

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
- 30 SEPTEMBER 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 third financial quarter / period ended 30 September 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: 30 October 2006

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

UNAUDITED CONDENSED BALANCE SHEET
AS AT 30 SEPTEMBER 2006

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		30 Sep 2006	31 Dec 2005	30 Sep 2006	31 Dec 2005
		RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short term funds		6,196,863	7,710,602	6,196,863	7,710,602
Securities purchased under resale agreements		2,396,431	1,449,760	2,396,431	1,449,760
Deposits and placements with banks and other financial institutions		1,231,157	479,942	1,231,157	479,942
Securities held-for-trading	<i>11</i>	1,089,987	703,727	1,089,987	703,727
Securities available-for-sale	<i>12</i>	3,587,203	3,284,735	3,587,203	3,284,735
Loans, advances and financing	<i>13</i>	24,437,948	21,476,706	24,437,948	21,476,706
Other assets	<i>15</i>	565,823	371,825	565,823	371,825
Statutory deposits with Bank Negara Malaysia		898,448	698,948	898,448	698,948
Investments in subsidiaries companies		-	-	21	21
Property, plant and equipment		302,573	304,916	302,573	304,916
Intangible assets		21,474	5,228	21,474	5,228
Deferred tax assets		72,000	59,851	72,000	59,851
Total Assets		40,799,907	36,546,240	40,799,928	36,546,261
Liabilities					
Deposits from customers	<i>16</i>	30,720,761	28,317,351	30,720,782	28,317,372
Deposits and placements of banks and other financial institutions	<i>17</i>	2,849,630	1,954,799	2,849,630	1,954,799
Obligations on securities sold under repurchase agreements		1,899,921	1,617,617	1,899,921	1,617,617
Bills and acceptances payable		468,419	475,940	468,419	475,940
Other liabilities	<i>18</i>	1,252,852	942,517	1,252,852	942,517
Recourse obligation on loans sold to Cagamas Berhad		923,404	787,931	923,404	787,931
Provision for taxation and zakat		64,723	29,716	64,723	29,716
Total liabilities		38,179,710	34,125,871	38,179,731	34,125,892

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

UNAUDITED CONDENSED BALANCE SHEET (CONTD.)
AS AT 30 SEPTEMBER 2006

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		30 Sep 2006	31 Dec 2005	30 Sep 2006	31 Dec 2005
		RM'000	RM'000	RM'000	RM'000
Shareholders' Fund					
Share capital		114,500	114,500	114,500	114,500
Reserves		2,505,697	2,155,869	2,505,697	2,155,869
Proposed dividend		-	150,000	-	150,000
Shareholders' funds		<u>2,620,197</u>	<u>2,420,369</u>	<u>2,620,197</u>	<u>2,420,369</u>
Total Liabilities and Shareholders' Funds		<u>40,799,907</u>	<u>36,546,240</u>	<u>40,799,928</u>	<u>36,546,261</u>
Commitments and Contingencies	25	<u>63,288,414</u>	<u>47,716,860</u>	<u>63,288,414</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 and the accompanying explanatory notes on page 6 to 28 attached to the unaudited condensed interim financial statements.

The financial statements were approved by the Board of Directors on 30 October 2006.

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

UNAUDITED CONDENSED INCOME STATEMENT
FOR THE THIRD FINANCIAL QUARTER / PERIOD ENDED 30 SEPTEMBER 2006

		<i>Group and Bank</i>			
		3rd quarter ended		Year-To-Date ended	
		30 Sep 2006	30 Sep 2005	30 Sep 2006	30 Sep 2005
<i>Note</i>		RM'000	RM'000	RM'000	RM'000
	Revenue	779,309	597,081	2,097,632	1,647,154
	Interest income	465,174	368,905	1,285,463	1,062,897
	Interest expense	(211,870)	(164,466)	(562,903)	(468,698)
	Net interest income	253,304	204,439	722,560	594,199
	Other operating income	231,397	183,080	593,825	465,222
	Income from Islamic banking operations	49,490	29,681	123,206	76,429
	Operating income	534,191	417,200	1,439,591	1,135,850
	Other operating expenses	(211,912)	(210,090)	(657,687)	(569,686)
	Profit before allowance	322,279	207,110	781,904	566,164
	Allowance for losses on loans and financing	(29,219)	30,325	(75,761)	7,533
	Profit before taxation and zakat	293,060	237,435	706,143	573,697
	Taxation and zakat	(78,498)	(67,439)	(202,806)	(163,310)
	Profit attributable to shareholders	214,562	169,996	503,337	410,387
	Earnings per RM0.50 ordinary share - basic/diluted	93.7 sen	74.2 sen	219.8 sen	179.2 sen
	Dividends per RM0.50 ordinary share (net)				
	- paid in respect of prior year	-	-	65.5 sen	43.7 sen
	- interim dividend paid	65.5 sen	52.4 sen	65.5 sen	52.4 sen

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 and the accompanying explanatory notes on page 6 to 28 attached to the unaudited condensed interim financial statements.

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

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2006

	<i>Group and Bank</i>									
	← Non-distributable					Distributable →				
	<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	-	-	-	-	-	-	415,594	415,594	-	415,594
- prior year adjustment	-	-	-	-	-	-	(5,207)	(5,207)	-	(5,207)
Net gains and losses not recognised in the income statement										
- Net unrealised losses on revaluation	-	-	-	-	-	(14,500)	-	(14,500)	-	(14,500)
Net gains reclassified to income statement	-	-	-	-	-	(7,610)	-	(7,610)	-	(7,610)
Dividend paid - 2004 final	-	-	-	-	-	-	-	-	(100,000)	(100,000)
Dividend - 2005 interim	-	-	-	-	-	-	(120,000)	(120,000)	-	(120,000)
Balance as at 30 September 2005	114,500	741,375	114,500	118,966	190,000	34,561	1,009,875	2,209,277	-	2,323,777
Balance as at 1 October 2005	114,500	741,375	114,500	118,966	190,000	34,561	1,009,875	2,209,277	-	2,323,777
Net profit for the period										
- as previously reported	-	-	-	-	-	-	118,091	118,091	-	118,091
- prior year adjustment	-	-	-	-	-	-	(2,337)	(2,337)	-	(2,337)
Net gains and losses not recognised in the income statement										
- Net unrealised losses on revaluation	-	-	-	-	-	(9,135)	-	(9,135)	-	(9,135)
Net gains reclassified to income statement	-	-	-	-	-	(10,027)	-	(10,027)	-	(10,027)
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	-	-	-	-	-	-	503,337	503,337	-	503,337
Net gains and losses not recognised in the income statement										
- Net unrealised gains on revaluation	-	-	-	-	-	1,969	-	1,969	-	1,969
Net gains reclassified to income statement	-	-	-	-	-	(5,478)	-	(5,478)	-	(5,478)
Dividend paid - 2005 final	-	-	-	-	-	-	-	-	(150,000)	(150,000)
Dividend paid - 2006 interim	-	-	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Balance as at 30 September 2006	114,500	741,375	114,500	118,966	190,000	11,890	1,328,966	2,505,697	-	2,620,197

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 and the accompanying explanatory notes on page 6 to 28 attached to the unaudited condensed interim financial statements.

HSBC BANK MALAYSIA BERHAD
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UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 SEPTEMBER 2006

	<i>Group and Bank</i>	
	30 Sep 2006	30 Sep 2005
	RM'000	RM'000
Profit before taxation and zakat	706,143	573,697
Adjustments for non-operating and non-cash items	137,869	66,203
Operating profit before working capital changes	844,012	639,900
Changes in working capital:		
Net changes in operating assets	(5,572,409)	(2,858,291)
Net changes in operating liabilities	4,016,534	2,348,185
Taxation and zakat paid	(178,073)	(153,745)
Net cash used in operations	(889,936)	(23,951)
Net cash (used in)/generated from investing activities	(323,803)	485,061
Net cash used in financing activities	(300,000)	(220,000)
	(623,803)	265,061
Net changes in cash and cash equivalents	(1,513,739)	241,110
Cash and cash equivalents at beginning of the period	7,710,602	5,767,418
Cash and cash equivalents at end of the period	6,196,863	6,008,528
Analysis of cash and cash equivalents		
Cash and short-term funds	6,196,863	6,008,528

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 and the accompanying explanatory notes on page 6 to 28 attached to the unaudited condensed interim financial statements.

HSBC BANK MALAYSIA BERHAD
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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS
AS AT 30 SEPTEMBER 2006

1 Basis of Preparation

The unaudited condensed interim financial statements for the third financial quarter ended 30 September 2006 have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standard Board (“MASB”) and the revised GP8 guidelines issued by Bank Negara Malaysia.

The unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2005. The explanatory notes attached in the unaudited condensed interim financial statements provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Group and the Bank since the year ended 31 December 2005.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) issued by MASB effective for the financial period beginning 1 January 2006:

FRS 2 Share-based Payment
FRS 3 Business Combinations
FRS 5 Non-current Assets Held for Sale and Discontinued Operations
FRS 101 Presentation of Financial Statements
FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110 Events after the Balance Sheet Date
FRS 116 Property, Plant and Equipment
FRS 121 The Effects of Changes in Foreign Exchange Rates
FRS 127 Consolidated and Separate Financial Statements
FRS 128 Investments in Associates
FRS 131 Interests in Joint Ventures
FRS 132 Financial Instruments: Disclosure and Presentation
FRS 133 Earnings Per Share
FRS 136 Impairment of Assets
FRS 138 Intangible Assets
FRS 140 Investment Property

Except for FRS 2, the adoption of the above standards does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of FRS 2 are disclosed in Note 28.

2 Audit Reports' On Preceding Annual Financial Statements

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 Cyclical Factors

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 third financial quarter ended 30 September 2006.

5 Changes in Estimates

There were no material 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 third financial quarter ended 30 September 2006.

6 Debt and Equity Securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the third financial quarter ended 30 September 2006.

7 Dividend

A final dividend of 182% less tax totalling RM150 million in respect of the financial year ended 2005 was paid on 15 March 2006.

An interim dividend of 182% less tax totalling RM150 million in respect of the current financial year on 229,000,000 ordinary shares was proposed on 17 July 2006 and paid on 3 August 2006.

8 Carrying Amount of Revalued Assets

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 financial year ended 31 December 2005.

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 statements.

10 Changes in the Composition of the Group

There were no changes in the composition of the Group for the third financial quarter ended 30 September 2006.

11 Securities Held-for-Trading

	<i>Group and Bank</i>	
	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
Money market instruments:		
Malaysian Government treasury bills	185,404	39,256
Bank Negara Malaysia bills	332,634	231,566
Bank Negara Malaysia Islamic bills	59,785	7,875
Malaysian Government securities	323,245	222,765
Malaysian Government Islamic bonds	28,028	-
Khazanah bonds	2,059	2,021
Cagamas bonds and notes	86,588	31,513
	1,017,743	534,996
Unquoted securities:		
Private debt securities (including commercial paper)	72,244	168,731
	1,089,987	703,727

12 Securities Available-for-Sale

	<i>Group and Bank</i>	
	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
Money market instruments:		
Malaysian Government treasury bills	40,669	-
Bank Negara Malaysia bills	-	49,309
Bank Negara Malaysia Islamic bills	-	308,442
Malaysian Government securities	500,511	467,581
Malaysian Government Islamic bonds	351,263	21,811
Khazanah bonds	249,097	243,958
Cagamas bonds and notes	572,490	691,864
Negotiable instruments of deposit	740,024	554,847
Bankers' acceptance and Islamic accepted bills	624,362	143,326
	3,078,416	2,481,138
Quoted securities		
Shares	27,196	36,764
Warrants	23	148
Loan stock	12,162	15,173
	39,381	52,085
Unquoted securities:		
Shares	20,502	17,392
Private and Islamic debt securities	461,810	754,322
	482,312	771,714
Impairment loss:		
Quoted securities in Malaysia:		
Shares	(6,020)	(11,291)
Warrants	(3)	(7)
Loan stock	(6,883)	(8,904)
	(12,906)	(20,202)
	3,587,203	3,284,735

13 Loans, Advances and Financing**(i) By type**

	<i>Group and Bank</i>	
	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
Overdrafts	3,371,909	2,236,412
Term loans/ financing		
- Housing loans/ financing	6,703,029	7,267,122
- Syndicated term loans/ financing	19,695	19,695
- Hire purchase receivables	164,943	111,690
- Lease receivables	34,296	49,740
- Other term loans/ financing	6,813,016	5,515,035
Bills receivable	973,743	772,852
Trust receipts	455,564	180,166
Claims on customers under acceptance credits	2,706,608	3,109,050
Staff loans/ financing	311,294	307,157
Loans to executive directors	197	-
Credit/ charge cards	1,915,086	1,616,357
Revolving credit	1,731,039	1,072,172
Other loans/ financing	11,930	10,722
Less: Unearned interest and income	(134,727)	(141,321)
	25,077,622	22,126,849
Less: Allowance for bad and doubtful debts and financing:		
- General	(373,800)	(327,200)
- Specific	(265,874)	(322,943)
Total net loans, advances and financing	24,437,948	21,476,706

(ii) By type of customer

	<i>Group and Bank</i>	
	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
Domestic non-bank financial institutions		
- Stockbroking companies	152,659	5,238
- Others	129,596	141,425
Domestic business enterprises		
- Small medium enterprises	4,789,543	2,655,201
- Others	6,980,174	7,584,366
Government and statutory bodies	51	64
Individuals	12,600,222	11,144,011
Other domestic entities	4,586	2,754
Foreign entities	420,791	593,790
	25,077,622	22,126,849

13 Loans, Advances and Financing (continued)**(iii) By interest/ profit rate sensitivity**

	<i>Group and Bank</i>	
	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
Fixed rate		
- Housing loans/ financing	314,204	328,417
- Hire purchase receivables	145,180	102,190
- Other fixed rate loans/ financing	5,434,403	3,711,654
Variable rate		
- BLR plus	15,537,711	13,978,020
- Cost-plus	1,731,039	1,073,903
- Other variable rates	1,915,085	2,932,665
	25,077,622	22,126,849

(iv) By sector

	<i>Group and Bank</i>	
	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	1,035,494	893,313
Mining and quarrying	155,056	99,672
Manufacturing	4,266,511	3,739,427
Electricity, gas and water	124,366	81,383
Construction	459,507	428,685
Real estate	636,995	545,809
Purchase of landed property:		
- Residential	8,927,542	8,384,960
- Non-residential	1,011,469	970,920
Wholesale & retail trade and restaurants & hotels	2,423,011	2,164,107
Transport, storage and communication	179,737	190,842
Finance, insurance and business services	1,909,062	1,347,020
Purchase of securities	121,001	173,523
Purchase of transport vehicles	31,429	17,560
Consumption credit	3,600,831	2,894,133
Others	195,611	195,495
	25,077,622	22,126,849

14 Non-Performing Loans/ Financing (NPL/ NPF)**(i) Movements in non-performing loans, advances and financing**

	<i>Group and Bank</i>	
	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
At beginning of period/year	688,626	1,055,888
Classified as non-performing during the period/ year	193,882	314,067
Reclassified as performing	(92,767)	(199,467)
Amount recovered	(133,614)	(275,478)
Amount written off	(143,419)	(207,031)
Other movements	397	647
At end of period/year	513,105	688,626
Specific allowance	(265,874)	(322,943)
Net non-performing loans, advances and financing	247,231	365,683
Ratio of net non-performing loans, advances and financing to net loans, advances and financing	1.0%	1.7%

(ii) Movements in allowance for bad and doubtful debts

	<i>Group and Bank</i>	
	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
General allowance		
At beginning of period/year	327,200	289,300
Allowance made during the period/ year	46,600	37,900
At end of period/year	373,800	327,200
As % of gross loans, advances and financing less specific allowance	1.5%	1.5%
Specific allowance		
At beginning of period/year	322,943	477,334
Allowance made during the period/ year	145,597	192,822
Amount recovered	(67,398)	(144,029)
Amount written off	(135,665)	(203,831)
Other movements	397	647
At end of period/year	265,874	322,943

14 Non-Performing Loans/ Financing (NPL/ NPF) (continued)**(iii) By sector**

	<i>Group and Bank</i>	
	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	3,571	2,202
Mining and quarrying	541	631
Manufacturing	103,703	185,029
Construction	29,900	31,718
Real estate	16,859	17,589
Purchase of landed property:		
- Residential	204,071	255,725
- Non-residential	13,153	23,088
Wholesale & retail trade and restaurants & hotels	37,593	53,291
Transport, storage and communication	3,317	4,628
Finance, insurance and business services	21,684	28,300
Purchase of securities	358	17,806
Purchase of transport vehicles	160	177
Consumption credit	75,312	65,210
Others	2,883	3,232
	513,105	688,626

15 Other Assets

	<i>Group and Bank</i>	
	30 Sep 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	307,156	203,871
Interest/ income receivable	50,784	34,082
Other receivables, deposits and prepayments	207,883	133,872
	565,823	371,825

16 Deposits from Customers**(i) By type of deposit**

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2006	31 Dec 2005	30 Sep 2006	31 Dec 2005
	RM'000	RM'000	RM'000	RM'000
Demand deposits	6,045,897	5,689,273	6,045,918	5,689,294
Savings deposits	4,294,029	4,243,692	4,294,029	4,243,692
Fixed/ investment deposits	18,159,791	16,400,684	18,159,791	16,400,684
Negotiable instruments of deposit	1,573,451	1,702,320	1,573,451	1,702,320
Others	647,593	281,382	647,593	281,382
	30,720,761	28,317,351	30,720,782	28,317,372

16 Deposits from Customers (continued)**(ii) By type of customer**

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2006	31 Dec 2005	30 Sep 2006	31 Dec 2005
	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	86,304	15,780	86,304	15,780
Business enterprises	10,893,404	9,532,602	10,893,425	9,532,623
Individuals	15,494,491	14,185,641	15,494,491	14,185,641
Others	4,246,562	4,583,328	4,246,562	4,583,328
	30,720,761	28,317,351	30,720,782	28,317,372

17 Deposits and Placements of Banks and Other Financial Institutions

	<i>Group and Bank</i>	
	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
Licensed banks	636,648	120,000
Bank Negara Malaysia	24,592	38,247
Other financial institutions	2,188,390	1,796,552
	2,849,630	1,954,799

18 Other Liabilities

	<i>Group and Bank</i>	
	30 Sep 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	244,779	183,219
Interest/ profit payable	168,744	144,243
Allowance for commitments and contingencies	2,328	3,030
Profit equalisation reserve	4,700	1,700
Other creditors and accruals	832,301	610,325
	1,252,852	942,517

19 Interest Income

	<i>Group and Bank</i>			
	3rd quarter ended		Year-To-Date ended	
	30 Sep 2006	30 Sep 2005	30 Sep 2006	30 Sep 2005
	RM'000	RM'000	RM'000	RM'000
Loans and advances				
- Interest income other than recoveries from NPLs	349,152	268,425	978,846	779,480
- Recoveries from NPLs	16,187	14,572	36,570	49,903
Money at call and deposit placement with financial institutions	85,877	58,724	223,892	147,764
Securities available-for-sale	15,124	31,622	51,873	97,448
	466,340	373,343	1,291,181	1,074,595
Amortisation of premium less accretion of discounts	4,394	(1,113)	7,861	(3,244)
Interest suspended	(5,560)	(3,325)	(13,579)	(8,454)
Total interest income	465,174	368,905	1,285,463	1,062,897

20 Interest Expense

	<i>Group and Bank</i>			
	3rd quarter ended		Year-To-Date ended	
	30 Sep 2006	30 Sep 2005	30 Sep 2006	30 Sep 2005
	RM'000	RM'000	RM'000	RM'000
Deposits and placements of banks and other financial institutions	24,579	10,842	52,184	23,646
Deposits from customers	155,593	132,067	429,342	385,754
Loans sold to Cagamas	10,983	6,995	31,870	21,440
Others	20,715	14,562	49,507	37,858
	211,870	164,466	562,903	468,698

21 Other Operating Income

	<i>Group and Bank</i>			
	3rd quarter ended		Year-To-Date ended	
	30 Sep 2006	30 Sep 2005	30 Sep 2006	30 Sep 2005
	RM'000	RM'000	RM'000	RM'000
Fees and commissions	91,168	89,692	289,913	259,600
Net gains arising from sale of securities				
- Securities held-for-trading	12,987	12,705	18,996	18,708
- Securities available-for-sale	8,223	5,720	14,969	15,290
Net interest trading income	6,242	3,848	13,267	12,693
Net gains arising from dealing in foreign currency	84,875	64,532	178,218	134,406
Net (losses)/gains arising from trading in derivatives	(535)	3,063	(14,801)	9,921
Dividend income from securities available-for-sale				
- Quoted in Malaysia	948	-	954	1,022
- Unquoted in Malaysia	-	-	845	1,185
Net unrealised gains/(losses) on revaluation of trading securities (including derivatives)	956	(75)	25,961	(5,441)
Net unrealised (losses)/gains from foreign exchange translations	(16,188)	1,425	16,537	11,578
Rental income	1,678	1,600	4,869	4,601
Net gains on disposal of property, plant and equipment	158	64	365	494
Gains from sale of a business operation	35,156	-	35,156	-
Other operating income	5,729	506	8,576	1,165
	231,397	183,080	593,825	465,222

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

Cards	39,043	44,253	136,313	126,559
Service charges and fees	26,265	26,682	81,373	72,483
Agency fees	12,956	9,618	33,597	27,015
Credit facilities	5,178	3,121	15,050	14,229

22 Other Operating Expenses

	<i>Group and Bank</i>			
	3rd quarter ended		Year-To-Date ended	
	30 Sep 2006	30 Sep 2005	30 Sep 2006	30 Sep 2005
	RM'000	RM'000	RM'000	RM'000
Personnel expenses	111,171	97,012	342,511	267,891
Promotion and marketing related expenses	18,137	23,359	48,846	58,256
Establishment related expenses	23,791	22,364	68,941	65,677
General administrative expenses	58,813	67,355	197,389	177,862
	211,912	210,090	657,687	569,686

The above expenditure includes the following major items:

Personnel expenses				
- Salaries, allowances and bonuses	79,462	74,951	251,937	207,818
- Employees Provident Fund contributions	12,179	12,476	39,940	31,183
Promotion and marketing related expenses				
- Advertising and promotion	11,459	14,174	30,917	36,684
- Travel and entertainment	2,546	2,046	7,317	5,580
- Commercial sponsorships	894	2,070	3,911	4,651
Establishment related expenses				
- Depreciation of property, plant and equipment	6,041	8,784	20,497	22,521
- Information technology costs	6,152	5,770	13,989	15,732
- Hire of equipment	1,940	1,541	6,455	6,888
- Rental of premises	2,446	2,410	7,194	6,805
General administrative expenses				
- Intercompany expenses	38,956	22,920	106,137	62,385
- Fees and commissions paid	5,560	13,913	36,165	38,541

23 Allowance for Losses on Loans and Financing

	<i>Group and Bank</i>			
	3rd quarter ended		Year-To-Date ended	
	30 Sep 2006	30 Sep 2005	30 Sep 2006	30 Sep 2005
	RM'000	RM'000	RM'000	RM'000
Allowance for bad and doubtful debts on loans and financing				
(a) Specific allowance				
- Made in the financial period	42,902	56,169	145,597	147,660
- Written back	(12,880)	(80,732)	(67,398)	(128,828)
(b) General allowance				
- Made in the financial period	17,700	14,900	46,600	34,900
Bad debts on loans and financing				
- Recovered	(22,650)	(22,318)	(57,060)	(65,324)
- Written off	4,065	1,656	8,725	4,524
Allowance for losses on commitments and contingencies				
- Made in the financial period	82	-	503	75
- Written back	-	-	(1,206)	(540)
	29,219	(30,325)	75,761	(7,533)

24 Capital Adequacy

	<i>Bank</i>	
	30 Sep 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	1,114,404	1,125,629
Other reserves	114,500	114,500
	2,274,779	2,286,004
Less: Deferred tax assets	(99,179)	(91,887)
Total Tier 1 capital	2,175,600	2,194,117
Tier 2 capital		
Revaluation reserves	72,507	72,507
General allowance for bad and doubtful debts and financing	373,800	327,200
Total Tier 2 capital	446,307	399,707
Total capital	2,621,907	2,593,824
Less: Investment in subsidiaries	(21)	(21)
Capital base *	2,621,886	2,593,803

24 Capital Adequacy (Contd.)

Core capital ratio	8.4%	9.8%
Risk-weighted capital ratio	10.1%	11.6%
Core capital ratio (net of proposed dividend)	8.4%	9.1%
Risk-weighted capital ratio (net of proposed dividend)	10.1%	10.9%

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

	<i>Bank</i>			
	30 Sep 2006		31 Dec 2005	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
0%	10,979,902	-	10,475,706	-
10%	188,323	18,832	399,528	39,953
20%	3,959,144	791,829	3,158,802	631,760
50%	8,488,722	4,244,361	7,715,056	3,857,528
100%	19,955,944	19,955,944	17,337,032	17,337,032
Total risk-weighted assets equivalent for market risk	-	826,885	-	553,272
	43,572,035	25,837,851	39,086,124	22,419,545

* Profit after tax of RM288.8 million for the current half year of which RM281.5 million was included in the capital base, was subject to a limited review by the external auditors in accordance with Technical Bulletin 4 issued by the Malaysian Institute of Certified Public Accountants.

25 Commitments and Contingencies

	<i>Group and Bank</i>					
	30 Sep 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	809,884	809,884	766,696	610,872	610,872	571,773
Transaction-related contingent items	2,077,856	1,038,928	997,962	1,883,990	941,995	916,181
Short-term self-liquidating trade-related contingencies	362,647	72,529	64,624	259,019	51,804	46,555
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	16,632,564	-	-	15,131,142	-	-
- Maturity exceeding one year	1,109,621	554,811	554,811	1,298,798	649,399	649,399
Foreign exchange related contracts:						
- Less than one year	17,554,550	268,805	101,183	11,751,863	228,029	88,034
- One year to less than five years	1,623,020	110,906	39,990	1,818,966	137,126	54,254
Interest rate related contracts:						
- Less than one year	8,552,896	24,188	7,306	2,768,837	7,667	2,341
- One year to less than five years	13,392,225	326,319	131,293	11,166,070	289,349	124,080
- Five years and above	495,880	30,422	13,998	976,309	60,427	28,417
Others	677,271	174,483	138,114	50,994	12,166	8,835
	63,288,414	3,411,275	2,815,977	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 30 Sep 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	5,894,834	-	-	-	-	302,029	-	6,196,863	3.59
Securities purchased									
under resale agreements	1,112,859	1,283,572	-	-	-	-	-	2,396,431	3.70
Deposits and placements with banks and other financial institutions	-	1,210,000	-	21,157	-	-	-	1,231,157	3.72
Securities held-for-trading	-	-	-	-	-	-	1,089,987	1,089,987	3.93
Securities available-for-sale	306,097	1,090,980	542,422	1,586,511	19,495	41,698	-	3,587,203	3.79
Loans, advances and financing									
- performing	18,299,458	1,824,242	1,065,461	1,674,762	515,014	811,779	-	24,190,716	6.41
- non-performing *	-	-	-	-	-	247,232	-	247,232	-
Others	-	-	-	-	-	1,531,186	329,153	1,860,339	-
Total Assets	25,613,248	5,408,794	1,607,883	3,282,430	534,509	2,933,924	1,419,140	40,799,928	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	14,400,812	4,544,416	6,160,005	712,255	21,062	4,882,232	-	30,720,782	3.02
Deposits and placements of banks and other financial institutions	2,197,352	214,619	105,352	6,636	2,447	323,224	-	2,849,630	3.62
Obligation on securities sold under repurchase agreements	1,899,921	-	-	-	-	-	-	1,899,921	2.94
Bills and acceptances payable	70,663	78,641	-	-	-	319,115	-	468,419	3.25
Recourse obligation on loans sold to Cagamas Berhad	-	-	-	824,043	99,361	-	-	923,404	4.57
Others	-	-	-	-	-	1,059,388	258,187	1,317,575	-
Total Liabilities	18,568,748	4,837,676	6,265,357	1,542,934	122,870	6,583,959	258,187	38,179,731	
Shareholders' funds	-	-	-	-	-	2,620,197	-	2,620,197	-
Total Liabilities and Shareholders' funds	18,568,748	4,837,676	6,265,357	1,542,934	122,870	9,204,156	258,187	40,799,928	
On-balance sheet interest sensitivity gap	7,044,500	571,118	(4,657,474)	1,739,496	411,639	(6,270,232)	1,160,953	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	(729,216)	694,456	34,760	-	-	-	-	
- options	578,098	258,965	(131,202)	(705,861)	-	-	-	-	
- swaps	(1,029,693)	465,765	34,968	569,435	(19,800)	-	-	20,675	
Total interest sensitivity gap	6,592,905	566,632	(4,059,252)	1,637,830	391,839	(6,270,232)	1,160,953	20,675	

26 Interest/ Profit Rate Risk (continued)

Bank 31 Dec 2005	← Non-trading book →					Non-interest sensitive RM'000	Trading book 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				Total 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	43,007	-	3,284,735	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	-	-	-	-	-	1,209,356	231,433	1,440,789	-
Total Assets	25,187,798	3,098,793	1,323,412	2,609,524	780,707	2,610,867	935,160	36,546,261	
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	-	-	-	-	-	662,159	310,074	972,233	-
Total Liabilities	15,601,005	4,789,781	6,057,476	772,264	518,383	6,076,909	310,074	34,125,892	
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	8,497,278	310,074	36,546,261	
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 30 September 2006 (7 Ramadhan 1427)**

	<i>Note</i>	30 Sep 2006 RM'000	31 Dec 2005 RM'000
Assets			
Cash and short term funds		1,259,466	1,157,855
Deposits and placements with banks and other financial institutions		80,000	90,000
Securities available-for-sale		1,058,306	1,026,595
Financing, advances and other loans	<i>(a)</i>	2,943,714	2,853,518
Other assets	<i>(c)</i>	12,293	13,666
Statutory deposits with Bank Negara Malaysia		92,400	98,500
Equipment		269	342
Intangible assets		686	1,089
Deferred tax asset		16,373	13,737
Total Assets		<u>5,463,507</u>	<u>5,255,302</u>
Liabilities			
Deposits from customers	<i>(d)</i>	3,621,331	3,512,422
Deposits and placements of banks and other financial institutions		136,464	270,124
Other liabilities	<i>(e)</i>	1,150,302	946,987
Provision for taxation and zakat		16,334	20,680
Total liabilities		<u>4,924,431</u>	<u>4,750,213</u>
Islamic Banking Capital Fund			
Funds allocated from Head Office		430,000	430,000
Reserves		109,076	75,089
Islamic Banking Capital Funds		<u>539,076</u>	<u>505,089</u>
Total Liabilities and Islamic Banking Capital Funds		<u>5,463,507</u>	<u>5,255,302</u>
Commitments and Contingencies		<u>307,442</u>	<u>241,408</u>

27 Operations of Islamic Banking (continued)

**Unaudited Condensed Income Statement
for the Third Financial Quarter / Period Ended 30 September 2006
(7 Ramadhan 1427)**

	3rd quarter ended		Year-To-Date ended	
	30 Sep 2006	30 Sep 2005	30 Sep 2006	30 Sep 2005
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositors' funds and others	69,712	36,212	184,959	96,684
Allowance for losses on financing	(8,616)	(6,213)	(9,112)	(16,002)
Profit equalisation reserve	-	-	(3,000)	(200)
Total distributable income	61,096	29,999	172,847	80,482
Income attributable to depositors	(41,951)	(21,891)	(116,314)	(61,582)
Income attributable to the Bank	19,145	8,108	56,533	18,900
Income derived from investment of Islamic banking capital funds	13,026	8,884	33,385	22,351
Total net income	32,171	16,992	89,918	41,251
Other operating expenses	(16,278)	(1,668)	(39,186)	(3,479)
Profit before taxation and zakat	15,893	15,324	50,732	37,772
Taxation and zakat	(4,618)	(4,423)	(14,516)	(10,831)
Profit after taxation and zakat	11,275	10,901	36,216	26,941

27 Operations of Islamic Banking (continued)**(a) Financing, advances and other loans****By type**

	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
Term financing		
- House financing	108,125	113,141
- Hire purchase receivables	164,244	110,885
- Lease receivables	33,782	49,224
- Other term financing	1,218,900	843,590
Claims on customers under acceptance credits	1,608,819	1,927,977
Credit/ charge cards	1,514	1,409
Less: Unearned income	(134,727)	(141,321)
	3,000,657	2,904,905
Less: Allowance for bad and doubtful financing:		
- General	(48,370)	(43,770)
- Specific	(8,573)	(7,617)
Total net financing, advances and other loans	2,943,714	2,853,518

(b) Non-Performing Financing (NPF)**(i) Movements in non-performing financing, advances and other loans (including income receivables)**

	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
At beginning of period/year	12,805	16,921
Classified as non-performing during the period/ year	9,176	5,409
Reclassified as performing	(364)	(346)
Amount recovered	(3,181)	(2,520)
Amount written off	(3,781)	(6,659)
At end of period/year	14,655	12,805
Specific allowance	(8,573)	(7,617)
Net non-performing financing, advances and other loans	6,082	5,188
Ratio of net non-performing financing, advances and other loans to net financing, advances and other loans	0.2%	0.2%

(ii) Movements in allowance for bad and doubtful financing

	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
General allowance		
At beginning of period/year	43,770	27,509
Allowance made during the period/year	4,600	16,261
At end of period/year	48,370	43,770
As % of total financing less specific allowance	1.6%	1.5%
Specific allowance		
At beginning of period/year	7,617	10,305
Allowance made during the period/year	8,902	4,870
Amount recovered	(4,264)	(936)
Amount written off	(3,682)	(6,622)
At end of period/year	8,573	7,617

27 Operations of Islamic Banking (continued)**(c) Other Assets**

	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
Settlement due from Head Office	-	4,655
Income receivable	12,234	8,677
Other receivables, deposits and prepayments	59	334
	12,293	13,666

(d) Deposits from Customers**(i) By type of deposit**

	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
Non-Mudharabah Fund		
- Demand deposits	44,238	38,948
- Savings deposits	248,826	157,048
	293,064	195,996
Mudharabah Fund		
- General investment deposits	3,328,267	3,316,426
	3,621,331	3,512,422

(e) Other Liabilities

	30 Sep 2006	31 Dec 2005
	RM'000	RM'000
Special placement deposits by Head Office	920,791	920,791
Profit equalisation reserve	4,700	1,700
Profit payable	17,426	10,178
Other creditors and accruals	207,385	14,318
	1,150,302	946,987

(f) Income from Islamic Banking Operations

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

	3rd quarter ended		Year-To-Date ended	
	30 Sep 2006	30 Sep 2005	30 Sep 2006	30 Sep 2005
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositors' funds and others	69,712	36,212	184,959	96,684
Profit equalisation reserve	-	-	(3,000)	(200)
Income attributable to the depositors	(41,951)	(21,891)	(116,314)	(61,582)
Income attributable to special placement deposits by Head Office	8,703	6,476	24,176	19,176
	36,464	20,797	89,821	54,078
Income derived from investment of Islamic Banking capital funds	13,026	8,884	33,385	22,351
	49,490	29,681	123,206	76,429

28 Change in Accounting Policy**Change in Accounting Policy**

During the nine months ended 30 September 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(a) 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:

	31 Dec 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 presentation and classification of items in the current third quarter financial statements have been consistent with the previous financial period/year except for the following:

- (a) 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</i>				
<i>as at 31 December 2005</i>				
Securities available-for-sale	3,284,735	3,277,490	3,284,735	3,277,490
Other assets	371,825	376,829	371,825	376,829
Deferred tax asset	59,851	53,547	59,851	53,547
Other liabilities	942,517	917,761	942,517	917,761
Reserves	<u>2,155,869</u>	<u>2,172,080</u>	<u>2,155,869</u>	<u>2,172,080</u>

29 Comparative Figures (Contd.)

(a) Changes in accounting policy explained in Note 28.

	<i>Group and Bank</i>	
	As restated RM'000	As previously stated RM'000
<i>Income Statement for the third financial quarter ended 30 September 2005</i>		
Other operating expenses	569,686	562,454
Profit before allowance	566,164	573,396
Profit before taxation and zakat	573,697	580,929
Profit attributable to shareholders	410,387	415,594
Earnings per RM0.50 share	179.2 sen	181.5 sen

(b) Reclassification to conform to current years' presentation

	<i>Group and Bank</i>	
	As restated RM'000	As previously stated RM'000
<i>Balance Sheet as at 31 December 2005</i>		
Property, plant and equipment	304,916	310,144
Intangible assets	5,228	-

30 Review of Performance

The Bank registered a 23.1% increase in profit before tax to RM706.1 million, against RM573.7 million for the corresponding period last year. The higher profit was attributed to all-round improvements in net interest income (+RM128.3 million or 21.6%, as a result of higher loan base and improved margins), other operating income (+RM128.6 million or 27.6%, principally from higher foreign exchange gains), and income from Islamic banking operations (+RM46.8 million or 61.2%). Profit before allowance grew by RM215.7 million or 38.1% despite higher other operating expenses. Allowance for loan losses was RM75.8 million compared to net recoveries of RM7.5 million in previous corresponding period, mainly due to significant specific allowance release from a number of large non performing loans in 2005.

Net loans expanded by RM2,961.2 million or 13.8% during the nine months period, whilst net non-performing loans ratio improved further to 1.0%, compared to 1.7% as at 31 December 2005.

31 Business Prospects

Despite the moderation in the US economy, the regional economy is expected to remain resilient in the final quarter of 2006 and in 2007, with the growth forecast of 10% and 8.3% for China and India respectively. On the home front, the Malaysian economy is expected to grow by 5.8% this year and 6% next year, mainly be driven by the RM200 billion development projects under the Ninth Malaysian Plan and the positive impact from the expansionary fiscal budget for 2007 supported by the moderation in inflation. Further, the proposed reduction in corporate tax rate from 28% to 27% in 2007 and 26% in 2008 under the 2007 budget will spur the momentum of the country's growth.

On the banking landscape, the government has introduced various tax incentives for Islamic financial services sectors aimed to position Malaysia as a global Islamic financial centre and to tap the large liquidity surplus in the Middle East. This has created various business opportunities in the local market for Islamic financing products as well as for Takaful. The bank is well positioned to explore these opportunities and, at the same time, is supportive of the national agenda to grow the Islamic financing operation. With the collaboration with HSBC Amanah Takaful, the bank will continue to develop more Islamic products so as to provide a total financial solution to its customers.

In credit cards, the bank achieved the one million mark for credit cards in circulation in August 2006 and has become one of the top three largest credit card issuers in Malaysia with 12% market share. The bank aims to leverage on its one million credit card base to drive its card business further.

Under the liberalisation of the banking industry, we have opened two new branches in Semenyih and Alor Star in July and August 2006 respectively and another two new branches to be opened in Kepong and Damansara by year end. These will provide a further platform for growth in all of our customer segments and improve our geographical reach.

As the financial service sector is getting more competitive, the bank is continuing to invest in people, enhancing productivity through re-engineering processes and introducing innovative products to meet customer expectation.

Barring any unforeseen circumstances, the Bank expects to register satisfactory performance for the current financial year.