

**Standard Chartered Bank
Malaysia Berhad**
(Company No. 115793 P)
(Incorporated in Malaysia)
and its subsidiary companies

**Financial statements for the year
ended 31 December 2003**

Domiciled in Malaysia
Principal place of business
2, Jalan Ampang
50450 Kuala Lumpur

Standard Chartered Bank Malaysia Berhad

(Company No. 115793 P)
(Incorporated in Malaysia)

and its subsidiary companies

Directors' report for the year ended 31 December 2003

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company (the Bank) for the year ended 31 December 2003.

Principal activities

The principal activities of the Bank are banking and related financial services which also include Islamic Banking business and the principal activities of the subsidiary companies are stated in Note 10 to the financial statements.

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

Results

	Group and Bank RM'000
Profit before taxation	435,150
Taxation	(119,339)
Net profit for the year	<hr/> 315,811 <hr/>

Dividends

Since the end of the previous financial year, the Bank paid an interim ordinary dividend of 152% less tax totalling RM136,800,000 in respect of the year ended 31 December 2003 on 21 August 2003.

The final ordinary dividend recommended by the Directors in respect of the year ended 31 December 2003 is 164% less tax totalling RM147,600,000.

Reserves and provisions

There were no material transfers to or from reserves and provisions during the year except as disclosed in the financial statements.

Bad and doubtful debts and financing

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

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

Current assets

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

Valuation methods

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

Contingent and other liabilities

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

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

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

Change of circumstances

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

Items of an unusual nature

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

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

Business plan and strategy

2003 Results

The Bank registered a pre-tax profit of RM 435 million, an increase of 19% against RM 367 million a year ago. Cost to income ratio improved from 53.2 % to 49.7 %. Underpinning this result is the significant debt recovery coupled with good asset growth and tight cost control.

Total operating income rose to RM 892 million, 4% higher than last year. Net interest income posted a 9% rise to RM 677 million. Net interest margin improved slightly to 3.01% from 2.99%. Higher interest recoveries and lower interest suspended offset the negative effects on interest margin arising from the base lending rate reduction in May 2003. Non-interest income fell 9.4% principally due to the losses incurred in bonds trading. However, significantly better performance in interest rate derivatives and foreign exchange sales and trading was achieved. Foreign exchange income grew 10 % year on year.

Operating expenses fell 3% year on year. Personnel cost fell 12% due to productivity gains and non-recurrence of the exceptional severance charges incurred in the previous year. The Bank continued to invest in new technology aimed at improving customer service and to enhance its product offering.

The quality of the loan portfolio continued to improve. Gross non-performing loans reduced by RM508 million to RM 1,383 million. Consequently, gross non-performing loan ratio fell from 12.6% to 8.4%. Net non-performing loan ratio improved to 3.89% (2002: 5.04%).

Gross loans, advances and financing grew by RM 1.4 billion or 9.4 % year on year. Property financing registered a strong growth of 17%, with residential and non-residential loan financing achieving 15% and 30% growth respectively. The Bank continued to maintain its strong market position in mortgage lending. Lending to the general commerce, business services and transport, storage and communication sectors increased significantly reflecting the focus on the SME.

Customer deposits grew by RM 983 million or 7% year on year. Current account balances grew 8.1% and fixed deposits grew 11.2%. The liquidity position of the Bank remained strong with a well-diversified source of funding from both the retail and wholesale market.

The Bank declared an interim dividend of RM 136.8 million in June 2003. For the full year 2003, the Bank is proposing a final dividend of RM 147.6 million, taking the total ordinary dividends for the year to RM 284.4 million. The risk weighted capital ratio remained healthy at 11.89 % (2002: 13.17%) after taking into account the proposed final dividend.

Strategy and Economic Environment

The year started with increased optimism for a stronger economic performance following the rebound in 2002 when the economy registered a growth of 4.1%. However, business and consumer sentiment in the regional economies were adversely affected by the war in Iraq and the outbreak of SARS. Despite the weaker external outlook, the Malaysian economy however, remained resilient with strong economic fundamentals. The prompt action taken by the Malaysian government to introduce a broad-based pro-growth fiscal stimulus package in May 2003 mitigated the effects of a weaker external demand.

The stimulus measures proved to be effective when the economy regained its momentum in the third quarter and is well poised to exceed the targeted annual GDP growth of 4.5%. The quarterly GDP figures have shown positive trends, registering 5.1% growth in the third quarter of 2003 compared with the first quarter growth of 4.6% and the second quarter growth of 4.5%.

The Bank continues to reposition its Wholesale business and drive momentum for growth in targeted customer and industry segments. The Bank was recognised as the country's top arranger of syndicated loans when it was awarded the "Malaysian Loan of the Year" awarded by The International Financing Review ("IFR") Asia for a syndicated term loan for one of its corporate customers. IFR Asia is the most comprehensive, authoritative publication for independent news and analysis on the Asian domestic and cross-border capital markets.

The Consumer business continues to deliver excellent quality earnings supported by strong assets growth in mortgages and lending to the small and medium-sized enterprises (SMEs). The key focus is on developing new and innovative products and expansion of our delivery channels. Mortgage-One, which was launched in late 2001, has continued to record strong growth and following the successful launch of an enhanced version of this product, SMI-One, a new product aimed for the Bank's SME customers was launched this year. The credit card business registered a substantial improvement in its performance through a stringent credit control process that substantially improved the credit quality and profitability of this portfolio.

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We continue to make excellent progress in enhancing productivity and the service quality capabilities of our banking operations. One of the major achievements in this area is the significant reduction in the turnaround time for credit card application processing which is comparable to the best in class.

2003 also marked the 150th anniversary of the Standard Chartered Group. To commemorate this landmark occasion, a series of celebrations and events including various staff fund raising activities were organized. The Bank adopted two worthy causes, the first being the “Seeing is Believing” initiative aimed to restore the eyesights of 3,000 poor and blind people in Malaysia, matching the number of staff the Group employs in its Malaysian operations. The second cause selected was the “Riding for Life” sponsorship to the Malaysian AIDS Foundation. “Riding for Life” is within the “Living with HIV/AIDS” cause which the Bank has identified to champion in Malaysia. Total funds raised to date for these two causes amounted to RM 750,000. The Bank is also in the process of establishing the Standard Chartered Trust Fund to oversee the management of proceeds collected and the disbursements to the identified charitable causes.

Plan for 2004

The Bank will continue to build on its strategy to deliver sustainable earnings through product innovation and service excellence. Having firmly established its presence in the region, we are well positioned to face the near term economic challenges and to support the national economic policies set by the Malaysian Government.

We will continue to focus on areas where we have expertise and competitive strengths. The branch network, delivery channels and product offering will be constantly upgraded and expanded to provide a wider reach to the target customer segments and to meet the increasing demands of our customers. With the on-going productivity drive, continued investments in new technology, systems and training and development of our staff, we are confident that the Bank can achieve good and sustainable growth in 2004.

The Bank will explore new markets and locations to tap on any growth potential to strengthen its franchise. We will also be relocating the Bank’s Corporate Office to new premises to improve workplace efficiency and provide a better working environment for staff. The move to the new premises is also in line with the Bank’s image which had evolved into a financial institution which is leading the way in Asia, Africa and the Middle East.

Directors and their interests in shares

The Directors who served since the date of the last report are:-

Tan Sri Datuk Zainal Abidin Sulong
 Dato’ Lim Say Chong
 David George Moir
 Kaikhushru Shiavax Nargolwala
 Goh Yiu Kiang Euleen
 Dato’ Mat Amir bin Jaffar
 Jan Johannes Henricus Kivits (resigned on 22.9.2003)
 John Filmeridis (appointed on 15.9.2003)
 Michael Bernard De Noma (resigned on 9.6.2003)
 Shayne Keith Nelson (appointed on 27.10.2003)

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There is no provision in the Articles of Association of the Bank for the Directors to retire by rotation.

According to the register of Directors' shareholdings maintained by the Bank pursuant to Section 134 of the Companies Act, 1965, the Directors' beneficial interests in the shares of the Bank and its related corporation at year end are as follows:-

	Number of shares			As at 31.12.2003
	As at 1.1.2003*	Granted	Disposed	
In Standard Chartered PLC,				
<i>Ordinary shares of £1 each</i>				
David George Moir	112,955	437#	-	113,392
Kaikhushru Shiavax Nargolwala	70,897	-	-	70,897
Goh Yiu Kiang Euleen	16,341	491#	-	16,832
Shayne Keith Nelson	-	5,164γ	-	5,164
John Filmeridis	40,000	-	-	40,000
	Number of shares			As at 31.12.2003
	As at 1.1.2003*	Awarded/ Granted	Lapsed/ Exercised	
<i>Supplemental Executive Share Option Scheme</i>				
David George Moir	118,750	-	57,450	61,300
Kaikhushru Shiavax Nargolwala	125,087	-	33,994	91,093
<i>Executive Share Option Scheme</i>				
Kaikhushru Shiavax Nargolwala	484,302	110,065	-	594,367
Goh Yiu Kiang Euleen	258,447	76,510	-	334,957
Shayne Keith Nelson	149,531	-	-	149,531
John Filmeridis	50,228	-	-	50,228
<i>International Sharesave Scheme</i>				
Goh Yiu Kiang Euleen	1,697	-	-	1,697
Shayne Keith Nelson	5,164	-	5,164	-
John Filmeridis	32,012	-	-	32,012
<i>Restricted Share Scheme</i>				
Goh Yiu Kiang Euleen	16,131	-	-	16,131
Shayne Keith Nelson	6,221	-	-	6,221

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	Number of shares			
	As at 1.1.2003*	Awarded/ Granted	Lapsed/ Exercised	As at 31.12.2003
<i>Options Over Performance</i>				
<i>Share Plan</i>				
Kaikhushru Shiavax Nargolwala	88,439	55,032	-	143,471
Goh Yiu Kiang Euleen	46,714	22,963	-	69,677
Shayne Keith Nelson	23,861	-	-	23,861
John Filmeridis	20,000	-	-	20,000

* or date of appointment

acquired through shares in lieu of cash dividends

γ converted from International Sharesave Scheme

The other Directors did not hold or deal in the shares of the Bank or its related corporations during the financial year.

Issue of shares and debentures

There were no changes on the issued and paid-up capital of the Bank during the financial year.

There were no debentures issued during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Bank during the year.

Directors' benefits

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements to which the Bank is a party whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate except for options given under the Standard Chartered Executive Share Option Scheme, Restricted Share Scheme, International Sharesave Scheme, Supplemental Executive Share Option Scheme and Options Over Performance Share Plan.

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Holding companies

The Directors regard Standard Chartered Holdings (Asia Pacific) B.V., a company incorporated in The Netherlands, as the immediate holding company of the Bank and Standard Chartered PLC, a company incorporated in Great Britain, as the ultimate holding company of the Bank.

Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors:

.....
Tan Sri Datuk Zainal Abidin Sulong

.....
Shayne Keith Nelson

Kuala Lumpur,

Date: 18 February 2004

Standard Chartered Bank Malaysia Berhad

(Company No. 115793 P)

(Incorporated in Malaysia)

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Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors,

- i) the results of the operations of the Group and of the Bank for the financial year ended 31 December 2003 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of the financial year and the date of this report, and
- ii) the financial statements set out on pages 13 to 77, are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2003 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:

.....
Tan Sri Datuk Zainal Abidin Sulong

.....
Shayne Keith Nelson

Kuala Lumpur,

Date: 18 February 2004

Standard Chartered Bank Malaysia Berhad

(Company No. 115793 P)

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**Statutory declaration pursuant to
Section 169(16) of the Companies Act, 1965**

I, **Ling Fou-Tsong @ Jamie Ling**, the officer primarily responsible for the financial management of Standard Chartered Bank Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 13 to 77 are, to the best of my knowledge and belief, 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 in Kuala Lumpur on 18 February 2004.

.....
Ling Fou-Tsong @ Jamie Ling

Before me:

H. H. Gan

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Commissioner of Oaths, Kuala Lumpur

Report of the auditors to the members of Standard Chartered Bank Malaysia Berhad

(Company No. 115793 P)
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 13 to 77. The preparation of the financial statements is the responsibility of the Bank's Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

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 all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - i) the state of affairs of the Group and of the Bank at 31 December 2003 and the results of their operations and cash flows for the year ended on that date; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Bank; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Bank and its subsidiary companies have been properly kept in accordance with the provisions of the said Act.

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

The audit reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under sub-section (3) of Section 174 of the Act.

KPMG

Firm Number: AF 0758

Chartered Accountants

Seow Yoo Lin

Partner

Approval Number: 1497/02/05(J)

Kuala Lumpur,

Date: 18 February 2004

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Balance sheets as at 31 December 2003

	Note	Group		Bank	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Assets					
Cash and short term funds	3	2,739,582	2,234,069	2,739,582	2,234,069
Deposits and placements with banks and other financial institutions	4	-	815,200	-	815,200
Dealing securities	5	333,823	364,356	333,823	364,356
Investment securities	6	4,321,150	3,621,202	4,321,150	3,621,202
Loans, advances and financing	7	15,394,873	13,550,858	15,394,873	13,550,858
Other receivables	8	229,818	113,594	229,818	113,594
Statutory deposits with Bank Negara Malaysia	9	488,000	398,000	488,000	398,000
Investments in subsidiary companies	10	-	-	22	22
Property, plant and equipment	11	64,004	90,100	64,004	90,100
Deferred tax assets	27	116,385	85,544	116,385	85,544
Total assets		<u>23,687,635</u>	<u>21,272,923</u>	<u>23,687,657</u>	<u>21,272,945</u>
Liabilities and shareholders' funds					
Deposits from customers	12	14,415,585	13,432,902	14,415,585	13,432,902
Deposits and placements of banks and other financial institutions	13	3,868,029	3,435,230	3,868,029	3,435,230
Obligations on securities sold under repurchase agreements		2,235,324	1,675,996	2,235,324	1,675,996
Bills and acceptances payable		205,276	300,571	205,276	300,571
Amount due to Cagamas		522,247	134,675	522,247	134,675
Other payables	14	712,577	641,638	712,599	641,660
Tax payable		102,235	45,260	102,235	45,260
Redeemable preference shares	15	190,000	190,000	190,000	190,000
Total liabilities		<u>22,251,273</u>	<u>19,856,272</u>	<u>22,251,295</u>	<u>19,856,294</u>
Share capital	16	125,000	125,000	125,000	125,000
Reserves	17	1,311,362	1,291,651	1,311,362	1,291,651
Shareholders' funds		<u>1,436,362</u>	<u>1,416,651</u>	<u>1,436,362</u>	<u>1,416,651</u>
Total liabilities and shareholders' funds		<u>23,687,635</u>	<u>21,272,923</u>	<u>23,687,657</u>	<u>21,272,945</u>
Commitments and contingencies	30	<u>33,762,667</u>	<u>31,787,669</u>	<u>33,762,667</u>	<u>31,787,669</u>

The financial statements were approved and authorised for issue by the Board of Directors on 18 February 2004.

The notes set out on pages 18 to 77 form an integral part of, and should be read in conjunction with, these financial statements.

Standard Chartered Bank Malaysia Berhad

(Company No. 115793 P)

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Income statements for the year ended 31 December 2003

	Note	Group and Bank (As restated)	
		2003 RM'000	2002 RM'000
Interest income	19	1,159,658	1,131,682
Interest expense	20	(482,649)	(511,110)
Net interest income		677,009	620,572
Net income from Islamic Banking operations	39	5,917	3,961
Non interest income	21	682,926	624,533
Overhead expenses	22	(209,292)	(231,131)
Total net income		892,218	855,664
Operating profit		448,646	400,117
Allowance for bad and doubtful debts and financing	23	(13,496)	(33,276)
Profit before taxation		435,150	366,841
Tax expense	26	(119,339)	(112,974)
Net profit for the year		315,811	253,867
Earnings per share (sen)	29	253	203
Dividend per ordinary share – net (sen)	18	228	279

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Statement of changes in equity for the year ended 31 December 2003

		Redeemable		<i>Non-distributable reserves</i>		<i>Distributable reserves</i>	
	Note	Share capital RM'000	preference shares RM'000	Share premium RM'000	Statutory reserves RM'000	Retained profits RM'000	Total RM'000
Group and Bank							
At 1 January 2002		125,000	190	564,810	125,000	619,125	1,434,125
Effect of adopting: MASB 25	37	-	-	-	-	108,659	108,659
Restated balance		125,000	190	564,810	125,000	727,784	1,542,784
Net profit for the year		-	-	-	-	253,867	253,867
Dividends paid (Ordinary shares):							
- 2002 interim		-	-	-	-	(190,000)	(190,000)
Reclassification of redeemable preference shares to liabilities in accordance with MASB 24		-	(190)	(189,810)	-	-	(190,000)
At 31 December 2002/ 1 January 2003		125,000	-	375,000	125,000	791,651	1,416,651
Net profit for the year		-	-	-	-	315,811	315,811
Dividends paid (Ordinary shares):							
- 2002 final	18	-	-	-	-	(159,300)	(159,300)
- 2003 interim	18	-	-	-	-	(136,800)	(136,800)
At 31 December 2003		125,000	-	375,000	125,000	811,362	1,436,362
		Note 16	Note 15	Note 17	Note 17	Note 17	

The notes set out on pages 18 to 77 form an integral part of, and should be read in conjunction with, these financial statements.

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Cash flow statements for the year ended 31 December 2003

	Group and Bank	
	2003	2002
	RM'000	RM'000
Cash flows from operating activities		
Profit before taxation	435,150	366,841
Adjustment for:		
Dividend income	(5,434)	(936)
Depreciation	43,632	34,624
Gain on disposal of property, plant and equipment	(314)	(172)
Property, plant and equipment written off	-	1,154
Gain on disposal of investment securities	(160)	(447)
Deficit on property revaluation	-	2,136
Allowance for diminution in value of investment securities	8,272	-
Amortisation of premium less accretion of discount	(33,725)	(18,320)
	<hr/>	<hr/>
Operating profit before changes in operating assets/liabilities	447,421	384,880
(Increase)/Decrease in operating assets/liabilities:		
Deposits and placements with banks and other financial institutions	815,200	46,375
Dealing securities	30,533	230,553
Loans, advances and financing	(1,844,015)	(439,968)
Other receivables	(116,224)	35,940
Statutory deposits with Bank Negara Malaysia	(90,000)	85,000
Deposits from customers	982,683	(865,167)
Deposits and placements of banks and other financial institutions	432,799	1,693,661
Securities sold under repurchase agreements	559,329	543,243
Bills and acceptances payable	(95,295)	(55,180)
Amount due to Cagamas	387,572	(569,478)
Other payables	70,939	183,239
	<hr/>	<hr/>
Cash generated from operations	1,580,942	1,273,098
Income tax paid	(92,878)	(107,474)
	<hr/>	<hr/>
Net cash generated from operating activities	1,488,064	1,165,624
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Cash flow statements for the year ended 31 December 2003 (continued)

	Group and Bank	
	2003	2002
	RM'000	RM'000
Cash flows from investing activities		
Dividends received	5,107	674
Purchase of property, plant and equipment	(21,961)	(46,518)
Proceeds from disposal of property, plant and equipment	4,739	2,849
Purchase of investment securities	(8,831,836)	(7,113,012)
Proceeds from disposal of investment securities	8,157,500	6,426,678
	<hr/>	<hr/>
Net cash used in investing activities	(686,451)	(729,329)
	-----	-----
Cash flow from financing activities		
Dividends paid on ordinary shares	(296,100)	(190,000)
	<hr/>	<hr/>
Net cash used in financing activities	(296,100)	(190,000)
	-----	-----
Net increase in cash and cash equivalents	505,513	246,295
Cash and cash equivalents brought forward	2,234,069	1,987,774
	<hr/>	<hr/>
Cash and cash equivalents carried forward	2,739,582	2,234,069
	=====	=====
Cash and cash equivalents comprise		
Cash and short term funds	2,739,582	2,234,069
	=====	=====

The notes set out on pages 18 to 77 form an integral part of, and should be read in conjunction with, these financial statements.

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Notes to the financial statements

1. 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 the Companies Act, 1965, Bank Negara Malaysia Guidelines and applicable approved accounting standards in Malaysia in all material aspects. The financial statements incorporate those activities relating to Islamic Banking which have been undertaken by the Bank. Islamic Banking refers generally to the acceptance of deposits and granting of financing under the Syariah principles.

2. Significant accounting policies

The following accounting policies are adopted by the Group and the Bank and are consistent with those adopted in previous years except for the adoption of the following new accounting standards issued by Malaysian Accounting Standards Board (“MASB”) which became effective in the current financial year:

- (i) MASB 25, Income Taxes;
- (ii) MASB 27, Borrowing Costs;
- (iii) MASB 29, Employee Benefits; and
- (iv) MASB *i*-1, Presentation of Financial Statements of Islamic Financial Institutions.

Apart from the inclusion of the new policies and extended disclosures where required by these new standards, the effects of the changes in the above accounting policies are disclosed in Note 37 to these financial statements.

MASB 28: Discontinuing Operations, which became effective in the current financial year is not applicable and as such were not adopted by the Bank.

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention, except as disclosed in the notes to the financial statements.

2. Significant accounting policies (continued)

(b) Basis of consolidation

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

Subsidiary companies are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiary companies are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiary companies are consolidated using the acquisition method of accounting.

Investment in subsidiary companies is stated at cost, less impairment loss, where applicable.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash and short term funds.

(d) Deposits and placements with banks and other financial institutions

Deposits and placements with banks and other financial institutions are stated at placement value.

(e) Dealing securities

Dealing securities are marketable securities that are acquired and held with the intention of resale in the short term, and are stated at the lower of cost and market value on individual securities basis. On disposal of the dealing securities, the difference between the net disposal proceeds and their carrying amounts are charged or credited to the income statement.

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

2. Significant accounting policies (continued)

(f) Investment securities

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

Malaysian Government Securities, Malaysian Government Investment Certificates, Cagamas Bonds and other Government securities held for investment are stated at cost adjusted for amortisation of premium or accretion of discount to maturity date on a constant effective yield basis. Private Debt Securities are stated at the lower of cost and market value. Other investment securities are stated at cost less allowance for diminution in value. An allowance is made when the Directors are of the view that there is a diminution in value which is other than temporary.

Unquoted equity securities are held as long term investments and are stated at cost less allowance for diminution in value. An allowance is made when the Directors are of the view that there is a diminution in value which is other than temporary.

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

(g) Loans, advances and financing

Loans, advances and financing are carried at their outstanding unpaid principal and interest balances are stated net of unearned interest/income, general and specific allowances for bad and doubtful debts and financing as well as interest/income-in-suspense.

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

A general allowance is maintained by the Group and the Bank against risks which are not specifically identified. The percentage is in compliance with the minimum requirement of 1.5% set by Bank Negara Malaysia.

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 the collateral, if any, when in the judgment of the management, there is no prospect of recovery.

2. Significant accounting policies (continued)

(h) Property, plant and equipment

Property, plant and equipment are stated at cost/valuation less accumulated depreciation and any accumulated impairment losses. Freehold land, buildings and certain leasehold premises are not depreciated. Depreciation of other property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight line basis over the expected useful life of the assets concerned.

The principal annual rates are:-

Leasehold land with less than fifty years to expiry and buildings thereon	Over the unexpired period of the lease
Premises, plant and equipment	10% - 33%
Office equipment	20% - 33%
Furniture and fittings	20% - 33%
Motor vehicles	20% - 33%

All freehold buildings and leasehold premises with unexpired lease term of more than 50 years are maintained to such a standard that the estimated residual values are considered to be equal to or greater than the net book values. Accordingly, no depreciation is provided on freehold buildings and leasehold premises with unexpired lease terms of more than 50 years; had depreciation been provided the charge for the year would have amounted to approximately RM51,000. The effect on the financial statements is not material.

The Bank revalues its properties comprising land and building every 3 years and at shorter intervals, whenever the fair value of the revalued assets is expected to differ materially from the carrying value. Surpluses arising from revaluation are dealt with in the property revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase of the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

(i) Deposits from customers

Demand deposits, savings deposits, fixed deposits, negotiable instrument of deposits and other deposits are stated at placement values.

2. Significant accounting policies (continued)

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

Deposits and placements of banks and other financial institutions are stated at placement value.

(k) Repurchase agreements

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

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

(l) Bills and acceptances payable

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

(m) Amount due to Cagamas

Amount due to Cagamas represents the outstanding balance in respect of loans (excluding Islamic financing) which were sold directly or indirectly to Cagamas Berhad with recourse to the Bank.

(n) Provisions

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount.

(o) Redeemable preference shares

The redeemable preference shares ("RPS") are classified as debt instruments and hence are reported as liabilities. Accordingly, the annual net dividend payment of the RPS is classified as an interest expense in the income statement.

2. Significant accounting policies (continued)

(p) Impairment

The carrying amount of the Group's assets, other than deferred tax assets and financial assets (excluding investments in subsidiary companies), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed and recognised in the income statement, only to the extent that the asset's carrying amount does not exceed the carrying amount, net of depreciation, if no impairment loss has been recognised.

(q) Staff retirement and service benefits

i) Defined contribution plans

The Bank contributes to the Employees Provident Fund ("EPF") for eligible employees on a monthly basis. Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

ii) Defined benefit plans

The Bank makes contributions to an approved defined benefit scheme in respect of eligible employees.

The Bank's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets deducted. The discount rate is the market yield at the balance sheet date of the plan's investment. The calculation is performed by a qualified actuary on the basis of triennial valuations using the projected unit credit method.

2. Significant accounting policies (continued)

(q) Staff retirement and service benefits (continued)

ii) *Defined benefit plans (continued)*

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(r) Forward exchange contracts

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

(s) Interest rate swaps, futures, forward and option contracts

The Bank acts as an intermediary with counterparties who wish to swap their interest rate obligations. The Bank also uses derivative financial instruments, including interest rate swaps, futures, forward and option contracts in its trading account activities and in overall interest rate risk management.

Derivative financial instruments used for hedging purposes are accounted for on an equivalent basis as the underlying assets, liabilities or net positions. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

2. Significant accounting policies (continued)

(s) Interest rate swaps, futures, forward and option contracts (continued)

Interest income or interest expense associated with interest rate swaps that qualify as hedges is recognised over the life of the swap agreement as a component of interest income or interest expense. Gains and losses on interest rate swaps, futures, forward and option contracts that qualify as hedges are generally deferred and amortised over the life of the hedged assets or liabilities as adjustments to interest income or expense. Gains and losses on interest rate swaps, futures, forward and option contracts that do not qualify as hedges are recognised in the current year using the mark-to-market method, and are included in net result from dealing securities.

(t) Operating lease

Rentals payable under the operating lease are accounted for on the straight line basis over the period of the lease and are included in the income statement as “establishment costs”.

(u) Recognition of interest income

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

Where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. Customers’ accounts are classified as non-performing where repayments are in arrears for more than 90 days for loans and overdrafts, and 30 days after maturity date for trade bills, bankers’ acceptances and trust receipts. The policy on suspension of interest adopted by the Bank complies with that required by Bank Negara Malaysia’s “Guidelines on Suspension of Interest on Non-Performing Loans and Provisions for Bad and Doubtful Debts, BNM/GP3.”

(v) Recognition of fees and other income

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

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

Dividends from dealing and investment securities are recognised when received.

Service charges and processing fees are recognised when received.

2. Significant accounting policies (continued)

(w) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(x) Recognition of interest and financing expense

Interest expense and attributable profits (on activities relating to Islamic Banking business) on deposits and borrowings of the Group and the Bank are recognised on an accrual basis.

(y) Profit Equalisation Reserves

Profit equalisation reserves (“PER”) refer to the amount appropriated out of the total Islamic Banking gross income in order to maintain a certain level of return to depositors. PER is deducted from the total Islamic Banking gross income in deriving the net distributable gross income. This amount appropriated is shared by depositors and the Bank.

(z) Currency translations

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. Income statements items are translated at rates prevailing on transaction dates. Exchange gains and losses are recognised in the income statement in the year they arise.

3. Cash and short term funds

	Group and Bank	
	2003	2002
	RM'000	RM'000
Cash and balances with banks and other financial institutions	121,292	364,081
Money at call and deposit placements maturing within one month	2,618,290	1,869,988
	<u>2,739,582</u>	<u>2,234,069</u>
	=====	=====

4. Deposits and placements with banks and other financial institutions

	Group and Bank	
	2003	2002
	RM'000	RM'000
Licensed banks	-	95,000
Other financial institutions	-	720,200
	<u>-</u>	<u>815,200</u>
	=====	=====

5. Dealing securities

	Group and Bank	
	2003	2002
	RM'000	RM'000
Money market instruments:-		
Malaysian Government treasury bills	-	39,212
Malaysian Government securities	54,197	155,218
Government Islamic Bonds	16,385	-
Bank Negara Malaysia bills	-	74,382
Cagamas bonds	64,561	39,946
Cagamas notes	-	29,303
Private Debt Securities	198,680	26,295
	<u>333,823</u>	<u>364,356</u>
	=====	=====

5. Dealing securities (continued)

	Group and Bank	
	2003	2002
	RM'000	RM'000
i) Market value of:-		
Quoted securities:-		
Malaysian Government treasury bills	-	39,192
Malaysian Government securities	54,197	155,128
Government Islamic Bonds	16,385	-
Bank Negara Malaysia bills	-	74,371
Cagamas bonds	64,561	39,802
Cagamas notes	-	29,271
Private Debt Securities	198,680	26,223
	<u>333,823</u>	<u>363,987</u>
	=====	=====

6. Investment securities

	Group and Bank	
	2003	2002
	RM'000	RM'000
Money market instruments:-		
Malaysian Government treasury bills	65,000	5,400
Malaysian Government securities	416,100	250,500
Bank Negara Malaysia bills	8,330	3,260
Cagamas bonds	719,500	799,500
Danamodal bonds	-	337,300
Danaharta bonds	603,500	298,500
Negotiable instruments of deposit	1,522,000	1,715,000
Bankers' acceptances and Islamic accepted bills	21,853	9,911
Khazanah Islamic bonds	255,000	190,000
Private Debt Securities	709,943	-
	<u>4,321,226</u>	<u>3,609,371</u>
Amortisation of premium less accretion of discounts	(22,224)	(19,751)
Allowance for diminution in value (private debt securities)	(8,272)	-
	<u>4,290,730</u>	<u>3,589,620</u>
Unquoted investments	89,474	48,608
Allowance for diminution in value (unquoted)	(59,054)	(17,026)
	<u>4,321,150</u>	<u>3,621,202</u>
	=====	=====

6. Investment securities (continued)

	Group and Bank	
	2003	2002
	RM'000	RM'000
i) Market value of:-		
Quoted securities:-		
Malaysian Government treasury bills	64,559	5,312
Malaysian Government securities	437,901	259,345
Bank Negara Malaysia bills	8,174	3,238
Cagamas bonds	719,599	806,201
Danamodal bonds	-	329,458
Danaharta bonds	595,913	286,718
Negotiable instruments of deposit	1,521,588	1,714,329
Bankers' acceptances and Islamic accepted bills	21,757	9,844
Khazanah Islamic bonds	221,051	183,240
Private Debt Securities	701,671	-
	<hr/>	<hr/>
	4,292,213	3,597,685
Unquoted investments	30,420	31,582
	<hr/>	<hr/>
	4,322,633	3,629,267
	<hr/> <hr/>	<hr/> <hr/>
ii) The maturity structure of quoted money market instruments held for investment are as follows:-		

	Group and Bank	
	2003	2002
	RM'000	RM'000
Maturing within one year	2,914,010	2,441,620
One year to three years	813,593	1,148,000
Three years to five years	525,794	-
Over five years	37,333	-
	<hr/>	<hr/>
	4,290,730	3,589,620
	<hr/> <hr/>	<hr/> <hr/>

7. Loans, advances and financing

	Group and Bank	
	2003	2002
	RM'000	RM'000
Overdrafts	1,989,416	2,451,486
Term loans		
- fixed rate	148,209	153,679
- floating rate	11,854,029	10,393,184
Credit card receivables	1,102,775	1,010,478
Bills receivable	1,009,125	569,253
Claims on customers under acceptance credits	205,978	301,725
Staff loans (Loans to Directors – Nil for 2003 and 2002)	112,764	132,339
	<hr/>	<hr/>
	16,422,296	15,012,144
Unearned interest and income	(22,952)	(26,266)
	<hr/>	<hr/>
Gross loans, advances and financing	16,399,344	14,985,878
Allowance for bad and doubtful debts and financing		
- Specific	(478,824)	(808,839)
- General	(229,500)	(238,995)
Interest-in-suspense/Income-in-suspense	(296,147)	(387,186)
	<hr/>	<hr/>
Net loans, advances and financing	15,394,873	13,550,858
	<hr/> <hr/>	<hr/> <hr/>

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

	Group and Bank	
	2003	2002
	RM'000	RM'000
Maturing within one year	5,804,975	5,769,223
One year to three years	320,496	327,892
Three years to five years	460,673	559,063
Over five years	9,813,200	8,329,700
	<hr/>	<hr/>
	16,399,344	14,985,878
	<hr/> <hr/>	<hr/> <hr/>

7. Loans, advances and financing (continued)

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

	Group and Bank	
	2003	2002
	RM'000	RM'000
Agriculture	161,584	217,859
Mining and quarrying	98,959	18,495
Manufacturing	1,001,675	1,429,467
Electricity, gas and water	574	4,517
Construction	189,092	393,815
Real estate	68,609	119,068
Purchase of landed property	10,553,542	9,002,692
<i>(of which - residential</i>	<i>9,115,451</i>	<i>7,894,338</i>
<i>- non-residential)</i>	<i>1,438,091</i>	<i>1,108,354</i>
General commerce	936,653	914,270
Transport, storage and communication	286,942	120,467
Finance, insurance and business services	727,514	511,936
Purchase of securities	49	127
Consumption credit	1,666,897	1,630,984
Others	707,254	622,181
	<u>16,399,344</u>	<u>14,985,878</u>
	=====	=====

- iii) Movements in the non-performing loans, advances and financing (including interest and income receivables) are as follows:-

	Group and Bank	
	2003	2002
	RM'000	RM'000
Balance as at 1 January	1,891,261	2,111,085
Non-performing during the year (gross)	995,177	1,080,228
Performing during the year	(540,710)	(489,844)
Recoveries	(445,194)	(639,572)
Amount written off	(460,163)	(132,543)
Amount converted to debt securities/equities	(57,147)	(38,093)
	<u>1,383,224</u>	<u>1,891,261</u>
	=====	=====
Net non-performing loans ratio as percentage of total loans less specific allowance, interest and income-in-suspense	3.89%	5.04%
	=====	=====

7. Loans, advances and financing (continued)

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

	Group and Bank	
	2003	2002
	RM'000	RM'000
<u>General allowance</u>		
Balance as at 1 January	238,995	306,180
Allowance made during the year	29,780	4,840
Amount written back to Income Statement	(39,275)	(72,025)
	<hr/>	<hr/>
Balance as at 31 December	229,500	238,995
	<hr/> <hr/>	<hr/> <hr/>
As percentage of total loans less specific allowance, interest and income-in-suspense, net of loan granted to the Government of Malaysia	1.50%	1.77%
	<hr/> <hr/>	<hr/> <hr/>
<u>Specific allowance</u>		
Balance as at 1 January	808,839	796,714
Allowance made during the year	113,496	138,658
Amount written back in respect of recoveries	(105,212)	(72,324)
Amount written off	(286,012)	(37,857)
Amount transferred to allowance for diminution in value	(52,287)	(16,352)
	<hr/>	<hr/>
Balance as at 31 December	478,824	808,839
	<hr/> <hr/>	<hr/> <hr/>
<u>Interest-in-suspense/Income-in-suspense</u>		
Balance as at 1 January	387,186	321,785
Allowance made during the year	122,473	158,849
Amount written back in respect of recoveries	(87,796)	(68,751)
Amount written off	(121,820)	(24,697)
Amount transferred to allowance for diminution in value	(3,896)	-
	<hr/>	<hr/>
Balance as at 31 December	296,147	387,186
	<hr/> <hr/>	<hr/> <hr/>

Company No. 115793 P

8. Other receivables

	Group and Bank	
	2003	2002
	RM'000	RM'000
Other receivables, deposits and prepayments	229,818	113,594
	=====	=====

9. Statutory deposits with Bank Negara Malaysia

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

10. Investment in subsidiary companies

	Bank	
	2003	2002
	RM'000	RM'000
Unquoted shares, at cost - in Malaysia	22	22
	=====	=====

The subsidiary companies of the Bank are as follows:-

Name	Principal activity	Country of incorporation	Percentage of equity held	
			2003	2002
Cartaban (Malaya) Nominees Sdn. Bhd.	Nominee services	Malaysia	100%	100%
Cartaban Nominees (Tempatan) Sdn. Bhd.	Nominee services	Malaysia	100%	100%
Cartaban Nominees (Asing) Sdn. Bhd.	Nominee services	Malaysia	100%	100%

All income and expenditure of the subsidiary companies have been taken up by the Bank.

The amount owing to subsidiary companies are in respect of current accounts maintained by the subsidiary companies.

Company No. 223741-T

11. Property, plant and equipment

Group and Bank	Freehold land and building	Long term leasehold land and building	Short term leasehold land and buildings	Premises, plant and equipment	Office equipment	Furniture and fittings	Motor vehicles	Total
<i>Cost/Valuation</i>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2003	330	4,900	29,726	7,505	101,528	11,932	1,868	157,789
Additions	-	-	2,143	419	18,766	164	469	21,961
Disposals	-	-	(45)	(221)	(4,567)	(2)	-	(4,835)
Written off	-	-	(3,254)	(1,030)	(20,238)	(3,111)	(345)	(27,978)
At 31 December 2003	330	4,900	28,570	6,673	95,489	8,983	1,992	146,937
<i>Representing items at:-</i>								
Cost	-	-	28,570	6,673	95,489	8,983	1,992	141,707
Directors' valuation	330	4,900	-	-	-	-	-	5,230
At 31 December 2003	330	4,900	28,570	6,673	95,489	8,983	1,992	146,937
<i>Accumulated depreciation</i>								
At 1 January 2003	-	-	12,458	2,986	44,618	6,656	971	67,689
Charge for the year	-	-	6,903	1,800	31,409	2,736	784	43,632
Disposals	-	-	(16)	(28)	(365)	(1)	-	(410)
Written off	-	-	(3,254)	(1,030)	(20,238)	(3,111)	(345)	(27,978)
At 31 December 2003	-	-	16,091	3,728	55,424	6,280	1,410	82,933

Company No. 223741-T

11. Property, plant and equipment (continued)

Group and Bank	Freehold land and building	Long term leasehold land and building	Short term leasehold land and buildings	Premises, plant and equipment	Office equipment	Furniture and fittings	Motor vehicles	Total
<i>Cost/Valuation</i>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<i>Net book value</i>								
At 31 December 2003	330	4,900	12,479	2,945	40,065	2,703	582	64,004
At 31 December 2002	330	4,900	17,268	4,519	56,910	5,276	897	90,100
Depreciation charge for the year ended 31 December 2002	-	-	4,354	1,721	25,576	2,587	386	34,624

The land and buildings of the Bank were revalued by Directors in 2002 on the open market value basis in the month of September 2002 based on valuation carried out by an independent firm of professional valuers.

12. Deposits from customers

	Group and Bank	
	2003	2002
	RM'000	RM'000
Demand deposits	3,721,855	3,443,855
Savings deposits	1,923,629	1,953,632
Fixed deposits	8,489,226	7,630,865
Negotiable instruments of deposits	280,875	404,550
	<u>14,415,585</u>	<u>13,432,902</u>
	=====	=====

i) Maturity structure of deposits from customers are as follows:-

	Group and Bank	
	2003	2002
	RM'000	RM'000
Due within six months	12,214,141	11,707,484
Six months to one year	1,812,414	1,484,795
One year to three years	328,155	240,603
More than three years	60,875	20
	<u>14,415,585</u>	<u>13,432,902</u>
	=====	=====

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

	Group and Bank	
	2003	2002
	RM'000	RM'000
Business enterprises	4,215,658	3,379,274
Individuals	9,169,487	8,387,228
Others	1,030,440	1,666,400
	<u>14,415,585</u>	<u>13,432,902</u>
	=====	=====

13. Deposits and placements of banks and other financial institutions

	Group and Bank	
	2003	2002
	RM'000	RM'000
Licensed banks	2,249,025	1,503,800
Licensed finance companies	-	20,000
Other financial institutions	1,619,004	1,911,430
	<u>3,868,029</u>	<u>3,435,230</u>
	=====	=====

14. Other payables

	Group	
	2003	2002
	RM'000	RM'000
Retirement benefit scheme (Note 28)	916	3,209
Other payables	711,661	638,429
	<u>712,577</u>	<u>641,638</u>
	=====	=====

	Bank	
	2003	2002
	RM'000	RM'000
Retirement benefit scheme (Note 28)	916	3,209
Amount owing to subsidiary companies	22	22
Other payables	711,661	638,429
	<u>712,599</u>	<u>641,660</u>
	=====	=====

15. Redeemable preference shares

	Group and Bank	
	2003	2002
	RM'000	RM'000
Balance as at 1 January	190,000	-
Reclassified from:-		
Share capital (Note 16)	-	190
Share premium (Note 17)	-	189,810
	<u>190,000</u>	<u>190,000</u>
	=====	=====

15. Redeemable preference shares (continued)

On 21 December 2001, 190,000 cumulative Redeemable Preference Shares (“RPS”) of RM1.00 each were issued at a premium of RM999 per share to Standard Chartered Bank. The RPS are to be redeemed within 10 years from the date of issue. Early redemption is at the Bank’s option subject to Bank Negara Malaysia’s approval. The RPS were reclassified as debt instruments from shareholders’ funds and hence are reported as liabilities in the previous financial year in accordance with MASB 24.

The fixed cumulative dividend payable of 7.5% net on the issue value in respect of the RPS shall be paid in priority to any dividend in respect of any other class of shares in the capital of Standard Chartered Bank Malaysia Berhad (“SCBMB”), other than any such class which shall rank pari passu with the RPS with respect to rights to dividends. The RPS do not confer any further right of participating in the profits of SCBMB.

16. Share capital

	Bank	
	2003	2002
	RM’000	RM’000
Authorised:-		
Ordinary shares of RM1 each	700,000	700,000
	=====	=====
Redeemable Preference Shares of RM1 each	300,000	300,000
	=====	=====
Issued and fully paid:-		
Ordinary shares of RM1 each		
Balance as at 1 January/31 December	125,000	125,000
Redeemable Preference Shares of RM1 each		
Balance as at 1 January	-	190
Reclassified to liabilities (Note 15)	-	(190)
	-	-
	-----	-----
Balance as at 31 December	125,000	125,000
	=====	=====

17. Reserves

	Group and Bank	
	2003	2002
	RM'000	RM'000
<i>Non-distributable</i>		
Share premium		
Balance as at 1 January	375,000	564,810
Reclassified to liabilities (Note 15)	-	(189,810)
	<hr/>	<hr/>
Balance as at 31 December	375,000	375,000
Statutory reserve	125,000	125,000
	<hr/>	<hr/>
	500,000	500,000
<i>Distributable</i>		
Retained profits	811,362	791,651
	<hr/>	<hr/>
	1,311,362	1,291,651
	<hr/> <hr/>	<hr/> <hr/>

The statutory reserves are maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and are not distributable as cash dividends.

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax exempt income and tax credit under Section 108 of the Income Tax Act, 1967 to frank in full all of its retained profits as at 31 December 2003 if paid out as dividends.

18. Dividends

Dividends paid in respect of the year ended 31 December are as follows:

	Group and Bank			
	2003		2002	
	Gross	Dividend	Gross	Dividend
	per share	net of tax	per share	net of tax
	(RM)	RM'000	(RM)	RM'000
Ordinary:				
Final paid:				
177% per share less tax for the				
year ended 31 December 2002				
(2001 – Nil)	1.77	159,300	-	-
Interim paid:				
152% per share less tax for the				
year ended 31 December 2003				
(2002 – 211% per share less tax)	1.52	136,800	2.11	190,000
		<hr/>		<hr/>
		296,100		190,000
		<hr/> <hr/>		<hr/> <hr/>

18. Dividends (continued)

A final gross dividend of 164 sen per share less tax, totalling RM147,600,000 in respect of the financial year ended 31 December 2003 will be proposed for shareholders' approval at the forthcoming Annual General Meeting.

The proposed final dividend has not been accounted for in the financial statements of the Bank as at 31 December 2003.

The net dividends per ordinary share as disclosed in the Income Statement takes into account the total interim and final proposed dividends for the financial year.

19. Interest income

	Group and Bank	
	2003	2002
	RM'000	RM'000
Loans and advances	981,090	976,705
Money at call and deposit placements with financial institutions	48,105	70,309
Dealing securities	15,410	13,418
Investment securities	87,147	85,822
Others	29,128	57,128
	<u>1,160,880</u>	<u>1,203,382</u>
Amortisation of premium less accretion of discounts	33,725	18,320
Net interest suspended	(34,947)	(90,020)
	<u>1,159,658</u>	<u>1,131,682</u>
	=====	=====

20. Interest expense

	Group and Bank	
	2003	2002
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	75,969	119,316
Deposits from other customers	392,430	377,544
Dividends paid on redeemable preference shares	14,250	14,250
	<u>482,649</u>	<u>511,110</u>
	=====	=====

21. Non-Interest income

	Group and Bank	
	2003	2002
	RM'000	RM'000
Fee income:-		
Commission	126,660	123,871
Service charges and fees	30,144	26,114
Guarantee fees	10,616	13,822
	<hr/>	<hr/>
	167,420	163,807
	-----	-----
Investment and dealing income:-		
Net (loss)/profit from dealing securities and other financial instruments	(22,112)	10,050
Gain on disposal of investment securities	160	447
Allowance for diminution in value of investment securities	(8,272)	-
Gross dividends from unquoted investments	5,434	936
	<hr/>	<hr/>
	(24,790)	11,433
	-----	-----
Other income:-		
Foreign exchange gain	64,819	58,757
Rental income	669	1,280
Gain on disposal of property, plant and equipment	314	172
Other non-operating income/(loss)	860	(4,318)
	<hr/>	<hr/>
	66,662	55,891
	-----	-----
	209,292	231,131
	=====	=====

22. Overhead expenses

	Group and Bank	
	2003	2002
	RM'000	RM'000
Personnel costs	160,172	182,874
Establishment costs	156,064	151,599
Marketing expenses	24,822	24,281
Administration and general expenses	102,514	96,793
	<hr/>	<hr/>
	443,572	455,547
	=====	=====

22. Overhead expenses (continued)

The above expenditure includes the following statutory disclosures:

	Group and Bank	
	2003	2002
	RM'000	RM'000
Directors' remuneration, excluding benefits-in-kind (Note 25)	1,907	1,748
Rental of premises	19,285	20,836
Hire of equipment	1,839	854
Auditors' remuneration	383	405
Depreciation of property, plant and equipment	43,632	34,624
Deficit on property revaluation	-	2,136
Property, plant and equipment written off	-	1,154
Retirement benefit costs	14,381	16,360
Voluntary Separation Scheme	-	17,828
Group administration expenses	27,330	26,000
	<u>=====</u>	<u>=====</u>
The number of employees as at end of the financial year	1,640	1,688
	<u>=====</u>	<u>=====</u>

23. Allowance for bad and doubtful debts and financing

	Group and Bank	
	2003	2002
	RM'000	RM'000
Allowance for bad and doubtful debts and financing:-		
- Specific allowance (net)	8,284	66,334
- General allowance	(9,495)	(67,185)
Bad and doubtful debts and financing:		
- written off	52,341	70,205
- recovered	(37,634)	(36,078)
	<u>-----</u>	<u>-----</u>
	13,496	33,276
	<u>=====</u>	<u>=====</u>

24. Significant related party transactions and balances

	Group and Bank	
	2003	2002
	RM'000	RM'000
<i>Transactions:</i>		
Related companies:		
Income		
Interest on intercompany placements	1,016	5,862
Interest on current accounts	836	1,229
	<u>1,852</u>	<u>7,091</u>
	<u><u>1,852</u></u>	<u><u>7,091</u></u>
Expenditure		
Interest on intercompany borrowings	16,512	15,386
Interest on current accounts	514	159
Other operating expenses	59,417	64,993
Dividend paid on preference shares	14,250	14,250
	<u>90,693</u>	<u>94,788</u>
	<u><u>90,693</u></u>	<u><u>94,788</u></u>
<i>Balances:</i>		
Amount due from related company		
Current accounts	66,011	-
Amount due to related company		
Intercompany borrowings	(1,575,767)	(1,242,600)
Current accounts	-	(9,873)
	<u>(1,509,756)</u>	<u>(1,252,473)</u>
	<u><u>(1,509,756)</u></u>	<u><u>(1,252,473)</u></u>

25. Directors' remuneration

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

	Group and Bank	
	2003	2002
	RM'000	RM'000
Executive directors:-		
Salary, bonus and allowances	1,642	1,505
Benefits-in-kind	278	293
	<u>1,920</u>	<u>1,798</u>
	=====	=====
Non-executive directors:-		
Fees	236	220
Other allowances	29	23
	<u>265</u>	<u>243</u>
	=====	=====

The remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind during the year ended, amounted to RM1,920,000 (2002 - RM1,798,000).

26. Tax expense

	Group and Bank	
	2003	2002
	RM'000	RM'000
Current income tax:		
Malaysian		
- Current year provision	150,180	89,859
Deferred tax expense:		
(Origination)/reversal of temporary differences	(30,841)	23,115
	<u>119,339</u>	<u>112,974</u>
	=====	=====
Reconciliation of effective tax rate:		
Profit before taxation	435,150	366,841
	=====	=====
Income tax using Malaysian tax rates @ 28%	121,842	102,715
Non-deductible expenses	4,120	5,501
Non-taxable income	(5,246)	(1,873)
Others	(1,377)	6,631
	<u>119,339</u>	<u>112,974</u>
	=====	=====

27. Deferred taxation

The amounts determined after appropriate offsetting, are as follows:

	Group and Bank	
	2003	2002
	RM'000	RM'000
Deferred tax assets	(126,666)	(120,018)
Deferred tax liabilities	10,281	34,474
	<u>(116,385)</u>	<u>(85,544)</u>
	=====	=====

Deferred tax assets and liabilities are offset above where there is a legally enforceable right to set off current tax assets against current tax liabilities where the deferred taxes relate to the same taxation authority.

The recognised deferred tax (assets)/liabilities (before offsetting) are as follows:

	Group and Bank	
	2003	2002
	RM'000	RM'000
Property, plant and equipment	7,018	11,436
General allowance for expenditures	(120,568)	(120,018)
Investment securities		
- amortisation of premium less accretion of discounts	(6,098)	18,939
- accrued interest receivable	3,263	4,099
	<u>(116,385)</u>	<u>(85,544)</u>
	=====	=====

28. Staff retirement and service benefits

	Group and Bank 2003 RM'000
Present value of defined benefit obligations	
- Funded	14,074
- Unfunded	916
Fair value of plan assets	(15,647)
	<hr/>
Fair value of net surplus	(657)
Unrecognised actuarial gain	75
Unrecognised assets	1,498
	<hr/>
Recognised liability for defined benefit obligations	916
	<hr/> <hr/>

Funded scheme

The Bank makes contributions to the SCB retirement benefit scheme, a defined benefit scheme that provides pension benefits for employees upon retirement. Under the scheme, eligible employees are entitled to retirement benefits of one month of the average basic salary for each completed year of service upon the retirement age of 55. Average basic salary means the average monthly basic salary earned in the twelve months service immediately prior to leaving the service.

As at 31 December 2003, the total plan assets include investments in Malaysian Government Securities and net current assets, with a fair value of RM4,104,000 and RM11,543,000 respectively.

Unfunded scheme

The Bank makes contributions directly to the Employees Provident Fund (“EPF”) for certain eligible employees. These contributions are provided for in the Bank’s financial statements and remitted over to the EPF after the employee has been in employment of the Bank for a period of 3 years.

28. Staff retirement and service benefits (continued)

Movements in the net liability recognised in the balance sheet

	Group and Bank 2003 RM'000
Net liability at 1 January	3,209
Contributions	(2,478)
Expense recognised in the income statement under personnel cost	185
	<hr/>
Net liability at 31 December	916
	<hr/> <hr/>

Expense recognised in the income statement

Current service cost	1,036
Interest obligation	991
Expected return on plan assets	(416)
Transition amount recognition	(2,924)
Adjustments for limit on net assets	1,498
	<hr/>
	185
	<hr/> <hr/>
Expected return on plan assets	416
Actuarial loss	(65)
	<hr/>
Actual return on plan assets	351
	<hr/> <hr/>

The principal actuarial assumptions used are:

	Rate per annum
Discount rate	7.0%
Expected rate of return on plan assets	3.0%
Average salary increases	5.0%
EPF dividend rate	4.0%

29. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of RM315,811,000 (2002 - RM253,867,000) and the number of ordinary shares outstanding during the year of 125,000,000 (2002 - 125,000,000).

30. Commitments and contingencies

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

The commitments and contingencies as at 31 December are as follows:-

	Group and Bank			
	2003		2002	
	Principal amount RM'000	Credit equivalent amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000
Direct credit substitutes	752,848	752,848	459,506	459,506
Transaction-related contingent items	2,064,212	1,032,106	2,451,481	1,225,741
Short-term self liquidated trade-related contingencies	110,022	22,004	284,119	56,824
Irrevocable commitments to extend credit:-				
- maturity more than one year	1,372,463	686,232	2,003,992	1,001,996
- maturity less than one year	4,934,148	-	4,969,440	-
Foreign exchange related contracts				
- less than one year	8,384,685	194,847	9,242,836	167,242
- one year to less than five years	362,102	34,724	380,000	29,298
Interest rate related contracts				
- less than one year	6,238,601	14,216	5,990,800	16,122
- one year to less than five years	8,837,683	257,953	5,413,800	148,352
- five years and above	52,000	2,648	-	-
Miscellaneous commitments and contingencies	653,903	-	591,695	-
	<u>33,762,667</u>	<u>2,997,578</u>	<u>31,787,669</u>	<u>3,105,081</u>

30. Commitments and contingencies (continued)

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.

Market Risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amount subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at 31 December 2003, the amount of contracts which were not hedged and, hence, exposed to market risk was RM10 million (2002 - RM14 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 has a gain position. As at end of 31 December 2003, the amount of credit risk, measured in terms of the cost to replace the profitable contracts, was RM143 million (2002 – RM94 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.

Details of the Bank's foreign exchange contracts and interest rate contracts as at 31 December are as follows:

	Group and Bank	
	2003	2002
	RM'000	RM'000
Foreign exchange contracts		
- forward and futures contracts	7,381,601	8,905,654
- cross-currency interest rate swaps	1,024,924	434,286
- options purchased	170,131	141,448
- options written	170,131	141,448
	=====	=====
Interest rate contracts		
- forward and futures contracts	8,052,000	6,496,000
- swaps	7,076,284	4,908,600
	=====	=====

31. Financial risk management policies

The guidelines and policies adopted by the Group and the Bank to manage the following risks that arise in the conduct of the business activities are as follows:

Operational Risk

Operational Risk is the risk of direct or indirect loss due to an event or action causing the failure of technology, processes, infrastructure, personnel and other risks having operational risk impact.

The Country Operational Risk Group (“CORG”) has been established to ensure that an appropriate risk management framework is in place and to monitor and manage operational, social, ethical and environmental risk. The CORG is chaired by the Country Chief Executive Officer. Business units within the Bank monitor their Operational Risks using set standards and indicators. Significant issues and exceptions are reported to the CORG. Disaster recovery procedures, business contingency planning, self-compliance audits and internal audits also form an integral part of the operational risk management process.

Credit Risk

Credit risk is the risk that a counterparty will not settle its obligations in accordance with agreed terms. Credit exposures include individual borrowers, connected groups of counterparties and portfolios on the banking book and trading book.

Policies for managing credit risk are determined by the Group Risk Committee which also delegates credit authorities to independent Risk Officers. Specific procedures for managing credit risk are determined at the business levels with specific policies and procedures being adapted to different risk environment and business goals. Credit analysis includes review of facility detail, credit grade determination and financial spreading/ratio analysis. Origination and approval roles are clearly segregated. Significant exposures and specific local credit underwriting standards are reviewed and approved through the Malaysia Credit Risk and Policy Committee.

Market Risk

The Bank recognises market risk as the exposure created by the potential changes in market prices and rates.

Market risk is managed through the Group Risk Committee, which agrees policies and procedures and levels of risk appetite in terms of Value at Risk (“VaR”). Limits are then proposed by the business within the terms of agreed policy. These are agreed and monitored by Group Risk and an independent risk management function within the business. Policies cover both the trading and non-trading books.

31. Financial risk management policies (continued)

Market Risk (continued)

In addition to monitoring limits set, the independent stress testing of portfolios is performed by the risk management functions and additional limits are placed on specific instrument and currency concentrations where appropriate. Factor sensitivity measures are used in addition to VaR as additional risk management tools. Risk models are periodically back tested against actual results to ensure pre-determined levels of accuracy are maintained.

Liquidity Risk

The Bank defines liquidity risk as the risk that funds will not be available to meet liabilities as they fall due.

Liquidity risk is managed through the Asset and Liability Committee (“ALCO”). This committee, chaired by the Country Chief Executive Officer is responsible for both statutory and prudential liquidity.

Liquidity risk is monitored through the Bank Negara Malaysia New Liquidity Framework and the internal liquidity risk management policy. A range of tools are used for the management of liquidity. These comprise commitment and wholesale borrowing guidelines, key balance sheet ratios, medium term funding requirements and day to day monitoring of future cash flows.

In addition, liquidity contingency funding plans are reviewed periodically to ensure that alternative funding strategies are in place and can be implemented on a timely basis to minimise the liquidity risk that may arise due to unforeseen adverse changes in the market place.

32. Interest rate risk

The Group and the Bank are exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The following table indicates the effective interest rates at the balance sheet date and the periods in which the financial instruments reprice or mature, whichever is earlier.

32. Interest rate risk (continued)

Group 2003	Within 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Total RM'000	Average interest %
Assets						
Cash and short term funds	2,739,582	-	-	-	2,739,582	2.75
Dealing securities	19,973	155,093	158,757	-	333,823	3.35
Investment securities	2,914,010	1,339,388	58,654	9,098	4,321,150	2.25
Loans, advances and financing	14,477,278	277,216	177,810	462,569	15,394,873	6.77
Other non-interest sensitive balances	-	-	-	898,207	898,207	
Total assets	20,150,843	1,771,697	395,221	1,369,874	23,687,635	
Liabilities and shareholders' funds						
Deposits from customers	11,494,730	143,677	-	2,777,178	14,415,585	2.45
Deposits and placements of banks and other financial institutions	3,623,029	245,000	-	-	3,868,029	2.03
Obligations on securities sold under repurchase agreements	2,235,324	-	-	-	2,235,324	2.64
Bills and acceptances payable	205,276	-	-	-	205,276	2.10
Amount due to Cagamas	68,595	453,652	-	-	522,247	3.55
Redeemable preference shares	-	-	190,000	-	190,000	10.42
Other non-interest sensitive balances	-	-	-	814,812	814,812	
Total liabilities	17,626,954	842,329	190,000	3,591,990	22,251,273	
Shareholders' funds	-	-	-	1,436,362	1,436,362	
Total liabilities and shareholders' funds	17,626,954	842,329	190,000	5,028,352	23,687,635	
On-balance sheet interest sensitivity gap	2,523,889	929,368	205,221	(3,658,478)		
Off-balance sheet interest sensitivity gap	(1,315,820)	1,183,820	132,000	-		
Total interest sensitivity gap	1,208,069	2,113,188	337,221	(3,658,478)		

32. Interest rate risk (continued)

Group 2002	Within 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Total RM'000	Average interest %
Assets						
Cash and short term funds	2,234,069	-	-	-	2,234,069	2.17
Deposits and placements with banks and other financial institutions	815,200	-	-	-	815,200	2.49
Dealing securities	142,895	185,144	36,317	-	364,356	3.76
Investment securities	2,448,961	1,140,661	21,983	9,597	3,621,202	2.53
Loans, advances and financing	12,595,028	478,075	401,746	76,009	13,550,858	7.11
Other non-interest sensitive balances	-	-	-	687,238	687,238	
Total assets	18,236,153	1,803,880	460,046	772,844	21,272,923	
Liabilities and shareholders' funds						
Deposits from customers	10,034,743	240,809	-	3,157,350	13,432,902	2.99
Deposits and placements of banks and other financial institutions	3,433,730	1,500	-	-	3,435,230	2.72
Obligations on securities sold under repurchase agreements	1,675,996	-	-	-	1,675,996	2.56
Bills and acceptances payable	300,571	-	-	-	300,571	2.86
Amount due to Cagamas	16,090	118,585	-	-	134,675	5.72
Redeemable preference shares	-	-	190,000	-	190,000	10.42
Other non-interest sensitive balances	-	-	-	686,898	686,898	
Total liabilities shareholders' funds	15,461,130	360,894	190,000	3,844,248	19,856,272	
	-	-	-	1,416,651	1,416,651	
Total liabilities and shareholders' funds	15,461,130	360,894	190,000	5,260,899	21,272,923	
On-balance sheet interest sensitivity gap	2,775,023	1,442,986	270,046	(4,488,055)		
Off-balance sheet interest sensitivity gap	415,000	345,000	(760,000)	-		
Total interest sensitivity gap	3,190,023	1,787,986	(489,954)	(4,488,055)		

The effective interest rate of the financial instruments of the Bank is not disclosed as the financial position of the Bank is not materially different from the Group.

33. Fair values of financial assets and liabilities

The following are the estimated fair values of the financial assets and liabilities followed by a general description of the methods and assumptions used in the estimation:

	Group Carrying Value		Group Fair Value	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Financial assets				
Cash and short term funds	2,739,582	2,234,069	2,739,582	2,234,069
Deposits and placements with banks and other financial institutions	-	815,200	-	815,200
Dealing securities	333,823	364,356	333,823	363,987
Investment securities	4,321,150	3,621,202	4,322,633	3,629,267
Loans, advances and financing	15,394,873	13,550,858	15,398,157	13,551,107
Financial liabilities				
Deposits from customers	14,415,585	13,432,902	14,411,641	13,436,565
Deposits and placements of banks and other financial institutions	3,868,029	3,435,230	3,867,446	3,435,230
Obligations on securities sold under repurchase agreements	2,235,324	1,675,996	2,235,324	1,675,996
Bills and acceptances payable	205,276	300,571	205,276	300,571
Amount due to Cagamas	522,247	134,675	512,669	136,588
Redeemable preference shares	190,000	190,000	190,000	190,000

Note:

Other receivables, other payables and tax payable are considered short term in nature. The fair values are estimated to be approximately their carrying values.

The fair values of the financial assets and financial liabilities of the Bank is not disclosed as the financial position of the Bank is not materially different from the Group.

33. Fair values of financial assets and liabilities (continued)

Methods and Assumptions

Financial Assets

- i) Cash and short term funds, deposits and placements with banks and other financial institutions.

The fair values of cash and short term funds, deposits and placements with banks and other financial institutions are equivalent to placement value as these are regarded as short term financial instruments, defined as those with remaining maturities of less than one year and the carrying values are considered to be a reasonable estimate of their fair values. For deposits and placements with a remaining maturity greater than one year, the fair values are arrived at by discounting contractual future cash flows at the prevailing interbank rates for the remaining maturities as at balance sheet date.

- ii) Dealing and investment securities

The estimated fair value is based on quoted or observable market prices at the balance sheet date. Where such quoted or observable market prices are not available, the fair value is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, the estimated future cash flows are discounted using the prevailing market rates for a similar instrument at the balance sheet date.

- iii) Loans, advances and financing

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate and Islamic loans with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at balance sheet date offered for similar loans to new borrowers with similar credit profiles, where applicable. In respect of non-performing loans, the fair values are deemed to approximate the carrying values, net of interest-in-suspense and specific allowance for bad and doubtful debts and financing.

33. Fair values of financial assets and liabilities (continued)

Financial Liabilities

- i) Deposits and placements from customers, banks and other financial institutions

The fair values for deposit liabilities payable on demand (demand and savings deposits) or with remaining maturities of less than one year are estimated to approximate their carrying values at balance sheet date. The fair values of fixed deposits with remaining maturities of more than one year are estimated based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The fair values of Islamic deposits are deemed to approximate their carrying values as at balance sheet date as the profit rates are determined at the end of their holding periods based on the profit generated from the assets invested. For negotiable instrument of deposits, the estimated fair values are based on quoted or observable market prices at the balance sheet date. Where such quoted or observable market prices are not available, the fair values of negotiable instrument of deposits are estimated using discounted cash flow techniques.

- ii) Obligations on securities sold under repurchase agreements and bills and acceptances payable

The carrying amounts are a reasonable estimate of their fair values because of their short-term nature.

- iii) Amount due to Cagamas

The fair value of amount due to Cagamas is determined based on discounted cash flows of future instalments payments at prevailing Cagamas rates as at balance sheet date.

- iv) Redeemable preference shares

The fair value of RPS are estimated based on discounted cash flows using rates currently offered for debt instruments of similar remaining maturities and credit grading.

33. Fair values of financial assets and liabilities (continued)

Unrecognised financial instruments

The valuation of financial instruments not recognised in the balance sheet reflects their current market rates at the balance sheet date.

The contracted amount and fair value of financial instruments not recognised in the balance sheet as at 31 December are:

	Group and Bank Carrying Value		Group and Bank Fair Value	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Foreign exchange contracts				
- forward and futures contracts	7,381,601	8,905,654	5,878	4,772
- cross-currency interest rate swaps	1,024,924	434,286	2,875	233
- options purchased	170,131	141,448	(144)	2,216
- options written	170,131	141,448	144	(2,216)
Interest rate contracts				
- forward and futures contracts	8,052,000	6,496,000	1,031	(2,151)
- swaps	7,076,284	4,908,600	11,912	7,365

Methods and Assumptions

Fair values of derivative instruments are normally zero or negligible at inception and the subsequent change in value is favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The fair values of the Group's and the Bank's derivative instruments are estimated by reference to quoted market prices. Internal models are used where no market price is available.

34. Lease commitments

The Group and the Bank have lease commitments in respect of rented premises, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments, net of sub-leases, is as follows:-

Year	RM'000
2004	43,833
2005	29,668
2006	23,897
	=====

35. Capital commitments

	Group and Bank	
	2003	2002
	RM'000	RM'000
Capital expenditure:		
- authorised and contracted for	3,980	4,804
- authorised but not contracted for	96,551	2,184
	<u>100,531</u>	<u>6,988</u>
	<u><u>100,531</u></u>	<u><u>6,988</u></u>

36. Capital adequacy

The capital adequacy ratio of the Bank is analysed as follows:

	Group and Bank	
	2003	2002
	RM'000	RM'000
Tier 1 Capital		
Paid-up ordinary share capital	125,000	125,000
Share premium	375,000	375,000
Other reserves	936,362	916,651
Less: Deferred tax reserve	(116,385)	(85,544)
Total Tier 1 Capital	<u>1,319,977</u>	<u>1,331,107</u>
	<u><u>1,319,977</u></u>	<u><u>1,331,107</u></u>
Tier 2 Capital		
Redeemable preference shares	190,000	190,000
General allowance for bad and doubtful debts and financing	229,500	238,995
Total Tier 2 Capital	<u>419,500</u>	<u>428,995</u>
	<u><u>419,500</u></u>	<u><u>428,995</u></u>
Total capital	1,739,477	1,760,102
Less: Investment in subsidiary companies	(22)	(22)
Total Capital Base	<u>1,739,455</u>	<u>1,760,080</u>
	<u><u>1,739,455</u></u>	<u><u>1,760,080</u></u>

36. Capital adequacy (continued)

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

	Group and Bank	
	2003	2002
	RM'000	RM'000
0%	5,216,656	4,409,447
10%	791,980	883,707
20%	3,153,274	3,875,595
50%	9,965,317	8,476,119
100%	7,689,025	7,051,220
	<u>26,816,252</u>	<u>24,696,088</u>
Total risk-weighted assets	<u>13,381,536</u>	<u>12,152,769</u>
Capital Ratios		
<u>Excluding proposed dividend:</u>		
Core capital ratio	9.86%	10.95%
Risk-weighted capital ratio	<u>13.00%</u>	<u>14.48%</u>
<u>With proposed dividend:</u>		
Core capital ratio	8.76%	9.64%
Risk-weighted capital ratio	<u>11.89%</u>	<u>13.17%</u>

37. Changes in accounting estimates, accounting policies and prior year adjustment

Changes in accounting estimates

(a) Investment securities

With effect from the current financial year, Malaysian Government Securities, Malaysian Government Investment Certificates, Cagamas Bonds and other Government securities held for investment are adjusted for amortisation of premium or accretion of discount to maturity date on a constant effective yield basis, as opposed to straight line basis in prior years, so as to be consistent with Group Accounting Policy. The effect of the change in accounting estimate was a decrease in amortisation of premium less accretion of discount of RM 7,746,000 for the financial year.

37. Changes in accounting estimates, accounting policies and prior year adjustment (continued)

(b) Property, plant and equipment

With effect from the current financial year, new premises, plant and equipment, furniture and fittings and motor vehicles are depreciated on a straight-line basis over their expected economic life, principally between 3 and 5 years so as to better reflect their estimated useful life. The premises, plant and equipment, furniture and fittings and motor vehicles acquired in previous years were depreciated at the following principal annual rates:

Premises, plant and equipment	10%
Furniture and fittings	20%
Motor vehicles	20%

The change in accounting estimate has resulted in an increase in depreciation charge of RM 3,319,000 for the financial year.

Changes in accounting policies

In the current financial year, the Group and the Company adopted four new MASB Standards. The adoption of these new standards resulted in changes in accounting policies as follows:

- (a) MASB 25, Income Taxes, which have been adopted retrospectively. Comparative figures have been adjusted to reflect the changes in these accounting policies;
- (b) MASB 27, Borrowings Costs, which is applied retrospectively. Comparative figures have not been restated as the previous accounting policy is in line with this accounting standard;
- (c) MASB 29, Employee Benefits, which have been adopted retrospectively. Comparative figures have not been restated as the previous accounting policy was in line with the accounting standard;
- (d) MASB *i*-1, Presentation of Financial Statements of Islamic Financial Institutions which is applied retrospectively. The adoption resulted in a new disclosure format in the Statement of Changes in Equity and Cash Flow Statement as set out in Note 39 of the financial statements.

37. Changes in accounting estimates, accounting policies and prior year adjustment (continued)

The adoption of MASB 25 has resulted in the recognition in full of all taxable temporary differences. Previously, deferred tax liabilities were not provided if no liability was expected to arise in the foreseeable future and there were no indications the timing differences would reverse thereafter. Deferred tax assets are now recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised (previously only recognised where there was a reasonable expectation of realisation in the near future).

This change in accounting policy, applied retrospectively, has the following impact on the results as follows:

	Group and Bank	
	2003	2002
	RM'000	RM'000
Net profit before change in accounting policy	284,970	276,982
Effect of adopting MASB 25	30,841	(23,115)
	<u>315,811</u>	<u>253,867</u>
Net profit for the year	<u><u>315,811</u></u>	<u><u>253,867</u></u>

Prior year adjustment

The change in accounting policy due to the adoption of MASB 25 has been accounted for by restated comparatives and adjusting the opening balance of retained profits at 1 January 2002 as disclosed in Note 38 and the statement of changes in equity respectively.

38. Comparative figures

Certain comparative figures have been restated to comply with the additional disclosure requirements of the applicable approved accounting standards issued by the Malaysian Accounting Standard Board (“MASB”) and guidelines issued by Bank Negara Malaysia. Reclassifications have been made to the following comparative figures to conform with the current financial year presentation.

	Group		Bank	
	As restated RM’000	As previously reported RM’000	As restated RM’000	As previously reported RM’000
Income statement				
Taxation	112,974	89,859	112,974	89,859
Net profit for the year	253,867	276,982	253,867	276,982
	=====	=====	=====	=====
Balance sheet				
Assets				
Deferred tax assets	85,544	-	85,544	-
Liabilities				
Other payables	641,638	821,573	641,660	821,595
Amount due to Cagamas	134,675	-	134,675	-
Tax payable	45,260	-	45,260	-
Statement of changes in equity				
Retained profits as at 1 January	727,784	619,125	727,784	619,125
Retained profits as at 31 December	791,651	706,107	791,651	706,107
	=====	=====	=====	=====
Financial ratios				
Earnings per share (sen)	203	222	203	222
	=====	=====	=====	=====

39. The operations of Islamic Banking

Standard Chartered Bank Malaysia Berhad Islamic Banking Operations

(Incorporated in Malaysia)

Balance sheets as at 31 December 2003

	Note	Group and Bank 2003 RM'000	2002 RM'000
Assets			
Cash and short term funds	(a)	98,422	10,818
Investment securities	(b)	74,727	61,181
Loans, advances and financing	(c)	17,096	20,796
Other receivables	(d)	164	245
Property, plant and equipment		6	16
Total assets		<u>190,415</u>	<u>93,056</u>
Liabilities and Islamic Banking funds			
Deposits from customers	(e)	149,331	62,266
Other payables	(f)	9,123	2,789
Tax payable		1,367	-
Total liabilities		<u>159,821</u>	<u>65,055</u>
Islamic Banking funds		30,594	28,001
Total liabilities and Islamic Banking funds		<u>190,415</u>	<u>93,056</u>

The notes set out on pages 67 to 77 form an integral part of, and should be read in conjunction with, these financial statements.

39. The operations of Islamic Banking (continued)**Standard Chartered Bank Malaysia Berhad
Islamic Banking Operations**

(Incorporated in Malaysia)

**Income statement for the year ended
31 December 2003**

	Note	Group and Bank 2003 RM'000	2002 RM'000
Net income	(h)	5,917	3,961
Overhead expenses	(i)	(1,981)	(1,584)
		<hr/>	<hr/>
Operating profit		3,936	2,377
Writeback of allowance for financing loss	(j)	24	53
		<hr/>	<hr/>
Profit before taxation		3,960	2,430
Tax expense	(k)	(1,367)	-
		<hr/>	<hr/>
Net profit for the year		2,593	2,430
		=====	=====

The notes set out on pages 67 to 77 form an integral part of, and should be read in conjunction with, these financial statements.

39. The operations of Islamic Banking (continued)**Standard Chartered Bank Malaysia Berhad
Islamic Banking Operations**

(Incorporated in Malaysia)

**Statement changes in equity for the year ended
31 December 2003**

	<i>Non-distributable reserves</i> Funds allocated from Head Office RM	<i>Distributable reserves</i> Retained profits RM	Total RM
At 1 January 2002	20,000	5,571	25,571
Net profit for the year	-	2,430	2,430
At 31 December 2002/At 1 January 2003	20,000	8,001	28,001
Net profit for the year	-	2,593	2,593
At 31 December 2003	20,000	10,594	30,594

The notes set out on pages 67 to 77 form an integral part of, and should be read in conjunction with, these financial statements.

39. The operations of Islamic Banking (continued)**Standard Chartered Bank Malaysia Berhad
Islamic Banking Operations**

(Incorporated in Malaysia)

**Cash flow statement for the year ended
31 December 2003**

	Group and Bank 2003 RM'000	2002 RM'000
Cash flows from operating activities		
Profit before taxation	3,960	2,430
Adjustment for:		
Depreciation	10	19
Loss/(Gain) on disposal of investment securities	750	(1,210)
Amortisation of premium less accretion of discount	(2,149)	(1,063)
	<hr/>	<hr/>
Operating profit before working capital changes	2,571	176
(Increase)/Decrease in working capital:		
Loans, advances and financing	3,700	5,581
Other receivables	81	129
Deposits from customers	87,065	(50,675)
Other payables	6,334	1,145
	<hr/>	<hr/>
Net cash generated from/(used in) operating activities	99,751	(43,644)
	-----	-----
Cash flows from investing activities		
Purchase of property, plant and equipment	-	(10)
Purchase of investment securities	(68,128)	(28,352)
Proceeds from disposal of investment securities	55,981	70,216
	<hr/>	<hr/>
Net cash (used in)/generated from investing activities	(12,147)	41,854
	-----	-----
Net increase/(decrease) in cash and cash equivalents	87,604	(1,790)
Cash and cash equivalents brought forward	10,818	12,608
	<hr/>	<hr/>
Cash and cash equivalents carried forward	98,422	10,818
	=====	=====
Cash and cash equivalents comprise:		
Cash and short term funds	98,422	10,818
	=====	=====

The notes set out on pages 67 to 77 form an integral part of, and should be read in conjunction with, these financial statements.

39. The operations of Islamic Banking (continued)

(a) Cash and short term funds

	Group and Bank	
	2003	2002
	RM'000	RM'000
Cash and balances with banks and other financial institutions	122	18
Money at call and deposit placements maturing within one month	98,300	10,800
	<u>98,422</u>	<u>10,818</u>
	<u><u>98,422</u></u>	<u><u>10,818</u></u>

(b) Investment securities

	Group and Bank	
	2003	2002
	RM'000	RM'000
Money market instruments:		
Khazanah Islamic bonds	55,000	55,000
Islamic accepted bills	21,853	9,912
	<u>76,853</u>	<u>64,912</u>
Amortisation of premiums less accretion of discounts	(2,126)	(3,731)
	<u>74,727</u>	<u>61,181</u>
	<u><u>74,727</u></u>	<u><u>61,181</u></u>
i) Market value of securities:		
Khazanah Islamic bonds	52,898	52,330
Islamic accepted bills	21,757	9,844
	<u>74,655</u>	<u>62,174</u>
	<u><u>74,655</u></u>	<u><u>62,174</u></u>

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

	Group and Bank	
	2003	2002
	RM'000	RM'000
Maturity within one year	51,220	9,851
One year to three years	23,507	51,330
	<u>74,727</u>	<u>61,181</u>
	<u><u>74,727</u></u>	<u><u>61,181</u></u>

39. The operations of Islamic Banking (continued)

(c) Loans, advances and financing

	Group and Bank	
	2003	2002
	RM'000	RM'000
Term financing	35,492	44,296
Unearned income	(17,732)	(22,522)
	<hr/>	<hr/>
Gross loans, advances and financing	17,760	21,774
Allowance for bad and doubtful debts and financing		
- Specific	(363)	(350)
- General	(260)	(317)
Profit-in-suspense	(41)	(311)
	<hr/>	<hr/>
Net loans, advances and financing	17,096	20,796
	<hr/> <hr/>	<hr/> <hr/>

The loans, advances and financing, all of which are Al-Bai' Bithaman Ajil, are loans given to individuals for the purchase of landed property - residential.

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

	Group and Bank	
	2003	2002
	RM'000	RM'000
Maturity within one year	-	7
One year to three years	-	138
Three years to five years	14	482
Over five years	17,746	21,147
	<hr/>	<hr/>
	17,760	21,774
	<hr/> <hr/>	<hr/> <hr/>

ii) Movements in the non-performing loans, advances and financing (including income receivables) are as follows:

	Group and Bank	
	2003	2002
	RM'000	RM'000
Balance as at 1 January	2,681	3,326
Non-performing during the year (gross)	2,375	2,523
Performing during the year	(2,907)	(2,739)
Recoveries	(440)	(429)
Others	12	-
	<hr/>	<hr/>
Balance as at 31 December	1,721	2,681
	<hr/> <hr/>	<hr/> <hr/>

39. The operations of Islamic Banking (continued)

- iii) Movements in the allowance for bad and doubtful debts and financing and profit-in-suspense accounts are as follows:

	Group and Bank	
	2003	2002
	RM'000	RM'000
<u>General allowance</u>		
Balance as at 1 January	317	410
Amount written back to Income Statement	(57)	(93)
	-----	-----
Balance as at 31 December	260	317
	=====	=====
<u>Specific allowance</u>		
Balance as at 1 January	350	310
Allowance made during the year	33	128
Amount written back in respect of recoveries	-	(88)
Allowance written off during the year	(20)	-
	-----	-----
Balance as at 31 December	363	350
	=====	=====
<u>Profit-in-suspense</u>		
Balance as at 1 January	311	233
Allowance made during the year	113	211
Amount written back in respect of recoveries	(383)	(133)
	-----	-----
Balance as at 31 December	41	311
	=====	=====

- iv) Non-performing loans, advances and financing analysed by their economic purposes are as follows:

	Group and Bank	
	2003	2002
	RM'000	RM'000
Purchase of landed property – residential	1,721	2,681
	=====	=====

39. The operations of Islamic Banking (continued)

(d) Other receivables

	Group and Bank	
	2003	2002
	RM'000	RM'000
Other receivables, deposits and prepayments	164	245
	=====	=====

(e) Deposits from customers

	Group and Bank	
	2003	2002
	RM'000	RM'000
Al-Wadiah current deposits	5,767	-
Al-Wadiah savings deposits	22,022	17,717
General investment deposits	121,542	44,549
	-----	-----
	149,331	62,266
	=====	=====

i) Maturity structure of deposits from customers are as follows:

	Group and Bank	
	2003	2002
	RM'000	RM'000
Due within six months	145,408	59,436
Six months to one year	3,873	2,707
One year to three years	50	123
	-----	-----
	149,331	62,266
	=====	=====

ii) The deposits are sourced from the following types of customers:

	Group and Bank	
	2003	2002
	RM'000	RM'000
Business enterprises	44,906	5,872
Individuals	101,051	52,992
Others	3,374	3,402
	-----	-----
	149,331	62,266
	=====	=====

39. The operations of Islamic Banking (continued)**(f) Other payables**

	Group and Bank	
	2003	2002
	RM'000	RM'000
Income/Dividend payable	708	245
Accruals	985	373
Profit equalisation reserve (Note (g))	73	136
Other payables	7,357	2,035
	<u>9,123</u>	<u>2,789</u>
	<u>=====</u>	<u>=====</u>

(g) Profit equalisation reserves

	Group and Bank	
	2003	2002
	RM'000	RM'000
Balance as at 1 January	136	-
Amount provided during the year	-	136
Amount written back during the year	(63)	-
	<u>73</u>	<u>136</u>
	<u>=====</u>	<u>=====</u>

(h) Income from Islamic Banking operations

	Group and Bank	
	2003	2002
	RM'000	RM'000
Income derived from investment of depositors' funds and funds allocated from Head Office	4,106	5,340
Income attributable to depositors		
- other customers	(2,467)	(2,616)
- banks and financial institutions	846	132
	<u>2,485</u>	<u>2,856</u>
Income attributable to Group/Bank	2,485	2,856
Other Islamic Banking income	3,162	1,183
Net profit-in-suspense	270	(78)
	<u>5,917</u>	<u>3,961</u>
	<u>=====</u>	<u>=====</u>

39. The operations of Islamic Banking (continued)

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

	Depositors' Funds RM'000	IBF RM'000
2003		
Income from financing	1,727	-
Investment income:		
Gains from sale of investment securities	750	-
Gross dividends from Malaysia:		
Investment securities	1,629	-
	<u>4,106</u>	<u>-</u>
	<u>=====</u>	<u>=====</u>
2002		
Income from financing	2,269	-
Investment income:		
Gains from sale of investment securities	1,210	-
Gross dividends from Malaysia:		
Investment securities	928	933
	<u>4,407</u>	<u>933</u>
	<u>=====</u>	<u>=====</u>

(i) Overhead expenses

	Group and Bank	
	2003 RM'000	2002 RM'000
Personnel costs	1,060	1,076
Establishment costs	77	84
Marketing expenses	425	88
Administration and general expenses	419	336
	<u>1,981</u>	<u>1,584</u>
	<u>=====</u>	<u>=====</u>

39. The operations of Islamic Banking (continued)**(j) Allowance for financing loss**

	Group and Bank	
	2003	2002
	RM'000	RM'000
Allowance for financing loss:		
Specific allowance (net)		
Made in the financial year	33	128
Write back	-	(88)
General allowance		
Write back	(57)	(93)
	<u>(24)</u>	<u>(53)</u>
	<u>=====</u>	<u>=====</u>

(k) Tax expense

	Group and Bank	
	2003	2002
	RM'000	RM'000
Malaysian income tax		
- Current year	1,367	-
	<u>=====</u>	<u>=====</u>

(l) Commitments and contingencies

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

39. The operations of Islamic Banking (continued)

(m) Profit rate risk on Islamic Banking portfolio

The Islamic Banking's portfolio is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The following table indicates the effective profit rates at the balance sheet date and the periods in which the financial instruments reprice or mature, whichever is earlier.

Group and Bank 2003	Within 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Total RM'000	Average rate %
Assets						
Cash and short term funds	98,300	-	-	122	98,422	2.70
Investment securities	51,220	23,507	-	-	74,727	1.07
Loans, advances and financing	776	2,692	12,571	1,057	17,096	9.10
Other non-interest sensitive balances	-	-	-	170	170	
Total assets	150,296	26,199	12,571	1,349	190,415	
Liabilities and Islamic banking funds						
Deposits from customers	149,281	50	-	-	149,331	2.83
Other non-interest sensitive balances	-	-	-	10,490	10,490	
Total liabilities	149,281	50	-	10,490	159,821	
Islamic banking funds	-	-	-	30,594	30,594	
Total liabilities and Islamic banking funds	149,281	50	-	41,084	190,415	
On-balance sheet interest sensitivity gap	1,015	26,149	12,571	(39,735)		
Off-balance sheet interest sensitivity gap	-	-	-	-		
Total interest sensitivity gap	1,015	26,149	12,571	(39,735)		

39. The operations of Islamic Banking (continued)

(m) Profit rate risk on Islamic Banking portfolio (continued)

Group and Bank 2002	Within 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Total RM'000	Average rate %
Assets						
Cash and short term funds	10,800	-	-	18	10,818	2.71
Investment securities	9,851	51,330	-	-	61,181	1.26
Loans, advances and financing	783	2,832	15,478	1,703	20,796	9.01
Other non-interest sensitive balance	-	-	-	261	261	
Total assets	21,434	54,162	15,478	1,982	93,056	
Liabilities and Islamic banking funds						
Deposits from customers	62,143	123	-	-	62,266	2.97
Other non-interest sensitive balance	-	-	-	2,789	2,789	
Total liabilities	62,143	123	-	2,789	65,055	
Islamic banking funds	-	-	-	28,001	28,001	
Total liabilities and Islamic banking funds	62,143	123	-	30,790	93,056	
On-balance sheet interest sensitivity gap	(40,709)	54,039	15,478	(28,808)		
Off-balance sheet interest sensitivity gap	-	-	-	-		
Total interest sensitivity gap	(40,709)	54,039	15,478	(28,808)		

39. The operations of Islamic Banking (continued)

(n) Fair values of financial assets and liabilities

The following are the estimated fair values of the financial assets and liabilities followed by a general description of the methods and assumptions used in the estimation:

	Group Carrying Value		Group Fair Value	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Financial assets				
Cash and short term funds	98,422	10,818	98,422	10,818
Investment securities	74,727	61,181	74,655	62,174
Loans, advances and financing	17,096	20,796	21,619	26,330
Financial liabilities				
Deposits from customers	149,331	62,266	149,331	62,266

Note:

Other receivables, tax payable and other payables are considered short term in nature. The fair values are estimated to be approximately their carrying values.

The fair values of the financial assets and financial liabilities of the Bank is not disclosed as the financial position of the Bank is not materially different from the Group.

Methods and Assumptions

The methods and assumptions in deriving the fair value of the financial assets and financial liabilities of the Islamic Banking operations are similar to the methods and assumptions adopted in deriving the fair value of the financial assets and financial liabilities as disclosed in Note 33.

(o) Syariah Consultative Committee

The Syariah Consultative Committee was formed in October 2000. The Committee was given the mandate by the Board of Directors of the Bank to oversee the Bank's Islamic banking business and ensuring that the Group and the Bank complies with the strict requirements of Syariah Law. The Committee is made up of officers from the Islamic Banking Division and independent consultants who are experts in Syariah. The Committee meets regularly to discuss among others the development of new Islamic Banking products and to review the various procedures and practices related to the Islamic Banking business.

39. The operations of Islamic Banking (continued)

(p) Capital adequacy

The capital adequacy ratio of the Bank is analysed as follows:

	Group and Bank	
	2003	2002
	RM'000	RM'000
Tier 1 Capital		
Paid-up ordinary shares capital	20,000	20,000
Other reserves	10,594	8,001
	<hr/>	<hr/>
Total Tier 1 Capital	30,594	28,001
Tier 2 Capital		
General allowance for bad and doubtful debts and financing	260	317
	<hr/>	<hr/>
Total Capital base	<u>30,854</u>	<u>28,318</u>

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

	Group and Bank	
	2003	2002
	RM'000	RM'000
0%	112,961	66,668
20%	120,071	20,655
50%	16,684	20,544
100%	836	994
	<hr/>	<hr/>
	250,552	108,861
	<hr/>	<hr/>
Total risk-weighted assets	<u>33,192</u>	<u>15,397</u>
Capital Ratios		
Core capital ratio	92.17%	181.86%
Risk-weighted capital ratio	92.96%	183.92%
	<hr/>	<hr/>

