

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
AND ITS SUBSIDIARY COMPANIES
(Incorporated in Malaysia)

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
- 31 MARCH 2006

Domiciled in Malaysia.
Registered Office:
2, Leboh Ampang,
50100 Kuala Lumpur

**HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
AND ITS SUBSIDIARY COMPANIES
(Incorporated in Malaysia)**

MANAGEMENT'S CERTIFICATION

I hereby certify that the attached unaudited condensed financial statements for the first financial quarter ended 31 March 2006 have been prepared from the Bank's accounting and other records and that they are in conformity with generally accepted accounting principles in Malaysia and Bank Negara Malaysia's guidelines on financial reporting for licensed institutions (BNM/GP8).

BALDEV SINGH
Chief Financial Officer

Date: 27 April 2006

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
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(Incorporated in Malaysia)

UNAUDITED CONDENSED BALANCE SHEET
AS AT 31 MARCH 2006

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		31 Mar 2006	31 Dec 2005	31 Mar 2006	31 Dec 2005
		RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short term funds		6,413,403	7,710,602	6,413,403	7,710,602
Securities purchased under resale agreements		1,338,031	1,449,760	1,338,031	1,449,760
Deposits and placements with banks and other financial institutions		1,299,450	479,942	1,299,450	479,942
Securities held-for-trading	11	432,311	703,727	432,311	703,727
Securities available-for-sale	12	3,439,443	3,277,490	3,439,443	3,277,490
Loans, advances and financing	13	22,046,386	21,476,706	22,046,386	21,476,706
Other assets	15	499,967	376,829	499,967	376,829
Statutory deposits with Bank Negara Malaysia		715,248	698,948	715,248	698,948
Investments in subsidiary companies		-	-	21	21
Property, plant and equipment		305,888	304,916	305,888	304,916
Intangible assets		11,069	5,228	11,069	5,228
Deferred tax asset		61,204	59,851	61,204	59,851
Total Assets		<u>36,562,400</u>	<u>36,543,999</u>	<u>36,562,421</u>	<u>36,544,020</u>
Liabilities					
Deposits from customers	16	28,309,918	28,317,351	28,309,939	28,317,372
Deposits and placements of banks and other financial institutions	17	1,763,600	1,954,799	1,763,600	1,954,799
Obligations on securities sold under repurchase agreements		1,523,329	1,617,617	1,523,329	1,617,617
Bills and acceptances payable		417,655	475,940	417,655	475,940
Other liabilities	18	1,118,609	940,276	1,118,609	940,276
Recourse obligation on loans sold to Cagamas Berhad		977,425	787,931	977,425	787,931
Provision for taxation and zakat		42,862	29,716	42,862	29,716
Total liabilities		<u>34,153,398</u>	<u>34,123,630</u>	<u>34,153,419</u>	<u>34,123,651</u>
Shareholders' Fund					
Share capital		114,500	114,500	114,500	114,500
Reserves		2,294,502	2,155,869	2,294,502	2,155,869
Proposed dividend		-	150,000	-	150,000
Shareholders' funds		<u>2,409,002</u>	<u>2,420,369</u>	<u>2,409,002</u>	<u>2,420,369</u>
Total Liabilities and Shareholders' Funds		<u>36,562,400</u>	<u>36,543,999</u>	<u>36,562,421</u>	<u>36,544,020</u>
Commitments and Contingencies	25	<u>55,569,035</u>	<u>47,716,860</u>	<u>55,569,035</u>	<u>47,716,860</u>

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2005.

HSBC BANK MALAYSIA BERHAD
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UNAUDITED CONDENSED INCOME STATEMENT
FOR THE FIRST FINANCIAL QUARTER ENDED 31 MARCH 2006

	<i>Note</i>	<i>Group and Bank</i>	
		31 Mar 2006	31 Mar 2005
		RM'000	RM'000
Revenue		619,962	513,942
Interest income	19	393,829	335,089
Interest expense	20	(166,731)	(152,637)
Net interest income		227,098	182,452
Other operating income	21	164,468	142,986
Income from Islamic banking operations	27 (f)	31,303	22,497
Operating income		422,869	347,935
Other operating expenses	22	(201,190)	(177,170)
Profit before allowance		221,679	170,765
Allowance for losses on loans and financing	23	(13,727)	(16,887)
Profit before taxation and zakat		207,952	153,878
Taxation and zakat		(65,696)	(43,206)
Profit attributable to shareholders		142,256	110,672
Earnings per RM0.50 share		62.1 sen	48.3 sen
Dividends per RM0.50 ordinary share (net)		-	-

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2005.

HSBC BANK MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE FIRST FINANCIAL QUARTER ENDED 31 MARCH 2006

	<i>Group and Bank</i>									
	← <i>Non-distributable</i>					→ <i>Distributable</i>				
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available-for-sale reserve</i>	<i>Retained profit</i>	<i>Total reserves</i>	<i>Proposed dividend</i>	<i>Total</i>
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2005										
- as previously reported	114,500	741,375	114,500	118,966	190,000	56,671	728,155	1,949,667	100,000	2,164,167
- prior year adjustment	-	-	-	-	-	-	(8,667)	(8,667)	-	(8,667)
	114,500	741,375	114,500	118,966	190,000	56,671	719,488	1,941,000	100,000	2,155,500
Net profit for the period										
- as previously reported	-	-	-	-	-	-	112,233	112,233	-	112,233
- prior year adjustment	-	-	-	-	-	-	(1,561)	(1,561)	-	(1,561)
Net gains and losses not recognised in the income statement										
- Net unrealised losses on revaluation	-	-	-	-	-	(15,315)	-	(15,315)	-	(15,315)
Net gains reclassified to income statement	-	-	-	-	-	(986)	-	(986)	-	(986)
Dividend paid - 2004 final	-	-	-	-	-	-	-	-	(100,000)	(100,000)
Balance as at 31 March 2005	114,500	741,375	114,500	118,966	190,000	40,370	830,160	2,035,371	-	2,149,871
Balance as at 1 April 2005	114,500	741,375	114,500	118,966	190,000	40,370	830,160	2,035,371	-	2,149,871
Net profit for the period										
- as previously reported	-	-	-	-	-	-	421,452	421,452	-	421,452
- prior year adjustment	-	-	-	-	-	-	(5,983)	(5,983)	-	(5,983)
Net gains and losses not recognised in the income statement										
- Net unrealised losses on revaluation	-	-	-	-	-	(8,320)	-	(8,320)	-	(8,320)
Net gains reclassified to income statement	-	-	-	-	-	(16,651)	-	(16,651)	-	(16,651)
Dividend paid - 2005 interim	-	-	-	-	-	-	(120,000)	(120,000)	-	(120,000)
Proposed dividend - 2005 final	-	-	-	-	-	-	(150,000)	(150,000)	150,000	-
Balance as at 31 December 2005	114,500	741,375	114,500	118,966	190,000	15,399	975,629	2,155,869	150,000	2,420,369
Balance as at 1 January 2006	114,500	741,375	114,500	118,966	190,000	15,399	975,629	2,155,869	150,000	2,420,369
Net profit for the period	-	-	-	-	-	-	142,256	142,256	-	142,256
Net gains and losses not recognised in the income statement										
- Net unrealised losses on revaluation	-	-	-	-	-	(2,972)	-	(2,972)	-	(2,972)
Net gains reclassified to income statement	-	-	-	-	-	(651)	-	(651)	-	(651)
Dividend paid - 2005 final	-	-	-	-	-	-	-	-	(150,000)	(150,000)
Balance as at 31 March 2006	114,500	741,375	114,500	118,966	190,000	11,776	1,117,885	2,294,502	-	2,409,002

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2005.

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UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FIRST QUARTER ENDED 31 MARCH 2006

	<i>Group and Bank</i>	
	31 Mar 2006	31 Mar 2005
	RM'000	RM'000
Profit before taxation and zakat	207,952	153,878
Adjustments for non-operating and non-cash items	7,333	7,072
Operating profit before working capital changes	215,285	160,950
Changes in working capital:		
Net changes in operating assets	(1,145,481)	(1,577,649)
Net changes in operating liabilities	16,622	433,402
Taxation and zakat paid	(52,494)	(42,533)
Net cash used in operations	(966,068)	(1,025,830)
Net cash used in investing activities	(181,131)	(138,058)
Net cash used in financing activities	(150,000)	(100,000)
	(331,131)	(238,058)
Net change in cash and cash equivalents	(1,297,199)	(1,263,888)
Cash and cash equivalents at beginning of the period	7,710,602	5,767,418
Cash and cash equivalents at end of the period	6,413,403	4,503,530
Analysis of cash and cash equivalents		
Cash and short-term funds	6,413,403	4,503,530

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2005.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS
AS AT 31 MARCH 2006

1 Basis of Preparation

The unaudited condensed interim financial statements for the first financial quarter ended 31 March 2006 have been prepared in accordance with applicable approved accounting standards in Malaysia as modified by Bank Negara Malaysia's guidelines and should be read in conjunction with the Bank's annual audited financial statements for the year ended 31 December 2005.

The same accounting policies and methods of computation are followed in the unaudited condensed interim financial statements as compared with the annual audited financial statements for the year ended 31 December 2005 except for the adoption of FRS 2 on Share-based Payment which became effective 1 January 2006. The comparative figures in respect of 2005 have been restated to reflect the relevant adjustments and the details are disclosed in Note 28.

2 Audit Report

The audit report on the audited annual financial statements for the financial year ended 31 December 2005 was not subject to any qualification.

3 Seasonality or Cyclicity of Operations

The business operations of the Bank are not subject to material seasonal or cyclical fluctuations.

4 Unusual Items Due to Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Bank for the first financial quarter ended 31 March 2006.

5 Changes in Estimates

There were no significant changes in estimates of amounts reported in prior financial years that have a material effect on the financial results and position of the Bank for the first financial quarter ended 31 March 2006.

6 Issuance and Repayment of Debt and Equity Securities

There were no issuance and repayment of debt and equity securities during the first financial quarter ended 31 March 2006.

7 Dividend Paid

A final dividend of 182.0% less tax totalling RM150 million in respect of the financial year 2005 was paid on 15 March 2006.

8 Valuation of Property, Plant and Equipment

Property, plant and equipment are stated at cost/ valuation less accumulated depreciation and accumulated impairment losses except for freehold land which is stated at cost and directors' valuation. There was no change in the valuation of property, plant and equipment that were brought forward from the previous audited financial statements for the first financial quarter ended 31 March 2006.

9 Significant Events Subsequent to the Balance Sheet Date

There were no material events subsequent to the balance sheet date that require disclosure or adjustments to the unaudited condensed interim financial statement:

10 Changes in the Composition of the Group

There were no changes in the composition of the Group for the first financial quarter ended 31 March 2006.

11 Securities Held-for-Trading

	<i>Group and Bank</i>	
	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Money market instruments		
Malaysian Government treasury bills	80,322	39,256
Bank Negara Malaysia bills	132,779	231,566
Bank Negara Malaysia Islamic bills	959	7,875
Malaysian Government securities	99,128	222,765
Negotiable instruments of deposit	39,961	-
Khazanah bonds	2,036	2,021
Cagamas bonds and notes	19,676	31,513
	374,861	534,996
Unquoted securities		
Private debt securities (including commercial paper)	57,450	168,731
	432,311	703,727

12 Securities Available-for-Sale

	<i>Group and Bank</i>	
	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Money market instruments		
Malaysian Government treasury bills	1,628	-
Bank Negara Malaysia bills	49,730	49,309
Bank Negara Malaysia Islamic bills	294,338	308,442
Malaysian Government securities	486,348	467,581
Malaysian Government Islamic bonds	21,968	21,811
Khazanah bonds	246,343	243,958
Cagamas bonds and notes	691,107	691,864
Negotiable instruments of deposit	464,988	554,847
Bankers' acceptance and Islamic accepted bills	521,577	143,326
	2,778,027	2,481,138
Quoted securities in Malaysia:		
Shares	27,412	29,519
Warrants	94	148
Loan stock	13,276	15,173
	40,782	44,840
Unquoted securities		
Shares	17,392	17,392
Private and Islamic debt securities	622,467	754,322
	639,859	771,714
Impairment loss		
Quoted securities in Malaysia:		
Shares	(10,314)	(11,291)
Warrants	(7)	(7)
Loan stock	(8,904)	(8,904)
	(19,225)	(20,202)
	3,439,443	3,277,490

13 Loans, Advances and Financing

(i) By type

	<i>Group and Bank</i>	
	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Overdrafts	2,642,075	2,236,412
Term loans/ financing		
Housing loans/ financing	7,098,841	7,267,122
Syndicated term loans/ financing	19,695	19,695
Hire purchase receivables	139,136	111,690
Lease receivables	41,336	49,740
Other term loans/ financing	6,049,316	5,515,035
Bills receivable	773,557	772,852
Trust receipts	217,495	180,166
Claims on customers under acceptance credits	2,702,327	3,109,050
Staff loans/ financing (of which loans to directors - Nil for the period / year)	305,905	307,157
Credit/ charge cards	1,646,445	1,616,357
Revolving credit	1,190,862	1,072,172
Other loans/ financing	11,251	10,722
Less: Unearned interest and income	(138,068)	(141,321)
	22,700,173	22,126,849
Less: Allowance for bad and doubtful debts and financing:		
- General	(336,600)	(327,200)
- Specific	(317,187)	(322,943)
Total net loans, advances and financing	22,046,386	21,476,706

(ii) By type of customer

	<i>Group and Bank</i>	
	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Domestic non-bank financial institution		
- Stockbroking companies	7,517	5,238
- Others	147,987	141,425
Domestic business enterprises		
- Small medium enterprises	4,424,662	2,655,201
- Others	6,035,941	7,584,366
Government and statutory bodies	59	64
Individuals	11,715,509	11,144,011
Other domestic entities	2,939	2,754
Foreign entities	365,559	593,790
	22,700,173	22,126,849

13 Loans, Advances and Financing (continued)

(iii) By interest/ profit rate sensitivity

	<i>Group and Bank</i>	
	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Fixed rate		
Housing loans/ financing	326,298	328,417
Hire purchase receivables	125,569	102,190
Other fixed rate loans/ financing	5,047,783	3,711,654
Variable rate		
BLR plus	14,363,216	13,978,020
Cost-plus	1,190,862	1,073,903
Other variable rates	1,646,445	2,932,665
	22,700,173	22,126,849

(iv) By sector

	<i>Group and Bank</i>	
	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	928,500	893,313
Mining and quarrying	284,840	99,672
Manufacturing	3,707,441	3,739,427
Electricity, gas and water	86,264	81,383
Construction	417,753	428,685
Real estate	478,537	545,809
Purchase of landed property:		
- Residential	8,579,000	8,384,960
- Non-residential	1,019,235	970,920
Wholesale & retail trade and restaurants & hotels	2,198,711	2,164,107
Transport, storage and communication	197,716	190,842
Finance, insurance and business services	1,405,287	1,347,020
Purchase of securities	133,824	173,523
Purchase of transport vehicles	20,293	17,560
Consumption credit	3,039,796	2,894,133
Others	202,976	195,495
	22,700,173	22,126,849

14 Non-Performing Loans/ Financing (NPL/ NPF)

(i) Movements in non-performing loans, advances and financing

	<i>Group and Bank</i>	
	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
At beginning of year	688,626	1,055,888
Classified as non-performing during the period/ year	58,361	314,067
Reclassified as performing	(49,628)	(199,467)
Amount recovered	(41,870)	(275,478)
Amount written off	(24,490)	(207,031)
Other movements	62	647
Closing balance	631,061	688,626
Specific allowance	(317,187)	(322,943)
Net non-performing loans, advances and financing	313,874	365,683
Ratio of net non-performing loans, advances and financing to net loans, advances and financing	1.4%	1.7%

(ii) Movements in allowance for bad and doubtful debts

	<i>Group and Bank</i>	
	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
General allowance		
At beginning of year	327,200	289,300
Allowance made during the period/ year	9,400	37,900
Closing balance	336,600	327,200
As % of gross loans, advances and financing less specific allowance	1.5%	1.5%
Specific allowance		
At beginning of year	322,943	477,334
Allowance made during the period/ year	35,153	192,822
Amount recovered	(18,459)	(144,029)
Amount written off	(22,512)	(203,831)
Other movements	62	647
Closing balance	317,187	322,943

14 Non-Performing Loans/ Financing (NPL/ NPF) (continued)

(iii) By sector

	<i>Group and Bank</i>	
	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	2,202	2,202
Mining and quarrying	611	631
Manufacturing	173,304	185,029
Construction	32,706	31,718
Real estate	17,934	17,589
Purchase of landed property:		
- Residential	233,306	255,725
- Non-residential	13,569	23,088
Wholesale & retail trade and restaurants & hotels	39,300	53,291
Transport, storage and communication	3,492	4,628
Finance, insurance and business services	26,488	28,300
Purchase of securities	17,803	17,806
Purchase of transport vehicles	158	177
Consumption credit	67,021	65,210
Others	3,167	3,232
	631,061	688,626

15 Other Assets

	<i>Group and Bank</i>	
	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Assets, including gains, resulting from off-balance-sheet interest rate, exchange rate and equities contracts which are marked to market	252,365	203,871
Interest/ income receivable	41,564	34,082
Other receivables, deposits and prepayments	206,038	138,876
	499,967	376,829

16 Deposits from Customers

(i) By type of deposit

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2006	31 Dec 2005	31 Mar 2006	31 Dec 2005
	RM'000	RM'000	RM'000	RM'000
Demand deposits	5,613,059	5,689,273	5,613,080	5,689,294
Savings deposits	4,383,179	4,243,692	4,383,179	4,243,692
Fixed/ Investment deposits	16,892,672	16,400,684	16,892,672	16,400,684
Negotiable instruments of deposit	1,079,433	1,702,320	1,079,433	1,702,320
Others	341,575	281,382	341,575	281,382
	28,309,918	28,317,351	28,309,939	28,317,372

16 Deposits from Customers (continued)

(ii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2006	31 Dec 2005	31 Mar 2006	31 Dec 2005
	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	77,661	15,780	77,661	15,780
Business enterprises	9,903,525	9,532,602	9,903,546	9,532,623
Individuals	14,793,305	14,185,641	14,793,305	14,185,641
Others	3,535,427	4,583,328	3,535,427	4,583,328
	28,309,918	28,317,351	28,309,939	28,317,372

17 Deposits and Placements of Banks and Other Financial Institutions

	<i>Group and Bank</i>	
	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Licensed banks	24,000	120,000
Bank Negara Malaysia	18,945	38,247
Other financial institutions	1,720,655	1,796,552
	1,763,600	1,954,799

18 Other Liabilities

	<i>Group and Bank</i>	
	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Liabilities, including losses, resulting from off-balance-sheet interest rate, exchange rate and equities contracts which are marked to market	239,971	183,219
Interest/ profit payable	150,460	144,243
Allowance for commitments and contingencies	2,160	3,030
Profit equalisation reserve	4,700	1,700
Other creditors and accruals	721,318	608,084
	1,118,609	940,276

19 Interest Income

	<i>Group and Bank</i>	
	31 Mar 2006	31 Mar 2005
	RM'000	RM'000
Loans and advances		
- Interest income other than recoveries from NPL	300,844	255,332
- Recoveries from NPLs	12,322	9,312
Money at call and deposit placement with financial institutions	63,870	40,753
Securities available-for-sale	19,753	34,100
Others	-	96
	396,789	339,593
Amortisation of premium less accretion of discounts	539	(1,847)
Interest suspended	(3,499)	(2,657)
Total interest income	393,829	335,089

20 Interest Expense

	<i>Group and Bank</i>	
	31 Mar 2006	31 Mar 2005
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	10,462	5,515
Deposits from customers	131,853	127,648
Loans sold to Cagamas	10,240	7,275
Others	14,176	12,199
	166,731	152,637

21 Other Operating Income

	<i>Group and Bank</i>	
	31 Mar 2006	31 Mar 2005
	RM'000	RM'000
Fees and commissions	93,720	86,077
Net gains arising from sale of securities		
- Securities held-for-trading	2,402	5,026
- Securities available-for-sale	904	3,918
Net interest trading income	3,234	1,762
Net gains arising from dealing in foreign currency	58,312	33,113
Net gains arising from trading in derivatives	9,794	5,593
Dividend income from securities available-for-sale		
- Quoted in Malaysia	6	-
- Unquoted in Malaysia	200	400
Net unrealised losses on revaluation of trading securities (including derivatives)	(2,449)	(1,347)
Net unrealised (losses)/ gains from foreign exchange translations	(5,087)	6,492
Rental income	1,710	1,494
Net gains on disposal of property, plant and equipment	712	319
Other operating income	1,010	139
	164,468	142,986

The above fees and commissions were derived from the following major contributors:

Cards	47,380	40,672
Trade facilities	10,772	10,870
Unit trust	8,656	8,421
Account services	6,116	5,315
Global custody	5,561	5,280
Credit facilities	5,059	5,906

22 Other Operating Expenses

	<i>Group and Bank</i>	
	31 Mar 2006	31 Mar 2005
	RM'000	RM'000
Personnel expenses	101,880	83,343
Promotion and marketing related expenses	13,517	15,793
Establishment related expenses	22,747	22,008
General administrative expenses	63,046	56,026
	201,190	177,170

The above expenditure includes the following major items:

Personnel expenses		
Salaries and bonuses	77,980	65,059
Employees Provident Fund contributions	12,774	8,718
Promotion and marketing related expenses		
Advertising and promotion	9,033	11,451
Establishment related expenses		
Depreciation of property, plant and equipment	7,315	6,986
Information technology costs	4,662	5,141
Hire of equipment	2,491	2,480
Rental of premises	2,209	2,286
General administrative expenses		
Intercompany expenses	30,189	19,887
Fees and commissions paid	15,141	12,507

23 Allowance for Losses on Loans and Financing

	<i>Group and Bank</i>	
	31 Mar 2006	31 Mar 2005
	RM'000	RM'000
Allowance for bad and doubtful debts on loans and financing		
(a) Specific allowance		
- Made in the financial period	35,153	38,756
- Written back	(18,459)	(15,083)
(b) General allowance		
- Made in the financial period	9,400	4,700
Bad debts on loans and financing		
- Recovered	(14,419)	(12,058)
- Written off	2,923	1,020
Allowance for losses on commitments and contingencies		
- Made in the financial period	129	75
- Written back	(1,000)	(523)
	13,727	16,887

24 Capital Adequacy

	<i>Bank</i>	
	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	114,500	114,500
Share premium	741,375	741,375
Capital redemption reserve	190,000	190,000
Retained profit	975,629	1,125,629
Other reserves	114,500	114,500
	<u>2,136,004</u>	<u>2,286,004</u>
Less: Deferred tax adjustments	<u>(91,887)</u>	<u>(91,887)</u>
Total Tier 1 capital	<u>2,044,117</u>	<u>2,194,117</u>
Tier 2 capital		
Revaluation reserves	72,507	72,507
General allowance for bad and doubtful debts and financing	336,600	327,200
Total Tier 2 capital	<u>409,107</u>	<u>399,707</u>
Total capital	2,453,224	2,593,824
Less: Investment in subsidiaries	(21)	(21)
Capital base	<u>2,453,203</u>	<u>2,593,803</u>
Core capital ratio	8.8%	9.8%
Risk-weighted capital ratio	10.5%	11.6%
Core capital ratio (net of proposed dividend)	8.8%	9.1%
Risk-weighted capital ratio (net of proposed dividend)	10.5%	10.9%

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

	<i>Bank</i>			
	31 Mar 2006		31 Dec 2005	
	Principal	Risk-weighted	Principal	Risk-weighted
	RM'000	RM'000	RM'000	RM'000
0%	8,718,091	-	10,475,706	-
10%	398,996	39,900	399,528	39,953
20%	4,651,012	930,202	3,158,802	631,760
50%	7,956,390	3,978,195	7,715,056	3,857,528
100%	17,839,190	17,839,190	17,342,260	17,342,260
Total risk-weighted assets equivalent for market risk	-	550,699	-	553,272
	<u>39,563,679</u>	<u>23,338,186</u>	<u>39,091,352</u>	<u>22,424,773</u>

25 Commitments and Contingencies

	<i>Group and Bank</i>					
	31 Mar 2006			31 Dec 2005		
	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount RM'000
Direct credit substitutes	662,463	662,463	619,662	610,872	610,872	571,773
Transaction-related contingent items	1,892,858	946,429	923,548	1,883,990	941,995	916,181
Short-term self-liquidating trade-related contingencies	284,954	56,991	51,310	259,019	51,804	46,555
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	15,467,379	-	-	15,131,142	-	-
- Maturity exceeding one year	1,246,648	623,324	623,324	1,298,798	649,399	649,399
Foreign exchange related contracts:						
- Less than one year	17,770,852	316,682	112,133	11,751,863	228,029	88,034
- One year to less than five years	1,382,795	99,296	34,833	1,818,966	137,126	54,254
- Five years and above	-	-	-	-	-	-
Interest rate related contracts:						
- Less than one year	4,503,346	12,435	3,256	2,768,837	7,667	2,341
- One year to less than five years	11,310,484	287,843	120,095	11,166,070	289,349	124,080
- Five years and above	915,076	56,018	26,771	976,309	60,427	28,417
Others	132,180	55,321	49,264	50,994	12,166	8,835
	55,569,035	3,116,802	2,564,196	47,716,860	2,988,834	2,489,869

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

26 Interest/ Profit Rate Risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing level of market interest rates on its financial position and cash flows. The following table summarises the Bank's exposure to interest rate risk. The assets and liabilities at carrying amount are allocated to time bands by reference to the earlier of the next contractual repricing dates and maturity dates.

Bank 31 Mar 2006	Non-trading book						Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000			
ASSETS									
Cash and short term funds	6,039,654	-	-	-	-	373,749	-	6,413,403	3.66
Securities purchased under resale agreements	768,620	569,411	-	-	-	-	-	1,338,031	3.24
Deposits and placements with banks and other financial institutions	-	1,298,407	1,043	-	-	-	-	1,299,450	3.47
Securities held-for-trading	-	-	-	-	-	-	432,311	432,311	3.24
Securities available-for-sale	785,153	602,489	690,139	1,308,835	18,249	34,578	-	3,439,443	3.52
Loans, advances and financing									
- performing	16,662,003	1,530,081	516,847	1,540,885	925,295	557,401	-	21,732,512	6.41
- non-performing *	-	-	-	-	-	313,874	-	313,874	-
Others	-	-	-	-	-	1,228,509	364,888	1,593,397	-
Total Assets	24,255,430	4,000,388	1,208,029	2,849,720	943,544	2,508,111	797,199	36,562,421	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	12,572,639	4,635,426	5,946,041	356,526	168,263	4,631,044	-	28,309,939	2.73
Deposits and placements of banks and other financial institutions	1,039,598	165,609	77,810	6,928	3,163	470,492	-	1,763,600	2.93
Obligation on securities sold under repurchase agreements	1,523,329	-	-	-	-	-	-	1,523,329	2.65
Bills and acceptances payable	42,181	94,259	9,822	-	-	271,393	-	417,655	2.92
Recourse obligation on loans sold to Cagamas Berhad	-	-	-	632,243	345,182	-	-	977,425	4.56
Others	-	-	-	-	-	742,643	418,828	1,161,471	-
Total Liabilities	15,177,747	4,895,294	6,033,673	995,697	516,608	6,115,572	418,828	34,153,419	
Shareholders' funds	-	-	-	-	-	2,409,002	-	2,409,002	-
Total Liabilities and Shareholders' funds	15,177,747	4,895,294	6,033,673	995,697	516,608	8,524,574	418,828	36,562,421	
On-balance sheet interest sensitivity gap	9,077,683	(894,906)	(4,825,644)	1,854,023	426,936	(6,016,463)	378,371	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	26,484	145,348	(111,832)	(60,000)	-	-	-	
- options	623,886	275,485	-	(618,721)	(280,650)	-	-	-	
- swaps	(816,136)	453,164	(313,414)	689,955	(19,800)	-	-	(6,231)	
Total interest sensitivity gap	8,885,433	(139,773)	(4,993,710)	1,813,425	66,486	(6,016,463)	378,371	(6,231)	

26 Interest/ Profit Rate Risk (continued)

Bank 31 Dec 2005	← Non-trading book →						Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000			
ASSETS									
Cash and short term funds	7,364,991	-	-	-	-	345,611	-	7,710,602	3.20
Securities purchased under resale agreements	1,123,087	160,613	166,060	-	-	-	-	1,449,760	3.00
Deposits and placements with banks and other financial institutions	-	479,942	-	-	-	-	-	479,942	3.22
Securities held-for-trading	-	-	-	-	-	-	703,727	703,727	3.57
Securities available-for-sale	331,223	816,071	642,419	1,431,880	20,135	35,762	-	3,277,490	3.53
Loans, advances and financing									
- performing	16,368,497	1,642,167	514,933	1,177,644	760,572	647,210	-	21,111,023	6.02
- non-performing *	-	-	-	-	-	365,683	-	365,683	-
Others	-	-	-	-	-	1,214,360	231,433	1,445,793	-
Total Assets	25,187,798	3,098,793	1,323,412	2,609,524	780,707	2,608,626	935,160	36,544,020	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	12,929,993	4,521,310	5,691,566	325,798	167,934	4,680,771	-	28,317,372	2.63
Deposits and placements of banks and other financial institutions	1,013,316	179,499	358,641	6,562	2,422	394,359	-	1,954,799	2.80
Obligation on securities sold under repurchase agreements	1,617,617	-	-	-	-	-	-	1,617,617	2.50
Bills and acceptances payable	40,079	88,972	7,269	-	-	339,620	-	475,940	2.71
Recourse obligation on loans sold to Cagamas Berhad	-	-	-	439,904	348,027	-	-	787,931	4.57
Others	-	-	-	-	-	659,918	310,074	969,992	-
Total Liabilities	15,601,005	4,789,781	6,057,476	772,264	518,383	6,074,668	310,074	34,123,651	
Shareholders' funds	-	-	-	-	-	2,420,369	-	2,420,369	-
Total Liabilities and Shareholders' funds	15,601,005	4,789,781	6,057,476	772,264	518,383	8,495,037	310,074	36,544,020	
On-balance sheet interest sensitivity gap	9,586,793	(1,690,988)	(4,734,064)	1,837,260	262,324	(5,886,411)	625,086	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	150,267	(228,267)	78,000	-	-	-	-	
- options	(243,130)	8,100	-	454,330	(219,300)	-	-	-	
- swaps	(715,538)	288,501	5,967	432,121	(9,800)	-	-	1,251	
Total interest sensitivity gap	8,628,125	(1,244,120)	(4,956,364)	2,801,711	33,224	(5,886,411)	625,086	1,251	

* This is arrived at after deducting specific allowance from non-performing loans.

27 Operations of Islamic Banking

Unaudited Condensed Balance Sheet as at 31 March 2006 (1 Rabiulawal 1427)

	<i>Note</i>	31 Mar 2006 RM'000	31 Dec 2005 RM'000
Assets			
Cash and short term funds		1,397,432	1,157,855
Deposits and placements with banks and other financial institutions		-	90,000
Securities available-for-sale		1,097,481	1,026,595
Financing, advances and other loans	<i>(a)</i>	2,722,680	2,853,518
Other assets	<i>(c)</i>	39,283	13,666
Statutory deposits with Bank Negara Malaysia		86,500	98,500
Equipment		259	342
Intangible assets		955	1,089
Deferred tax asset		14,640	13,737
Total Assets		<u>5,359,230</u>	<u>5,255,302</u>
Liabilities			
Deposits from customers	<i>(d)</i>	3,851,513	3,512,422
Deposits and placements of banks and other financial institutions		25,921	270,124
Other liabilities	<i>(e)</i>	955,244	946,987
Provision for taxation and zakat		6,649	20,680
Total liabilities		<u>4,839,327</u>	<u>4,750,213</u>
Islamic Banking Capital Fund			
Funds allocated from Head Office		430,000	430,000
Reserves		89,903	75,089
Islamic Banking Capital Funds		<u>519,903</u>	<u>505,089</u>
Total Liabilities and Islamic Banking Capital Funds		<u>5,359,230</u>	<u>5,255,302</u>
Commitments and Contingencies		<u>267,697</u>	<u>241,408</u>

27 Operations of Islamic Banking (continued)

**Unaudited Condensed Income Statement for the First Financial Quarter Ended 31 March 2006
(1 Rabiulawal 1427)**

	31 Mar 2006	31 Mar 2005
	RM'000	RM'000
Income derived from investment of depositors' funds and others	52,342	29,235
Write back / (Allowance) for losses on financing	1,117	(2,581)
Profit equalisation reserve	(3,000)	(200)
Total distributable income	50,459	26,454
Income attributable to depositors	(34,621)	(19,465)
Income attributable to the Bank	15,838	6,989
Income derived from investment of Islamic banking capital funds	9,323	6,632
Total net income	25,161	13,621
Other operating expenses	(4,688)	(1,004)
Profit before taxation and zakat	20,473	12,617
Taxation and zakat	(5,687)	(3,303)
Profit after taxation and zakat	14,786	9,314

27 Operations of Islamic Banking (continued)

(a) Financing, advances and other loans

(i) By type

	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Term financing		
House financing	112,518	113,141
Hire purchase receivables	138,367	110,885
Lease receivables	40,818	49,224
Other term financing	946,436	843,590
Claims on customers under acceptance credits	1,671,293	1,927,977
Credit/ charge cards	1,165	1,409
Less: Unearned income	(138,068)	(141,321)
	2,772,529	2,904,905
Less: Allowance for bad and doubtful financing:		
- General	(44,370)	(43,770)
- Specific	(5,479)	(7,617)
Total net financing, advances and other loans	2,722,680	2,853,518

(b) Non-Performing Financing (NPF)

(i) Movements in non-performing financing, advances and other loans (including income receivables)

	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
At beginning of year	12,805	16,921
Classified as non-performing during the period/ year	2,229	5,409
Reclassified as performing	-	(346)
Amount recovered	(1,717)	(2,520)
Amount written off	(459)	(6,659)
Closing balance	12,858	12,805
Specific allowance	(5,479)	(7,617)
Net non-performing financing, advances and other loans	7,379	5,188
Ratio of net non-performing financing, advances and other loans to net financing, advances and other loans	0.3%	0.2%

27 Operations of Islamic Banking (continued)

(ii) Movements in allowance for bad and doubtful financing

	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
General allowance		
At beginning of year	43,770	27,509
Allowance made during the period/ year	600	16,261
Closing balance	<u>44,370</u>	<u>43,770</u>
As % of total financing less specific allowance	1.6%	1.5%
Specific allowance		
At beginning of year	7,617	10,305
Allowance made during the period/ year	1,489	4,870
Amount recovered	(3,175)	(936)
Amount written off	(452)	(6,622)
Closing balance	<u>5,479</u>	<u>7,617</u>

(c) Other Assets

	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Settlement due from Head Office	32,472	4,655
Income receivable	6,757	8,677
Other receivables, deposits and prepayments	54	334
	<u>39,283</u>	<u>13,666</u>

(d) Deposits from Customers

(i) By type of deposit

	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Non-Mudharabah Fund		
Demand deposits	39,498	38,948
Savings deposits	199,122	157,048
	<u>238,620</u>	<u>195,996</u>
Mudharabah Fund		
General investment deposits	3,612,893	3,316,426
	<u>3,851,513</u>	<u>3,512,422</u>

27 Operations of Islamic Banking (continued)

(e) Other Liabilities

	31 Mar 2006	31 Dec 2005
	RM'000	RM'000
Special placement deposits by Head Office	920,792	920,791
Profit equalisation reserve	4,700	1,700
Profit payable	19,131	10,178
Other creditors and accruals	10,621	14,318
	<u>955,244</u>	<u>946,987</u>

(f) Income from Islamic Banking Operations

For consolidation with the conventional operations, income from Islamic banking operations comprises the following items:

	31 Mar 2006	31 Mar 2005
	RM'000	RM'000
Income derived from investment of depositors' funds and others	52,342	29,235
Profit equalisation reserve	(3,000)	(200)
Income attributable to the depositors	(34,621)	(19,465)
Income attributable to special placement deposits by Head Office	7,259	6,295
	<u>21,980</u>	<u>15,865</u>
Income derived from investment of Islamic banking capital funds	9,323	6,632
	<u>31,303</u>	<u>22,497</u>

28 Change in Accounting Policy

Change in Accounting Policy

During the three months ended 31 March 2006, the Bank adopted a new accounting standard, FRS 2 on Share-based Payment. FRS 2 requires companies to adopt a fair-value-based method of accounting for share-based compensation plans which takes into account vesting conditions related to market performance, for example total shareholder return. Under this method, compensation cost is measured at the date of grant based on the assessed value of the award and is recognised over the service period, which is usually the vesting period. The fair value of share options granted is to be recognised in the income statement.

The change in accounting policy has been accounted for by restating comparatives and adjusting the opening balance of retained profit as at 1 January 2005 as disclosed in Note 29 and the Statement of Changes in Equity respectively.

Prior Year Adjustments

The change in accounting policy as described above was applied retrospectively and has the following cumulative impact on the opening retained profit of the Bank

	2005
	RM'000
At 31 December 2005, as previously stated	991,840
Effect of adopting FRS 2	(16,211)
As at 31 December 2005, as restated	<u>975,629</u>

29 Comparative Figures

The following comparative figures have been restated to reflect the changes in accounting policy explained in Note 28.

	<i>Group</i>		<i>Bank</i>	
	As restated RM'000	As previously stated RM'000	As restated RM'000	As previously stated RM'000
<i>Balance Sheet as at 31 December 2005</i>				
Deferred tax asset	59,851	53,547	59,851	53,547
Total assets	36,543,999	36,537,695	36,544,020	36,537,716
Other liabilities	940,276	917,761	940,276	917,761
Total liabilities	34,123,630	34,101,115	34,123,651	34,101,136
Reserves	2,155,869	2,172,080	2,155,869	2,172,080
Shareholders' funds	2,420,369	2,436,580	2,420,369	2,436,580
			<i>Group and Bank</i>	
			As restated RM'000	As previously stated RM'000
<i>Income Statement for the first financial quarter ended 31 March 2005</i>				
Other operating expenses			177,170	175,002
Profit before allowance			170,765	172,933
Profit before taxation and zakat			153,878	156,046
Profit attributable to shareholders			110,672	112,233
Earnings per RM0.50 share			48.3 sen	49.0 sen

30 Review of Performance

The Bank registered a 35.2% increase in profit before tax to RM208.0 million, against RM153.9 million for the corresponding period last year. The higher profit was attributed to all-round improvements in net interest income due to higher margins, other operating income principally from higher foreign exchange gains benefitting from the de-peg of USD/RM, and income from Islamic banking operations. Profit before allowance grew by RM50.9 million or 29.8% despite higher other operating expenses. Allowance for losses on loans and financing was lower by RM3.2 million or 18.7%.

In the first quarter, net loans expanded moderately by RM569.7 million or 2.7% whilst net non-performing loans ratio improved further to 1.4%, compared to 1.7% as at 31 December 2005.

31 Business Prospects

With the launch of the Ninth Malaysia Plan, it is envisaged that Malaysia's GDP is expected to grow by 6% annually although inflation for this year is expected to rise to 3.5% to 4% due to higher fuel prices. The implementation of the Ninth Malaysia Plan will result in large investments by both public and private sectors and we are poised to meet their banking needs.

The Ringgit has strengthened up to more than 3% against the USD since the fixed rate exchange regime was removed on July 27 last year and the Overnight Policy Rate (OPR) has been increased twice since November 2005. A further rise in the Ringgit and OPR is expected on a gradual basis.

The banking landscape is expected to be more challenging and competitive as the financial market is gradually liberalised. We have obtained Bank Negara Malaysia's approval to open four additional branches this year which will provide a further platform for growth in all our customer segments and improve our geographical reach. To further improve customer service, we are carrying out a number of initiatives to improve workflow and enhance staff productivity whilst we continue to invest in systems, premises and resources.