

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
30 SEPTEMBER 2007

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 2007 have been prepared from the Bank's accounting and other records and that they are in accordance with the requirements of FRS134: Interim Financial Reporting issued by the Malaysian Accounting Standard Board ("MASB") and the Revised Guidelines on Financial Reporting for Licensed Institutions ("BNM/GP8") issued by Bank Negara Malaysia on 5 October 2004.

BALDEV SINGH
Chief Financial Officer

Date : 22 October 2007

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

UNAUDITED CONDENSED BALANCE SHEET
AS AT 30 SEPTEMBER 2007

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		30 Sep 2007	31 Dec 2006	30 Sep 2007	31 Dec 2006
		RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short term funds		5,736,739	6,114,345	5,736,739	6,114,345
Securities purchased under resale agreements		2,033,782	2,273,539	2,033,782	2,273,539
Deposits and placements with banks and other financial institutions		132,695	1,989,882	132,695	1,989,882
Securities held-for-trading	11	1,532,424	795,937	1,532,424	795,937
Securities available-for-sale	12	5,841,110	3,806,463	5,841,110	3,806,463
Loans, advances and financing	13	27,073,900	24,343,937	27,073,900	24,343,937
Other assets	15	1,013,133	578,089	1,013,133	578,089
Statutory deposits with Bank Negara Malaysia		986,447	698,648	986,447	698,648
Investments in subsidiaries companies		-	-	21	21
Prepaid land lease payments		21,129	21,493	21,129	21,493
Property, plant and equipment		278,134	281,894	278,134	281,894
Intangible assets		39,682	29,172	39,682	29,172
Deferred tax assets		86,997	69,330	86,997	69,330
Total Assets		<u>44,776,172</u>	<u>41,002,729</u>	<u>44,776,193</u>	<u>41,002,750</u>
Liabilities					
Deposits from customers	16	35,895,479	31,822,208	35,895,500	31,822,229
Deposits and placements of banks and other financial institutions	17	2,503,713	1,934,326	2,503,713	1,934,326
Obligations on securities sold under repurchase agreements		-	1,660,739	-	1,660,739
Bills and acceptances payable		505,224	490,055	505,224	490,055
Other liabilities	18	1,676,333	1,351,441	1,676,333	1,351,441
Recourse obligation on loans sold to Cagamas Berhad		774,828	899,751	774,828	899,751
Provision for taxation and zakat		44,272	31,278	44,272	31,278
Subordinated bonds	19	500,000	-	500,000	-
Total Liabilities		<u>41,899,849</u>	<u>38,189,798</u>	<u>41,899,870</u>	<u>38,189,819</u>
Shareholders' Funds					
Share capital		114,500	114,500	114,500	114,500
Reserves		2,761,823	2,448,431	2,761,823	2,448,431
Proposed dividend		-	250,000	-	250,000
Shareholders' funds		<u>2,876,323</u>	<u>2,812,931</u>	<u>2,876,323</u>	<u>2,812,931</u>
Total Liabilities and Shareholders' Funds		<u>44,776,172</u>	<u>41,002,729</u>	<u>44,776,193</u>	<u>41,002,750</u>
Commitments and Contingencies	26	<u>79,131,835</u>	<u>60,087,067</u>	<u>79,131,835</u>	<u>60,087,067</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 2006 and the accompanying explanatory notes on page 5 to 26 attached to the unaudited condensed interim financial statements.

The financial statements were approved by the Board of Directors on 22 October 2007.

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

UNAUDITED CONDENSED INCOME STATEMENT
FOR THE THIRD FINANCIAL QUARTER / PERIOD ENDED 30 SEPTEMBER 2007

<i>Group and Bank</i>					
	<i>Note</i>	3rd quarter ended		Year-To-Date ended	
		30 Sep 2007	30 Sep 2006	30 Sep 2007	30 Sep 2006
		RM'000	RM'000	RM'000	RM'000
Revenue		813,351	779,309	2,405,400	2,097,632
Interest income	20	504,056	465,174	1,486,275	1,285,463
Interest expense	21	(227,716)	(211,870)	(657,989)	(562,903)
Net interest income		276,340	253,304	828,286	722,560
Other operating income	22	220,394	231,397	653,891	593,825
Income from Islamic banking operations	28 (f)	59,903	49,490	173,851	123,206
Operating income		556,637	534,191	1,656,028	1,439,591
Other operating expenses	23	(249,533)	(211,912)	(710,214)	(657,687)
Profit before allowance		307,104	322,279	945,814	781,904
Allowance for losses on loans and financing	24	(80,631)	(29,219)	(226,312)	(75,761)
Profit before taxation and zakat		226,473	293,060	719,502	706,143
Taxation and zakat		(68,055)	(78,498)	(204,333)	(202,806)
Profit attributable to shareholders		158,418	214,562	515,169	503,337
Earnings per RM0.50 ordinary share					
- basic/diluted		69.2 sen	93.7 sen	225.0 sen	219.8 sen
Dividends per RM0.50 ordinary share (net)					
- paid in respect of prior year		-	-	109.2 sen	65.5 sen
- interim dividend paid		87.3 sen	65.5 sen	87.3 sen	65.5 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 2006 and the accompanying explanatory notes on page 5 to 26 attached to the unaudited condensed interim financial statements.

HSBC BANK MALAYSIA BERHAD
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**UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2007**

	<i>Group and Bank</i>								
	← <i>Non-distributable Reserves</i> →					→ <i>Distributable Reserves</i>		<i>Total Shareholders' funds</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>Proposed dividend</i>
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
Balance as at 1 January 2006	114,500	741,375	114,500	118,966	190,000	15,399	972,587	150,000	2,417,327
Net profit for the period	-	-	-	-	-	-	503,337	-	503,337
Net unrealised gains on revaluation	-	-	-	-	-	1,969	-	-	1,969
Net realised gains reclassified to income statement	-	-	-	-	-	(5,478)	-	-	(5,478)
Dividend paid - 2005 final	-	-	-	-	-	-	-	(150,000)	(150,000)
Dividend paid - 2006 interim	-	-	-	-	-	-	(150,000)	-	(150,000)
Balance as at 30 September 2006	114,500	741,375	114,500	118,966	190,000	11,890	1,325,924	-	2,617,155
Balance as at 1 October 2006	114,500	741,375	114,500	118,966	190,000	11,890	1,325,924	-	2,617,155
Net profit for the period	-	-	-	-	-	-	184,069	-	184,069
Net unrealised gains on revaluation	-	-	-	-	-	13,419	-	-	13,419
Net realised gains reclassified to income statement	-	-	-	-	-	(1,712)	-	-	(1,712)
Proposed dividend - 2006 final	-	-	-	-	-	-	(250,000)	250,000	-
Balance as at 31 December 2006	114,500	741,375	114,500	118,966	190,000	23,597	1,259,993	250,000	2,812,931
Balance as at 1 January 2007	114,500	741,375	114,500	118,966	190,000	23,597	1,259,993	250,000	2,812,931
Net profit for the period	-	-	-	-	-	-	515,169	-	515,169
Adjustment of deferred tax upon waiver of Real Property Gain Tax	-	-	-	3,165	-	-	-	-	3,165
Net unrealised gains on revaluation	-	-	-	-	-	8,108	-	-	8,108
Net realised gains reclassified to income statement	-	-	-	-	-	(13,050)	-	-	(13,050)
Dividend paid - 2006 final	-	-	-	-	-	-	-	(250,000)	(250,000)
Dividend paid - 2007 interim	-	-	-	-	-	-	(200,000)	-	(200,000)
Balance as at 30 September 2007	114,500	741,375	114,500	122,131	190,000	18,655	1,575,162	-	2,876,323

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 2006 and the accompanying explanatory notes on page 5 to 26 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 2007

	<i>Group and Bank</i>	
	30 Sep 2007	30 Sep 2006
	RM'000	RM'000
Profit before taxation and zakat	719,502	706,143
Adjustments for non-operating and non-cash items	238,632	137,869
Operating profit before working capital changes	958,134	844,012
Changes in working capital:		
Net changes in operating assets	(2,367,625)	(5,572,409)
Net changes in operating liabilities	3,196,180	4,016,534
Taxation and zakat paid	(203,566)	(178,073)
Net cash generated from/(used in) operations	1,583,123	(889,936)
Net cash used in investing activities	(2,010,729)	(323,803)
Net cash generated from/(used in) financing activities	50,000	(300,000)
	(1,960,729)	(623,803)
Net changes in cash and cash equivalents	(377,606)	(1,513,739)
Cash and cash equivalents at beginning of the period	6,114,345	7,710,602
Cash and cash equivalents at end of the period	5,736,739	6,196,863
Analysis of cash and cash equivalents		
Cash and short-term funds	5,736,739	6,196,863

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 2006 and the accompanying explanatory notes on page 5 to 26 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 2007

1 Basis of Preparation

The unaudited condensed interim financial statements for the third financial quarter ended 30 September 2007 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 Guidelines on Financial Reporting for Licensed Institutions ("BNM/GP8") issued by Bank Negara Malaysia on 5 October 2004.

The unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2006. 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 2006.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2006, except for the adoption of the following:

- Revised FRS 117: Leases
- FRS 124: Related Party Disclosures
- Amendment to FRS 119₂₀₀₄: Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures; issued by MASB that is effective for the Group's and the Bank's annual reporting date, 31 December 2007.

The effects of the change in accounting policy resulting from the adoption of the revised FRS 117 are disclosed in Note 29. The adoption of FRS 124 and Amendments to FRS 119₂₀₀₄ do not result in significant changes in accounting policies of the Group and the Bank.

FRS 6: Exploration for and Evaluation of Mineral Resources is not relevant to the Group's and Bank's operations.

In the preparation of the financial statements, management has been required to make judgements, estimates and assumptions that affect the application of accounting policies and in the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements used in applying accounting policies that have significant effect on the amount recognised in the financial statements include the following:

- (i) Estimation of recoverable amount based on the discounted cashflow methodology for impaired loan (Notes 14(ii) and 24)
- (ii) Fair value estimation of financial assets and liabilities.

2 Auditors' Report On Preceding Annual Financial Statements

The audit report on the audited annual financial statements for the financial year ended 31 December 2006 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 financial period ended 30 September 2007.

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 financial period ended 30 September 2007.

6 Debt and Equity Securities

There were no issuances, cancellation, repurchase, resale or repayment of debt and equity securities during the financial period ended 30 September 2007 except for the following:

On 28 June 2007, the Bank issued RM500 million at par 4.35% Subordinated Bonds due in 2022 but are callable with a step up coupon in 2017.

7 Dividend

The bank paid the following dividends during the financial period ended 30 September 2007.

- a) A final dividend of 303% less 28% tax totalling RM250 million in respect of the financial year ended 2006 was paid on 2 March 2007.
- b) An interim dividend of 239% less 27% tax totalling RM200 million in respect of the current financial year was paid on 13 August 2007.

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 period ended 30 September 2007.

9 Significant Events Subsequent to the Balance Sheet Date

There were no material events subsequent to the end of the current quarter, except for the following:

- a) On 12 October 2007, the Bank completed the sale of part of its non-performing residential mortgage portfolio to a third party with net loan balance which amounted to RM78 million as at 30 September 2007.
- b) The Bank plans to issue another RM500 million Subordinated Bonds, due in 2027 but are callable with a step up coupon in 2022, in November 2007.

10 Changes in the Composition of the Group

There were no changes in the composition of the Group for the financial period ended 30 September 2007.

11 Securities Held-for-Trading

	<i>Group and Bank</i>	
	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
Money market instruments:		
Malaysian Government treasury bills	66,523	116,400
Bank Negara Malaysia bills and notes	477,329	202,738
Bank Negara Malaysia Islamic bills	343,475	14,887
Malaysian Government securities	526,505	213,998
Malaysian Government Islamic bonds	4,508	23,361
Khazanah bonds	-	11,404
Cagamas bonds and notes	18,502	4,745
	1,436,842	587,533
Unquoted securities:		
Private debt securities (including commercial paper)	95,582	208,404
	1,532,424	795,937

12 Securities Available-for-Sale

	<i>Group and Bank</i>	
	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
Money market instruments:		
Malaysian Government treasury bills	59,585	30,794
Malaysian Government Islamic treasury bills	-	39,408
Bank Negara Malaysia bills and note	1,936,588	-
Bank Negara Malaysia Islamic bills	797,070	-
Malaysian Government securities	653,532	574,899
Malaysian Government Islamic bonds	652,475	579,980
Khazanah bonds	275,592	262,200
Cagamas bonds and notes	584,185	841,168
Negotiable instruments of deposit	220,009	477,020
Bankers' acceptance and Islamic accepted bills	280,930	531,279
	5,459,966	3,336,748
Quoted securities		
Shares	23,725	20,340
Loan stock	16,106	12,492
	39,831	32,832
Unquoted securities:		
Shares	28,573	28,572
Private and Islamic debt securities	328,846	420,895
	357,419	449,467
Impairment loss:		
Quoted securities in Malaysia:		
Shares	-	(5,701)
Loan stock	(16,106)	(6,883)
	(16,106)	(12,584)
	5,841,110	3,806,463

13 Loans, Advances and Financing

(i) By type

	<i>Group and Bank</i>	
	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
Overdrafts	1,393,767	1,489,375
Term loans/ financing		
Housing loans/ financing	8,488,461	8,569,510
Syndicated term loans/ financing	2,088,909	41,277
Hire purchase receivables	205,970	191,050
Lease receivables	26,259	30,854
Other term loans/ financing	6,658,632	6,395,016
Bills receivable	1,204,005	1,093,859
Trust receipts	643,949	412,583
Claims on customers under acceptance credits	2,584,879	2,717,235
Staff loans/ financing	317,519	312,700
Loans to executive directors	-	232
Credit/ charge cards	2,190,995	2,017,522
Revolving credit	2,143,939	1,848,250
Other loans/ financing	13,305	12,285
Less: Unearned interest and income	(121,818)	(142,816)
	27,838,771	24,988,932
Less: Allowance for bad and doubtful debts and financing:		
- General	(417,800)	(372,600)
- Specific	(347,071)	(272,395)
Total net loans, advances and financing	27,073,900	24,343,937

(ii) By type of customer

	<i>Group and Bank</i>	
	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
Domestic non-bank financial institutions		
Stockbroking companies	151,583	150,087
Others	157,060	162,927
Domestic business enterprises		
Small medium enterprises	3,769,331	4,123,440
Others	10,224,225	7,308,461
Government and statutory bodies	29	46
Individuals	13,002,634	12,798,944
Other domestic entities	2,717	3,508
Foreign entities	531,192	441,519
	27,838,771	24,988,932

13 Loans, Advances and Financing (continued)

(iii) By interest/ profit rate sensitivity

	<i>Group and Bank</i>	
	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
Fixed rate		
Housing loans/ financing	288,445	307,762
Hire purchase receivables	184,144	169,720
Other fixed rate loans/ financing	4,135,473	4,527,502
Variable rate		
BLR plus	18,895,775	16,118,176
Cost-plus	2,143,939	1,848,250
Other variable rates	2,190,995	2,017,522
	27,838,771	24,988,932

(iv) By sector

	<i>Group and Bank</i>	
	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	1,014,056	999,703
Mining and quarrying	165,542	191,676
Manufacturing	4,603,329	4,569,025
Electricity, gas and water	98,024	134,452
Construction	591,029	452,645
Real estate	586,222	635,859
Purchase of landed property:		
Residential	8,922,472	8,953,961
Non-residential	1,135,408	1,019,027
Wholesale & retail trade and restaurants & hotels	2,455,411	2,296,170
Transport, storage and communication	2,124,111	174,796
Finance, insurance and business services	1,614,347	1,332,493
Purchase of securities	94,488	115,595
Purchase of transport vehicles	39,578	34,284
Consumption credit	4,106,500	3,765,751
Others	288,254	313,495
	27,838,771	24,988,932

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

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

	<i>Group and Bank</i>	
	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
At beginning of year	538,401	688,626
Classified as non-performing during the period/ year	412,538	325,223
Reclassified as performing	(54,424)	(111,016)
Financing converted to securities	(19,340)	-
Amount recovered	(135,162)	(176,815)
Amount written off	(177,633)	(188,153)
Other movements	2,751	536
At end of period/year	567,131	538,401
Specific allowance	(347,071)	(272,395)
Net non-performing loans, advances and financing	220,060	266,006
Net NPL as % of gross loans, advances and financing less specific allowance	0.8%	1.1%

(ii) Movements in allowance for bad and doubtful debts

	<i>Group and Bank</i>	
	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
General allowance		
At beginning of year	372,600	327,200
Made during the period/ year	45,200	45,400
At end of period/year	417,800	372,600
As % of gross loans, advances and financing less specific allowance	1.5%	1.5%
Specific allowance		
At beginning of year	272,395	322,943
Made during the period/ year	265,496	224,961
Amount recovered	(53,164)	(98,275)
Amount written off	(140,403)	(177,770)
Other movements	2,747	536
At end of period/year	347,071	272,395

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

(iii) By sector

	<i>Group and Bank</i>	
	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	1,971	2,190
Mining and quarrying	-	541
Manufacturing	121,512	100,486
Construction	8,419	24,585
Real estate	14,735	16,863
Purchase of landed property:		
Residential	230,237	226,133
Non-residential	22,217	20,057
Wholesale & retail trade and restaurants & hotels	31,800	38,191
Transport, storage and communication	1,999	3,224
Finance, insurance and business services	15,552	20,711
Purchase of securities	364	362
Purchase of transport vehicles	239	170
Consumption credit	114,998	82,041
Others	3,088	2,847
	567,131	538,401

15 Other Assets

	<i>Group and Bank</i>	
	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
Assets, including gains, resulting from off-balance-sheet interest rate, exchange rate and equities contracts which are marked to market	455,542	313,578
Interest/ income receivable	59,239	55,658
Other receivables, deposits and prepayments	498,352	208,853
	1,013,133	578,089

16 Deposits from Customers

(i) By type of deposit

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2007	31 Dec 2006	30 Sep 2007	31 Dec 2006
	RM'000	RM'000	RM'000	RM'000
Demand deposits	7,357,860	6,273,226	7,357,881	6,273,247
Savings deposits	5,020,234	4,734,188	5,020,234	4,734,188
Fixed/ investment deposits	20,480,125	19,147,567	20,480,125	19,147,567
Negotiable instruments of deposits	288,918	1,073,968	288,918	1,073,968
Wholesale money market deposits	1,800,286	-	1,800,286	-
Others	948,056	593,259	948,056	593,259
	35,895,479	31,822,208	35,895,500	31,822,229

16 Deposits from Customers (continued)

(ii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2007	31 Dec 2006	30 Sep 2007	31 Dec 2006
	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	159,531	97,772	159,531	97,772
Business enterprises	14,770,497	12,195,118	14,770,518	12,195,139
Individuals	17,183,745	15,964,350	17,183,745	15,964,350
Others	3,781,706	3,564,968	3,781,706	3,564,968
	35,895,479	31,822,208	35,895,500	31,822,229

17 Deposits and Placements of Banks and Other Financial Institutions

	<i>Group and Bank</i>	
	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
Licensed banks	27,600	81,000
Bank Negara Malaysia	27,072	18,774
Other financial institutions	2,449,041	1,834,552
	2,503,713	1,934,326

18 Other Liabilities

	<i>Group and Bank</i>	
	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
Liabilities, including losses, resulting from off-balance-sheet interest rate, exchange rate and equities contracts which are marked to market	357,745	309,747
Interest/ profit payable	198,361	175,082
Allowance for commitments and contingencies	2,245	2,369
Profit equalisation reserve	5,700	4,700
Other creditors and accruals	1,112,282	859,543
	1,676,333	1,351,441

19 Subordinated Bonds

On 28 June 2007, the Bank issued at par RM500 million 4.35% Subordinated Bonds due 2022 callable with a step up coupon in 2017.

The Bank may redeem the Subordinated Bonds, in whole or in part, at any anniversary date, on or after the 10th year from Issue Date at 100% of the principal amount together with accrued interest. Should the Bank decide not to exercise its call option on the first permissible call date, then the coupon rate will be stepped up to 5.35% per annum from the beginning of the 10th year to the maturity date in 2022.

20 Interest Income

	<i>Group and Bank</i>			
	3rd quarter ended		Year-To-Date ended	
	30 Sep 2007	30 Sep 2006	30 Sep 2007	30 Sep 2006
	RM'000	RM'000	RM'000	RM'000
Loans and advances				
- Interest income other than recoveries from NPLs	380,358	349,152	1,094,188	978,846
- Recoveries from NPLs	8,971	16,187	28,348	36,570
Money at call and deposit placement with financial institutions	75,211	85,877	263,566	223,892
Securities available-for-sale	20,208	15,124	71,729	51,873
	484,748	466,340	1,457,831	1,291,181
Amortisation of premium less accretion of discounts	24,709	4,394	44,091	7,861
Interest suspended	(5,401)	(5,560)	(15,647)	(13,579)
Total interest income	504,056	465,174	1,486,275	1,285,463

21 Interest Expense

	<i>Group and Bank</i>			
	3rd quarter ended		Year-To-Date ended	
	30 Sep 2007	30 Sep 2006	30 Sep 2007	30 Sep 2006
	RM'000	RM'000	RM'000	RM'000
Deposits and placements of banks and other financial institutions	37,655	24,579	73,693	52,184
Deposits from customers	171,123	155,593	506,869	429,342
Loans sold to Cagamas	9,414	10,983	29,681	31,870
Subordinated bonds	5,482	-	5,661	-
Others	4,042	20,715	42,085	49,507
	227,716	211,870	657,989	562,903

22 Other Operating Income

	<i>Group and Bank</i>			
	3rd quarter ended		Year-To-Date ended	
	30 Sep 2007	30 Sep 2006	30 Sep 2007	30 Sep 2006
	RM'000	RM'000	RM'000	RM'000
Fees and commissions	100,994	91,168	306,979	289,913
Net gains arising from sale of securities				
- Securities held-for-trading	7,784	12,987	7,180	18,996
- Securities available-for-sale	5,460	8,223	22,956	14,969
Net interest trading income	13,204	6,242	32,387	13,267
Net gains arising from dealing in foreign currency	77,588	84,875	220,461	178,218
Net losses arising from trading in derivatives	(7,517)	(535)	(49,999)	(14,801)
Dividend income from securities available-for-sale				
- Quoted in Malaysia	-	948	-	954
- Unquoted in Malaysia	38	-	803	845
Net unrealised gains on revaluation of trading securities (including derivatives)	6,566	956	55,089	25,961
Net unrealised gains/(losses) from foreign exchange translations	7,424	(16,188)	33,361	16,537
Rental income	1,650	1,678	4,871	4,869
Net gains on disposal of property, plant and equipment	161	158	436	365
Gain from sale of business operation	-	35,156	-	35,156
Other operating income	7,042	5,729	19,367	8,576
	220,394	231,397	653,891	593,825

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

Cards	35,216	39,043	107,045	136,313
Service charges and fees	38,845	26,265	97,143	81,373
Agency fees	13,806	12,956	49,124	33,597
Credit facilities	6,438	5,178	19,932	15,050

23 Other Operating Expenses

	<i>Group and Bank</i>			
	3rd quarter ended		Year-To-Date ended	
	30 Sep 2007	30 Sep 2006	30 Sep 2007	30 Sep 2006
	RM'000	RM'000	RM'000	RM'000
Personnel expenses	125,989	111,171	365,280	342,511
Promotion and marketing related expenses	16,816	18,137	49,686	48,846
Establishment related expenses	27,904	23,791	74,547	68,941
General administrative expenses	78,824	58,813	220,701	197,389
	249,533	211,912	710,214	657,687

The above expenditure includes the following major items :

Personnel expenses				
Salaries, allowances and bonuses	95,606	79,462	280,799	251,937
Employees Provident Fund contributions and Socso	15,832	14,000	45,473	41,761
Promotion and marketing related expenses				
Advertising and promotion	11,841	11,459	31,788	30,917
Establishment related expenses				
Depreciation of property, plant and equipment	7,302	5,920	20,961	20,133
Amortisation of prepaid land lease payment	121	121	364	364
Amortisation of intangible assets	3,917	1,739	9,403	4,235
Information technology costs	4,320	6,152	11,447	13,989
Hire of equipment	3,164	1,940	8,287	6,455
Rental of premises	3,214	2,446	9,489	7,194
General administrative expenses				
Intercompany expenses	58,409	38,956	145,492	106,137
Communications	5,291	6,535	18,140	18,546

24 Allowance for Losses on Loans and Financing

	<i>Group and Bank</i>			
	3rd quarter ended		Year-To-Date ended	
	30 Sep 2007	30 Sep 2006	30 Sep 2007	30 Sep 2006
	RM'000	RM'000	RM'000	RM'000
Allowance for bad and doubtful debts on loans and financing:				
(a) Specific allowance				
Made during the financial period	60,177	42,902	265,496	145,597
Written back	(7,512)	(12,880)	(53,164)	(67,398)
(b) General allowance				
Made during the financial period	34,600	17,700	45,200	46,600
Bad debts on loans and financing:				
Recovered	(12,719)	(22,650)	(48,842)	(57,060)
Written off	6,085	4,065	17,745	8,725
Allowance for losses on commitments and contingencies:				
Made during the financial period	-	82	-	503
Written back	-	-	(123)	(1,206)
	80,631	29,219	226,312	75,761

25 Capital Adequacy

	<i>Bank</i>	
	30 Sep 2007	31 Dec 2006
	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	1,416,744	1,509,993
Other reserves	114,500	114,500
	2,577,119	2,670,368
Less: Deferred tax adjustments	(109,276)	(104,554)
Total Tier 1 capital	2,467,843	2,565,814
Tier 2 capital		
Subordinated bonds	500,000	-
Revaluation reserves	72,507	72,507
General allowance for bad and doubtful debts and financing	417,800	372,600
Total Tier 2 capital	990,307	445,107
Total capital	3,458,150	3,010,921
Less: Investment in subsidiaries	(21)	(21)
Capital base	3,458,129	3,010,900
Core capital ratio	8.3%	10.1%
Risk-weighted capital ratio	11.7%	11.9%
Core capital ratio (net of proposed dividend)	8.3%	9.1%
Risk-weighted capital ratio (net of proposed dividend)	11.7%	10.9%

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

	<i>Bank</i>			
	30 Sep 2007		31 Dec 2006	
	Principal	Risk-weighted	Principal	Risk-weighted
	RM'000	RM'000	RM'000	RM'000
0%	12,683,655	-	12,062,562	-
10%	264,168	26,417	327,586	32,759
20%	3,208,647	641,729	3,369,913	673,983
50%	9,528,287	4,764,144	8,562,107	4,281,053
100%	22,978,280	22,978,280	19,728,370	19,728,370
Total risk-weighted assets				
equivalent for market risk	-	1,149,117	-	678,808
	48,663,037	29,559,687	44,050,538	25,394,973

26 Commitments and Contingencies

	<i>Group and Bank</i>					
	30 Sep 2007			31 Dec 2006		
	Principal amount	Credit equivalent amount *	Risk weighted amount	Principal amount	Credit equivalent amount *	Risk weighted amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	1,301,912	1,301,912	1,275,174	713,289	713,289	672,985
Transaction-related contingent items	2,618,358	1,309,179	1,243,304	2,413,779	1,206,889	1,155,394
Short-term self-liquidating trade-related contingencies	431,172	86,234	75,062	436,088	87,218	71,399
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	19,120,026	-	-	17,263,576	-	-
- Maturity exceeding one year	611,883	305,942	305,942	915,711	457,856	457,856
Foreign exchange related contracts:						
- Less than one year	25,310,935	363,377	138,142	14,144,291	210,429	78,462
- One year to less than five years	1,792,992	118,303	60,682	668,208	52,944	24,917
- Five years and above	928,027	138,361	60,675	-	-	-
Interest rate related contracts:						
- Less than one year	7,240,177	23,200	5,685	9,527,856	23,883	7,269
- One year to less than five years	16,974,156	426,333	171,241	12,788,488	338,967	134,989
- Five years and above	1,907,331	117,274	51,529	498,225	30,440	13,673
Others	894,866	459,136	392,714	717,556	186,884	153,087
	79,131,835	4,649,251	3,780,150	60,087,067	3,308,799	2,770,031

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

27 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 2007	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	5,211,294	-	-	-	-	525,445	-	5,736,739	3.54
Securities purchased under resale agreements	653,666	1,380,116	-	-	-	-	-	2,033,782	3.54
Deposits and placements with banks and other financial institutions	-	132,695	-	-	-	-	-	132,695	3.54
Securities held-for-trading	-	-	-	-	-	-	1,532,424	1,532,424	3.62
Securities available-for-sale	598,224	1,511,893	2,408,008	1,263,067	7,621	52,297	-	5,841,110	3.67
Loans, advances and financing									
- performing	21,746,854	2,922,499	927,077	105,229	410,889	741,292	-	26,853,840	6.61
- non-performing *	-	-	-	-	-	220,060	-	220,060	
Others	-	-	-	-	-	1,572,633	852,910	2,425,543	
Total Assets	28,210,038	5,947,203	3,335,085	1,368,296	418,510	3,111,727	2,385,334	44,776,193	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	15,924,560	5,748,579	6,885,875	691,469	129,519	6,515,498	-	35,895,500	2.70
Deposits and placements of banks and other financial institutions	989,311	253,661	232,508	110,385	-	917,848	-	2,503,713	2.98
Bills and acceptances payable	25,235	113,328	-	-	-	366,661	-	505,224	3.31
Recourse obligation on loans sold to Cagamas Berhad	-	-	-	774,828	-	-	-	774,828	4.71
Subordinated bonds	-	-	-	-	500,000	-	-	500,000	4.35
Others	-	-	-	-	-	1,543,238	177,367	1,720,605	
Total Liabilities	16,939,106	6,115,568	7,118,383	1,576,682	629,519	9,343,245	177,367	41,899,870	
Shareholders' funds	-	-	-	-	-	2,876,323	-	2,876,323	
Total Liabilities and Shareholders' funds	16,939,106	6,115,568	7,118,383	1,576,682	629,519	12,219,568	177,367	44,776,193	
On-balance sheet interest sensitivity gap	11,270,932	(168,365)	(3,783,298)	(208,386)	(211,009)	(9,107,841)	2,207,967	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	68,095	(227,095)	159,000	-	-	-	-	
- options	688,800	13,115	(50,000)	(651,915)	-	-	-	-	
- swaps	(1,424,938)	292,332	575,818	686,793	(86,409)	-	-	43,596	
Total interest sensitivity gap	10,534,794	205,177	(3,484,575)	(14,508)	(297,418)	(9,107,841)	2,207,967	43,596	

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

27 Interest/ Profit Rate Risk (continued)

Bank 31 Dec 2006	←		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	5,803,102	-	-	-	-	311,243	-	6,114,345	3.67
Securities purchased under resale agreements	674,820	806,490	792,229	-	-	-	-	2,273,539	3.60
Deposits and placements with banks and other financial institutions	-	1,972,375	-	17,507	-	-	-	1,989,882	3.68
Securities held-for-trading	-	-	-	-	-	-	795,937	795,937	3.87
Securities available-for-sale	612,610	527,659	720,049	1,888,479	14,454	43,212	-	3,806,463	3.72
Loans, advances and financing									
- performing	19,461,601	1,902,625	503,647	1,131,363	419,732	658,963	-	24,077,931	6.88
- non-performing *	-	-	-	-	-	266,006	-	266,006	
Others	-	-	-	-	-	1,349,370	329,277	1,678,647	
Total Assets	26,552,133	5,209,149	2,015,925	3,037,349	434,186	2,628,794	1,125,214	41,002,750	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers Deposits and placements of banks and other financial institutions	16,226,218	3,497,782	6,033,105	669,024	169,181	5,226,919	-	31,822,229	2.91
Obligation on securities sold under repurchase agreements	1,202,396	297,444	26,614	4,950	2,763	400,159	-	1,934,326	3.33
Bills and acceptances payable	1,660,739	-	-	-	-	-	-	1,660,739	2.93
Recourse obligation on loans sold to Cagamas Berhad	77,146	60,278	2,984	-	-	349,647	-	490,055	3.27
Others	-	-	81,689	818,062	-	-	-	899,751	4.57
	-	-	-	-	-	1,052,983	329,736	1,382,719	
Total Liabilities	19,166,499	3,855,504	6,144,392	1,492,036	171,944	7,029,708	329,736	38,189,819	
Shareholders' funds	-	-	-	-	-	2,812,931	-	2,812,931	
Total Liabilities and Shareholders' funds	19,166,499	3,855,504	6,144,392	1,492,036	171,944	9,842,639	329,736	41,002,750	
On-balance sheet interest sensitivity gap	7,385,634	1,353,645	(4,128,467)	1,545,313	262,242	(7,213,845)	795,478	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	(250,833)	344,833	(94,000)	-	-	-	-	
- options	720,897	196,255	(130,601)	(786,551)	-	-	-	-	
- swaps	(605,675)	344,814	(264,514)	542,390	(19,800)	-	-	(2,785)	
Total interest sensitivity gap	7,500,856	1,643,881	(4,178,749)	1,207,152	242,442	(7,213,845)	795,478	(2,785)	

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

28 Operations of Islamic Banking

**Unaudited Condensed Balance Sheet
as at 30 September 2007 (18 Ramadhan 1428)**

	<i>Note</i>	30 Sep 2007 RM'000	31 Dec 2006 RM'000
Assets			
Cash and short term funds		1,384,967	975,534
Deposits and placements with banks and other financial institutions		-	160,000
Securities available-for-sale		905,627	1,040,407
Financing, advances and other loans	<i>(a)</i>	2,875,789	3,080,253
Other assets	<i>(c)</i>	30,633	11,096
Statutory deposits with Bank Negara Malaysia		78,000	89,600
Equipment		405	268
Intangible assets		288	552
Deferred tax asset		15,229	15,603
Total Assets		<u>5,290,938</u>	<u>5,373,313</u>
Liabilities			
Deposits from customers	<i>(d)</i>	3,587,024	3,654,806
Deposits and placements of banks and other financial institutions		109,361	186,806
Other liabilities	<i>(e)</i>	966,981	958,576
Provision for taxation and zakat		20,300	20,683
Total Liabilities		<u>4,683,666</u>	<u>4,820,871</u>
Islamic Banking Capital Funds			
Funds allocated from Head Office		430,000	430,000
Reserves		177,272	122,442
Islamic Banking Capital Funds		<u>607,272</u>	<u>552,442</u>
Total Liabilities and Islamic Banking Capital Funds		<u>5,290,938</u>	<u>5,373,313</u>
Commitments and Contingencies		<u>380,212</u>	<u>311,526</u>

28 Operations of Islamic Banking (continued)

**Unaudited Condensed Income Statement
for the Third Financial Quarter / Period Ended 30 September 2007
(18 Ramadhan 1428)**

	3rd quarter ended		Year-To-Date ended	
	30 Sep 2007	30 Sep 2006	30 Sep 2007	30 Sep 2006
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositor's funds and others	71,242	69,712	217,311	184,959
Allowance for losses on financing	(6,751)	(8,616)	(25,375)	(9,112)
Profit equalisation reserve	-	-	(1,000)	(3,000)
Total distributable income	64,491	61,096	190,936	172,847
Income attributable to depositors	(37,152)	(41,951)	(114,840)	(116,314)
Income attributable to the Bank	27,339	19,145	76,096	56,533
Income derived from investment of Islamic banking capital funds	18,344	13,026	48,608	33,385
Total net income	45,683	32,171	124,704	89,918
Other operating expenses	(17,505)	(16,278)	(48,004)	(39,186)
Profit before taxation and zakat	28,178	15,893	76,700	50,732
Taxation and zakat	(7,819)	(4,618)	(21,027)	(14,516)
Profit after taxation and zakat	20,359	11,275	55,673	36,216

28 Operations of Islamic Banking (continued)

(a) Financing, advances and other loans

By type

	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
Overdraft	69	-
Term financing		
House financing	91,263	104,471
Hire purchase receivables	205,235	190,341
Lease receivables	25,744	30,339
Other term financing	1,312,001	1,367,673
Claims on customers under acceptance credits	1,424,915	1,596,149
Credit/ charge cards	1,394	1,538
Less: Unearned income	(121,818)	(142,815)
	2,938,803	3,147,696
Less: Allowance for bad and doubtful financing :		
General	(44,990)	(48,740)
Specific	(18,024)	(18,703)
Total net financing, advances and other loans	2,875,789	3,080,253

(b) Non-Performing Financing (NPF)

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

	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
At beginning of year	22,183	12,805
Classified as non-performing during the period/ year	73,947	21,692
Reclassified as performing	(624)	(399)
Amount recovered	(4,068)	(4,073)
Amount written off	(30,206)	(7,842)
Others	(37,498)	-
At end of period/year	23,734	22,183
Specific allowance	(18,024)	(18,703)
Net non-performing financing, advances and other loans	5,710	3,480
Net NPL as % of gross financing, advances and other loans less specific allowance	0.2%	0.1%

28 Operations of Islamic Banking (continued)

(ii) Movements in allowance for bad and doubtful financing

	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
General allowance		
At beginning of year	48,740	43,770
Made during the period/year	(3,750)	4,970
At end of period/year	<u>44,990</u>	<u>48,740</u>
As % of gross financing, advances and other loans less specific allowance	<u>1.5%</u>	<u>1.5%</u>

Specific allowance

At beginning of year	18,703	7,617
Made during the period/year	35,662	23,716
Amount recovered	(5,808)	(4,926)
Amount written off	(30,533)	(7,704)
At end of period/year	<u>18,024</u>	<u>18,703</u>

(c) Other Assets

	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
Settlement due from Head Office	-	1,589
Income receivable	11,318	9,436
Other receivables, deposits and prepayments	19,315	71
	<u>30,633</u>	<u>11,096</u>

(d) Deposits from Customers

(i) By type of deposit

	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
Non-Mudharabah Fund		
Demand deposits	79,365	60,949
Savings deposits	361,024	271,085
	<u>440,389</u>	<u>332,034</u>
Mudharabah Fund		
General investment deposits	<u>3,146,635</u>	<u>3,322,772</u>
	<u>3,587,024</u>	<u>3,654,806</u>

28 Operations of Islamic Banking (continued)

(e) Other Liabilities

	30 Sep 2007	31 Dec 2006
	RM'000	RM'000
Special placement deposits by Head Office	920,792	920,792
Profit equalisation reserve	5,700	4,700
Profit payable	20,961	19,738
Other creditors and accruals	19,528	13,346
	<u>966,981</u>	<u>958,576</u>

(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 2007	30 Sep 2006	30 Sep 2007	30 Sep 2006
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositors' funds and others	71,242	69,712	217,311	184,959
Profit equalisation reserve	-	-	(1,000)	(3,000)
Income attributable to the depositors	(37,152)	(41,951)	(114,840)	(116,314)
Income attributable to special placement deposits by Head Office	8,153	8,703	24,456	24,176
Profit from structured deposits earned from Head Office	(684)	-	(684)	-
	<u>41,559</u>	<u>36,464</u>	<u>125,243</u>	<u>89,821</u>
Income derived from investment of Islamic Banking capital funds	18,344	13,026	48,608	33,385
	<u>59,903</u>	<u>49,490</u>	<u>173,851</u>	<u>123,206</u>

29 Change in Accounting Policy

(a) FRS 117: Leases

Leasehold land held for own use

Prior to 1 January 2007, lease of land held for own use was classified as property and equipment and was stated at cost less accumulated depreciation and impairment loss. The adoption of the revised FRS 117: Leases in 2007 resulted in a change in accounting policy relating to the classification of leases of land. Under FRS 117, lease of land and buildings are classified as operating or finance leases in the same way as leases of other assets. The land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification. Leasehold land held for own use is now classified as operating lease. The up-front payments made are allocated between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land and building element of the lease at the inception of the lease. The up-front payment represents prepaid land lease payment and is amortised on a straight-line basis over the remaining lease term.

The Group and the Bank have applied the change in accounting policy in respect of leasehold land in accordance with the transitional provisions of FRS 117. At 1 January 2007, the unamortised carrying amount of leasehold land was classified as prepaid land lease payments. The reclassification of leasehold land as prepaid land lease payments has been accounted for retrospectively. Certain comparatives of the balance sheets of the Group and the Bank as at 31 December 2006 have been restated as set out in Note 29 (b). There were no effects on the income statements of the Group and the Bank for the financial period ended 30 September 2007.

(b) Comparatives Figures

The following comparative figures have been restated for the effects of adopting the above changes in accounting policies:

	<i>Group and Bank</i>	
	As restated	As previously stated
	RM'000	RM'000
Balance Sheet as at 31 December 2006		
Prepaid land lease payments	21,493	-
Property, plant and equipment	281,894	303,387

	<i>Group and Bank</i>	
	As restated	As previously stated
	RM'000	RM'000
Other operating expenses for the financial period ended 30 September 2006 (Note 23)		
Amortisation of prepaid land lease payment	364	-
Depreciation of property, plant and equipment	20,133	20,497

30 Review of Performance

The Bank's operating income increased by RM216 million or 15.0% to RM1,656 million as compared to the corresponding period last year, driven by all-round improvements in net interest income (+RM106 million or 14.6%), other operating income (+RM60 million or 10.1%) and income from Islamic banking operations (+RM50 million or 41.1%); whilst operating expenses grew by RM52 million or 8.0% resulting in a lower cost income ratio which improved to 42.9%. However, due to the higher allowance for losses on loans and financing principally from corporate lending, the growth in pre-tax profit was moderated to 1.9% or RM13 million as compared to the corresponding period last year. Despite the increase in loan loss allowance, net non-performing loans ratio improved to 0.8% compared to 1.0% as at 30 September 2006.

31 Business Prospects

The Malaysian economy is anticipated to register robust growth of 6% in 2007 and to further strengthen to 6%-6.5% in 2008 based on the Malaysia Economic Report 2007/2008. This growth is supported by strong economic fundamentals such as low inflation and unemployment, a strong current account balance as well as government policies that focus on moving the Malaysian economy up the value chain in order to create a knowledge-based economy in the long term.

In the banking sector, despite the recent US sub-prime crisis, the local financial market continues to be flush with liquidity resulting in intense competition for customer advances. The outlook remains positive in view of the robust local economic performance supported by the increased foreign direct investments, strong private consumption and the benign inflationary trends.

The Bank will continue its broad-based growth strategy; focus will be on the higher potential growth areas such as Islamic financing and SMEs. The Bank will continue to invest in human capital and technology aiming to provide services that surpass customers' expectations.

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