SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

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

A BASIS OF PREPARATION

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

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

The accounting policies of the Group and the Bank are consistent with the policies adopted in the previous financial year. The new accounting standards adopted by the Group and the Bank in these financial statements are as follows:

(i) MASB 25 'Income Taxes'

(ii) MASB 29 'Employee Benefits'

Comparative figures have been adjusted or extended to conform with changes in presentation due to the requirements of the new standard MASB 25 'Income Taxes' and MASB 29 'Employee Benefits' that has been applied retrospectively and the effects of this change are disclosed in Note 40 to the financial statements.

(iii) MASB i-1 'Presentation of Financial Statements of Islamic Financial Institutions'

Comparative figures have been adjusted and extended to conform with changes to the presentation due to the requirements of this new standard.

B BASIS OF CONSOLIDATION

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

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

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

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

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net asset together with any unamortised balance of goodwill on acquisition.

A listing of the Group's subsidiaries is set out in Note 11 to the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

C GOODWILL

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired at the date of acquisition. The amount is amortised on a straight line basis over 20 years from the date of acquisition. At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

Capital reserve on consolidation represents the excess of the fair value of the net assets over the purchase price. The amount is retained in the consolidated balance sheet and is not distributable until the disposal of the subsidiaries.

D RECOGNITION OF INTEREST INCOME

Interest/financing income is recognised on an accrual basis. Where an account is classified as non-performing, interest/income is suspended until it is realised on a cash basis.

Customers' accounts are classified as non-performing when repayments are in arrears for six months or more from first day of default for loans and financing and overdrafts, and after 14 days from maturity date for trade bills, trust receipts and other instruments of similar nature, and immediately after maturity date for bankers' acceptances.

The Bank's policy on suspension of interest/income on loans and financing and overdrafts is in conformity with Bank Negara Malaysia's 'Guidelines on the Classification of Non-Performing Loans and Provision for Sub-standard, Bad and Doubtful Debts, BNM/GP3' ('the guidelines') 2003, while the policy on suspension of interest/income on trade bills, trust receipts and bankers' acceptances is more stringent than that laid down in the guidelines.

E RECOGNITION OF FEES AND OTHER INCOME

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

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

Dividends from subsidiaries are recognised when the shareholders' right to receive payment is established.

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

Income from Islamic Banking business is recognised on an accrual basis in accordance with the principles of Syariah.

F PROVISION FOR BAD AND DOUBTFUL DEBTS AND FINANCING

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

F PROVISION FOR BAD AND DOUBTFUL DEBTS AND FINANCING (CONTINUED)

The provision for bad and doubtful debts and financing is in conformity with the minimum requirements of Bank Negara Malaysia's 'Guidelines on the Classification of Non-Performing Loans and Provision for Sub-standard, Bad and Doubtful Debts, BNM/GP3'.

G 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.

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

H INVESTMENT SECURITIES

Investment securities are securities that are acquired and held for yield or capital growth, or to meet minimum liquid assets requirement pursuant to the new liquidity framework, and are usually held to maturity.

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

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

I REPURCHASE AGREEMENTS

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

Conversely, obligations on securities sold under repurchase agreements are securities which 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.

J INVESTMENT IN SUBSIDIARY COMPANIES

A subsidiary company is a company in which the Bank controls the composition of its board of directors or more than half of its voting power, or holds more than half of its issued ordinary share capital.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

K INVESTMENT IN ASSOCIATED COMPANY

An associated company is a company in which the Bank has a long term equity interest of between 20% to 50% and where the Bank can exercise significant influence through management participation. Investments in associated companies are stated at cost less any impairment losses.

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

L PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

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

Buildings	2%
Leasehold land and buildings	Amortised over 41 to 99 years
Renovation and leasehold premises	20% or the period of the lease whichever is greater
Office equipment and furniture	10%
Computer equipment and software	20%
Motor vehicles	20%

At each balance sheet date, the Bank assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

M ASSETS UNDER LEASE

Assets under lease which in substance transfer the risks and benefits of ownership of the assets to the Bank are capitalised under property, plant and equipment. The assets and the corresponding lease obligations are recorded at the lower of present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease terms. Such leased assets are subject to depreciation consistent with that for depreciable assets which are owned.

Leases which do not meet such criteria are classified as operating leases and the related rentals are charged to the income statement as incurred.

N BILLS AND ACCEPTANCES PAYABLE

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

O 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 financial year.

P CURRENCY TRANSLATIONS

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

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

Foreign currency	**2003**	**2002**
	RM	**RM**
– USD 1	3.80	3.80
– GBP 1	6.77	6.10

Q DEFERRED TAXATION

(i) Current taxation

The taxation charged in the income statement which comprise income tax is calculated at the current tax rate based on the estimated chargeable income for the financial year.

(ii) Deferred taxation

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

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

In previous years, provision is made by using the ‘liability’ method for deferred taxation in respect of significant material timing differences between the accounting income and taxable income. The tax effect of timing differences that result in a debit balance or a debit to the deferred tax balance was not carried forward unless there was a reasonable expectation of its realisation. The impact of the prior year adjustments are disclosed in Note 40 to the financial statements.

R AMOUNTS RECOVERABLE FROM DANAHARTA

This relates to the loans sold to Danaharta where the total consideration is received in two portions, i.e. upon the sale of the loans (initial consideration) and upon the recovery of the loans (final consideration). The final consideration amount represents the Bank’s pre-determined share of the surplus over the initial consideration upon recovery of the loans. The difference between the carrying value of the loans and initial consideration is recognised as “Amounts recoverable from Danaharta” within the “Other assets” component of the balance sheet. Provisions against these amounts are made in accordance with Bank Negara Malaysia’s ‘Guidelines on the sale of Non-performing Loans to Pengurusan Danaharta Nasional Berhad’ issued on 30 April 1999 and reflect the Directors’ assessment of the realisable value of the final consideration as at the balance sheet date.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

S DERIVATIVE FINANCIAL INSTRUMENTS

Hedging Transactions

Foreign exchange and interest rate forwards, futures, swaps and options entered into for hedging purposes are accounted for on the same basis as the accounting treatment of the hedged item. To be classified as a designated hedge, the hedging instrument must be effective in reducing a significant portion of the market risk in the assets, liabilities, or other position being hedged. Where the underlying assets, liabilities or other position are terminated prior to the maturity of the hedging instrument, the hedging instrument is restated at fair value and the change in value is taken to the income statement.

Trading Transactions

Derivative transactions which do not meet the criteria to be designated as hedges are deemed as trading transactions. Derivatives entered into as trading transactions are measured at fair value in the balance sheet and the gains and losses are taken directly to the income statement.

Foreign exchange and interest rate futures entered into for trading purposes are valued at prevailing market rates based on quoted and observable market prices. Interest rate swap agreements are valued at their net present value based on discounted cash flow models. Currency option contracts are valued using options pricing models.

T OTHER PROVISIONS

Provisions other than provision for bad and doubtful debts and financing are recognised by the Group and Bank when all of the following conditions have been met:

(i) the Group and Bank has a present legal or constructive obligation as a result of past events;

(ii) it is probable that an outflow of resources to settle the obligation will be required; and

(iii) a reliable estimate of the amount of obligation can be made.

U CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of cash and bank balances and short-term funds that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

V ZAKAT

This represents business zakat payable by the Bank to comply with the principles of Syariah and as approved by the Syariah Supervisory Council. The Bank only pays zakat on its business and does not pay zakat on behalf of depositors or shareholders. Zakat provision is calculated based on 2.5% of the net asset method.

W FORECLOSED PROPERTIES

Foreclosed properties are stated at cost, where an indication of impairment exists, the carrying amount of the asset is assessed. A write down is made if the carrying amount exceeds the recoverable amount.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

X PROFIT EQUALISATION RESERVE

Profit equalisation reserve ('PER') is a mechanism to reduce the fluctuations in the profit rates payable to depositors. It is provided based on the Framework of the Rate of Return issued by Bank Negara Malaysia. The amount of PER is appropriated from and written back to the total gross income. PER is reflected under 'Other Liabilities' of the Bank.

Y EMPLOYEE BENEFITS

Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. In previous years, the Group does not recognised accruals for unutilised annual leave of employees that are carried forward to the following accounting period. Upon adoption of MASB 29, the Group has recognised these accruals in the financial statements and the effect of the prior year adjustments are disclosed in Note 40 to the financial statements.

Defined contribution plan

The Group's contribution to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibly of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.