and RM255,102,983 (2004: RM303,481,000) respectively.

13. GOODWILL

	Group	
	2005	2004
	RM'000	RM'000
At beginning of year	247	258
Amortisation during the year (Note 26)	(11)	(11)
At end of year	<u>236</u>	<u>247</u>

14. DEPOSITS FROM CUSTOMERS

	Group/Bank	
	2005	2004
	RM'000	RM'000
(i) By type of deposit		
Savings deposits	6,100,681	6,155,832
Fixed deposits	6,836,500	4,747,770
	<u>12,937,181</u>	<u>10,903,602</u>
(ii) By type of customer		
Government and statutory bodies	2,225,877	2,420,968
Business enterprises	2,731,009	266,237
Individual investment deposits	7,957,830	7,872,905
Others	22,465	343,492
	<u>12,937,181</u>	<u>10,903,602</u>

15. DEPOSITS AND PLACEMENTS OF FINANCIAL INSTITUTIONS

	Group/Bank	
	2005	2004
	RM'000	RM'000
Development financial institutions	<u>148,006</u>	<u>83,170</u>

16. BORROWING FROM INSTITUTION

	Group/Bank	
	2005	2004
	RM'000	RM'000
Borrowing from Employees Provident Fund	<u>300,000</u>	<u>300,000</u>

The borrowing bears a fixed interest rate of 5.08% per annum payable semi-annually in February and August each year and is due by bullet repayment in February 2009.

17. OTHER LIABILITIES

	Group		Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Sundry payables	107,020	113,658	106,966	113,638
Interest payable	105,672	107,365	105,672	107,365
Dividend on Premium Savings				
Certificates payable	11,181	14,354	11,181	14,354
Profit equalisation reserve				
[Note 38(h)]	3,335	6,388	3,335	6,388
Accruals	14,641	12,747	14,402	12,089
Advanced loan				
repayment	24,494	16,862	24,494	16,862
	<u>266,343</u>	<u>271,374</u>	<u>266,050</u>	<u>270,696</u>

18. PROVISION FOR ZAKAT AND TAXATION

	Group/Bank	
	2005	2004
	RM'000	RM'000
Zakat	<u>260</u>	<u>260</u>

19. DEFERRED TAX

The amount is as follows:

	Group	
	2005	2004
	RM'000	RM'000
Deferred tax liabilities	-	51

The recognised deferred liabilities are as follows:

	Group	
	2005	2004
	RM'000	RM'000
Property, plant and equipment - capital allowances	-	51

The unrecognised deferred tax assets (before offsetting) are as follows:

	Group		Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Deductible temporary differences	211,217	214,844	211,217	214,844
Unabsorbed capital allowances	141,883	103,837	141,882	103,888
Unutilised tax losses	259,593	160,743	259,593	160,743
	<u>612,693</u>	<u>479,424</u>	<u>612,692</u>	<u>479,475</u>

The unutilised tax losses and deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

20. REVENUE

Revenue comprises all types of revenue derived from lending, treasury investment and other banking activities undertaken by the Bank.

21. INTEREST INCOME

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Loans and advances				
- Interest income other than recoveries from NPLs	230,872	171,374	230,871	171,374
- Recoveries from NPLs	19,096	13,483	19,096	13,483
Money at call and deposits with financial institutions	44,432	50,682	44,408	50,493
Investment securities	175,020	144,614	175,020	144,614
	<u>469,420</u>	<u>380,153</u>	<u>469,395</u>	<u>379,964</u>
Net amortisation of premiums less accretion of discounts	(26,378)	(18,690)	(26,378)	(18,690)
Net interest suspended	(22,463)	(22,306)	(22,463)	(22,306)
Total interest income	<u>420,579</u>	<u>339,157</u>	<u>420,554</u>	<u>338,968</u>

22. INTEREST EXPENSE

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Deposits from customers	135,356	125,219	135,356	125,219
Deposits and placements of other financial institutions	98,202	81,410	98,202	81,410
Others	23,804	34,980	23,804	34,980
	<u>257,362</u>	<u>241,609</u>	<u>257,362</u>	<u>241,609</u>

23. FEES AND COMMISSION INCOME

	Group/Bank	
	2005	2004
	RM'000	RM'000
Service charges and fees	38,588	41,185
Other fee income	34,889	15,884
	<u>73,477</u>	<u>57,069</u>

24. OTHER OPERATING INCOME

	Group		Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Net gain from sale of investment securities	22,116	23,274	22,116	23,274
Other investment income	20,117	17,878	20,117	17,878
Gross dividend income				
- Quoted in Malaysia	25,738	32,943	25,738	32,943
Write back of impairment loss on investment in a subsidiary	-	-	351,591	-
Other income				
- Net gain on foreign currency translation	87	147	87	147
- Net gain on disposal of property, plant and equipment	918	5,144	918	5,144
- Rental income	2,801	2,953	2,801	3,115
- Others	5,538	4,581	2,415	1,935
	<u>77,315</u>	<u>86,920</u>	<u>425,783</u>	<u>84,436</u>

25. PERSONNEL EXPENSES

	Group		Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Salaries and wages	109,383	109,560	108,222	108,889
Allowances and bonuses	10,683	13,633	10,683	13,489
Social security costs	1,842	1,649	1,739	1,642
Short term accumulating compensated absences	631	296	631	296
Pension costs - defined contribution plan	18,388	18,582	18,388	18,487
Other staff related expenses	22,128	28,053	22,128	27,969
Total	<u>163,055</u>	<u>171,773</u>	<u>161,791</u>	<u>170,772</u>

25. PERSONNEL EXPENSES (CONTD.)

Included in personnel expenses of the Group and of the Bank is executive director's remuneration amounting to RM391,000 (2004: RM479,000) and RM391,000 (2004: 451,000) respectively as further disclosed in Note 27.

26. OTHER OVERHEADS

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Promotion and marketing:				
- Advertisement and publicity	2,317	7,133	2,317	7,108
Establishment:				
- Rental of premises	13,091	13,204	13,091	13,204
- Depreciation (Note 12)	30,188	29,028	30,061	28,847
- Electronic data processing expenses	10,081	9,207	10,081	9,207
- Hire of equipment	11,749	14,723	11,749	14,541
General expenses				
- Auditors' fee	175	175	153	153
- Directors' remuneration (Note 27)	132	139	132	90
- Amortisation of goodwill				
- Subsidiary (Note 13)	11	11	-	-
- Associated companies	-	12,440	-	-
- Subsidised interest on staff loans *	434	423	434	423
- Allowance for doubtful debts of receivable included in other assets	148	139	148	139
- Provision for diminution in value of investment in quoted shares	201,975	107,422	201,975	107,422
- Impairment loss on investment in an associate	-	232,857	-	-
- Impairment loss on investment in a subsidiary	-	-	-	351,591
- Property, plant and equipment written off	2,487	6	2,487	6
- Loss on disposal of investment securities	106,757	-	106,757	-
- Loss on disposal of asset	16	-	16	-
- Others	7,794	48,640	5,306	47,783
	<u>387,355</u>	<u>475,547</u>	<u>384,707</u>	<u>580,514</u>

26. OTHER OVERHEADS (CONTD.)

* This relates to interest subsidised by the Bank for loans granted by the Government to the Bank's employees.

27. DIRECTORS' REMUNERATION

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Directors of the Bank				
Executive:				
Salaries and other emoluments	391	444	391	444
Bonus:				
- current year's provisions	-	7	-	7
	<u>391</u>	<u>451</u>	<u>391</u>	<u>451</u>
Non-Executive:				
Fees	90	90	90	90
	<u>481</u>	<u>541</u>	<u>481</u>	<u>541</u>
Directors of Subsidiaries				
Executive:				
Other emoluments	-	28	-	-
Non-Executive:				
Fees	42	49	42	-
	<u>42</u>	<u>77</u>	<u>42</u>	<u>-</u>
Total	<u>523</u>	<u>618</u>	<u>523</u>	<u>541</u>

27. DIRECTORS' REMUNERATION (CONTD.)

	Group		Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Analysis excluding benefits-in-kind				
Total executive directors' remuneration (Note 25)	391	479	391	451
Total non-executive directors' remuneration (Note 26)	132	139	132	90
Total directors' remuneration	<u>523</u>	<u>618</u>	<u>523</u>	<u>541</u>

28. ALLOWANCE FOR LOSSES ON LOANS AND FINANCING

	Group/Bank	
	2005	2004
	RM'000	RM'000
Allowance for bad and doubtful debts on loan and financing		
(a) General allowance		
- Provided during the year (Note 8)	65,268	28,335
(b) Specific allowance		
- Provided during the year (Note 8)	195,144	98,563
- Written back (Note 8)	(37,884)	(30,675)
Bad debts (recovered)/written off	(338)	(115)
	<u>222,190</u>	<u>96,108</u>

29. FUND RECEIVED FROM GOVERNMENT

Ministry of Finance agreed to provide Bank Simpanan Nasional with a capital injection for accounting year 31 December 2005 as a step to overcome a negative reserves.

On 9 th September 2005, a reimbursement of RM250 million been made by Ministry of Finance as the first capital injection.

On 27th January 2006, Bank Simpanan Nasional (BSN) received cash amounting RM580 million from Ministry of Finance, in which RM140 million as an additional capital injection that was mentioned above and the balance of RM440 million for the purpose of taking over the whole interest in Seleksi Arif Sdn Bhd by Syarikat Piramid Pertama Sdn Bhd.

The capital injection above amounting RM390 million had been accounted in the income statement as compliance to MASB 31 Accounting for Government Grant and Disclosure of Government Assistance.

30. TAXATION

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Current tax expense				
- current year	(217)	185	-	-
- prior year	-	(25,938)	-	(25,900)
	<u>(217)</u>	<u>(25,753)</u>	<u>-</u>	<u>(25,900)</u>
Deferred tax expense				
Origination and reversal of temporary differences	-	(11)	-	-
	<u>(217)</u>	<u>(25,764)</u>	<u>-</u>	<u>(25,900)</u>
Share of taxation in associated companies	374	2,113	-	-
	<u>157</u>	<u>(23,651)</u>	<u>-</u>	<u>(25,900)</u>
			2005	2004
			RM'000	RM'000
Group				
Profit/(loss) before taxation			<u>1,047</u>	<u>(544,986)</u>
Taxation at Malaysian statutory tax rate of 28% (2003: 28%)			293	(152,596)
Effect of income not subject to tax			(110,353)	(1,724)
Effect of expenses not deductible for tax purposes			75,768	125,974
Effect of restriction on tax deductible expenses for investment holding company			-	6
Deferred tax assets not recognised in respect of current year's tax losses and unabsorbed capital allowances			34,449	30,627
Over provided in prior years			-	(25,938)
Tax credit for the year			<u>157</u>	<u>(23,651)</u>
Bank				
Profit/(loss) before taxation			<u>355,048</u>	<u>(575,652)</u>
Taxation at Malaysian statutory tax rate of 28% (2003 : 28%)			99,413	(161,183)
Effect of income not subject to tax			(208,751)	(1,714)
Effect of expenses not deductible for tax purposes			75,819	132,270
Deferred tax assets not recognised in respect of current year's tax losses and unabsorbed capital allowances			33,519	30,627
Over provided in prior years			-	(25,900)
Tax credit for the year			<u>-</u>	<u>(25,900)</u>

31. RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

The related parties of and their relationship with the reporting institution are as follows:-

Related parties	Relationship
BSNC Corporation (M) Berhad	Associated company
KOBANAS	Staff co-operative
Seleksi Arif Sdn. Bhd.	Subsidiary
Permodalan BSN Berhad	Subsidiary
Permodalan BSN Venture Sendirian Berhad	Subsidiary

(b) Related party transactions

	Subsidiary companies RM'000	Associated companies RM'000	Other related party RM'000
Bank - 2005			
Income			
Interest income on loans and advances	-	(3,600)	(225)
Rental income	(134)	-	-
Expenses			
Interest on fixed deposits	-	-	-
Balances			
Amount due from loans and advances	-	55,956	4,188
Amount due from expenses paid on behalf	-	-	-
Interest receivable on loans and advances	-	1,200	-
Amount due to on advances given	(37)	-	-
Amount due to on deposits	-	-	-
Interest payable on fixed deposits	-	-	-

31. RELATED PARTY TRANSACTIONS (CONTD.)

Bank - 2004

Income

Interest income on loans and advances	-	(3,366)	(225)
Rental income	(162)	-	-

Balances

Amount due from loans and advances	-	150,000	4,806
Interest receivable on loans and advances	-	3,402	-
Amount due to on advances given	(37)	-	-

The directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties except amount due from loan and advances from associated company based on terms agreed before

32. COMMITMENTS AND CONTINGENCIES

	2005			
	Principal amount RM'000	Credit equivalent amount* RM'000	Principal amount RM'000	Credit equivalent amount* RM'000
Group/Bank				
Irrevocable commitments to extend credit:				
Maturity not exceeding one year	465,280	-	179,980	-
Maturity exceeding one year	59,496	29,748	8,999	4,499
	<u>524,776</u>	<u>29,748</u>	<u>188,979</u>	<u>4,499</u>

* The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia's Guidelines

33. INTEREST/PROFIT RATE RISK

The Bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the Bank's exposure to interest rate risk. The assets and liabilities at carrying amount are categorised by the earlier contractual repricing or maturity dates.

Bank	Up to 1 month	> 1 month - 1 year	> 1 - 5 year	Over 5 years	Non- interest sensitive	Provision	Total	Average interest rate
At 31 December 2005	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	% p.a.
Assets								
Cash and short term funds	960,323	-	-	-	281,115	-	1,241,438	2.85
Deposits & placements financial institutions	-	328,053	-	-	-	-	328,053	3.14
Investment securities	579,425	250,197	3,686,091	2,049,464	920,400	-	7,485,577	3.33
Loan, advances & financing	565,986	92,633	1,258,377	2,244,608	-	(519,609)	3,641,995	7.59
Investment in associated companies	-	-	-	-	609	-	609	-
Investment in subsidiary companies	-	-	-	-	436,388	-	436,388	-
Property, plant and equipment	-	-	-	-	381,460	-	381,460	-
Other assets	-	-	-	-	233,938	-	233,938	-
Tax recoverable	-	-	-	-	9,310	-	9,310	-
Total assets	2,105,734	670,883	4,944,468	4,294,072	2,263,220	(519,609)	13,758,768	

33. INTEREST/PROFIT RATE RISK (CONTD.)

BANK (CONTD.)	Up to 1 month	> 1 month - 1 year	> 1 - 5 year	Over 5 years	Non- interest sensitive	Provision	Total	Average interest rate
At 31 December 2005	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	% p.a.
Liabilities								
Deposits from customers	8,377,382	4,456,751	103,048	-	-	-	12,937,181	3.03
Deposits and placements of financial institutions	75,500	72,506	-	-	-	-	148,006	2.92
Borrowing from institution	-	-	300,000	-	-	-	300,000	4.45
Provision for taxation	-	-	-	-	260	-	260	-
Other liabilities	-	-	-	-	266,050	-	266,050	-
Total liabilities	8,452,882	4,529,257	403,048	-	266,310	-	13,651,497	
Reserves	-	-	-	-	107,271	-	107,271	-
Total liabilities and reserves	8,452,882	4,529,257	403,048	-	373,581	-	13,758,768	
Total interest sensitivity gap	(6,347,148)	(3,858,374)	4,541,420	4,294,072	1,889,639	(519,609)	-	

33. INTEREST/PROFIT RATE RISK (CONTD.)

BANK (CONTD.)	Up to 1 month	> 1 month - 1 year	> 1 - 5 year	Over 5 years	Non- interest sensitive	Provision	Total	Average interest rate % p.a.
At 31 December 2004	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Assets								
Cash and short term funds	1,381,639	-	-	-	406,990	-	1,788,629	2.60
Deposits & placements with financial institutions	-	726,270	-	-	-	-	726,270	3.28
Investment securities	-	42,827	1,841,309	2,240,219	1,184,397	-	5,308,752	3.32
Loan, advances & financing	688,258	153,704	1,036,904	1,311,691	-	(287,043)	2,903,514	7.09
Investment in associated companies	-	-	-	-	609	-	609	-
Investment in subsidiary companies	-	-	-	-	84,797	-	84,797	-
Property, plant and equipment	-	-	-	-	398,600	-	398,600	-
Other assets	-	-	-	-	92,843	-	92,843	-
Recoverable tax	-	-	-	-	5,937	-	5,937	-
Total assets	2,069,897	922,801	2,878,213	3,551,910	2,174,173	(287,043)	11,309,951	

33. INTEREST/PROFIT RATE RISK (CONTD.)

BANK (CONTD.)	Up to 1 month	> 1 month - 1 year	> 1 - 5 year	Over 5 years	Non- interest sensitive	Provision	Total	Average interest rate % p.a.
At 31 December 2004	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Liabilities								
Deposits from customers	6,693,742	3,901,023	308,837	-	-	-	10,903,602	3.33
Deposits and placements of financial institutions	10,116	69,974	3,080	-	-	-	83,170	2.55
Borrowing from institution	-	-	-	-	300,000	-	300,000	4.45
Provision for taxation and zakat	-	-	-	-	260	-	260	-
Other liabilities	-	-	-	-	270,696	-	270,696	-
Total liabilities	6,703,858	3,970,997	311,917	-	570,956	-	11,557,728	
Reserves	-	-	-	-	(247,777)	-	(247,777)	
Total liabilities and reserves	6,703,858	3,970,997	311,917	-	323,179	-	11,309,951	
Total interest sensitivity gap	(4,633,961)	(3,048,196)	2,566,296	3,551,910	1,850,994	(287,043)	-	

34. CAPITAL COMMITMENTS

	Group/Bank	
	2005	2004
	RM'000	RM'000
Capital expenditure		
Authorised and contracted for Renovation works and supply of plant and equipment	13,532	16,239

35. CONTINGENT LIABILITIES

	Group/Bank	
	2005	2004
	RM'000	RM'000
Amount guaranteed by Bank	481	501

36. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURE

- (a) Information about the extent and nature of the financial instruments, including significant terms and conditions and their exposure to interest rate risk is presented in their respective notes, where applicable.
- (b) Fair values

The carrying amounts of financial assets and liabilities of the Group and of the Bank at the balance sheet date approximated their fair values except for the following:

	Note	Group		Bank	
		Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial Assets					
At 31 December 2005					
Investment securities	6	7,486,471	7,446,370	7,485,577	7,446,370
At 31 December 2004					
Investment securities	6	5,308,947	5,037,078	5,308,752	5,036,883

36. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURE (CONTD.)

	Note	Group		Bank	
		Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial Liabilities					
At 31 December 2005					
Borrowing from institution	16	300,000	285,105	300,000	285,105

The nominal amount and net fair value of financial instruments not recognised in the balance sheets of the Group and of the Bank as at the end of the financial year is:

	Note	Group/Bank	
		Nominal amount RM'000	Net fair value RM'000
At 31 December 2005			
Contingent liabilities	35	481	*
At 31 December 2004			
Contingent liabilities	35	501	*

* It is not practicable to estimate the fair value of contingent liabilities reliably due to the uncertainties of timing, costs and eventual outcome.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(i) Cash and short term funds and placements with financial institutions

The carrying amount of cash and short term funds and placements with financial institutions approximates fair value due to the relatively short term maturity of these instruments.

(ii) Investment securities

The fair values of publicly traded investment securities are estimated based on quoted market prices at the balance sheet date. As for investment securities which there are no quoted market prices, a reasonable estimate of fair value has been calculated based on the indicative rates obtained from third party.

36. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURE (CONTD.)

(iii) Loans, advances and financing

The Group and the Bank consider the carrying amount of loans, advances and financing to customers as a reasonable approximation of its fair value.

(iv) Other receivables and payables

The carrying amounts of other receivables and payables are reasonable estimates of fair value due to their relatively short term maturity.

(v) Other investment

Fair value of other investment is based on share of net tangible assets of the investee companies as at the balance sheet date.

(vi) Deposits from customers and from financial institutions

The Group and the Bank consider the carrying amounts of all its deposits, such as non-bank customers' deposits and deposits and balances of banks, agents and related companies, as reasonable approximation of their respective fair values given that these are mostly payable on demand and short-term in nature.

(vii) Borrowing from institution

The fair value of borrowing from institution is estimated by discounting the expected future cash flows using the applicable prevailing interest rates for borrowing with similar risks profiles.

37. CURRENCY

All amounts are stated in Ringgit Malaysia.

38. THE OPERATIONS OF ISLAMIC BANKING

BALANCE SHEET – 31 DECEMBER 2005

	NOTE	2005 RM'000	2004 RM'000
ASSETS			
Cash and short-term funds	(a)	30,291	135,111
Deposits and placement with financial institutions	(b)	118,253	251,853
Investment securities	(c)	1,085,117	445,326
Property, plant and equipment		56	-
Financing, advances and other loans	(d)	751,206	139,790
Other receivables	(f)	16,173	7,458
		<u>2,001,096</u>	<u>979,538</u>
LIABILITIES AND ISLAMIC BANKING CAPITAL FUNDS			
Deposits from customers	(g)	1,446,945	882,445
Sundry payables		477,715	22,577
Profit Equalisation Reserve	(h)	3,335	6,388
		<u>1,927,995</u>	<u>911,410</u>
ISLAMIC BANKING CAPITAL FUNDS			
Islamic banking funds		10,000	10,000
Reserves		63,101	58,128
Islamic Banking Capital Funds		<u>73,101</u>	<u>68,128</u>
Liabilities and Islamic Banking Capital Funds		<u>2,001,096</u>	<u>979,538</u>

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

38. THE OPERATIONS OF ISLAMIC BANKING (CONTD.)

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

	NOTE	2005 RM'000	2004 RM'000
Revenue	(i)	<u>68,231</u>	<u>33,162</u>
Income derived from investment of depositors' funds	(j)	71,284	32,878
Allowance and losses on financing and other loans	(k)	(15,775)	(409)
Personnel expenses	(l)	(717)	(781)
Other overheads and expenditure	(m)	<u>(6,340)</u>	<u>(2,682)</u>
Total net income		48,452	29,006
Income attributable to the depositors	(n)	<u>(43,479)</u>	<u>(23,104)</u>
Profit before zakat and taxation		4,973	5,902
Zakat		-	-
Taxation	(o)	-	-
Net profit for the year		<u>4,973</u>	<u>5,902</u>

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

38. THE OPERATIONS OF ISLAMIC BANKING (CONTD.)

**STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Distributable		
	Islamic Banking Fund RM'000	Retained profits RM'000	Total RM'000
At 1 January 2004	10,000	52,226	62,226
Net profit for the year	-	5,902	5,902
At 31 December 2004	<u>10,000</u>	<u>58,128</u>	<u>68,128</u>
At 1 January 2005	10,000	58,128	68,128
Net profit for the year	-	4,973	4,973
At 31 December 2005	<u>10,000</u>	<u>63,101</u>	<u>73,101</u>

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

38. THE OPERATIONS OF ISLAMIC BANKING (CONTD.)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 RM'000	2004 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	4,973	5,902
Adjustments for:		
Accretion of discounts less amortisation of premiums	-	(406)
Net profit suspended	3,261	1,915
Loan loss allowance	15,775	409
Net gain from disposal of investment securities	(71)	(211)
Operating profit before working capital changes	23,938	7,609
Increase in deposits and placements with financial institutions	133,600	(165,479)
Increase in loans, advances and financing	(628,225)	(5,731)
Increase in other assets	(8,715)	(3,625)
Increase in deposits from customers	564,500	375,305
Increase in other liabilities	452,855	9,066
Increase/(decrease) in profit equalisation reserve	(3,053)	284
Net cash generated from operating activities	534,900	217,429
CASH FLOW FROM INVESTING ACTIVITY		
Net (purchases)/sales of investment securities representing net cash (used in)/ generated from investing activity	(639,720)	(193,127)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
	(104,820)	24,302
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	135,111	110,809
CASH AND CASH EQUIVALENTS AT END OF YEAR	30,291	135,111
CASH AND CASH EQUIVALENTS REPRESENT:		
Cash and short term funds [Note 38(a)]	30,291	135,111

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

38. THE OPERATIONS OF ISLAMIC BANKING (CONTD.)

	2005	2004
	RM'000	RM'000
(a) Cash and short term funds		
Cash and balances with banks and other financial institutions	7,581	8,696
Money at call and deposit placements maturing within one month	22,710	126,415
	<u>30,291</u>	<u>135,111</u>
(b) Deposits and placements with financial institutions		
	2005	2004
	RM'000	RM'000
Licensed banks	118,253	-
Licensed finance companies	-	25,563
Licensed merchant banks	-	33,681
Other financial institutions	-	192,609
	<u>118,253</u>	<u>251,853</u>
(c) Investment securities		
	2005	2004
	RM'000	RM'000
Money Market Instruments		
Islamic debt securities		
- Malaysian Government Investment Issues	215,716	34,361
- Islamic Cagamas Bonds	125,957	125,957
- Khazanah	484,050	63,957
- Others	259,615	222,207
	<u>1,085,338</u>	<u>446,482</u>
Less: Net amortisation of premiums	(221)	(1,156)
Total investment securities	<u>1,085,117</u>	<u>445,326</u>
Indicative market value of money market instruments		
Islamic debt securities		
- Malaysian Government Investment Issues	215,817	36,348
- Islamic Cagamas Bonds	125,563	196,474
- Khazanah	494,596	66,665
- Others	246,290	387,777
	<u>1,082,266</u>	<u>687,264</u>

38. THE OPERATIONS OF ISLAMIC BANKING (CONTD.)

(d) Financing and advances

(i) By type

	2005	2004
	RM'000	RM'000
Housing financing	578,455	256,886
Personal financing	681,990	-
Other term financing	37,640	26,768
Less: Unearned income	<u>(515,322)</u>	<u>(129,013)</u>
	782,763	154,641
Less : Allowance for bad and doubtful debts and financing:		
- General	(17,291)	(2,245)
- Specific	(11,558)	(10,829)
Income-in-suspense	<u>(2,708)</u>	<u>(1,777)</u>
Total net financing and advances	<u>751,206</u>	<u>139,790</u>

(ii) By type of customer

	2005	2004
	RM'000	RM'000
Individuals	772,763	144,641
Corporate	<u>10,000</u>	<u>10,000</u>
	782,763	154,641

(iii) By profit rate sensitivity

	2005	2004
	RM'000	RM'000
Fixed rate		
Housing financing	287,041	144,641
Personal financing	462,268	-
Other term financing	<u>33,454</u>	<u>10,000</u>
	<u>782,763</u>	<u>154,641</u>

38. THE OPERATIONS OF ISLAMIC BANKING (CONTD.)

(d) Financing and advances (Contd.)

(iv) By sector

	2005	2004
	RM'000	RM'000
Manufacturing	10,000	10,000
Consumer	485,722	14,160
Residential	287,041	130,481
	<u>782,763</u>	<u>154,641</u>

(e) Non-performing Financing

(i) Movements in non-performing financing and advances

	2005	2004
	RM'000	RM'000
At beginning of year	36,623	23,735
Classified as non-performing during the year	25,845	14,600
Amount recovered	(13,634)	(1,712)
At end of year	<u>48,834</u>	<u>36,623</u>
Specific allowance (SA)	(11,558)	(10,829)
Income in suspense	(2,708)	(1,777)
Net non-performing financing and advances	<u>34,568</u>	<u>24,017</u>
Ratio of net non-performing financing to net financing	<u>4.50%</u>	<u>16.91%</u>

(ii) Movements in allowance for bad and doubtful debts and income-in-suspense

	2005	2004
	RM'000	RM'000
General allowance		
At beginning of year	2,245	2,189
Allowance made during the year [Note 38(k)]	15,046	56
At end of year	<u>17,291</u>	<u>2,245</u>
(as % of total financing less SA)	<u>2.25%</u>	<u>1.58%</u>

38. THE OPERATIONS OF ISLAMIC BANKING (CONTD.)

(e) Non-performing Financing (Contd.)

	2005	2004
	RM'000	RM'000
Specific allowance		
At beginning of year	10,829	10,218
Allowance made during the year [Note 38(k)]	2,588	1,286
Amount recovered [note 38(k)]	(1,859)	(675)
At end of year	<u>11,558</u>	<u>10,829</u>

Income-in-suspense

At beginning of year	1,777	899
Allowance made during the year	3,261	1,915
Amount recovered	(2,330)	(1,037)
At end of year	<u>2,708</u>	<u>1,777</u>

2005	2004
RM'000	RM'000

(iii) Non-performing financing by sector

Purchase of landed residential property	35,628	23,680
Manufacturing	10,000	10,000
Others	3,206	2,943
	<u>48,834</u>	<u>36,623</u>

(f) Other receivables

	2005	2004
	RM'000	RM'000
Income receivable	16,827	7,267
Sundry receivables	(654)	191
	<u>16,173</u>	<u>7,458</u>

38. THE OPERATIONS OF ISLAMIC BANKING (CONTD.)

(g) Deposits from customers

(i) By type of deposits

	2005	2004
	RM'000	RM'000
Non-Mudharabah Fund:		
Savings deposits	104,190	75,242
Mudharabah Fund:		
Fixed deposits	1,342,755	807,203
	<u>1,446,945</u>	<u>882,445</u>

(ii) By type of customer

	2005	2004
	RM'000	RM'000
Government and statutory bodies	454,513	481,919
Business enterprises	727,431	300,450
Individuals	265,001	95,576
Others	-	4,500
	<u>1,446,945</u>	<u>882,445</u>

(h) Profit Equalisation Reserve ("PER")

	2005	2004
	RM'000	RM'000
At beginning of year	6,388	6,104
Amount provided during the year	(3,053)	284
At end of year (Note 17)	<u>3,335</u>	<u>6,388</u>

(i) Revenue

Revenue comprises all types of revenue derived from financing, treasury, investment and other Islamic banking activities undertaken by the Bank.

38. THE OPERATIONS OF ISLAMIC BANKING (CONTD.)**(j) Income from Islamic banking operations**

	2005	2004
	RM'000	RM'000
Income derived from Bai-Bithaman Ajil financing	22,329	10,661
Income derived from investment of depositors' funds		
- gain from disposal of investment securities	71	211
- Income from Islamic Debt Securities	19,463	12,951
- Income from placements with financial institutions	-	8,861
- others	26,368	72
Transfer to profit equalisation reserves	3,053	(284)
	<u>71,284</u>	<u>32,472</u>
Accretion of discounts less amortisation of premiums of Islamic Debt Securities	-	406
	<u>71,284</u>	<u>32,878</u>

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

	2005	2004
	RM'000	RM'000
Allowance for bad and doubtful debts on financing and other loans:		
(a) Specific allowance		
- Made in the financial year [Note 38(e)]	(2,588)	(1,286)
- Written back [Note 38(e)]	1,859	675
(b) General allowance		
- Made in the financial year [Note 38(e)]	(15,046)	(56)
Bad debts on financing:		
- Recovered	-	258
	<u>(15,775)</u>	<u>(409)</u>

38. THE OPERATIONS OF ISLAMIC BANKING (CONTD.)

(l) **Personnel expenses**

	2005	2004
	RM'000	RM'000
Salaries and wages	575	556
Allowances and bonuses	17	30
Social security costs	7	5
Pension costs - defined contribution plans	96	82
Other staff related expenses	22	108
	<u>717</u>	<u>781</u>

(m) **Other overheads and expenditure**

	2005	2004
	RM'000	RM'000
Cost allocated by head office	<u>6,340</u>	<u>2,682</u>

(n) **Income attributable to depositors**

	2005	2004
	RM'000	RM'000
Deposits from customers		
- Mudharabah Fund	42,253	21,573
- Non-Mudharabah Fund	1,226	1,531
	<u>43,479</u>	<u>23,104</u>

(o) **Taxation**

There is no tax charge for the year as the Islamic Banking operations only form part of the Bank operations and the Bank as a whole is in tax loss position as disclosed in Note 30 to the financial statements.