

(Company No. 127776-V)

(Incorporated in Malaysia under the Companies Act, 1965)

RM500,000,000.00 4.35 percent Subordinated Bonds due 2022 Callable with Step-up in 2017 ISSUE PRICE: 100 PERCENT

The subordinated bonds due 2022 callable with step-up in 2017 will be issued by HSBC Bank Malaysia Berhad ("HSBC" or the "Issuer") in an aggregate nominal value of RM500,000,000.00 (the "Subordinated Bonds"). Interest payable on the Subordinated Bonds is payable semi-annually in arrear on 28 June and 28 December of each year with the first interest payment date being 28 December 2007 until the early redemption or the maturity of the Subordinated Bonds, whichever is the earlier.

The Subordinated Bonds will constitute direct and unsecured obligations of the Issuer, conditional and subordinated in right and priority of payment, to the extent and in the manner provided in the Subordinated Bonds, ranking pari passu among themselves. The Subordinated Bonds will, in the event of the winding up or liquidation of the Issuer, be subordinated in right of payments to the claims of depositors and all other creditors of the Issuer other than claimants in respect of the Issuer's subordinated indebtedness.

The Subordinated Bonds will mature on 28 June 2022 but, subject to satisfaction of certain regulatory requirements and approvals, the Subordinated Bonds may be redeemed at the option of the Issuer in whole or in part at any anniversary date, on or after 28 June 2017 (the "**Optional Redemption Dates**"). Unless the Subordinated Bonds are fully redeemed on 28 June 2017, being the first Optional Redemption Date, the holders of the Subordinated Bonds will be entitled to a revised coupon rate of 5.35%, from (and including) 28 June 2017 and up to (but excluding) the date of early redemption or the maturity date of the Subordinated Bonds (whichever is the earlier). (All references to specific dates are subject to the "Rules on Scripless Securities under Real Time Electronic Transfer of Funds and Securities System 2006" issued by Bank Negara Malaysia ("BNM") and as modified or revised or substituted from time to time by BNM.)

No application is being made to list the Subordinated Bonds on Bursa Malaysia Securities Berhad (formerly known as Malaysia Securities Exchange Berhad) (635998-W) ("**Bursa Securities**"), nor is any such application contemplated herein.

The Subordinated Bonds will be represented by a global certificate which will be deposited with Bank Negara Malaysia as the central depository.

Lead Manager
HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
25 June 2007

To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Information Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer, having made all reasonable enquiries, confirms that this Information Memorandum contains all information which is material in the context of the Subordinated Bonds, that the information contained in this Information Memorandum is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Information Memorandum are honestly held and that there are no other facts the omission of which would make this Information Memorandum or any of such information or the expression of any such opinions or intentions misleading.

The Subordinated Bonds may not be issued, offered, sold, transferred or otherwise disposed of, directly or indirectly, nor may any document or other material in connection therewith including this Information Memorandum be distributed, in Malaysia other than to persons, whether as principal or agent, falling within any one of the categories of persons specified in Schedule 2 or Section 38(1)(b), and Schedule 3 or Section 39(1)(b), and Schedule 5 or Section 66(3) of the Securities Commission Act, 1993, as amended from time to time ("SCA"), which are not entities within the HSBC Group. "HSBC Group" in this context refers to HSBC Holdings plc and any entity (i) in which HSBC Holdings plc, or one of HSBC Holdings plc's direct or indirect subsidiaries, owns directly or indirectly at least 50% or more of the shares or (ii) over which HSBC Holdings plc, or one of HSBC Holdings plc's direct or indirect subsidiaries, exercises management control even though it owns less than 50% of the shares, but excludes the Issuer.

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Subordinated Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by HSBC Bank Malaysia Berhad whether as the Issuer or as the lead manager (the "Lead Manager"). Neither the delivery of this document nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer or the Issuer and its subsidiaries (the 'Issuer Group') since the date hereof. This document does not constitute an offer of, or an invitation by, or on behalf of, HSBC to subscribe for, or purchase, any of the Subordinated Bonds. This document does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

The Lead Manager has not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Lead Manager or its affiliates as to the accuracy or completeness of the information contained in this Information Memorandum or any other information provided by the Issuer in connection with the Subordinated Bonds or their distribution.

This Information Memorandum may not be, in whole or in part, reproduced or used for any other purpose, or shown, given, copied to or filed with any other person including, without limitation, any government or regulatory authority except with the prior consent of the Issuer or as required under Malaysian laws, regulations or guidelines.

This Information Memorandum is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Lead Manager that any recipient of this Information Memorandum should purchase any of the Subordinated Bonds. Each investor contemplating purchasing any of the Subordinated Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the terms of the offering of the Subordinated Bonds, including the merits and risks involved.

This Information Memorandum has not been and will not be made to comply with the laws of any jurisdiction outside Malaysia ("Foreign Jurisdiction"), and has not been and will not be lodged, registered or approved pursuant to or under any legislation of (or with or by any regulatory authorities or other relevant bodies of) any Foreign Jurisdiction and it does not constitute an offer of, or an invitation to subscribe for or purchase the Subordinated Bonds or any other securities of any kind by any party in any Foreign Jurisdiction. This Information Memorandum is not and is not intended to be a prospectus.

By accepting delivery of this Information Memorandum, each recipient agrees to the terms upon which this Information Memorandum is provided to such recipient as set out in this Information Memorandum, and further agrees and confirms that: (a) it will keep confidential all of such information and data, (b) it is lawful for the recipient to receive this Information Memorandum and to subscribe for or purchase the Subordinated Bonds under all jurisdictions to which the recipient is subject, (c) the recipient will comply with all the applicable laws in connection with such subscription or purchase of the Subordinated Bonds, (d) the Issuer, the Lead Manager, Malaysian Trustees Berhad (the "Trustee"), HSBC (the "Facility Agent") and their respective directors, officers, employees, agents and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject as a result of such subscription or purchase of the Subordinated Bonds and they shall not have any responsibility or liability in the event that such subscription or purchase of the Subordinated Bonds is or shall become unlawful, unenforceable, voidable or void, (e) it is aware that the Subordinated Bonds can only be transferred or otherwise disposed of in accordance with the relevant selling restrictions and all applicable laws, (f) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing for or purchasing the Subordinated Bonds and is able and prepared to bear the economic and financial risks of investing in or holding the Subordinated Bonds, (g) it is subscribing for or purchasing the Subordinated Bonds for its own account, and (h) it, at the point of issuance of the Subordinated Bonds, falls within one or more of the categories of persons to whom an offer or invitation to subscribe for or purchase the Subordinated Bonds would constitute an excluded issue, excluded offer or excluded invitation pursuant to Schedule 2 or section 38(1)(b), and Schedule 3 or section 39(1)(b), and Schedule 5 or section 66(3) of the SCA and after the point of issuance of the Subordinated Bonds, falls within one or more of the categories of persons to whom an offer or invitation to subscribe for or purchase the Subordinated Bonds would constitute an excluded offer or excluded invitation pursuant to Schedule 2 or section 38(1)(b), and Schedule 5 or section 66(3) of the SCA; and at all times is not an entity within the HSBC Group.

This Information Memorandum includes, and any accompanying information memorandum supplement may include, forward-looking statements. All statements other than statements of historical facts included in this Information Memorandum and any information memorandum supplement regarding, among other things, the Issuer's business may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue" or similar terminology. Although the Issuer believes that the expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct.

The information in this Information Memorandum is current as at the date hereof, unless specified otherwise.

#### **CONFIDENTIALITY**

This Information Memorandum and its contents are strictly confidential and the information herein contained is given to the recipient strictly on the basis that the recipient shall ensure the same remains confidential. Accordingly, this Information Memorandum and its contents, or any information, which is made available to the recipient in connection with any further enquiries, must be held in complete confidence.

In the event that there is any contravention of this confidentiality undertaking or there is reasonable likelihood that this confidentiality undertaking may be contravened, the Issuer may, at its discretion, apply for any remedy available to the Issuer whether at law or equity, including without limitation, injunctions. The Issuer is entitled to fully recover from the contravening party all costs, expenses and losses incurred and/or suffered, in this regard. For the avoidance of doubt, it is hereby deemed that this confidentiality undertaking shall be imposed upon the recipient, the recipient's professional advisors, directors, employees and any other persons who may receive this Information Memorandum (or any part of it) from the recipient.

The recipient must return this Information Memorandum and all reproductions thereof whether in whole or in part and any other information in connection therewith to the Lead Manager promptly upon the Lead Manager's request, unless that recipient provides proof of a written undertaking satisfactory to the Lead Manager with respect to destroying these documents as soon as reasonably practicable after the said request from the Lead Manager.

THE ISSUE, OFFER OR INVITATION IN RELATION TO THE SUBORDINATED BONDS IN THIS INFORMATION MEMORANDUM OR OTHERWISE ARE SUBJECT TO THE FULFILMENT OF VARIOUS CONDITIONS PRECEDENT INCLUDING WITHOUT LIMITATION THE APPLICABLE APPROVAL FROM THE SC, WHICH WAS OBTAINED ON 30 MAY 2007 AND EACH RECEIPIENT OF THIS INFORMATION MEMORANDUM ACKNOWLEDGES AND AGREES THAT THE APPROVAL OF THE SC SHALL NOT BE TAKEN TO INDICATE THAT THE SC RECOMMENDS THE SUBSCRIPTION OR PURCHASE OF THE SUBORDINATED BONDS.

INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF AN INVESTMENT IN ANY ISSUE OF SUBORDINATED BONDS. IT IS RECOMMENDED THAT PROSPECTIVE INVESTORS CONSULT THEIR OWN LEGAL, FINANCIAL AND OTHER ADVISERS BEFORE SUBSCRIBING, PURCHASING OR ACQUIRING THE SUBORDINATED BONDS.

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# GLOSSARY OF DEFINITIONS AND ABBREVIATIONS

The following definitions shall apply throughout this Information Memorandum except where the context otherwise requires:

Act : The Companies Act, 1965 or any statutory modification,

amendment or re-enactment thereof for the time being in force.

**BAFIA** : The Banking and Financial Institutions Act 1989, or any statutory

modification, amendment or re-enactment thereof for the time

being in force.

BNM : Bank Negara Malaysia.

**Board** : Board of Directors of HSBC Bank Malaysia Berhad.

**DCM** : Debt Capital Markets.

**Government** : Government of Malaysia.

**HSBC Group** : HSBC Holdings plc and any entity (i) in which HSBC Holdings

plc, or one of HSBC Holdings plc's direct or indirect subsidiaries, owns directly or indirectly at least 50% or more of the shares or (ii) over which HSBC Holdings plc, or one of HSBC Holdings plc's direct or indirect subsidiaries, exercises management control even though it owns less than 50% of the

shares.

In the context of the Selling Restrictions, a reference to "HSBC

Group" shall exclude the Issuer.

**Issuer Group** : HSBC Bank Malaysia Berhad and its subsidiaries.

Lead Manager : HSBC Bank Malaysia Berhad (127776-V).

**Principal Terms and** 

**Conditions** 

The Principal Terms and Conditions of the Subordinated Bonds,

a summary of which are set out in Section 2 of this Information

Memorandum.

**Proposed Issue** : The proposed issue of the Subordinated Bonds.

**RAM** : RAM Rating Services Berhad (763588-T).

**RENTAS** : The scripless book-entries securities trading and funds transfer

system known as Real Time Electronic Transfer of Funds and Securities operated by BNM as may be modified or revised or

substituted from time to time by BNM.

**RENTAS Rules** : The Rules on the Scripless Securities under the RENTAS 2006

issued by BNM and as modified or revised or substituted from

time to time by BNM.

**RM and sen** : Ringgit and sen respectively.

Share(s) : Ordinary share(s) of RM0.50 each.

**Subordinated Bondholders** : The holders of the Subordinated Bonds.

Trust Deed : The Trust Deed entered or to be entered into between the Issuer

and the Trustee constituting the Subordinated Bonds, which shall be administered by the Trustee on behalf of the Subordinated

Bondholders.

#### 1 EXECUTIVE SUMMARY

The following summary is qualified in its entirety by the more detailed information, the audited financial statements and notes thereto appearing elsewhere in this Information Memorandum. Prospective investors should read the full text of the Information Memorandum before deciding whether or not to invest in the Subordinated Bonds.

# 1.1 Brief History of the Issuer

The Issuer was incorporated on 1 October 1984 as a public company under the Act under the name of "Hongkong Bank Malaysia Berhad" and commenced business as a locally incorporated foreign bank on 1 January 1994 by taking over the banking business of The Hongkong and Shanghai Banking Corporation Limited's branch in Malaysia. On 23 February 1999, the Issuer changed its name to "HSBC Bank Malaysia Berhad". The Issuer has a total shareholders' funds of RM2,789,497,000.00 as at 31 March 2007.

The Issuer is a bank licensed under BAFIA and carries on banking business in Malaysia according to the scope permitted under its banking licence.

# 1.2 Description of the Issue

The subordinated bonds due 2022 callable with step-up in 2017 will be issued by the Issuer in an aggregate nominal value of RM500,000,000.00 ("**Subordinated Bonds**"). In respect of the proposed issuance by the Issuer of up to RM500,000,000.00 subordinated bonds due 2027 callable with step-up in 2022, the Issuer reserves the right to decide when to proceed with the said issuance, if at all.

Interest payable on the Subordinated Bonds is payable semi-annually in arrear on 28 June and 28 December of each year with the first interest payment date being 28 December 2007 until the early redemption or the maturity of the Subordinated Bonds, whichever is the earlier.

The Subordinated Bonds will constitute direct and unsecured obligations of the Issuer, conditional and subordinated in right and priority of payment, to the extent and in the manner provided in the Subordinated Bonds, ranking pari passu among themselves. The Subordinated Bonds will, in the event of the winding up or liquidation of the Issuer, be subordinated in right of payments to the claims of depositors and all other creditors of the Issuer other than claimants in respect of the Issuer's subordinated indebtedness.

The Subordinated Bonds will mature on 28 June 2022 but, subject to satisfaction of certain regulatory requirements and approvals, the Subordinated Bonds may be redeemed at the option of the Issuer in whole or in part at any anniversary date, on or after 28 June 2017 (the "**Optional Redemption Dates**"). Unless the Subordinated Bonds are fully redeemed on 28 June 2017, being the first Optional Redemption Date, the holders of the Subordinated Bonds will be entitled to a revised coupon rate of 5.35%, from (and including) 28 June 2017 and up to (but excluding) the date of early redemption or the maturity date of the Subordinated Bonds (whichever is the earlier).

No application is being made to list the Subordinated Bonds on Bursa Securities, nor is any such application contemplated herein.

The Subordinated Bonds will be represented by a global certificate which will be deposited with BNM as the central depository.

The SC has on 25 April 2007 granted its waiver to HSBC from complying with certain requirements under the Guidelines on the Minimum Contents Requirements for Trust Deeds issued on 1 July 2000 which are inconsistent with the criteria prescribed by BNM under the capital adequacy regulations for subordinated debt to qualify as Tier 2 capital of a bank or with banking secrecy provisions under BAFIA.

#### 1.3 Utilisation of Proceeds

The Issuer shall utilise the proceeds from the Proposed Issue for general corporate and business purposes, from time to time.

#### 1.4 Rating

As at the date hereof, RAM has assigned a rating of AA1 for the Proposed Issue.

A rating is not a recommendation by RAM to subscribe for, purchase, sell or hold the Subordinated Bonds. Any downgrade or withdrawal of a rating may have an adverse effect on the liquidity and market price of the Subordinated Bonds. However, any downgrade or withdrawal of a rating will neither constitute an Event of Default under the Trust Deed nor oblige the Issuer to redeem the Subordinated Bonds.

# 1.5 Approvals Required

The Proposed Issue has been approved by the SC vide its letter dated 30 May 2007 and BNM has, by its letter dated 4 May 2007, indicated no objections to the issuance of the Subordinated Bonds by the Issuer.

In qualifying as Tier 2 capital, the Subordinated Bonds will, in the event of the winding up or liquidation of the Issuer, be subordinated in right of payments to the claims of depositors and all other creditors of the Issuer, other than claimants in respect of the Issuer's subordinated indebtedness.

Save for the above, no other regulatory approvals are required in relation to the issue, offer or invitation of the Subordinated Bonds.

# 1.6 Potential Conflict of Interest and Appropriate Mitigating Measures

HSBC's role as both the issuer of the Subordinated Bonds and the lead manager may appear to give rise to a potential conflict of interest. However, the effects of any such potential conflict are mitigated by the following factors:

- (i) the advisory work will be carried out by HSBC's DCM team, which functions as an independent business unit in accordance with high professional standards; and
- (ii) HSBC's DCM team has past experience in advising other banks on Tier 2 subordinated debt issuance.

The Board is fully aware and has acknowledged, and deliberated on, the potential conflict of interest described herein. After die deliberation, the Board has agreed that HSBC shall assume the role of lead manager in relation to the Proposed Issue.

# 1.7 Key Financial Highlights of the Issuer Group and the Issuer for financial years ended 31 December 2005 and 31 December 2006 and financial quarter ended 31 March 2007

The following information is extracted from the audited financial statements of HSBC for the financial years ended 31 December 2005 and 31 December 2006 and unaudited financial statements of HSBC for the financial quarter ended 31 March 2007:

	Issuer's Group			Issuer			
	Unaudited	Audited		Unaudited	ited		
	For the quarter period ended	For the financial year ended		For the quarter period ended	For the fine	ancial year ded	
	31 March 2007 RM'000	31 December 2006 RM'000	31 December 2005 RM'000	31 March 2007 RM'000	31 December 2006 RM'000	31 December 2005 RM'000	
Revenue	770,798	2,831,088	2,235,580	770,798	2,831,088	2,235,580	
Profits before tax	308,117	949,062	736,678	308,117	949,062	736,678	
	Unaudited As at 31	Audited As at 31 December				Audited As at 31 December	
	March 2007	2006	2005	2007	2006	2005	
Loans, advances & financing (net of	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
impairment)	24,042,636	24,343,937	21,476,706	24,042,636	24,343,937	21,476,706	
Total assets	43,536,913	41,002,729	36,543,198	43,536,934	41,002,750	36,543,219	
Shareholders' funds	2,789,497	2,812,931	2,417,327	2,789,497	2,812,931	2,417,327	

#### 2 PRINCIPAL TERMS AND CONDITIONS OF THE ISSUE

A summary of the Principal Terms and Conditions are set out as follows:

Issuer : HSBC Bank Malaysia Berhad.

Trustee : Malaysian Trustees Berhad.

Facility Agent : HSBC Bank Malaysia Berhad.

Paying Agent : Bank Negara Malaysia ("BNM").

Central Depository : BNM.

Issue Type : RM500,000,000.00 in nominal value 4.35 percent subordinated

bonds due 2022 callable with step-up in 2017.

Issue Size : RM500,000.000.00.

Tenor of the Subordinated: 15 years

Bonds

15 years from the issue date on a 15 non-callable 10 basis.

Interest/coupon (%)

The coupon rate shall be 4.35 percent per annum from (and

including) 28 June 2007 up to (but excluding) 28 June 2017

being the first Optional Redemption Date.

Unless the Subordinated Bonds are fully redeemed on 28 June 2017, being the first Optional Redemption Date, the holders of the Subordinated Bonds will be entitled to 5.35 percent per annum, from (and including) 28 June 2017 and up to (but excluding) the date of early redemption or the maturity date of

the Subordinated Bonds (whichever is earlier).

Interest payment dates : 28 June and 28 December of each year.

If any interest payment date would otherwise fall on a day which is not a Business Day, the date on which payment shall be made shall be determined in accordance with the RENTAS Rules. A "Business Day" is defined as any day from Monday to Friday but excluding any day which is a public

holiday or bank holiday in Kuala Lumpur.

Security : None.

Status of Subordinated Bonds : The Subordinated Bonds will constitute direct and unsecured

obligations of the Issuer, conditional and subordinated in right and priority of payment, to the extent and in the manner provided in the Subordinated Bonds, ranking pari passu among themselves. The Subordinated Bonds will rank above the share capital of the Issuer but the claims of the holders of the Subordinated Bonds will, in the event of the winding up or liquidation of the Issuer, be subordinated in right and priority of payments to the claims of depositors and all other unsubordinated creditors of the Issuer other than the claims of the shareholders (in their capacity as shareholders) of the Issuer and claims in respect of liabilities which by their terms rank pari passu in right and priority of payment with, or are expressed to be subordinated to, the Subordinated Bonds.

Utilisation of Proceeds : The Issuer shall utilise the proceeds from the issue of

Subordinated Bonds for general corporate and business

purposes.

Rating : AA1.

Form and Denomination : The Subordinated Bonds shall be issued in bearer form in the

minimum denomination of RM1,000 each and in multiples thereof. The Subordinated Bonds will be represented at all times by a global certificate (which is exchangeable for definitive certificates on the occurrence of certain events) to be deposited with BNM and will be traded under the Real Time Electronic Transfer of Funds and Securities system

operated and maintained by BNM.

Issue Price : 100 percent.

Selling Restrictions : <u>Selling Restrictions at Issuance</u>

The Subordinated Bonds may not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within Schedule 2 or Section 38(1)(b), and Schedule 3 or Section 39(1)(b), and Schedule 5 or Section 66(3) of the Securities Commission Act, 1993, as amended from time to time ("SCA") which are not entities within the

HSBC Group.

# Selling Restrictions after Issuance

The Subordinated Bonds may not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within Schedule 2 or Section 38(1)(b) and Schedule 5 or Section 66(3) of the SCA which are not entities within the HSBC Group.

"HSBC Group" refers to HSBC Holdings plc and any entity (i) in which HSBC Holdings plc, or one of HSBC Holdings plc's direct or indirect subsidiaries, owns directly or indirectly at least 50% or more of the shares or (ii) over which HSBC Holdings plc, or one of HSBC Holdings plc's direct or indirect subsidiaries, exercises management control even though it

owns less than 50% of the shares, but excludes the Issuer.

See "Selling Restrictions" in Section 5 below.

Listing Status The Subordinated Bonds will not be listed on any stock

exchange.

**Optional Redemption** The Issuer may, at its option and subject to the prior consent

of BNM, redeem the Subordinated Bonds in part or in whole

on the Optional Redemption Dates.

Redemption and Purchase Unless previously (i) redeemed on any Optional Redemption

> Dates, or (ii) purchased from the market and cancelled, the Subordinated Bonds will be redeemed at their principal amount

on the maturity date.

The Issuer may at any time on or after the first Optional Redemption Date (subject to the prior consent of BNM), purchase the Subordinated Bonds from the market at any price provided that the Subordinated Bonds so purchased must be surrendered for cancellation and may not be re-issued.

Representations and Warranties Representations and warranties will include, but are not limited to:

> (i) The Issuer is a company duly established and existing under the laws of Malaysia and it has the power and authority to enter into the business in which it is or proposes to be engaged;

- (ii) The Issuer has the power to enter into, exercise its rights under and perform its obligations under the Issue Documents (as defined later);
- (iii) The Issuer's entry into, exercise of its rights under and performance of the Issue Documents do not and will not violate any existing law or agreements to which it is a party;
- (iv) The Issue Documents create valid and binding obligations which are enforceable on and against the Issuer;
- (v) All necessary actions, authorisations and consents required under the Issue Documents have been taken, fulfilled and obtained and remain in full force and effect:
- The audited accounts of the Issuer are prepared in (vi) accordance with generally accepted accounting principles and standards in Malaysia and they fairly represent its financial position; and

(vii) Save as disclosed in the information memorandum, no litigation or arbitration is current or, to the Issuer's knowledge, is threatened, which if adversely determined would have a material adverse effect on the ability of the Issuer to comply with the Issue Documents.

Positive Covenants:

So long as any amounts are outstanding under the Subordinated Bonds, the Issuer will comply with such applicable covenants as may be required in order to comply with the SC's Guidelines on the Minimum Contents Requirements for Trust Deeds (save for those which waiver has been sought and approved by SC), including but not limited to the following:

- (i) at all times exercise reasonable diligence (without negligence or misconduct) in carrying on its business in a proper and efficient manner and preserve and keep in force and effect all licences, consents and rights necessary for the conduct of its business;
- (ii) comply with all relevant laws and regulatory requirements;
- (iii) deliver to the Trustee as soon as they become available and in any event within 120 days after the end of each of its financial year, a copy of its audited consolidated financial statements for that period; and within 60 days after the end of each half of its financial year, the unaudited consolidated interim financial statements for the period;
- (iv) perform all its obligations under the Issue Documents;
- (v) inform the Trustee of any actual or potential event of default; and
- (vi) provide to the Trustee on an annual basis after the announcement of its annual audited accounts, a certificate that the Issuer has complied with its obligations under the Trust Deed and the terms and conditions of the Issue Documents and the Subordinated Bonds and that there did not exist or had not existed, from the issue date of the Subordinated Bonds or the date of the previous certificate (as the case may be), any event of default.

Restrictive Covenants : None.

Events of Default : Events of Default are as follows:

(i) If the Issuer defaults in the payment of any money owing in respect of the Subordinated Bonds (whether

principal or interest payment) when the same becomes due and payable; and

(ii) If any step or action is taken for the winding-up, dissolution or liquidation of the Issuer (including, without limitation, the presentation of a petition for the winding-up of the Issuer where no action is taken in good faith to set aside such petition within 30 days from the date of service of such winding-up petition or the making of any order or the passing of any resolution for the winding-up, dissolution or liquidation of the Issuer).

Upon the occurrence of an Event of Default, the Trustee may or shall (if directed to do so by a special resolution of the Subordinated Bondholders) declare that the Subordinated Bonds together with all other sums payable under the Subordinated Bonds shall become immediately due and payable, in which case, the remedies available to the Subordinated Bondholders will be limited to petitioning for the winding-up of the Issuer or proving for the debt in the liquidation or administration of the Issuer.

Issue Documents : The Issue Documents comprises the following documents:

- (i) Subscription Agreement;
- (ii) Depository and Paying Agency Agreement; and
- (iii) Trust Deed.

Taxes : All payments by the Issuer shall be made subject to withholding

or deductions for or on account of any present or future tax, duty or charge of whatsoever nature imposed or levied by or on behalf of Malaysia, or any authority thereof or therein having power to tax. In the event of any withholding or deduction required by law, the Issuer shall not be required to make payment of any additional amount on account of such

withholding or deduction.

Governing Law : Laws of Malaysia.

#### 3 INVESTMENT CONSIDERATIONS

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Subordinated Bonds, but the inability of the Issuer to pay any amounts on or in connection with any Subordinated Bonds may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Subordinated Bond are exhaustive. Prior to making any decision to invest in the Subordinated Bonds, prospective investors are advised to seek professional advice and undertake their own investigations on the Issuer, and any other parties or matters connected with the Subordinated Bonds as they may consider necessary

### 3.1 Considerations relating to the Issuer and its business

Before investing in the Subordinated Bonds, prospective investors should pay particular attention to the fact that the Issuer and its activities are governed by the legal, regulatory and business environment in Malaysia.

In the event of any of the following investment considerations materialising, the Issuer's business, financial condition and/or results of operations could be materially and adversely affected.

#### 3.1.1 Business Risk

As a banking institution providing retail, commercial and corporate banking and treasury products and services, the Issuer is subject to business risks which are inherent in the financial services industry. Generally, these business risks can be broadly divided into:

- (a) Market risk, which is the risk of loss associated with changes in the value of portfolios and financial instruments caused by movements in market variables, such as interest rates, foreign exchange rates and equity prices.
- (b) Funding risk, which is the risk that the Issuer is not able to fund its day-to-day operations at a reasonable cost.
- (c) Credit risk, which is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations.
- (d) Operational risk, which is the risk of potential loss from a breakdown in internal processes and systems, deficiencies in people and management or operational failure arising from external events. Generally, operational risk includes how well the service provider manages and controls the potential risks of operation.
- (e) Legal and regulatory risk, which is the risk of breaches of applicable laws and regulatory requirements, breaches of obligations of fidelity, unenforceability of counterparty obligations, and inappropriate documentation of contractual obligations.

Far more critical to the Issuer's financial condition is a risk that has a 'chain reaction' effect whereby the operation of one risk leads to the operation of one or more other risks. For example, a market downturn may result in the Issuer's customers incurring

losses thus weakening their financial condition and triggering an increase in credit risks. Such increased credit risks may require the Issuer to set aside additional loss provisions which could potentially affect the Issuer's credit rating adversely thereby increasing liquidity risk. In an extreme case, the additional loss provisions (if large) may lead to the Issuer breaching regulatory capital requirements.

To counter the business risks it faces, the Issuer has put in place a risk management system to manage uncertainties such that deviations from the Issuer's intended objectives are kept within acceptable levels. The risk management system thus serves to identify, capture and analyse the risks assumed by the Issuer at an early stage, continuously measuring and monitoring the risks and to set limits, policies and procedures to control them to ensure sustainable risk-taking and sufficient return.

However, the risk management framework, as a whole may not always be fully effective as there may be risks that have not been anticipated or identified and certain risks may be significantly greater than indicated by historical data. Further, the data relied upon to formulate the risk management framework may not be accurate, complete, up-to-date or properly evaluated. The process to manage operational, legal and regulatory risks would require proper recording and verifying a large number of transactions and events. Such process may not be fully effective in all cases.

A description of the Issuer's risk management structure is as follows:

Risk management is carried out in a responsible and disciplined manner guided by clearly defined policies which are based on policies set by the Issuer's ultimate holding company, HSBC Holdings plc as well as BNM requirements. The Board is assisted by the following committees in identifying, and managing risk exposure for the Issuer:

- Board Risk Management Committee
- Board Audit Committee
- Executive Committee
- Asset and Liability Management Committee ("ALCO")
- Operational Risk Management Committee
- Credit Committee

The Issuer's risk management policies are designed to identify and analyse various risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of reliable and up-to-date administrative and information systems. The Issuer continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes.

#### Credit risk management

A credit and risk management structure under the Chief Credit Officer who reports to the Chief Executive Officer, is in place to ensure a more coordinated management of credit risk and a more independent evaluation of credit proposals. The Chief Credit Officer has a functional reporting line to the HSBC Group General Manager, Group Credit and Risk.

The Issuer has established a credit process involving credit policies, procedures and lending guidelines which are regularly updated and credit approval authorities delegated from the Board to the Credit Committee. Excesses or deterioration in credit risk grade

are monitored on a regular and ongoing basis and at the periodic, normally annual, review of the facility.

#### Liquidity risk management

The management of liquidity is primarily carried out in accordance with the BNM New Liquidity Framework; and practice and limits set by the HSBC Group Management Board (a committee set up by HSBC Holdings plc's board of directors to formulate high level risk management policy). The limits set vary to take account of the depth and liquidity of the local market in which the Issuer operates. The Issuer maintains a strong liquidity position and manages the liquidity profile of assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due.

#### Market risk management

The objective of the Issuer's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with HSBC Group's status as a premier provider of financial products and services. The Issuer's market risk management policies are also in line with the relevant BNM's guidelines.

The Issuer separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market making and proprietary position taking. Non-trading portfolios primarily arise from the management of the commercial banking assets and liabilities.

The management of market risk is principally undertaken using risk limit mandates approved by the HSBC Group Traded Credit and Market Risk (an independent unit with HSBC Group Corporate, Investment Banking and Markets which develops market risk management policies and measurement techniques). Market risks which arise on each product is transferred to the Issuer's Global Markets unit and ALCO portfolio for management as the Global Markets unit has the necessary skills and tools to professionally manage such risks. Limits are set for each portfolio, product currency and risk type, with market liquidity being the principal factor in determining the level of limits set. The Issuer has an independent market risk control function that is responsible for measuring market risk exposures in accordance with the policies defined by HSBC Group Traded Credit and Market Risk and monitoring and reporting these exposures against the prescribed limits on a daily basis.

Positions are monitored daily and excesses are reported immediately to local senior management and HSBC Group Traded Credit and Market Risk.

Market risk in the trading portfolio is monitored and controlled at both portfolio and position levels using a complementary set of techniques such as value at risk and present value of a basis point, together with stress and sensitivity testing and concentration limits. Other controls to contain trading portfolio market risk at an acceptable level include rigorous new product approval procedures and a list of permissible instruments to be traded.

#### Operational risk management

The Issuer manages this risk through a control-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by Internal Audit, and by monitoring external operational risk events, which ensure that the Issuer stays in line with best practice and takes account of lessons learned from publicised operational failures within the financial services industry.

The Issuer adheres to the HSBC Holdings plc's standard on operational risk.

This standard explains how the Issuer manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events and implementing any additional procedures required for compliance with local statutory requirements.

The Issuer maintains and tests contingency facilities to support operations in the event of disasters. Additional reviews and tests are conducted in the event that the Issuer is affected by a business disruption event to incorporate lessons learned in the operational recovery from those circumstances.

There can be no assurance that the above policies or measures implemented by the Issuer are adequate or sufficient to mitigate the risks highlighted.

# 3.1.2 Market Volatility, Political and Economic Factors

Political and economic conditions and developments in Malaysia as well as globally could have a profound effect on the financial performance of the Issuer. Adverse political and economic conditions or developments, such as an unstable political system, nationalisation and severe fluctuations in interest and currency exchange rates, create uncertainty and could discourage the free flow of investment capital and affect international trade, ultimately resulting in adverse developments in national economic activity. This in turn may have a material adverse impact on the financial performance of the Issuer as a financial services provider. As a result of globalisation, economic or market problems in a single country or region are increasingly affecting other markets generally. A continuation of these situations could adversely affect global economic conditions and world markets and, in turn, could cause a chain reaction effect and thus adversely affect the Issuer's businesses, financial condition and results of operations.

# 3.1.3 Regulatory Constraints

The Issuer's core business is subject to regulatory purview and measures imposed by the relevant regulatory authorities in Malaysia. Such regulatory measures include restrictions on operations, e.g. BNM imposes a maximum permissible credit exposure to a single customer group and maximum sectorial credit in respect of financing activity, and measures requiring maintenance of reserves and minimum capital adequacy requirement.

The regulatory measures presently imposed, and as may be introduced from time to time, by the regulatory authorities could affect the Issuer's business activities. For example, a change by BNM in credit policies could require the Issuer to scale down its operations in a particular business area. Further, any change in the rules relating to

minimum capital adequacy requirement, e.g. increase in minimum capital adequacy ratio or a change in the computation and or composition of regulatory capital, could adversely affect the operations of the Issuer if the Issuer's internally generated capital (i.e. retained earnings) is insufficient to meet the increased capital funds requirement. Under such circumstances, the Issuer may need to raise fresh capital.

#### 3.1.4 Competition

The Malaysian banking industry operates in a very competitive environment fostered by BNM's policies. The Financial Sector Master Plan ("**FSMP**"), which was launched in March 2001, sets out BNM's broad strategies for the development of the financial services and insurance sectors, over a ten year period.

The main objectives of the first phase of the FSMP, are, inter alia, to develop a core set of strong domestic banking institutions and a more market based consumer protection framework, which resulted in the consolidation of the domestic banking sector into nine banking groups, several of which are larger in terms of total assets and have greater financial resources than the Issuer Group.

The second phase of development aims to, inter alia, further strengthen the domestic financial sector and to remove the restrictions on incumbent foreign banks in the Malaysian banking market, which has benefited the Issuer by being able to increase its branch network from 36 to 40 branches. However, this increase in branches is accorded to all foreign banks resulting in additional competition within the industry.

The third phase of development aims to, inter alia, liberalise the banking sector and increase foreign participation in Malaysia and encourage domestic banks to expand into foreign markets. As a result the Issuer may, in the future, face increased competition from other international banks which may be better capitalised and more established than the Issuer, in addition to existing competition from other foreign banks already in Malaysia.

The Issuer also faces competition from the Islamic finance sector. The Islamic banking and takaful industry has been gathering momentum with the commencement of operations of new Islamic banks in 2006, in addition to the existing Islamic banks and the participating commercial banks offering Islamic banking and takaful services through the Islamic Banking Scheme.

Increased competition could have an adverse effect on the Issuer Group's business, financial condition and results of operations due to, inter alia, reduction in the rate of growth of the Issuer Group's loan portfolio, reduced net interest margins and spreads and increased non-interest expense, as well as a decline in the volume and profitability of the Issuer Group's related businesses. While the Issuer Group believes that it has formulated strategies to compete effectively in the market place, there can be no assurance that it will be able to effectively compete against its existing and future competitors.

Further, although the Issuer would plan for expansion and growth in future business volume and to strengthen its market share of the rapidly growing Islamic banking sector, the Issuer's future growth would inevitably be subject to competition from other service providers and also customer preference. As such, there can be no assurance

that the Issuer will be able to maintain or increase its present market share in the future.

#### 3.1.5 Changes in Accounting Standards

The changes in accounting standards may adversely affect the Issuer.

Since 1 January 2006, the Malaysian Accounting Standards Board ("MASB") has issued 21 revised or new Financial Reporting Standards ("FRS") and Interpretations in order to converge the local accounting standards with the International Accounting Standards. The MASB has also issued FRS 139, Financial Instruments: Recognition and Measurement for which the MASB has yet to announce the effective date. This new FRS significantly increases the use of fair value in accounting for financial instruments, compared to the existing accounting practice.

FRS 139, among other new treatments requires financial assets be classified into (i) loans and receivables, (ii) held-to-maturity (iii) available-for-sale, (iv) held-for-trading or fair value through profit and loss. Loans and receivables as well as held to maturity financial assets are still measured at amortised cost. However, the unrealised gains or losses from financial assets classified as held-for-trading or fair value through profit and loss must be recognised in the income statement, whilst the unrealised gains or losses for financial instruments classified as available-for-sale, must be recognised in equity, resulting in higher volatility in the income statement and equity.

Generally, under FRS 139, whenever there is objective evidence that a financial asset (be it measured at amortised cost or fair value) is impaired, the impairment loss must be recognised in the income statement of the entity. This impairment test requirement, will potentially result in higher provisioning requirement for the Issuer.

The Issuer, as a licensed financial institution under BAFIA, is required to adhere to BNM guidelines in the preparation of its local statutory financial statements. The most relevant BNM guidelines are Guidelines on Financial Reporting for Licensed Institutions ("BNM/GP8") and Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts ("BNM/GP3").

Even though FRS 139 has yet to be effected in Malaysia, BNM has issued a revised BNM/GP8 on 5 October 2004 that requires all licensed institutions, amongst other accounting policies and treatments, to adopt the accounting policies with respect to the classification and valuation methods of the Issuer's securities holding portfolio as stated in FRS 139 with effect from 1 January 2005. However, for loans converted into debt or equity instruments that are classified as available-for-sale, where the fair value of the debt or equity instruments is higher than the net book value of the loan, the gain from the conversion exercise is transferred to the impairment loss account, which would be netted off from the debt or equity instruments in the balance sheet. In summary, BNM/GP8 has partially adopted FRS 139 and the Issuer, through its adoption of the revised BNM/GP8, has also adopted some of the accounting requirements in FRS 139. There is no assurance that any future revision in BNM/GP8 may not adversely affect the financial positions of the Issuer.

BNM/GP3, which has not been revised to be in line with FRS 139, requires banks to classify non-performing loans into three categories according to the number of months the loans are in default: namely, sub-standard, doubtful and bad. With respect to provisioning and write-off standards, the Issuer's policies are in line with BNM/GP3

except for the timing of classification of an account as non-performing. The Issuer classifies an account as non-performing when it is in arrears for three months or more as compared to the period of six months or more stipulated in BNM/GP3.

Specific provision is made against the uncollateralised portion of the outstanding balance of the loan and the realisable security value of any collateral net of interest-insuspense and unearned interest when the loan is classified as sub-standard, doubtful and bad. The Issuer applies a 100% provision on the unsecured portion of all non performing loans. For credit card portfolio, a 50% provision is initially made when the account is classified as sub-standard and doubtful.

In line with BNM's guidelines, the Issuer also makes additional specific provisions as follows:-

- (i) 50% of the secured portion of non-performing loans which are in arrears for more than five years but less than seven years; and
- (ii) 100% of the secured portion of non-performing loans which are in arrears for more than seven years.

There is however no assurance that the number of non-performing loans will not increase in the future, the level of provisions made will prove to be adequate, the Issuer will not have to make additional provisions for possible loan losses in the future, or that the Issuer would be able to realise adequate proceeds from collateral disposals to cover non-performing loans.

Further, if BNM/GP3 is revised to be in line with FRS 139, the Issuer may potentially be required to make further provisions, over and above its current provisioning policies and practices.

# 3.1.6 New Basel Capital Accord ("Basel II") Implementation

BNM had on 17 September 2004 reiterated a two-phased approach for implementing Basel II in Malaysia whereby under the first phase, banking institutions would be required to adopt the 'Standardised Approach' for credit risk in 2008 and in the second phase, qualified banking institutions would be allowed to migrate directly to the 'Internal Ratings Based Approach' in January 2010 without having to comply with the 'Standardised Approach' for credit risk in 2008.

The Issuer has been making significant progress in its preparation to implement the new capital framework, which will be enforced by BNM in Malaysia beginning 2008.

Further, the Issuer may incur substantial costs in attaining and maintaining compliance with Basel II. The incurrence of any such costs or the failure by the Issuer to attain compliance with Basel II may have a material adverse effect on the Issuer's financial condition and results of operation.

#### 3.1.7 Liquidity and Short Term Funding Sources

The funding requirements of Malaysian banks are primarily met by short term funding sources, namely deposits from customers and from other financial institutions. Although the Issuer Group considers, based on past experience, a substantial portion of

the Issuer Group customers' deposits will be rolled over upon maturity, therefore providing a stable source of funding, no assurance can be given that this will continue in the future. If a substantial number of depositors, or small number of large depositors, fail to roll over deposited funds upon maturity, the Issuer Group's liquidity position could be adversely affected and the Issuer Group may be required to seek alternative sources of short term, or long term funding, which may be more expensive than deposits to finance its operations. There is no assurance that such alternative sources of funding will be available when required.

# 3.1.8 Potential Conflicts of Interest

Potential investors should note that potential conflicts of interest may arise from the different roles played by the Issuer in connection with the Subordinated Bonds. The Issuer is the issuer of the Subordinated Bonds, the lead manager and the facility agent in connection with the issuance of the Subordinated Bonds. Notwithstanding the mitigating measures set out in Section 1.6 "Potential Conflict of Interest and Appropriate Mitigating Measures", prospective investors should be aware that the Issuer's interest in its various roles may be adverse to the interest of investors in the Subordinated Bonds. Prospective investors should therefore seek independent advice as they deem appropriate to evaluate the risk of this potential conflict of interest.

## 3.2 Considerations relating to the Subordinated Bonds

## 3.2.1 Issuer's Ability to meet its obligations under the Subordinated Bonds

Potential investors should note that the interest that is payable on the Subordinated Bonds on an interest payment date is payable out of the internal funds generated from business operations of the Issuer.

#### 3.2.2 Rating of the Subordinated Bonds is no guarantee of the Issuer's paying ability

It is a condition of the issuance of the Subordinated Bonds that the Subordinated Bonds be assigned, on issue, a minimum rating of AA1 by RAM and RAM has accorded a rating of AA1 on the Subordinated Bonds. Based on RAM's current long-term rating criteria for issues of corporate debt securities, an "AA1" rating indicates that the Proposed Issue is judged to be of high safety for timely payment of interest and principal, while the subscript "1" indicates that the Proposed Issue ranks at the higher end of its generic rating category (Source: RAM's website).

However, the rating is not a recommendation by RAM to subscribe for, purchase, sell or hold such security and there can be no assurance that such a rating will not be revised on a periodic review basis by RAM during the tenure of the Subordinated Bonds. Further, such a rating is not a guarantee that Subordinated Bondholders will receive the interest/coupon. There is no specific obligation on the part of the Issuer to maintain or procure the maintenance of any rating of the Subordinated Bonds. Any subsequent reduction or withdrawal of the rating initially assigned to the Subordinated Bonds for any reason whatsoever will not constitute an event of default under the Subordinated Bonds.

# 3.2.3 Liquidity of the Subordinated Bonds

The Subordinated Bonds comprise a new issue of securities for which there is currently no established secondary market. There can therefore be no assurance that a secondary market will develop or, that if a secondary market does develop, as to the liquidity of that market for the Subordinated Bonds or the price at which holders of the Subordinated Bonds may be able to sell their Subordinated Bonds or that it will continue for the entire tenure of the Subordinated Bonds. In addition, the Subordinated Bonds could trade in the secondary market at prices that may be higher or lower than the face value of the Subordinated Bonds depending on many factors, including prevailing market interest rates, the Issuer's results of operations, and the market for similar securities.

The Subordinated Bondholders should also note that the Subordinated Bonds will not be listed on Bursa Securities, but will be traded under RENTAS. There are selling restrictions more fully set out in Section 5 "Selling Restrictions" below.

Accordingly, the purchase or subscription of the Subordinated Bonds is suitable only for investors who can bear the risks associated with a lack of liquidity in the Subordinated Bonds apart from the financial and other risks associated with an investment in the Subordinated Bonds.

# 3.2.4 Bondholders' claims to the right of payment are subordinated

In order to qualify as Tier 2 capital of the Issuer under the BNM's Tier 2 guidelines, the Subordinated Bonds will rank above the share capital of the Issuer but the Subordinated Bondholders' rights thereunder will, in the event of the winding up or liquidation of the Issuer, be subordinated in right and priority of payments to the claims of depositors and all other unsubordinated creditors of the Issuer other than the claims of the shareholders (in their capacity as shareholders) of the Issuer and claims in respect of liabilities which by their terms rank pari passu in right and priority of payment with, or are expressed to be subordinated to, the Subordinated Bonds. In the case of default in the payment of principal or interest on the Subordinated Bonds, the holders of the Subordinated Bonds will have no right to enforce payment of the Subordinated Bonds other than by winding-up proceedings against the Issuer.

# 3.2.5 No default interest

There will be no default interest payable on the Subordinated Bonds in the event that any interest is not received by the Subordinated Bondholders on the due date. However, interest payable on the Subordinated Bonds will continue to accrue until the same is settled by the Issuer.

#### 3.2.6 No gross up of withholding tax

All payments by the Issuer under the Subordinated Bonds shall be made subject to withholding or deductions for or on account of any present or future tax, duty or charge of whatsoever nature imposed or levied by or on behalf of Malaysia or any other applicable jurisdictions, or any authority thereof or therein having power to tax. Under the terms of the Subordinated Bonds, there is no grossing-up by the Issuer, whereby in the event that any withholding or deduction is required by law, the Issuer will not make

such additional amount so that the payee will receive the full amount which the payee would have received if no such withholding or deductions was made.

#### 3.2.7 No limitation on borrowings

In line with BNM's guidelines which state that there should be no restrictive covenants for subordinated bonds, there will be no limitation on the Issuer to incur further borrowings/indebtedness.

# 3.3 General Considerations

#### 3.3.1 Change in Law

The Proposed Issue is based on Malaysian law, tax and administrative practice in effect at the date hereof. No assurance can be given that Malaysian law, tax or administrative practice will not change after the date hereof or that such change will not adversely impact the treatment of the Subordinated Bonds.

#### 3.3.2 Forward Looking Statements

This Information Memorandum includes, and any accompanying information memorandum supplement may include, forward-looking statements. All statements other than statements of historical facts included in this Information Memorandum and any information memorandum supplement regarding, among other things, the Issuer's business may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue" or similar terminology. Although the Issuer believes that the expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct.

#### 4 DESCRIPTION OF THE ISSUER

#### 4.1 History and Background

The Issuer was incorporated on 1 October 1984 as a public company under the Act under the name of "Hongkong Bank Malaysia Berhad" and commenced business as a locally incorporated foreign bank on 1 January 1994 by taking over the banking business of The Hongkong and Shanghai Banking Corporation Limited's branch in Malaysia. On 23 February 1999, the Issuer changed its name to "HSBC Bank Malaysia Berhad". The Issuer has a total shareholders' funds of RM2,789,497,000.00 as at 31 March 2007.

The Issuer is a bank licensed under BAFIA and carries on banking business in Malaysia according to the scope permitted under its banking licence, which includes the business of receiving deposits; paying and collecting cheques; lending of money; purchase of bills of exchange, promissory notes, certificates of deposit, debentures and other negotiable instruments; provision of financial guarantees; transacting in derivatives; dealing in foreign currencies and gold; payment intermediation and remittance services; acting as agent for unit trusts, credit cards and insurance; and wealth management services.

# **4.2** Corporate Information

#### 4.2.1 Principal Place of Business

The registered office of the Issuer is located at 8<sup>th</sup> Floor, \*Hongkong Bank Building, 2 Leboh Ampang, 50100 Kuala Lumpur while its principal place of business is located at No. 2 Leboh Ampang, 50100 Kuala Lumpur.

The Issuer has 40 branch offices located in all states of Malaysia.

(\* now known as "Bangunan HSBC")

#### 4.2.2 Share Capital and Changes in Share Capital

As at the date hereof, the authorised and issued and fully paid-up share capital of the Issuer are as follows:

Authorised Share Capital: RM1,000,000,000 divided into 1,000,000,000

preference shares of RM0.50 each and 1,000,000,000 ordinary shares of RM0.50 each

1,000,000,000 010111110 01 11111010 0 01011

Issued and fully paid-up: RM114,500,000 divided into 229,000,000 ordinary

Share Capital shares of RM0.50 each

#### 4.2.3 Shareholders and Shareholding Structure of the Issuer

As at the date hereof, the shareholders and the shareholding structure of the Issuer are as follows:

Shareholders	No. of ordinary shares	Percentage of	
	held	shareholdings (%)	
HSBC Group Nominees	4	0.01	
UK Limited			

Shareholders	No. of ordinary shares	Percentage of
	held	shareholdings (%)
HSBC Holdings BV	228,999,996	99.99
TOTAL	229,000,000	100

#### 4.2.4 Existing Subordinated Liabilities

The Issuer does not have any existing subordinated liabilities as at the date hereof.

#### 4.3 Directors

# 4.3.1 Board of Directors

The members of the Board of the Issuer as at the date hereof are as follows:

Name	Nationality/Designation
Irene Mitchell Dorner	British/Director
Ian Douglas Francis Ogilvie	British/Director
Dato' Sulaiman Bin Sujak	Malaysian/Director
Dato' Henry Sackville Barlow	British/Director
Datuk Ramli Bin Ibrahim	Malaysian/Director
Datuk Dr Zainal Aznam Bin Mohd Yusof	Malaysian/Director
Professor Emeritus Dr Mohamed Ariff Bin Abdul Kareem	Malaysian/Director
Datuk Zuraidah Binti Atan	Malaysian/Director

The former Chairman of the Board, Michael Roger Pearson Smith, resigned from the Board on 15 June 2007. Until a Chairman is appointed, Irene Mitchell Dorner, as Deputy Chairman and Chief Executive Officer, will assume the responsibilities of Chairman of the Board.

# 4.3.2 Directors' Profiles

The profile of the Board of the Issuer as at 25 June 2007 are as follows:

Irene Mitchell Dorner, Deputy Chairman and Chief Executive Officer

Age 52. Ms Dorner graduated from St. Anne's College Oxford with MA in Jurisprudence in 1976. A Barrister by profession, Dorner first joined the banking industry as an in-house lawyer.

In 1982, she was the in-house lawyer of Samuel Montagu & Co Limited, the merchant banking arm of Midland Bank, which was later acquired by the HSBC Group. She was appointed the Chief Operating Officer of Treasury and Capital Markets of HSBC Midland in 1995, then went on to head Treasury and Capital Markets Sales in 1998. In 1999, she was appointed General Manager, Marketing of HSBC Bank plc, and was subsequently appointed as General Manager, Human Resources in 2001. She then had responsibility for HSBC Bank plc's branch network in the North of England, Scotland and Northern Ireland comprising some 380 branches and 3,900 staff in 2003 to 2006, prior to holding the post of General Manager, Premier and Wealth Management of HSBC Bank plc until May 2007.

Ms. Dorner was appointed Deputy Chairman and Chief Executive Officer for HSBC Bank Malaysia Berhad on 1 June 2007.

## Ian Douglas Francis Ogilvie, executive Director and Deputy Chief Executive

Age 47. Mr Ogilvie obtained a MA Geography from Cambridge University. He joined the HSBC Group in 1981 as a Research and Planning Analyst and held the position of General Manager, Human Resources of HSBC Bank plc prior to his current appointment as executive Director and Deputy Chief Executive of HSBC Bank Malaysia Berhad.

During his career at HSBC he has held a wide variety of senior posts within the HSBC Group.

#### Dato' Sulaiman bin Sujak, non-independent non-executive Director

Age 73. Served as an executive Director and Adviser of HSBC Bank Malaysia Berhad for 15 years, before being appointed a non-executive Director in 2004. He graduated from the Royal Air Force College, Cranwell, England in 1958 and the Royal College of Defence Studies, London in 1973 and had served both with the Royal Air Force and the Royal Malaysian Air Force. He was the first Malaysian to be appointed as the Royal Malaysian Air Force Chief (1967-1976). He served as an Adviser of Bank Negara Malaysia (1977-1983), Commercial Director of Kumpulan Guthrie (1983-1989) and Deputy Chairman of Malaysia Airline System (1977-2001). Currently, he also sits on the board of FACB Industries Incorporated Berhad, Nationwide Express Courier Services Berhad and Cycle & Carriage Bintang Berhad.

# Dato' Henry Sackville Barlow, independent non-executive Director

Age 62. He graduated from Eton College and obtained a MA from Cambridge University. He is a former Council Member of the Incorporated Society of Planters and Honorary Secretary of the Heritage Trust of Malaysia. He is a Director of Golden Hope Plantations Berhad and Guthrie Ropel Berhad. He was formerly Joint Managing Director of Highland and Lowlands Para Rubber Co. Ltd., being instrumental in the company's Malaysianisation process in the late 1970s and early 1980s. Dato' Barlow is a Fellow of The Institute of Chartered Accountants, England and Wales, and a keen environmentalist.

# Datuk Ramli bin Ibrahim, independent non-executive Director

Age 66. Datuk Ramli is a Chartered Accountant of the Institute of Chartered Accountants of Australia. He is currently non-executive Director of several other public listed and unlisted companies, including MEASAT Global Berhad, Ranhill Berhad and BCT Technology Berhad. He was formerly Senior Partner of KPMG Peat Marwick Malaysia (now known as KPMG Malaysia) and executive Chairman of Kuala Lumpur Options and Financial Futures Exchange Berhad.

# Datuk Dr Zainal Aznam bin Mohd Yusof, independent non-executive Director

Age 63. Datuk Dr Zainal holds a Bsc (Econ) from Queen's University, Belfast, Northern Ireland, MA (Development Economics) from University of Leicester, United Kingdom and Ph.D. (Economics) from Oxford University, United Kingdom. He was attached to the Economic Planning Unit of the Prime Minister's Department from 1969 to 1988. During the 1987-1988 academic year, he was a Visiting Scholar at the Harvard Institute for International Development (HIID), Harvard University (Fulbright Scholar). He has also served as a Deputy Executive Director of the Malaysian Institute of Economic Research (MIER) from 1988 to 1990. Prior to that, he was the South East Asia Regional Economist at Kleinwort Benson Research (Malaysia) Sdn Bhd.

From 1990-1994 he was the Adviser in Economics at Bank Negara Malaysia. In January 1998 he was appointed as a Member of the Working Committee of the National Economic Action Council (NEAC). He was a Commissioner of the Securities Commission from 1999 to 2004 and the Deputy Director-General of the Institute of Strategic and International Studies until 2002. Datuk Dr Zainal is a well-known economist in Malaysia.

# Professor Emeritus Dr Mohamed Ariff bin Abdul Kareem, independent nonexecutive Director

Age 66. Prof. Emeritus Dr Mohamed Ariff obtained his B.A. First Class Honours and M.Ec. from the University of Malaya. He completed his Ph.D. program at the University of Lancaster, England in 1971, on a Commonwealth Scholarship.

Prof. Emeritus Dr Mohamed Ariff, a specialist in International Economics, is currently the executive Director of the Malaysian Institute of Economic Research (MIER). Previously he held the Chair of Analytical Economics at the University of Malaya where he had also served as the Dean of the Faculty of Economics and Administration. He is a Board Member of National Productivity Centre (NPC) and Social Security Organisation (SOSCO). He had a brief stint in the private sector as the Chief Economist at the United Asian Bank in 1976.

# Dato' Zuraidah binti Atan, independent non-executive Director

Age 48. Appointed on 18 October 2004. Dato' Zuraidah is currently a Director and Chairman of the Finance Board of FAMA (Federal Agricultural Marketing Authority) and a Director of Universiti Utara Malaysia, NCB Holdings Berhad, Kenanga Unit Trust Berhad and KN Sme Logistics Sdn Bhd (as a nominee of Kontena Nasional Berhad). She was previously President and Chief Executive of Affin Merchant Bank Berhad for four years until September 2003. Prior to that, she served at OCBC Bank

(Malaysia) Berhad in various capacities for ten years. A lawyer by training, she obtained her LLB from the University of Buckingham, Britain in 1984. She sits on various State Government Investment Committees, Boards and Advisory Panels such as Melaka State Government Investment Committee and Kedah State Government Insurance Brokers. She is also a member of the Association of Bumiputra Business and Professional Women, Malaysia. Currently she serves as an adviser to the National Cancer Society of Malaysia.

# 4.4 Subsidiaries

The subsidiaries of the Issuer are as follows:

- (a) HSBC (Kuala Lumpur) Nominees Sdn Bhd;
- (b) HSBC Nominees (Tempatan) Sdn Bhd.; and
- (c) HSBC Nominees (Asing) Sdn Bhd.

#### 5 SELLING RESTRICTIONS

#### **5.1 Selling Restrictions**

# Malaysia

# (a) <u>Selling Restrictions at Issuance</u>

The Subordinated Bonds may not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within Schedule 2 or Section 38(1)(b), Schedule 3 or Section 39(1)(b) and Schedule 5 or Section 66(3) of the SCA which are not entities within the HSBC Group.

#### (b) <u>Selling Restrictions after Issuance</u>

The Subordinated Bonds may not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within Schedule 2 or Section 38(1)(b) and Schedule 5 or Section 66(3) of the SCA which are not entities within the HSBC Group.

In this Selling Restrictions:

"HSBC Group" refers to HSBC Holdings plc and any entity (i) in which HSBC Holdings plc, or one of HSBC Holdings plc's direct or indirect subsidiaries, owns directly or indirectly at least 50% or more of the shares or (ii) over which HSBC Holdings plc, or one of HSBC Holdings plc's direct or indirect subsidiaries, exercises management control even though it owns less than 50% of the shares, but excludes the Issuer.

#### **Singapore**

This Information Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each recipient of this Information Memorandum shall not offer or sell any Subordinated Bonds or cause the Subordinated Bonds to be made the subject of an invitation for subscription or purchase nor will it circulate or distribute this Information Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Subordinated Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Subordinated Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporate (which is not an accredited investor) (as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Subordinated Bonds under Section 275 of the SFA except:

- (i) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (ii) where no consideration is or will be given for the transfer; or
- (iii) where the transfer if by operation of law.

# **Hong Kong**

The Subordinated Bonds have not been authorised by the Hong Kong Securities and Futures Commission. Accordingly, no person may issue, or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Subordinated Bonds which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Subordinated Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in Securities and Futures Ordinance (Chapter 571) of Hong Kong and any rules made under that Ordinance.

#### General

No action has been taken by the Issuer, the Trustee, the Lead Manager and the Facility Agent that would, or is intended to permit a public offer of the Subordinated Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Subordinated Bonds or distribute or publish any offering circular, information memorandum, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under such circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Subordinated Bonds by it will be made on the same terms.

Purchasers of the Subordinated Bonds are recommended to consult their professional advisers if they are in any doubt as to the regulatory implications of subscribing for, purchasing, holding, disposing of or otherwise dealing in the Subordinated Bonds.

#### 6 OTHER MATERIAL INFORMATION

#### **6.1 Other Material Information**

# 6.1.1 Material Litigation

As at the date hereof, other than litigation, claims and arbitration arising from the ordinary course of business of which (i) the financial impact thereof has already been accounted for in the latest audited financial statements of the Issuer and/or (ii) the Issuer is of the view that there would not be any material and adverse impact on the financial position of the Issuer arising from such litigation, claims and arbitration, the Issuer is not engaged in any material litigation, claims and arbitration either as plaintiff or defendant and the Issuer does not have any knowledge of any proceedings pending or threatened against the Issuer or of any facts likely to give rise to any proceedings which may materially and adversely affect the financial position or business of the Issuer.

# 6.1.2 Commitments and Contingent Liabilities

In the normal course of business, the Issuer makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Issuer's assets.

The commitments and contingencies outstanding of the Issuer Group and the Issuer as at 31 March 2007 (being the latest available unaudited published financial statements) are as follows:

	Issuer Group	Issuer	
	Unaudited As At 31 Mar 2007	Unaudited As At 31 Mar 2007	
	Principal	Principal	
	amount	amount	
	RM'000	RM'000	
Direct credit substitutes	820,743	820,743	
Transaction-related contingent items	2,399,990	2,399,990	
Short-term self-liquidating trade-			
related contingencies	545,618	545,618	
Irrevocable commitments to extend credit:			
- Maturity not exceeding one year	17,795,051	17,795,051	
- Maturity exceeding one year	868,157	868,157	
Foreign exchange related contracts:			
- Less than one year	17,423,577	17,423,577	
- One year to less than five years	1,718,880	1,718,880	
Interest rate related contracts:			
- Less than one year	8,427,990	8,427,990	
- One year to less than five years	13,483,027	13,483,027	
- Five years and above	585,415	585,415	
Others	979,418	979,418	
	65,047,866	65,047,866	

# **APPENDIX**

# AUDITED FINANCIAL STATEMENTS OF THE ISSUER FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 AND UNAUDITED FINANCIAL STATEMENTS OF THE ISSUER FOR THE FINANCIAL QUARTER ENDED 31 MARCH 2007

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

FINANCIAL STATEMENTS - 31 DECEMBER 2006

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

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#### **BOARD OF DIRECTORS**

Michael Roger Pearson Smith, non-executive Chairman

Dato' Zarir Jal Cama, Deputy Chairman and Chief Executive Officer

Ian Douglas Francis Ogilvie, executive Director and Deputy Chief Executive

Douglas Jardine Flint, non-independent non-executive Director

Dato' Sulaiman bin Sujak, non-independent non-executive Director

Dato' Henry Sackville Barlow, independent non-executive Director

Datuk Ramli bin Ibrahim, independent non-executive Director

Datuk Dr Zainal Aznam bin Mohd Yusof, independent non-executive Director

Professor Emeritus Dr Mohamed Ariff bin Abdul Kareem, independent non-executive Director

Dato' Zuraidah binti Atan, independent non-executive Director

#### PROFILE OF DIRECTORS

## Michael Roger Pearson Smith, non-executive Chairman

Age 50. Holds a BSc (Hons) from the London University. Joined HSBC in 1978 and, in 1991, following a number of appointments in the Asia-Pacific and the Middle East, moved to the Planning Department of Midland Bank (now HSBC Bank plc) in the UK. In 1993, appointed as Managing Director International at the bank.

From 1995-1997, he was executive Director and Deputy Chief Executive of Hongkong Bank Malaysia Berhad (now HSBC Bank Malaysia Berhad). In 1997, he was appointed Chief Executive Officer of HSBC Argentina Holdings SA assuming responsibility for the Group's operations in Argentina. He was appointed Chairman there in 2000 and, in the same year, was appointed a Group General Manager.

In March 2003, he returned to the UK as Group General Manager to review and restructure the Group Head Office.

Michael Smith was appointed President and Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited and Chairman of HSBC Bank Malaysia Berhad on 1 January 2004. He has also been appointed as the Chairman of Hang Seng Bank Limited effective 22 April 2005.

#### Dato' Zarir Jal Cama, Deputy Chairman and Chief Executive Officer

Age 59. Dato' Cama went to school at St. Paul's School, Darjeeling and graduated from St. Stephen's College, Delhi University. Joined the HSBC Group in London in 1968. After two years training in the London office, he returned to India and worked in various operational, credit and branch capacities. In 1982, he was posted to the International Corporate Accounts Division in Hong Kong. He returned to India in 1984 to head the Bank's Merchant Banking operations where he was responsible for its business strategy and development. He moved to Saudi British Bank Ltd in 1988 to head the Corporate Bank and was subsequently appointed its Deputy Managing Director. In 1992, he was assigned to Head Office in Hong Kong as Senior Manager Group Corporate Planning and Senior Manager International and went on to become Senior Executive Global Banking Services, HSBC Holdings plc in October 1993 based in the Group's new headquarters in London.

In mid-March 1998, he was transferred back to India as Deputy Chief Executive Officer and was appointed Chief Executive Officer of The Hongkong and Shanghai Banking Corporation in India in October 1999. As Country Head, he was also Chairman of HSBC Securities and Capital Markets India Private Limited and of the Group's Processing Company, HSBC Electronic Data Processing India Private Ltd.

He became a Group General Manager of HSBC Holdings plc in August 2001. Dato' Cama was appointed Deputy Chairman and Chief Executive Officer for HSBC Bank Malaysia Berhad in November 2002 with responsibility for the Malaysian operations.

He is a Council Member of the Association of Banks in Malaysia and is on the General Committee of the Malaysian International Chamber of Commerce and Industry. Dato' Cama is also a member of Rotary Club of Kuala Lumpur DiRaja and an Honorary Member of Rotary Club Damansara. He is also a Trustee of WWF Malaysia and the Aged European Fund.

Profile of Directors (continued)

# Ian Douglas Francis Ogilvie, executive Director and Deputy Chief Executive

Age 47. Mr Ogilvie obtained a MA Geography from Cambridge University. He joined the HSBC Group in 1981 as a Research and Planning Analyst and held the position of General Manager, Human Resources of HSBC Bank plc prior to his current appointment as executive Director and Deputy Chief Executive of HSBC Bank Malaysia Berhad.

During his career at HSBC he has held a wide variety of senior posts with the Group.

#### Douglas Jardine Flint, non-independent non-executive Director

Age 51. Douglas Flint is a Chartered Accountant from the Institute of Chartered Accountants of Scotland and participated in the Programme for Management Development (PMD) from Harvard Business School. Group Finance Director of HSBC Holdings plc. A non-executive Director since 1995. He is the Chairman of the Financial Reporting Council's review of the Turnbull Guidance on Internal Control; and served on The Accounting Standards Board in the UK and the Standards Advisory Council of the International Accounting Standards Board from 2001 to 2004. He was named 'Business Leader of the Year' by the Chartered Institute of Management Accountants in 2003 and best European Chief Financial Officer in the banking category of a survey carried out by Institutional Investor magazine in 2004. He was a former partner of KPMG, UK.

## Dato' Sulaiman bin Sujak, non-independent non-executive Director

Age 72. Served as an executive Director and Adviser of HSBC Bank Malaysia Berhad for 15 years, before being appointed a non-executive Director in 2004. He graduated from the Royal Air Force College, Cranwell, England in 1958 and the Royal College of Defence Studies, London in 1973 and had served both with the Royal Air Force and the Royal Malaysian Air Force. He was the first Malaysian to be appointed as the Royal Malaysian Air Force Chief (1967-1976). He served as an Adviser of Bank Negara Malaysia (1977-1983), Commercial Director of Kumpulan Guthrie (1983-1989) and Deputy Chairman of Malaysia Airline System (1977-2001). Currently, he also sits on the board of FACB Industries Incorporated Berhad, Nationwide Express Courier Services Berhad and Cycle & Carriage Bintang Berhad.

### Dato' Henry Sackville Barlow, independent non-executive Director

Age 62. He graduated from Eton College and obtained a MA from Cambridge University. He is a former Council Member of the Incorporated Society of Planters and Honorary Secretary of the Heritage Trust of Malaysia. He is a Director of Golden Hope Plantations Berhad and Guthrie Ropel Berhad. He was formerly Joint Managing Director of Highland and Lowlands Para Rubber Co. Ltd., being instrumental in the company's Malaysianisation process in the late 1970s and early 1980s. Dato' Barlow is a Fellow of The Institute of Chartered Accountants, England and Wales, and a keen environmentalist.

Profile of Directors (continued)

Datuk Ramli bin Ibrahim, independent non-executive Director

Age 66. Datuk Ramli is a Chartered Accountant from the Institute of Chartered Accountants of Australia. He is currently non-executive Director of several other public listed and unlisted companies, including MEASAT Global Berhad, Ranhill Berhad and BCT Technology Berhad. He was formerly Senior Partner of KPMG Peat Marwick Malaysia (now known as KPMG Malaysia) and executive Chairman of Kuala Lumpur Options and Financial Futures Exchange Berhad.

#### Datuk Dr Zainal Aznam bin Mohd Yusof, independent non-executive Director

Age 62. Datuk Dr Zainal holds a Bsc (Econ) from Queen's University, Belfast, Northern Ireland, MA (Development Economics) from University of Leicester, United Kingdom and Ph.D. (Economics) from Oxford University, United Kingdom. He was attached to the Economic Planning Unit of the Prime Minister's Department from 1969 to 1988. During the 1987-1988 academic year, he was a Visiting Scholar at the Harvard Institute for International Development (HIID), Harvard University (Fulbright Scholar). He has also served as a Deputy Executive Director of the Malaysian Institute of Economic Research (MIER) from 1988 to 1990. Prior to that, he was the South East Asia Regional Economist at Kleinwort Benson Research (Malaysia) Sdn Bhd.

From 1990-1994 he was the Adviser in Economics at Bank Negara Malaysia. In January 1998 he was appointed as a Member of the Working Committee of the National Economic Action Council (NEAC). He was a Commissioner of the Securities Commission from 1999 to 2004 and the Deputy Director-General of the Institute of Strategic and International Studies until 2002. Datuk Dr Zainal is a well-known economist in Malaysia.

#### Professor Emeritus Dr Mohamed Ariff bin Abdul Kareem, independent non-executive Director

Age 66. Prof. Emeritus Dr Mohamed Ariff obtained his B.A. First Class Honours and M.Ec. from the University of Malaya. He completed his Ph.D. program at the University of Lancaster, England in 1971, on a Commonwealth Scholarship.

Prof. Emeritus Dr Mohamed Ariff, a specialist in International Economics, is currently the executive Director of the Malaysian Institute of Economic Research (MIER). Previously he held the Chair of Analytical Economics at the University of Malaya where he had also served as the Dean of the Faculty of Economics and Administration. He was a Board Member of the Inland Revenue Board (IRB) and is a Board Member of National Productivity Centre (NPC) and Social Security Organisation (SOSCO). He had a brief stint in the private sector as the Chief Economist at the United Asian Bank in 1976.

#### Dato' Zuraidah binti Atan, independent non-executive Director

Age 47. Appointed on 18 October 2004. She is currently a Director and Chairman of the Finance Board of FAMA (Federal Agricultural Marketing Authority) and a Director of Universiti Utara Malaysia, NCB Holdings Berhad and Milux Corporation Berhad (formerly known as TH Hin Corporation Berhad). She was previously President and Chief Executive of Affin Merchant Bank Berhad for four years until September 2003. Prior to that, she served at OCBC Bank (Malaysia) Berhad in various capacities for ten years. A lawyer by training, she obtained her LLB from the University of Buckingham, Britain in 1984. She sits on various State Government Investment Committees, Boards and Advisory Panels such as Melaka State Government Investment Committee and Kedah State Government Insurance Brokers. She is also a member of the Association of Bumiputra Business and Professional Women, Malaysia. Currently she serves as an adviser to the National Cancer Society of Malaysia.

#### **BOARD RESPONSIBILITY AND OVERSIGHT**

#### BOARD OF DIRECTORS

## Composition of the Board

At the date of this report, the Board consists of ten (10) members; comprising two (2) non-independent executive Directors, three (3) non-independent non-executive Directors and five (5) independent non-executive Directors.

The concept of independence adopted by the Board is as defined in paragraph 2.26 of Bank Negara Malaysia's Guidelines on Corporate Governance for Licensed Institutions (Revised BNM/GP1). The key requirements for independent Directors are that they do not have a substantial shareholding interest in the Bank (5% equity interest, directly or indirectly), have not been employed or have an immediate family employed in an executive position in the Bank within the past two (2) years, have not engaged in any transaction worth more than RM1 million with the Bank within the past two (2) years and generally, are independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interest of the Bank.

There is a clear division of responsibilities at the head of the Bank to ensure a balance of authority and power. The Board is led by Mr Michael Roger Pearson Smith as the non-executive Chairman and the executive management of the Bank is led by Dato' Zarir Jal Cama, the Chief Executive Officer.

Revised BNM/GP1 prescribes a maximum of one (1) executive Director on the Board, preferably the Chief Executive Officer. However, as there are two (2) executive Directors on the Board, that is, the Chief Executive Officer and the Deputy Chief Executive, the Bank has, on 8 December 2005, obtained Bank Negara Malaysia's approval to retain both executive Directors on the Board.

#### Roles and Responsibilities of the Board

The Board is responsible for the overall corporate governance of the Bank, including its strategic direction, establishing goals for management and monitoring the achievement of these goals. The role and function of the Board are clearly documented in a Shareholder's Mandate.

The Board has a formal schedule of matters reserved to itself for approval, which includes annual plans and performance targets, procedures for monitoring and control of operations, specified senior appointments, acquisitions and disposals above pre-determined thresholds and any substantial changes in the balance sheet management policy.

The Board carries out various functions and responsibilities laid down by Bank Negara Malaysia in guidelines and directives that are issued by Bank Negara Malaysia from time to time.

Board Responsibility and Oversight (continued)

#### **BOARD OF DIRECTORS (continued)**

## Frequency and Conduct of Board Meetings

The Board ordinarily meets at least four (4) times a year, usually in the month following the closure of each financial quarter. During the financial year, the Board met on five (5) occasions.

However, as Revised BNM/GP1 requires the Board to meet preferably on a monthly basis, but in any event, no less than once every two (2) months, the frequency of the Board meetings has been revised to once every two (2) months and the Board will meet six (6) times in 2007.

The Board receives reports on the progress of the Bank's business operations and minutes of meetings of Board Committees for review at each of its meetings. At these meetings, the members also consider a variety of matters including the Bank's financial results, major investment and strategic decisions and corporate governance matters. The Board also receives a number of annual presentations from each key business area, and on any other topic as they request.

The agenda for every Board meeting, together with comprehensive management reports, proposal papers and supporting documents are distributed to the Directors in advance of all Board meetings, to allow time for appropriate review and to enable full discussion at the meetings. All proceedings from the Board meetings are minuted. Minutes of every Board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at the following Board meeting.

Revised BNM/GP1 requires non-executive Directors to have a minimum attendance of at least 75% of all Board meetings.

The attendance of Directors at the Board meetings held in the financial year ended 31 December 2006 was as follows:

Name of members	Independent/ Non-Independent	Attendance and number of meetings
Michael Roger Pearson Smith	Chairman, non-independent non-executive Director	5/5
Dato' Zarir Jal Cama	Deputy Chairman and Chief Executive Officer	5/5
Ian Douglas Francis Ogilvie	Executive Director and Deputy Chief	5/5
	Executive	
Douglas Jardine Flint	Non-independent non-executive Director	5/5
Dato' Sulaiman bin Sujak	Non-independent non-executive Director	5/5
Dato' Henry Sackville Barlow	Independent non-executive Director	4/5
Datuk Ramli bin Ibrahim	Independent non-executive Director	5/5
Datuk Dr Zainal Aznam bin Mohd Yusof	Independent non-executive Director	3/5*
Professor Emeritus Dr Mohamed Ariff bin	Independent non-executive Director	4/5
Abdul Kareem		
Dato' Zuraidah binti Atan	Independent non-executive Director	5/5

<sup>\*</sup> Datuk Zainal Aznam bin Mohd Yusof did not fulfill the minimum attendance requirement in 2006 due to a late change to the date of the Board meeting in July 2006.

Board Responsibility and Oversight (continued)

#### **BOARD COMMITTEES**

The Board has established Board Committees as well as various Management Committees to assist the Board in the running of the Bank. The functions and Terms of Reference of the Board Committees and Management Committees, as well as authority delegated by the Board to these Committees, have been clearly defined by the Board.

The Board Committee and Management Committees in the Bank are as follows:

#### **Board Committees**

- Audit Committee
- Risk Management Committee
- Nominating Committee

The Risk Management Committee and Nominating Committee were established in 2006 pursuant to Revised BNM/GP1. Revised BNM/GP1 also requires the Board to establish a Remuneration Committee. However, the Bank has, on 28 April 2006, obtained BNM's exemption from this requirement.

### **Management Committees**

- Executive Committee
- Credit Committee
- Asset and Liability Management Committee
- Human Resource Steering Committee
- IT Steering Committee
- Operational Risk Management Committee
- Property Committee
- Senior Succession Planning Committee

Board Responsibility and Oversight (continued)

#### **AUDIT COMMITTEE**

## Membership

The present members of the Audit Committee ('the Committee') comprise:

Datuk Ramli bin Ibrahim (Chairman)

Dato' Sulaiman bin Sujak

Dato' Henry Sackville Barlow

Dato' Zuraidah binti Atan

#### Meetings

A total of four (4) Audit Committee meetings were held during the financial year. The attendance of the Directors at the Audit Committee meetings held in 2006 was as follows:

Name of members	Independent/ Non-Independent	Attendance
		and number
		of meetings
Datuk Ramli bin Ibrahim	Chairman, Independent non-executive Director	4 / 4
Dato' Henry Sackville Barlow	Independent non-executive Director	3 / 4
Dato' Sulaiman bin Sujak	Non-independent non-executive Director	4 / 4
Dato' Zuraidah binti Atan	Independent non-executive Director	2 / 2*

<sup>\*</sup> Dato' Zuraidah binti Atan was appointed as a member of the Audit Committee in April 2006.

#### **Terms of Reference**

The Terms of Reference were approved at the meetings of the Audit Committee and Board held on 19 July 2005.

#### <u>Membership</u>

The Committee shall comprise not less than three independent non-executive Directors.

The appointment to the Committee of members and of the Chairman shall be subject to endorsement by the HSBC Group Audit Committee.

The Board may from time to time appoint additional members to the Committee from among the non-executive directors it has determined to be independent. In the absence of sufficient independent non-executive directors, the Board may appoint individuals from elsewhere in the HSBC Holdings plc Group ('HSBC Group') with no line or functional responsibility for the activities of the Bank or its subsidiaries.

The Chairman of the Committee shall be appointed by the Board following election by the members of the Committee.

Board Responsibility and Oversight (continued)

### **AUDIT COMMITTEE (continued)**

The Committee may invite any director, executive, external auditor or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.

### Meetings and Quorum

The Committee shall meet with such frequency and at such times as it may determine. It is expected that the Committee shall meet at least four (4) times each year.

The quorum for meetings shall be two (2) Directors.

#### **Objective**

The Committee shall be accountable to the Board and shall assist the Board in meeting its responsibilities in ensuring an effective system of internal control and compliance and for meeting its external financial reporting obligations, including its obligations under applicable laws and regulations and shall be directly responsible on behalf of the Board for the selection, oversight and remuneration of the external auditor.

### Responsibilities of the Committee

Without limiting the generality of the Committee's objective, the Committee shall have the following responsibilities, powers, authorities and discretion.

- 1. To monitor the integrity of the financial statements of the Bank, and any formal announcements relating to the Bank's financial performance, reviewing significant financial reporting judgements contained in them. In reviewing the Bank's financial statements before submission to the Board, the Committee shall focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgemental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with applicable listing and other legal requirements in relation to financial reporting.

#### In regard to the above:

- (i) members of the Committee shall liaise with the Board, members of senior management and the principal financial officer and the Committee shall meet, at least once a year, with the external auditor and head of internal audit; and
- (ii) the Committee shall consider any significant or unusual items that are, or may need to be, reflected in the annual report and accounts and shall give due consideration to any matters raised by the principal financial officer, head of internal audit, head of compliance or external auditor.

Board Responsibility and Oversight (continued)

### **AUDIT COMMITTEE (continued)**

(iii) the Committee shall ensure that the accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies and bad and doubtful debts.

### Responsibilities of the Committee (continued)

- 2. To review the Bank's financial and accounting policies and practices.
- 3. To review the Bank's internal financial controls and its internal control and risk management systems.
- 4. To monitor and review the internal audit plan, the effectiveness of the internal audit function and co-ordination between the internal and external auditors, consider the major findings of internal investigations and management's response, obtain assurances that the internal audit function is adequately resourced and has appropriate standing and is free from constraint by management or other restrictions. The Committee shall approve the appointment and removal of the head of internal audit.
- 5. To make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor.
- 6. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements and reports from the external auditors on their own policies and procedures regarding independence and quality control and to oversee the appropriate rotation of audit partners with the external auditor.
- 7. To implement the HSBC Group policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; where required under that policy to approve in advance any non-audit services provided by the external auditor that are not prohibited by the Sarbanes-Oxley Act of 2002 (in amounts to be pre-determined by the HSBC Group Audit Committee) and the fees for any such services; to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken. For this purpose "external auditor" shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally.
- 8. To review the external auditor's management letter and management's response, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and management's response, the external auditors' annual report on the progress of the audit and management's annual internal control report.
- 9. To ensure a timely response is provided to the issues raised in the external auditor's management letter.

Board Responsibility and Oversight (continued)

### **AUDIT COMMITTEE (continued)**

### Responsibilities of the Committee (continued)

- 10. To discuss with the external auditor their general approach, nature and scope of their audit and reporting obligations before the audit commences including, in particular, the nature of any significant unresolved accounting and auditing problems and reservations arising from their interim reviews and final audits, major judgmental areas (including all critical accounting policies and practices used by the Bank and changes thereto), all alternative accounting treatments that have been discussed with management together with the potential ramifications of using those alternatives, the nature of any significant adjustments, the going concern assumption, compliance with accounting standards and legal requirements, reclassifications or additional disclosures proposed by the external auditor which are significant or which may in the future become material, the nature and impact of any material changes in accounting policies and practices, any written communications provided by the external auditor to management and any other matters the external auditor may wish to discuss (in the absence of management where necessary).
- 11. To review and discuss management's statement on internal control systems prior to endorsement by the Board, the effectiveness of the Bank's internal control systems and procedures for compliance with the HSBC Group compliance policy and the relevant regulatory and legal requirements in each of the markets where the Company is represented and whether management has discharged its duty to have an effective internal control system.
- 12. To consider any findings of major investigations of internal control matters as delegated by the Board or on the Committee's initiative and management's response.
- 13. To receive an annual report, and other reports from time to time as may be required by applicable laws and regulations, from the principal executive officer and principal financial officer to the effect that such persons have disclosed to the Committee and to the external auditor all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which could adversely affect the Bank's ability to record and report financial data and any fraud, whether material or not, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.
- 14. To review such information as the Disclosure Committee (if any) may request (including reports and minutes of the Disclosure Committee) from time to time.
- 15. To provide to the Board such assurances as it may reasonably require regarding compliance by the Bank, its subsidiaries and those of its associates for which it provides management services with all supervisory and other regulations to which they are subject.
- 16. To provide to the Board such additional assurance as it may reasonably require regarding the reliability of financial information submitted to it.

Board Responsibility and Oversight (continued)

#### **AUDIT COMMITTEE (continued)**

# Responsibilities of the Committee (continued)

- 17. To receive from the Compliance function reports on the treatment of substantiated complaints regarding accounting, internal accounting controls or auditing matters received through the HSBC Group Disclosure Line (or such other system as the HSBC Group Audit Committee may approve) for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- 18. To review regular risk management reports setting out the risks involved in the Bank's business and how they are controlled and monitored by management and to review the effectiveness of the risk management framework.
- 19. To agree the Bank's policy for the employment of former employees of the external auditor, within the terms of the HSBC Group's policy.
- 20. Where applicable to review the composition, powers, duties and responsibilities of subsidiary companies' Audit Committees.
- 21. To undertake or consider on behalf of the Chairman or the Board such other related tasks or topics as the Chairman or the Board may from to time entrust to it.
- 22. The Committee alone shall meet with the external auditor and with the head of internal audit at least once each year to ensure that there are no unresolved issues or concerns.
- 23. The Committee may appoint, employ or retain such professional advisors as the Committee may consider appropriate. Any such appointment shall be made through the secretary to the Committee, who shall be responsible for the contractual arrangements and payment of fees by the Company on behalf of the Committee.
- 24. The Committee shall review annually the Committee's terms of reference and its own effectiveness and recommend to the Board and HSBC Group Audit Committee any necessary changes.
- 25. To report to the Board on the matters set out in these terms of reference.
- 26. To provide half-yearly certificates to the HSBC Group Audit Committee, or to any audit committee of an intermediate holding company in the form required by the HSBC Group Audit Committee. Such certificates to include a statement that the members of the Committee are independent.
- 27. To review any related party transactions that may arise within the Bank and the HSBC Group.

Where the Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board on action needed to address the issue or to make improvements and shall report any such concerns to the HSBC Group Audit Committee or to any audit committee of an intermediate holding company.

#### RISK MANAGEMENT COMMITTEE

#### **Membership**

The present members of the Risk Management Committee ('the Committee') comprise:

Dato' Henry Sackville Barlow (Chairman) Dato' Sulaiman bin Sujak Datuk Ramli bin Ibrahim Dato' Zuraidah binti Atan

#### **Meetings**

The first meeting of the Risk Management Committee was held on 17 July 2006 and a total of two (2) Risk Management Committee meetings were held during the financial year. The attendance of the Directors at the Risk Management Committee meetings held in 2006 was as follows:

Name of members	Independent/ Non-Independent	Attendance and
		number of
		meetings
Dato' Henry Sackville Barlow	Chairman, Independent non-executive Director	1/2
Dato' Sulaiman bin Sujak	Non-independent non-executive Director	2/2
Datuk Ramli bin Ibrahim	Independent non-executive Director	2/2
Dato' Zuraidah binti Atan	Independent non-executive Director	2/2

### **Terms of Reference**

The Terms of Reference were approved at the meeting of the Board held on 9 February 2006.

## **Membership**

The Committee shall comprise not less than three non-executive directors. All members shall be non-executive directors.

The Chairman of the Committee shall be an independent non-executive director appointed by the Board.

The Committee may invite any director, executive or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.

The Committee shall be supported by executives from the Bank's Executive Committee, Asset and Liability Committee and Audit Committee, or such other persons as the Committee shall consider appropriate. The Committee Secretary shall circulate such reports and minutes of the Risk Committees as are appropriate to all members of the Committee.

Board Responsibility and Oversight (continued)

### RISK MANAGEMENT COMMITTEE (continued)

## Meetings and Quorum

The Committee shall meet with such frequency and at such times as it may determine but in any event, not less than once every quarter.

The quorum for meetings shall be two non-executive directors, including one independent non-executive director.

At all meetings of the Committee, the Chairman of the Committee, if present, shall preside. If the Chairman is absent, the members present at the meeting shall elect a chairman of the meeting, who shall be an independent non-executive director.

### **Objective**

The purpose of the Committee is to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process is in place and functioning.

### Responsibilities of the Committee

- 1. Without limiting the generality of the Committee's objective, the Committee shall have the following responsibilities:
  - 1.1 To review and recommend risk management strategies, policies and risk tolerance for the Board's approval.
  - 1.2 To review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
  - 1.3 To ensure infrastructure, resources and systems are in place for risk management, i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independent of the Bank's risk taking activities.
  - 1.4 To review management's periodic reports on risk exposure, risk portfolio composition and risk management activities.
- 2. In order to be consistent with HSBC Group's global risk management strategies, where strategies and policies related to the objective of this Committee are driven by the parent company, the Committee shall:
  - 2.1 Discuss, evaluate and provide input on strategies and policies to suit local environment; and
  - 2.2 Deliberate and make the necessary recommendations on such strategies and policies to assist the Board when approving major issues and strategies.

Board Responsibility and Oversight (continued)

## RISK MANAGEMENT COMMITTEE (continued)

- 3. Where major decisions related to the objective of this Committee are made by the parent company, the Committee shall evaluate the issues before making recommendations to the Board for endorsement and adoption of the decision/strategy/policy. The policies adopted shall adhere to the laws of Malaysian jurisdiction and regulations.
- 4. The Committee shall not be delegated with decision making powers but shall report its recommendation to the Board for decision.

### Written or Circulating Resolution

Any resolution in writing, signed or assented to by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly called and constituted and may consist of several documents in the like form each signed by one or more of the members of the Committee.

#### Amendment

The Committee shall from time to time review the Committees' terms of reference and its own effectiveness and recommend to the Board any necessary changes.

#### NOMINATING COMMITTEE

#### **Membership**

The present members of the Nominating Committee ('the Committee') comprise:

Datuk Dr Zainal Aznam bin Mohd Yusof (Chairman) Dato' Zarir Jal Cama Dato' Sulaiman bin Sujak Professor Emeritus Dr Mohamed Ariff bin Abdul Kareem Dato' Zuraidah binti Atan

#### **Meetings**

The first meeting of the Nominating Committee was held on 22 November 2006. One meeting was held during the financial year. The attendance of the Directors at the Nominating Committee meetings held in 2006 was as follows:

Name of members	Independent/ Non-Independent	Attendance and number of meetings
Datuk Dr Zainal Aznam bin Mohd Yusof	Chairman, Independent non-executive Director	1/1
Dato' Zarir Jal Cama	Deputy Chairman and Chief Executive Officer	1 / 1
Dato' Sulaiman bin Sujak	Non-independent non-executive Director	1 / 1
Professor Emeritus Dr Mohamed Ariff bin Abdul Kareem	Independent non-executive Director	1 / 1
Dato' Zuraidah binti Atan	Independent non-executive Director	1 / 1

## **Terms of Reference**

The Terms of Reference were approved at the meeting of the Board held on 9 February 2006.

## **Membership**

The Committee shall consist of a minimum of five members, of which at least four must be non-executive directors.

The Chairman of the Committee shall be an independent non-executive directors appointed by the Board. In order to avoid conflict of interest, a member of the Committee shall abstain from participating in discussions and decisions on matters involving him.

The Committee may invite any director, executive or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.

Board Responsibility and Oversight (continued)

#### **NOMINATING COMMITTEE (continued)**

## Meetings and Quorum

The Committee shall meet with such frequency and at such times as it may determine but in any event, not less than once a year.

The quorum for meetings shall be two non-executive directors, including one independent non-executive director.

At all meetings of the Committee, the Chairman of the Committee, if present, shall preside. If the Chairman is absent, the members present at the meeting shall elect a chairman of the meeting, who shall be an independent non-executive director.

#### **Objective**

The Committee shall provide a formal and transparent procedure for the appointment of directors and Chief Executive Officer as well as assessment of effectiveness of individual directors, Board as a whole and the performance of the Chief Executive Officer and key senior management officers.

# Responsibilities of the Committee

- 1. Without limiting the generality of the Committee's objective, the Committee shall have the following responsibilities:
  - 1.1 To establish minimum requirements for the Board, i.e. required mix of skills, experience, qualification and other core competencies required of a director. The Committee shall also be responsible for establishing minimum requirements for the Chief Executive Officer;
  - 1.2 To recommend and assess the nominees for directorship, Board committee members as well as nominees for the CEO. This includes assessing directors for reappointment, before an application for approval is submitted to Bank Negara Malaysia. The actual decision as to who shall be nominated should be the responsibility of the full Board;
  - 1.3 To oversee the overall composition of the Board, in terms of the appropriate size and skills, and the balance between executive directors, non-executive directors and independent directors through annual review;
  - 1.4 To recommend to the Board the removal of a director/CEO from the Board/management if the director/CEO is ineffective, errant and negligent in discharging his responsibilities;
  - 1.5 To establish a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO and other key senior management officers. Annual assessment should be conducted based on an objective performance criterion. Such performance criteria should be approved by the full Board;

Board Responsibility and Oversight (continued)

#### **NOMINATING COMMITTEE (continued)**

- 1.6 To ensure that all directors receive an appropriate continuous training program in order to keep abreast with the latest developments in the industry;
- 1.7 To oversee the appointment, management succession planning and performance evaluation of key senior management officers;
- 1.8 To recommend to the Board the removal of key senior management officers if they are ineffective, errant and negligent in discharging their responsibilities; and
- 1.9 To assess, on an annual basis, to ensure that the directors and key senior management officers are not disqualified under section 56 of the Banking and Financial Institutions Act 1989.
- 2. In order to be consistent with HSBC Group's global strategies, where strategies and policies related to the objective of this Committee are driven by the parent company, the Committee shall:
  - 2.1 Discuss, evaluate and provide input on strategies and policies to suit local environment; and
  - 2.2 Deliberate and make the necessary recommendations on such strategies and policies to assist the Board when approving major issues and strategies
- 3. Where major decisions related to the objective of this Committee are made by the parent company, the Committee shall evaluate the issues before making recommendations to the Board for endorsement and adoption of the decision/strategy/policy. The policies adopted shall adhere to the laws of Malaysian jurisdiction and regulations.
- 4. The Committee shall not be delegated with decision making powers but shall report its recommendation to the Board for decision.

#### Written or Circulating Resolution

Any resolution in writing, signed or assented to by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly called and constituted and may consist of several documents in the like form each signed by one or more of the members of the Committee.

#### Amendment

The Committee shall from time to time review the Committees' terms of reference and its own effectiveness and recommend to the Board any necessary changes.

#### MANAGEMENT REPORTS

Board meetings are structured around a pre-set agenda and reports for discussion, notation and approvals are circulated in advance of the meeting dates. To enable directors to keep abreast with the performance of the Bank, reports submitted to the Board include:

- Quarterly business progress report
- Quarterly assets and liabilities summary
- Quarterly profit and loss statement
- Quarterly key financial ratios and statistics
- Quarterly significant Bank Negara Malaysia and HSBC Group's requirements
- Quarterly Bank Negara Malaysia's benchmarking statistics
- Quarterly derivatives outstanding
- Quarterly update on Basel II and Sarbanes-Oxley projects
- Quarterly risk management reports on sub-standard accounts and bad and doubtful debts
- Quarterly credit advances reports
- Minutes of the monthly Executive Committee meetings held
- Minutes of the monthly Asset and Liability Management Committee meetings held
- Minutes of the Audit Committee meetings held
- Minutes of the Risk Management Committee meetings held
- Human resource update
- Environmental issues update
- Comparative analysis of competitor banks

#### INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

The Board of Directors is responsible for internal control and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud.

Systems and procedures are in place to identify, control and report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational error, breaches of law or regulations, unauthorised activities and fraud. Exposure to these risks is monitored by the Asset and Liability Management Committee (ALCO), Executive Committee (EXCO), Operational Risk Committee, Audit Committee, Risk Management Committee and Board of Directors.

Responsibilities for financial performance against plans and for capital expenditure, credit exposures and market risk exposures are delegated with limits to line management. Functional management in HSBC Group Head Office has been given responsibility to set policies, procedures and standards in the areas of finance; legal and regulatory compliance; internal audit; human resources; credit; market risk; operational risk; computer systems and operations; property management; and for certain global product lines. The Bank operates within these policies, procedures and standards set by the HSBC Group Head Office functions.

The Bank's internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Bank in conjunction with other HSBC Group Internal Audit units. The work of the internal audit function is focused on areas of greatest risk to the Bank as determined by a risk-based approach. The head of the internal audit function reports to the Audit Committee and the Head of HSBC Group Audit function for the Asia Pacific region.

The Audit Committee has kept under review the effectiveness of this system of internal control and has reported regularly to the Board of Directors. The key processes used by the Committee in carrying out its reviews include regular reports from the heads of key risk functions; the production annually of reviews of the internal control framework (RICF – a self certification process) against HSBC Group benchmarks, which cover all internal controls, both financial and non-financial; annual confirmations from the Chief Executive Officer that there have been no material losses, contingencies or uncertainties caused by weaknesses in internal controls; internal audit reports; external audit reports; prudential reviews; and regulatory reports.

The Audit Committee has also reviewed the annual internal audit plan to ensure adequate scope and comprehensive coverage on the audit activities, effectiveness of the audit process, adequate resource deployment for the year and satisfactory performance of the Bank's Internal Audit Unit. The Committee has reviewed the internal audit reports, audit recommendations made and management's response to these recommendations. Where appropriate, the Committee has directed action to be taken by the Bank's management team to rectify any deficiencies identified by internal audit and improve the system of internal controls based on the internal auditors' recommendations for improvements.

The Directors, through the Audit Committee and the Risk Management Committee, have conducted an annual review of the effectiveness of the Bank's system of internal control covering all controls, including financial, operational and compliance controls and risk management.

#### RISK MANAGEMENT

All of the Bank's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The key business risks are credit risk, liquidity risk, market risk and operational risk. Market risk includes foreign exchange, interest rate and equity price risk.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of reliable and up-to-date administrative and information systems. The Bank continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Training, individual responsibility and accountability, together with a disciplined, conservative and constructive culture of control, lie at the heart of the Bank's management of risk.

The Executive Committee, Operational Risk Management Committee and Asset and Liability Management Committee, appointed by the Board of Directors, formulate risk management policy, monitors risk and regularly reviews the effectiveness of the Bank's risk management policies.

The Risk Management Committee has been entrusted with the responsibility to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process is in place and functioning.

#### Credit risk management

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from lending, trade finance and treasury activities. The Bank has dedicated standards, policies and procedures to control and monitor all such risks.

A Credit and Risk Management structure under the Chief Credit Officer who reports to the Chief Executive Officer, is in place to ensure a more coordinated management of credit risk and a more independent evaluation of credit proposals. The Chief Credit Officer has a functional reporting line to the HSBC Group General Manager, Group Credit and Risk.

The Bank has established a credit process involving credit policies, procedures and lending guidelines which are regularly updated and credit approval authorities delegated from the Board of Directors to the Credit Committee. Excesses or deterioration in credit risk grade are monitored on a regular and ongoing basis and at the periodic, normally annual, review of the facility. The objective is to build and maintain risk assets of high quality where risk and return are commensurate. Reports are produced for Executive Committee, Risk Management Committee and the Board, covering:

- risk concentrations and exposures to industry sectors;
- large customer group exposures; and
- large non-performing accounts and impairment allowances.

The Bank has systems in place to control and monitor its exposure at the customer and counterparty level. Regular audits of credit processes are undertaken by the Internal Audit function. Such audits include consideration of the completeness and adequacy of credit manuals and lending guidelines, together with an in-depth analysis of a representative sample of accounts, an overview of homogeneous portfolios of similar assets to assess the quality of the loan book and other exposures, and adherence to HSBC Group standards and policies in the extension of credit facilities.

Risk Management (continued)

### **Credit risk management (continued)**

Individual accounts are reviewed to ensure that risk grades are appropriate, that credit and collection procedures have been properly followed and that, where an account evidences deterioration, impairment allowances are raised in accordance with the HSBC Group's established processes. Internal Audit will discuss with management risk ratings they consider to be inappropriate, and their subsequent recommendations for revised grades must then be assigned to the facilities concerned.

At balance sheet date, exposure to the purchase of residential property accounted for 36% (2005: 38%) of total loans, advances and financing. Other concentrations of credit risk by economic purposes are disclosed in Note 6(iv).

#### Liquidity and funding management

The Bank maintains a diversified and stable funding base of core retail and corporate customer deposits as well as portfolios of highly liquid assets. The objective of the Bank's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due.

The management of liquidity and funding is primarily carried out in accordance with the Bank Negara Malaysia New Liquidity Framework; and practice and limits set by the HSBC Group Management Board. The HSBC Group Management Board ('GMB') operates as a general management committee under the direct authority of the HSBC Group Board of Directors. The HSBC GMB exercises the powers, authorities and discretions of the HSBC Group Board of Directors in so far as they concern the management and day to day running of the HSBC Group in accordance with such policies and directions as the HSBC Group Board of Directors may from time to time determine. These limits vary to take account of the depth and liquidity of the local market in which we operate. The Bank maintains a strong liquidity position and manages the liquidity profile of assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due.

The Bank's liquidity and funding management process includes:

- projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications for the business.

Risk Management (continued)

#### Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and equity prices, will reduce the Bank's income or the value of its portfolios.

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the HSBC Group's status as a premier provider of financial products and services.

The Bank separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market making and proprietary position taking. Non-trading portfolios primarily arise from the management of the commercial banking assets and liabilities.

The management of market risk is principally undertaken using risk limit mandates approved by the HSBC Group Traded Markets Development and Risk Unit ('TMR') (an independent unit which develops HSBC Group's market risk management policies and measurement techniques). Market risks which arise on each product is transferred to the Bank's Global Markets unit and ALCO portfolio for management as the Global Markets unit has the necessary skills and tools to professionally manage such risks. Limits are set for each portfolio, product currency and risk type, with market liquidity being the principal factor in determining the level of limits set. The Bank has an independent market risk control function that is responsible for measuring market risk exposures in accordance with the policies defined by TMR and monitoring and reporting these exposures against the prescribed limits on a daily basis. Positions are monitored daily and excesses are reported immediately to local senior management and HSBC Group Treasury.

Market risk in the trading portfolio is monitored and controlled at both portfolio and position levels using a complimentary set of techniques such as value at risk ('VAR') and present value of a basis point, together with stress and sensitivity testing and concentration limits. Other controls to contain trading portfolio market risk at an acceptable level include rigorous new product approval procedures and a list of permissible instruments to be traded.

Market risk in non-trading portfolios arises principally from mismatches between the future yields on assets and their funding cost as a result of interest rate changes. This market risk is transferred to Global Markets and ALCO portfolio, taking into account both the contractual and behavioural characteristics of each product to enable the risk to be managed effectively. Behavioural assumptions for products with no contractual maturity are normally based on two-year historical trend. These assumptions are important as they reflect the underlying interest rate risk of the products and hence are subject to scrutiny from ALCO, the regional head office and TMR. The net exposure is monitored against the limits granted by TMR for the respective portfolios and, depending on the view on future market movement, economically hedged with the use of interest rate swaps.

Risk Management (continued)

## Market risk management (continued)

Value at risk ('VAR')

One of the principal tools used by the Bank to monitor and limit market risk exposure is VAR. VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a 99 per cent level of confidence. The Bank calculates VAR daily. The VAR model used by the Bank is predominantly based on historical simulation. The historical simulation model derives plausible future scenarios from historical market rates time series, taking account of inter-relationships between different markets and rates, for example between interest rates and foreign exchange rates. Potential movements in market prices are calculated with reference to market data from the last two years and these rate changes are applied to current positions to create a profit and loss distribution for the portfolio. The 99 per cent confidence interval for this distribution represents the Bank's one-day VAR.

Although a valuable guide to risk, VAR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a 1-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence;
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Bank recognises these limitations by augmenting its VAR limits with other position and sensitivity limit structures. Stress tests are produced on a monthly basis based on the HSBC Group's stress-testing parameters, and on a quarterly basis based on Bank Negara Malaysia's parameters to determine the impact of changes in interest rates, exchange rates and other main economic indicators on the Bank's profitability and capital adequacy. The stress-testing provides ALCO with an assessment of the financial impact of identified extreme events on the market risk exposures of the Bank.

Derivative financial instruments (principally interest rate swaps) are used for hedging purposes in the management of asset and liability portfolios and structured positions. This enables the Bank to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of the assets and liabilities.

Risk Management (continued)

### **Operational risk management**

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency, systems failure or external events. It is inherent to every business organisation and covers a wide spectrum of issues.

The Bank manages this risk through a control-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by Internal Audit, and by monitoring external operational risk events, which ensure that the Bank stays in line with best practice and takes account of lessons learned from publicised operational failures within the financial services industry.

The Bank adheres to the HSBC Group standard on operational risk. This standard explains how HSBC manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events and implementing any additional procedures required for compliance with local statutory requirements. The standard covers the following:

- operational risk management responsibility is assigned at senior management level within the business operation;
- information systems are used to record the identification and assessment of operational risks and generate appropriate, regular management reporting;
- operational risks are identified by assessments covering operational risks facing each business and risk inherent in processes, activities and products. Risk assessment incorporates a regular review of identified risks to monitor significant changes;
- operational risk loss data is collected and reported to senior management. Aggregate operational risk losses are recorded and details of incidents above a materiality threshold are reported to the Audit Committee; and
- risk mitigation, including insurance, is considered where this is cost-effective.

The Bank maintains and tests contingency facilities to support operations in the event of disasters. Additional reviews and tests are conducted in the event that the Bank is affected by a business disruption event to incorporate lessons learned in the operational recovery from those circumstances.

# RATINGS STATEMENT

Rating Agency Malaysia Berhad (RAM) has in May 2006 reaffirmed the Bank's long-term general bank rating at AAA and the short-term rating at  $P_1$ .

# **Bank Rating Symbols and Definitions**

Rating	Definition
AAA	Financial Institutions rated in this category are adjudged to offer the highest safety for timely payments of financial obligations. This level of rating indicates corporate entities with strong balance sheets, favourable credit profiles and consistent records of above-average profitability. Their capacities for timely payments of contractual financial obligations are unlikely to be impacted seriously by any foreseeable changes in economic conditions.
$P_I$	Financial institutions in this category have superior capacities for timely payments of obligations.

#### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

The directors have pleasure in submitting their report and the audited financial statements of the Bank and of the group for the year ended 31 December 2006.

## **Principal Activities**

The principal activities of the Bank are banking and related financial services which also include Islamic banking business.

The principal activities of the subsidiary companies are as disclosed in Note 10 to the financial statements.

Group and Bank

There have been no significant changes in these activities during the year.

#### Results

	Group and Bank
	RM'000
Profit before taxation and zakat	949,062
Taxation and zakat	(261,656)
Profit after taxation and zakat	687,406

#### **Dividends**

Since the end of the previous financial year, the Bank paid a final dividend of 182.0% less tax totalling RM150 million as proposed in the previous year's directors' report. The Bank also paid an interim dividend of 182.0% less tax amounting to RM150 million in respect of financial year 2006.

The directors now recommend a final dividend of 303.3% less tax totalling RM250 million in respect of the current financial year on the fully issued and paid-up ordinary shares of the Bank.

#### **Reserves and Provisions**

There were no material transfers to or from reserves or provisions during the year other than those disclosed in the financial statements.

Directors' Report (continued)

### **Bad and Doubtful Debts and Financing**

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

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

#### **Current Assets**

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

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank and of the group misleading.

#### Valuation Methods

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

#### **Contingent and Other Liabilities**

At the date of this report there does not exist:

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

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

Directors' Report (continued)

### **Change of Circumstances**

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

#### **Items of an Unusual Nature**

Except as disclosed in the financial statements, the results of the operations of the Bank and of the group for the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

### **Business Strategy During the Year**

In 2006, despite the US economy slowdown and price increases in domestic fuel supply or utilities which had an adverse impact on consumer demand, the Malaysia economy remained resilient. The banking sector was operating in an environment of softening consumer demand and increased competition mainly due to new players entering the banking sector arising from the liberalization policy progressively implemented by Bank Negara Malaysia.

The bank strategy was to continue investing in our brand, people and product development in order to differentiate us in terms of product quality and customer service. The bank continued to recruit talent in all areas and invest substantially on staff training aiming to offer premium quality services to our customers. Despite the increasing competitive commercial banking environment, HSBC is well positioned in all sectors of growth, namely retail and investment banking, Islamic Financing as well as Takaful.

In the recent regional brand tracking study, HSBC rebounded strongly in various brand measurements, reflecting the success of our marketing strategy. Rating Agency Malaysia has reaffirmed the bank's AAA/P1 ratings, reflecting our robust asset quality and strong financial standing. The bank continues to win recognition with various awards in 2006 including:

- 1. The Asset Triple A, Best Bank in Malaysia The Asset
- 2. Best Foreign Bank in Malaysia *Finance Asia*
- 3. Best Overall Foreign Cash Management Bank *Asiamoney*
- 4. Best Islamic Wholesale Bank (HSBC Amanah) Euromoney
- 5. Best for Islamic Private Banking Services (HSBC Amanah) *Euromoney*
- 6. Top rated No. 1 Custodian in Malaysia Global Custody
- 7. Best foreign Exchange bank in Malaysia *Global Finance*
- 8. Best Sub-Custodian in Malaysia Global Finance
- 9. Best Consumer Internet Bank in Malaysia Global Finance
- 10. Award for Excellence in Banking and Finance–Foreign Bank for 2006

  -Technology Business Review

Directors' Report (continued)

### **Business Strategy During the Year (continued)**

The bank continued to grow its mortgage, cards and personal term loans. In September 2006, our credit card business crossed the 1 million cards milestone, making HSBC the 3<sup>rd</sup> largest credit card issuer in Malaysia. The bank was also the leading independent unit trust agent amongst financial institutions in Malaysia and 13 additional unit trust funds were launched in 2006.

In 2006, under the liberalization policy in the finance sector, 3 new branches were opened and the fourth branch is scheduled to open in March 2007, expanding our geographical reach to a wider customer base.

On corporate banking, we continued to extend our competitive advantage with our global network as well as our expertise on cross border financing and international trade. The bank provided support to local companies expanding their operations into China, India and the Middle East.

In 2006, the Ringgit strengthened against USD and the Bank Negara Overnight Policy Rate was revised upwards twice. The volatility in rates resulted in greater hedging activity from corporate and institutional clients as well as higher trading opportunities. The bank continued to be the market leader in foreign exchange and interest rate derivatives in Malaysia. The bank also maintained its market leadership position in Debt Capital markets, being the top Foreign Bookrunner for Malaysian Bonds and also the top Syndicated Loan Manager in Malaysia for 2006, amid a market environment where corporate customers were seeking funds for local and foreign investment projects.

HSBC has proactively built its profile and visibility in the SME and commercial banking space through marketing activities, campaigns and sponsorships, as well as setting up our SME infrastructure. The bank introduced Business Internet Banking and Business Telephone Banking to provide our customers with greater access to our services and products.

In line with the government direction to promote Malaysia as the International Islamic Financial Hub, HSBC is committed to grow its Islamic banking business. Through HSBC Amanah Takaful, the bank aims to offer a full range of Islamic finance solutions to our customers.

HSBC has successfully reduced its gross NPL ratio from 3.12% last year to 2.15% as at 31 December 2006. The credit risk management of the bank utilised its risk identification database management system to enhance its surveillance capability in identifying potential high risk advances in order to contain credit losses.

In 2006, HSBC implemented credit card SMS interactive services and end-to-end straight-thru processing systems, to provide a higher quality of service to customers and improve operational efficiency. The shared ATM network (HOUSe) with three other locally-incorporated foreign banks was also implemented successfully, offering our customers access to an additional 221 ATMs nationwide.

As part of the continuous effort to improve customer experience, the bank has set-up the HSBC Service Centre (HSC) of Excellence. HSC will act as an one-stop service centre for all retail products as well as card operations. Major improvements in service quality were achieved in 2006 led by the bank's Quality Council and Service Transformation Team, namely a higher Net Promoter score, a lower average cashier waiting time and improved call centre abandoned rate, as well as reduced errors rates in processing operations.

Directors' Report (continued)

### **Business Strategy During the Year (continued)**

HSBC custody unit was awarded the Best Sub-Custodian in Malaysia for the 4th consecutive year by Global Finance, recognizing the commitment of the bank in providing excellent custodian services to our customers.

HSBC continued to commit in corporate and social responsibility (CSR). The bank was proactively involved in various CSR programs, not only focusing on education of the environment but also contributing to charities, historical heritage conservation, Arts and Music. HSBC also sponsored NGOs on environmental research programmes. The Bank was invited to be part of the working committee which set up the Socially Responsible Investment (SRI) Index for Malaysia on 1st December 2006.

#### **Outlook For 2007**

With prime pumping activities under the 9th Malaysian Plan and other initiatives such as an expansionary budget for 2007, launching of Visit Malaysia Year and a number of major private sector projects, we are positive on the local economy in 2007. These stimuli are expected to cushion the projected decline in external demand, as the global economic outlook remains uncertain and challenging in 2007.

The government officially projects the 2007 GDP growth at 6% while Malaysia Institute of Economic Research projects the 2007 CPI to trend downwards to 3.0%. Growth segments expected in 2007 are the construction, agriculture and services sector while softening demand is expected in the electronic and electrical sector.

The local banking sector remains highly competitive under the liberalization policy in the finance industry. With a good number of Malaysian clients expanding overseas, HSBC is well positioned to service this customer segment. With the 9th Malaysian Plan being rolled out, we foresee more financing activities on a project basis. There will be a continued and focused push for funding through the debt capital markets, structured treasury products, trade financing, liability management and Amanah financing. Selectively with clients, there will be a push for convertible / exchangeable bonds and REITs.

The volatility in foreign exchange markets is expected to continue providing trading opportunities for the bank and hedging needs by corporate customers. The low interest rate environment has been attracting customers' interest in structured investment products. With the present conducive environment in Malaysia, Islamic financing and hedging solutions are likely to see a substantial growth in usage in the coming year.

In retail banking, the bank will continue to reinforce our market share in core products such as mortgages, personal installment loans, cards, wealth management products and deposit garnering. HSBC will leverage the one million card base by providing a complete financial solution to the card holders. The bank will continue to grow the mortgage book by providing innovative homeloan products that cater for different customer groups. HSBC will collaborate with HSBC Amanah Takaful Malaysia to drive penetration of bancassurance sales into our customer base.

Directors' Report (continued)

### **Outlook For 2007 (continued)**

In 2007, the bank will invest in SME and MME sectors which will be the fastest growth sectors in coming years, amid intensive competition for customers, good quality credit, talent and increased asset attrition. For trade services, the bank will focus on growing Export Factoring, Supply Chain solutions, TradeAdvances and Structure Trade Finance business.

HSBC will continue to increase its operational efficiency and productivity through various operational process re-engineering and customer focused initiatives to reduce processing costs, free up time for sales and service to customers, and improve customer service delivery. Various initiatives to rationalise resources and simplify operational processes will be rolled out in 2007, with the ultimate goal to improve the customer experience.

HSBC is well positioned in all areas of growth and prepared for another challenging year in 2007.

#### **Directors and Their Interests in Shares**

The names of the directors of the Bank in office since the date of the last report and at the date of this report are:

Michael Roger Pearson Smith
Dato' Zarir Jal Cama
Ian Douglas Francis Ogilvie
Douglas Jardine Flint
Dato' Sulaiman bin Sujak
Dato' Henry Sackville Barlow
Datuk Ramli bin Ibrahim
Datuk Dr Zainal Aznam bin Mohd Yusof
Professor Emeritus Dr Mohamed Ariff bin Abdul Kareem
Dato' Zuraidah binti Atan

In accordance with the Articles of Association, Mr Michael Roger Pearson Smith, Mr Douglas Jardine Flint and Datuk Ramli bin Ibrahim retire from the Board at the Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Section 129(2) of the Companies Act, 1965, Dato' Sulaiman bin Sujak being over seventy years (70) of age, retires at the Annual General Meeting, and being eligible, offers himself for reappointment in accordance with Section 129(6) of the Companies Act, 1965.

Directors' Report (continued)

#### **Directors and Their Interests in Shares (continued)**

According to the register of directors' shareholdings maintained by the Bank in accordance with Section 134 of the Companies Act, 1965, the directors holding office at year end who have beneficial interests in the shares of related corporations are as follows:

### **Number of Shares**

Name	Balance at 1.1.2006	Bought	(Sold)	Balance at 31.12.2006
HSBC Holdings plc				
Ordinary shares of USD0.50				
Michael Roger Pearson Smith	86,873	66,927 (A)	(10,000)	143,800
Dato' Zarir Jal Cama	199,071	29,576 (B)	-	228,647
Ian Douglas Francis Ogilvie	3,511	11,157 (C)	(1,485)	13,183
Douglas Jardine Flint	81,726	23,208 (D)	-	104,934
Dato' Sulaiman bin Sujak	44,339	1,088 (E)	-	45,427
Dato' Henry Sackville Barlow	990,000 *	-	-	990,000 *

- (A) Shares were acquired through scrip dividends and share plan awards vested.
- (B) Shares were acquired through purchases, scrip dividends, share plan awards vested and exercise of rights over options.
- (C) Shares were acquired through scrip dividends, share plan awards vested and exercise of rights over options.
- (D) Shares were acquired through scrip dividends, share plan award vested, reinvestment of dividends and purchases.
- (E) Shares were acquired through scrip dividends.

<sup>\*</sup> Indirect interest held through Majedie Investments plc

Directors' Report (continued)

## **Directors and Their Interests in Shares (continued)**

### **Number of Shares**

Name	Awards held at 1.1.2006	Awards made during year *	Awards forfeited during the year	(Awards vested during the year)	Awards held at 31.12.2006
HSBC Holdings plc		<b>y</b>	<i>y</i>	<b>J</b> • · · · /	
Restricted Share Plan					
Michael Roger Pearson Smith	278,038	7,247	<sup>#</sup> (83,729)	(60,881)	140,675
Dato' Zarir Jal Cama	143,895	36,872	-	(12,548)	168,219
Ian Douglas Francis Ogilvie	58,184	15,604	-	(8,142)	65,646
Douglas Jardine Flint	584,304	15,790	<sup>#</sup> (177,883)	(65,761)	356,450
Dato' Sulaiman bin Sujak	6,118	-	-	-	6,118

#### **Number of Shares**

	Awards held at	Awards made during	Awards forfeited during the	(Awards vested during the	Awards held at
Name	1.1.2006	year^	year	year)	31.12.2006
HSBC Holdings plc					
HSBC Share Plan					
Michael Roger Pearson Smith	-	165,102	-	-	165,102
Douglas Jardine Flint	-	353,041	-	-	353,041

<sup>&</sup>lt;sup>^</sup> Included scrip dividends and shares previously reported under the Restricted Share Plan.

### **Number of Shares**

	Balance at				Balance at
Name	1.1.2006	Granted	(Exercised)	(Lapsed)	31.12.2006
<b>Options over HSBC Holdings plc</b>					
Shares					
Michael Roger Pearson Smith	70,500	-	(70,500)	-	-
Dato' Zarir Jal Cama	1,766	418	(1,794)	-	390
Ian Douglas Francis Ogilvie	41,972	-	(7,535)	-	34,437
Douglas Jardine Flint	2,617	-	-	-	2,617

<sup>\*</sup> Includes scrip dividends \* Shares belonging to the HSBC Share Plan but previously reported under the Restricted Share Plan

Directors' Report (continued)

#### **Directors' Benefits**

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the financial statements or the fixed salary of a full-time employee of the Bank or of a related company) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements to which the Bank is a party whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, except for:

- i Directors who were granted the option to subscribe for shares in the ultimate holding company, HSBC Holdings plc, under Executive/Savings-Related Share Option Schemes at prices and terms as determined by the schemes, and
- ii Directors who were conditionally awarded shares of the ultimate holding company, HSBC Holdings plc, under its Restricted Share Plan/HSBC Share Plan.

### **Ultimate Holding Company**

The Directors regard HSBC Holdings BV, a company incorporated in the Netherlands, and HSBC Holdings plc, a company incorporated in England, as the immediate and ultimate holding companies of the Bank, respectively.

#### **Auditors**

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

Signed in accordance with a resolution of the directors:

	Director
DATO' ZARIR JAL CAMA	
	Director
IAN DOUGLAS FRANCIS OGILVIE	

Kuala Lumpur, Malaysia 29 January 2007

#### **DIRECTORS' STATEMENT**

In the opinion of the directors:

We, Dato' Zarir Jal Cama and Ian Douglas Francis Ogilvie, being two of the directors of HSBC Bank Malaysia Berhad, do hereby state on behalf of the directors that, in our opinion, the financial statements set out on pages 40 to 104 are drawn up in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board as modified by Bank Negara Malaysia's guidelines so as to give a true and fair view of the state of affairs of the Bank and of the group as at 31 December 2006 and of the results and cash flows of the Bank and of the group for the year ended on that date.

Signed at Kuala Lumpur, Malaysia this 29 January 2007.
In accordance with a resolution of the directors:
DATO' ZARIR JAL CAMA
Director IAN DOUGLAS FRANCIS OGILVIE

#### STATUTORY DECLARATION

Signature of Commissioner for Oaths

I, Baldev Singh s/o Gurdial Singh, being the officer primarily responsible for the financial management of HSBC Bank Malaysia Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 40 to 104 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960. Subscribed and solemnly declared by the abovenamed BALDEV SINGH s/o GURDIAL SINGH at KUALA LUMPUR in WILAYAH PERSEKUTUAN, MALAYSIA this 29th day of January 2007. ..... BEFORE ME:

# REPORT OF THE AUDITORS TO THE MEMBERS OF HSBC BANK MALAYSIA BERHAD

We have audited the financial statements set out on pages 40 to 104. The preparation of the financial statements is the responsibility of the HSBC Bank Malaysia Berhad's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

#### In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board as modified by Bank Negara Malaysia's guidelines so as to give a true and fair view of:
  - i) the state of affairs of the Bank and of the group at 31 December 2006 and the results of their operations and cash flows for the year ended on that date; and
  - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Bank and the group;

#### and

(b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the said Act.

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

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

**KPMG** 

Firm Number: AF 0758 Chartered Accountants

SIEW CHIN KIANG @ SEOW CHIN KIANG

Partner

Approval Number: 2012/11/08(J)

Kuala Lumpur, Malaysia 29 January 2007

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

### **BALANCE SHEET AS AT 31 DECEMBER 2006**

		Grou	ıp	Bar	ık
	_	2006	2005	2006	2005
	Note	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short term funds Securities purchased under	2	6,114,345	7,710,602	6,114,345	7,710,602
resale agreements Deposits and placements with banks		2,273,539	1,449,760	2,273,539	1,449,760
and other financial institutions	3	1,989,882	479,942	1,989,882	479,942
Securities held-for-trading	4	795,937	703,727	795,937	703,727
Securities available-for-sale	5	3,806,463	3,284,735	3,806,463	3,284,735
Loans, advances and financing	6	24,343,937	21,476,706	24,343,937	21,476,706
Other assets	8	578,089	371,825	578,089	371,825
Statutory deposits with	U	570,007	371,023	570,007	371,023
Bank Negara Malaysia	9	698,648	698,948	698,648	698,948
Investments in subsidiary companies	10	0/0,040	-	21	21
Property, plant and equipment	11	303,387	304,916	303,387	304,916
Intangible assets	12	29,172	5,228	29,172	5,228
Deferred tax assets	13	69,330	56,809	69,330	56,809
Total Assets	_	41,002,729	36,543,198	41,002,750	36,543,219
Total Assets	-	41,002,729	30,343,170	41,002,730	30,343,219
Liabilities		24 022 200	20.017.071	24 022 220	20.015.052
Deposits from customers	14	31,822,208	28,317,351	31,822,229	28,317,372
Deposits and placements of banks	1.5	1.024.226	1.054.700	1.024.226	1.054.700
and other financial institutions Obligations on securities sold	15	1,934,326	1,954,799	1,934,326	1,954,799
under repurchase agreements		1,660,739	1,617,617	1,660,739	1,617,617
Bills and acceptances payable		490,055	475,940	490,055	475,940
Other liabilities	16	1,351,441	942,517	1,351,441	942,517
Recourse obligation on loans sold					
to Cagamas Berhad		899,751	787,931	899,751	787,931
Provision for taxation and zakat	17	31,278	29,716	31,278	29,716
Total liabilities	_	38,189,798	34,125,871	38,189,819	34,125,892
Shareholders' Fund					
Share capital	18	114,500	114,500	114,500	114,500
Reserves	19	2,448,431	2,152,827	2,448,431	2,152,827
Proposed dividend		250,000	150,000	250,000	150,000
Shareholders' funds	-	2,812,931	2,417,327	2,812,931	2,417,327
	_	<u> </u>			
Total Liabilities and Shareholders' Fund	ls _	41,002,729	36,543,198	41,002,750	36,543,219
Commitments and Contingencies	30	60,087,067	47,716,860	60,087,067	47,716,860

The financial statements were approved and authorised for issue by the Board of Directors on 29 January 2007.

# HSBC BANK MALAYSIA BERHAD

(Company No. 127776-V) (Incorporated in Malaysia)

# INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

		Group and	l Bank
	Note	2006 RM'000	2005 RM'000
Revenue		2,831,088	2,235,580
Interest income	20	1,763,687	1,443,345
Interest expense	21	(773,254)	(636,281)
Net interest income		990,433	807,064
Other operating income	22	761,855	623,263
Income from Islamic banking operations	39 (t)	178,801	107,888
Operating income		1,931,089	1,538,215
Other operating expenses	23	(875,215)	(791,255)
Profit before allowance		1,055,874	746,960
Allowance for losses on loans and financing	25	(106,812)	(10,282)
Profit before taxation and zakat		949,062	736,678
Taxation and zakat	26	(261,656)	(211,865)
Profit attributable to shareholders		687,406	524,813
Earnings per RM0.50 share			
- basic / diluted	27	300.2 sen	229.2 sen
Dividends per RM0.50 ordinary share (net)			
- interim dividend paid		65.5 sen	52.4 sen
- proposed		109.2 sen	65.5 sen
		174.7 sen	117.9 sen

#### HSBC BANK MALAYSIA BERHAD

(Company No. 127776-V) (Incorporated in Malaysia)

#### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

Group and Bank Non-distributable → Distributable Available-Capital Share Share Statutory Revaluation redemption for-sale Retained Total Proposed dividend **Total** Note capital premium reserve reserve reserve reserve profits reserves RM'000 Balance as at 1 January 2005 190,000 1,949,667 - as previously reported 114,500 741,375 114,500 118,966 56,671 728,155 100,000 2,164,167 - prior year adjustment 37 (10,381)(10,381)(10,381)114,500 741.375 114,500 118,966 190,000 56,671 717,774 1.939.286 100,000 2.153.786 Net profit for the year - as previously reported 533,685 533,685 533,685 - prior year adjustment 37 (8.872)(8,872)(8,872)Net gains and losses not recognised in the income statement - Net unrealised losses on revaluation (23.635)(23,635)(23,635)Net gains reclassified to income statement (17,637)(17,637)(17,637)Dividend paid - 2004 final (100,000)(100,000)Dividend paid - 2005 interim (120,000)(120,000)(120,000)Proposed dividend - 2005 final (150,000)(150,000)150,000 Balance as at 31 December 2005 114,500 741,375 114,500 118,966 190,000 15,399 972,587 2,152,827 150,000 2,417,327 Balance as at 1 January 2006 114,500 741,375 114,500 118,966 190,000 15,399 972,587 2,152,827 150,000 2,417,327 Net profit for the year 687,406 687,406 687,406 Net gains and losses not recognised in the income statement - Net unrealised gains on revaluation 15,388 15,388 15,388 Net gains reclassified to income statement (7,190)(7,190)(7,190)Dividend paid - 2005 final (150.000)(150,000)Dividend paid - 2006 interim (150,000)(150,000)(150,000)Proposed dividend - 2006 final 250,000 (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 2,448,431 250,000 2,812,931

# HSBC BANK MALAYSIA BERHAD

(Company No. 127776-V) (Incorporated in Malaysia)

# CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Group and Bank	
	2006	2005
	RM'000	RM'000
Cash Flows from Operating Activities		
Profit before taxation and zakat	949,062	736,678
Adjustments for :		
Property, plant and equipment written off	2,298	440
Intangible assets written off	79	5
Depreciation of property, plant and equipment	28,255	28,139
Amortisation of intangible assets	5,762	2,783
Net gain on disposal of property, plant and equipment	(379)	(696)
Dividend income	(2,253)	(2,991)
Operating profit before changes in operating assets	982,824	764,358
(Increase)/ Decrease in operating assets		
Securities purchased under resale agreements	(823,779)	211,921
Deposits and placements with banks and other financial institutions	(1,509,940)	(373,763)
Securities held-for-trading	(92,210)	167,474
Loans, advances and financing	(2,867,231)	(2,512,915)
Other assets	(206,264)	(72,968)
Statutory deposits with Bank Negara Malaysia	300	64,000
Increase/ (Decrease) in operating liabilities		
Deposits from customers	3,504,857	1,760,666
Deposits and placements of banks and other financial institutions	(20,473)	522,463
Obligations on securities sold under repurchase agreements	43,122	(194,488)
Bills and acceptances payable	14,115	143,038
Other liabilities	408,924	315,227
Recourse obligation on loans sold to Cagamas Berhad	111,820	157,743
Net cash (used in)/ generated from operating activities before income tax	(453,935)	952,756
Taxes and zakat paid	(275,803)	(226,513)
Net cash (used in)/ generated from operating activities	(729,738)	726,243
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(31,319)	(40,195)
Purchase of intangible assets	(29,785)	(2,860)
Proceeds from disposal of property, plant and equipment	2,674	1,961
Securities available-for-sale	(510,342)	1,475,044
Dividend received	2,253	2,991
Net cash (used in)/ generated from investing activities	(566,519)	1,436,941
Cash Flows from Financing Activities		
Dividends paid	(300,000)	(220,000)
Net cash used in financing activities	(300,000)	(220,000)
Net (decrease)/ increase in Cash and Cash Equivalents	(1,596,257)	1,943,184
Cash and Cash Equivalents at beginning of year	7,710,602	5,767,418
Cash and Cash Equivalents at end of year	6,114,345	7,710,602
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	6,114,345	7,710,602
	/ 1	, -,

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

#### Notes to the Financial Statements as at 31 December 2006

# 1 Summary of Significant Accounting Policies

The accounting policies adopted by the Group and the Bank are consistent with those adopted in the previous years except for the adoption of the new and revised Financial Reporting Standards (FRS) issued by the Malaysian Accounting Standards Boards (MASB) that are effective for accounting periods beginning on or after 1 January 2006 or available for early adoption.

In this set of financial statements, the Group and the Bank have chosen not to early adopt the following FRSs:

FRS 117	Leases, which is effective for financial periods beginning on or after 1 October
	2006.
FRS 124	Related Party Disclosure, which is effective for financial periods beginning on or
	after 1 October 2006.
FRS 139	Financial Instruments: Recognition and Measurement, for which the MASB has
	yet to announce the effective date of the standard.

The impact of applying FRS 117 Leases, FRS 124 Related Party Disclosure and FRS 139 Financial Instruments: Recognition and Measurement on this financial statements upon first adoption of the standards as required by paragraph 30 (b) of FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors are not required to be disclosed by virtue of exemptions provided under paragraph 67B of FRS 117, paragraph 22A under FRS 124 and paragraph 103AB of FRS 139 respectively.

The adoption of these new and revised FRS do not have any significant financial impact on the Group and the Bank except for FRS 2 Share Based Payment. The principal effect of the changes in accounting policies resulting from the adoption of FRS 2 is disclosed in Note 37.

#### 1 Summary of Significant Accounting Policies

#### (a) Basis of Preparation of the Financial Statements

The financial statements of the Bank have been prepared under the historical cost basis unless otherwise indicated; and in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board as modified by Bank Negara Malaysia's guidelines.

The financial statements incorporate those activities relating to Islamic Banking which have been undertaken by the Bank. Islamic Banking refers generally to the acceptance of deposits and granting of financing under the Shariah principles.

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 recognized in the financial statements include the following:-

- i. Estimation of recoverable amount based on the discounted cashflow methodology for impaired loan (Notes 1 (j), 7(ii) and 25).
- ii. Fair value estimation of financial assets and liabilities (Note 33)

These financial statements are presented in Ringgit Malaysia (RM), which is the Bank's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

#### (b) Basis of Consolidation

The group financial statements include the financial statements of the Bank and its subsidiary companies.

The results of subsidiary companies acquired or incorporated during the financial year are included in the group income statement from the dates of acquisition or incorporation.

All significant intercompany transactions and balances have been eliminated on consolidation.

#### (c) Revenue

Revenue comprises gross interest income, fee income, dealing income, investment income and other income derived from banking operations.

#### (d) Recognition of Interest and Expense / Islamic Financing Income and Expense

Interest income and expense for all interest-bearing financial instruments except those classified as held-for-trading are recognised in 'interest income' and 'interest expense' in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability, or where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Bank that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Where an amount is classified as non-performing, interest accrued and recognised as income prior to the date the loan is classified as non-performing shall be reversed out of income by debiting the interest income in the income statement and crediting the accrued interest receivable account in the balance sheet. Subsequently, interest earned on non-performing loans shall be recognised as income on a cash basis. Customers' accounts are classified as non-performing where repayments are in arrears for more than three months for all loans, advances and financing.

Income from Islamic banking operations and attributable profits on deposits and borrowings on activities relating to Islamic banking operations are recognised on an accrual basis in accordance with the principles of Shariah.

#### (e) Recognition of Fees and Other Income

The Bank earns fee income from a diverse range of services it provides to its customers. Fee income is accounted for as follows:

- if the income is earned on the execution of a significant act, it is recognised as revenue when the significant act has been completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement for the acquisition of shares or other securities);
- if the income is earned as services are provided, it is recognised as revenue as the services are provided (for example, portfolio and other management advisory and service fee); and
- if the income is an integral part of the effective interest rate of a financial instrument, it is recognised as an adjustment to the effective interest rate (for example, loan commitment fees) and recorded in 'interest income' (see Note 1 (d)).

Dividend income from equity securities is recognised when the right to receive payment is established.

#### (f) Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash and bank balances, and short term deposits and placements maturing within one month that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

#### (g) Resale and Repurchase Agreements

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

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

#### (h) Securities

The holdings of securities portfolio of the Bank are classified based on the following categories and valuation methods:

#### i Held for trading

Securities are classified as held for trading if acquired principally for the purpose of selling or repurchasing it in the near term or are part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Securities classified as held for trading are stated at fair value and any gains or losses from a change in the fair value, together with related interest income, are recognised within 'Other operating income' in the income statement.

#### ii Held-to-maturity

Held-to-maturity investments are securities with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold until maturity. These investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

#### (h) Securities (continued)

#### iii Available-for-sale

Available-for-sale securities are securities that are not classified as held for trading or held-to-maturity investments; and measured at fair value. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost. Changes in the fair value are recognised directly in equity, net of applicable taxes, until the securities are either sold or impaired. On the sale of available-for-sale securities, cumulative gains or losses previously recognised in equity are recognised through income statement. Interest income is recognised on such securities using the effective interest method, calculated over the asset's expected life. Where dated available-for-sale securities have been purchased at a premium or discount, these premiums and discounts are included in the calculation of the effective interest rate. Dividends on available-for-sale equity instruments are recognised in the income statement when the right to receive payment is established.

An assessment is made at each balance sheet date as to whether there is any objective evidence of impairment, being circumstances where an adverse impact on estimated future cash flows of the securities or group of securities can be reliably measured.

If an available-for-sale security is determined to be impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement. The amount of cumulative loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that security previously recognised in the income statement. If, in subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, that portion of impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

For loans converted into debt or equity instruments classified as available-for-sale, these instruments are measured at fair value. The difference between the net book value of the restructured loans (outstanding amount of loans net of specific allowance) and the fair value of the debt or equity instruments will be gain or loss from the conversion scheme.

- Where the net book value of the restructured loans is higher than the fair value of the debt or equity instruments, the loss shall be recognised in income statement in the current reporting period.
- Where the fair value of the debt or equity instruments is higher than the net book value of the restructured loans, the gain from the conversion exercise is transferred to the "impairment loss" account, which would be netted off from the "Securities" account in the balance sheet.

#### (i) Loans, Advances and Financing

Loans, advances and financing include loans and advances originated from the Bank, which are not intended to be sold in the short term and have not been classified as held for trading. Loans, advances and financing are recognised when cash is advanced to borrowers. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

#### (j) Allowance for Losses on Loans and Financing/Loan Impairment

The Bank's allowance for non-performing loans and financing is in conformity with the requirements of Bank Negara Malaysia's "Guidelines on the Suspension of Interest on Non-Performing Loans and Provision for Bad and Doubtful Debts, BNM/GP3". Accounts are classified as non-performing when interest or principal is in arrears for more than ninety (90) days.

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

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

Loans (and related allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from the realisation of security have been received.

Impaired loans are measured at their estimated recoverable amount based on the discounted cash flow methodology. Specific allowances are provided if the recoverable amount (present value of estimated future cash flows discounted at original effective interest rate) is lower than the net book value of the loans (outstanding amount of loans, advances and financing, net of specific allowance). The expected cash flows are based on projections of liquidation proceeds, realisation of assets or estimates of future operating cash flows.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the income statement.

In addition, the Bank makes additional specific allowance as follows:

- i fifty per cent (50%) of the secured portion of non-performing loans which are in arrears for more than five (5) years but less than seven (7) years; and
- hundred per cent (100%) of the secured portion of non-performing loans which are in arrears for more than seven (7) years.

#### (k) Investment in Subsidiary Companies

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

Investment in subsidiary companies are stated at cost, less impairment losses if any.

#### (l) Property, Plant and Equipment

Property plant and equipment are stated at cost/valuation less accumulated depreciation and accumulated impairment losses except for freehold land which is stated at cost and directors' valuation.

#### i Revaluation

Land and buildings are revalued once every five years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Surpluses arising from revaluation are dealt with in the property revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

#### ii Depreciation

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

Buildings on freehold land 50 years Leasehold land with more than fifty (50) years 50 years

to expiry and buildings thereon

Leasehold land with less than fifty (50) years

Over the unexpired period

to expiry and buildings thereon of the lease
Office equipment, fixtures and fittings 5 to 10 years
Computer equipment 3 to 5 years
Motor vehicles 5 years

With the exception of properties, additions to property, plant and equipment costing RM1,000 and under are fully depreciated in the year of purchase; for those assets costing more than RM1,000, depreciation is provided at the above rates.

During the year, the Bank revised the annual depreciation rates of computer equipment to be 3 to 5 years (2005: 5 years) and fully depreciated additions to property, plant and equipment costing RM1,000 (2005: RM500) in the year of purchase so as to better reflect their estimated useful lives. The revision was accounted for as a change in accounting estimates, which is applied prospectively. The change in accounting estimates has no material impact on the financial statements.

#### (m) Intangible Assets

Intangible assets represent computer software and are stated at cost less amortisation and accumulated impairment losses. Amortisation of intangible assets is calculated to write off the cost of the intangible assets on a straight line basis over the expected useful lives of 3 to 5 years.

#### (n) Bills and Acceptances Payable

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

#### (o) Recourse Obligation on Loans Sold to Cagamas Berhad

In the normal course of banking operations, the Bank sells loans to Cagamas Berhad. The Bank is liable in respect of the loans sold directly to Cagamas Berhad under the condition that the Bank undertakes to administer the loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on prudence. Such financing transactions and the obligation to buy back the loans is reflected as a liability on the balance sheet.

# (p) Taxation and Deferred Taxation

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

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

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

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

Deferred tax relating to fair value re-measurement of available-for-sale investments, which is charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

#### (q) Derivatives and Hedge Accounting

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market data, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement.

The accounting for changes (i.e. gains and losses) in the fair value of a derivative which qualifies for hedge accounting depends on the intended use of the derivative and the resulting designation as described below:

#### (q) Derivatives and Hedge Accounting - continued

#### i Fair value hedge

For a derivative designated as hedging the exposures in the fair value of a recognised asset or liability or a firm commitment, the gain or loss is recognised in the income statement, together with the associated loss or gain on the hedged item attributable to the hedged risk.

#### ii Cash flow hedge

For a derivative designated as hedging the exposure to variable cash flows of a recognised asset or liability, or of a highly probable forecast transaction, the gain or loss on the derivative associated with the effective portion of the hedged is recognised in equity. Any gain or loss relating to an in-effective portion is recognised immediately in the income statement.

### (r) Currency Translations

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

#### (s) Provisions

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

#### (t) Profit Equalisation Reserves ('PER')

PER refers to the amount appropriated out of the total Islamic Banking gross income in order to maintain an acceptable level of return to depositors as stipulated by Bank Negara Malaysia's "The Framework of Rate of Return". PER is a provision shared by both the depositors and the Bank, and is deducted from the total gross income. Maximum monthly provision of PER is up to 15% of the gross income and can be accumulated up to a maximum of 30% of Islamic Banking Capital Funds.

#### (u) Employee Benefits

#### i Short term employee benefits

Wages, salaries, bonuses, paid annual and sick leave, social security contributions and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Bank.

#### ii Post-employment benefits

As required by law, the Bank makes contributions to the Employees Provident Fund ('EPF'), the national defined contribution plan and recognises such contributions as an expense in the income statement as incurred. Once the contributions have been paid, the Bank has no further payment obligations in future.

# 2 Cash and Short Term Funds

	Group and Bank	
	2006	2005
	RM'000	RM'000
Cash and balances with banks and other financial institutions	720,397	414,406
Money at call and deposit placements maturing within one month	5,393,948	7,296,196
	6,114,345	7,710,602

3 Deposits and Placements with Banks and Other Financial Institutions

	Group and Bank	
	2006	2005
	RM'000	RM'000
Licensed finance companies	35,275	-
Licensed merchant banks	17,507	22,147
Bank Negara Malaysia	1,937,100	420,000
Other financial institutions	-	37,795
	1,989,882	479,942

4 Securities Held-for-Trading

	Group and Bank	
	2006	2005
	RM'000	RM'000
Money market instruments:		
Malaysian Government treasury bills	116,400	39,256
Bank Negara Malaysia bills	202,738	231,566
Bank Negara Malaysia Islamic bills	14,887	7,875
Malaysian Government securities	213,998	222,765
Malaysian Government Islamic bonds	23,361	-
Khazanah bonds	11,404	2,021
Cagamas bonds and notes	4,745	31,513
	587,533	534,996
Unquoted securities:		
Private debt securities (including commercial paper)	208,404	168,731
	795,937	703,727

# **5** Securities Available-for-Sale

Securities Available-101-5aic	Group an	d Rank
	2006	2005
	RM'000	RM'000
Money market instruments:	ANI OOO	1411 000
Malaysian Government treasury bills	30,794	_
Malaysian Government Islamic treasury bills	39,408	_
Bank Negara Malaysia bills	-	49,309
Bank Negara Malaysia Islamic bills	_	308,442
Malaysian Government securities	574,899	467,581
Malaysian Government Islamic bonds	579,980	21,811
Khazanah bonds	262,200	243,958
Cagamas bonds and notes	841,168	691,864
Negotiable instruments of deposit	477,020	554,847
Bankers' acceptance and Islamic accepted bills	531,279	143,326
Zamiero acceptante and istante accepted cins	3,336,748	2,481,138
Quoted securities:	2,220,7.10	<b>-</b> , .01,100
Shares	20,340	36,764
Warrants	-	148
Loan stock	12,492	15,173
	32,832	52,085
Unquoted securities:	22,002	22,000
Shares	28,572	17,392
Private and Islamic debt securities	420,895	754,322
	449,467	771,714
Impairment loss:	, ,	, , , ,
Quoted securities in Malaysia:		
Shares	(5,701)	(11,291)
Warrants	-	(7)
Loan stock	(6,883)	(8,904)
	(12,584)	(20,202)
	. ,	
	3,806,463	3,284,735

The maturity structure of money market instruments held as securities available-for-sale is as follows:

	Group and Bank	
	2006	2005
	RM'000	RM'000
Maturing within one year	1,721,614	1,452,480
One year to three years	1,572,311	952,869
Three years to five years	42,823	75,709
Over five years	-	80
	3,336,748	2,481,138

# $\frac{6}{(i)}$ Loans, Advances and Financing

Loans, Advances and Financing		
i) By type	_	
	Group as	
	2006	2005
	RM'000	RM'000
Overdrafts	1,489,375	1,618,309
Term loans/ financing		
Housing loans/ financing	8,569,510	7,885,225
Syndicated term loans/ financing	41,277	19,695
Hire purchase receivables	191,050	111,690
Lease receivables	30,854	49,740
Other term loans/ financing	6,395,016	5,515,035
Bills receivable	1,093,859	772,852
Trust receipts	412,583	180,166
Claims on customers under acceptance credits	2,717,235	3,109,050
Staff loans/ financing	312,700	307,157
Loans to executive directors	232	· -
Credit/ charge cards	2,017,522	1,616,357
Revolving credit	1,848,250	1,072,172
Other loans/ financing	12,285	10,722
Less: Unearned interest and income	(142,816)	(141,321)
	24,988,932	22,126,849
Less: Allowance for bad and doubtful debts and financing:		
- General	(372,600)	(327,200)
- Specific	(272,395)	(322,943)
Total net loans, advances and financing	24,343,937	21,476,706

# (ii) By type of customer

by type of customer			
	Group and Bank		
	2006	2005	
	RM'000	RM'000	
Domestic non-bank financial institutions			
- Stockbroking companies	150,087	5,238	
- Others	162,927	141,425	
Domestic business enterprises			
- Small medium enterprises	4,338,440	2,655,201	
- Others	7,093,461	7,584,366	
Government and statutory bodies	46	64	
Individuals	12,798,944	11,144,011	
Other domestic entities	3,508	2,754	
Foreign entities	441,519	593,790	
	24,988,932	22,126,849	

# (iii) By interest/ profit rate sensitivity

, = ,, <b>-</b>	Group a	nd Bank
	2006	2005
	RM'000	RM'000
Fixed rate		
Housing loans/ financing	307,762	328,417
Hire purchase receivables	169,720	102,190
Other fixed rate loans/ financing	5,399,982	3,711,654
Variable rate		
BLR plus	15,245,696	13,978,020
Cost-plus	1,848,250	1,073,903
Other variable rates	2,017,522	2,932,665
	24,988,932	22,126,849

#### Loans, Advances and Financing (continued)

By sector		1 D 1
	Group as	
	2006	2005
	RM'000	RM'00
Agricultural, hunting, forestry and fishing	999,703	893,31
Mining and quarrying	191,676	99,672
Manufacturing	4,569,025	3,739,42
Electricity, gas and water	134,452	81,383
Construction	452,645	428,68
Real estate	635,859	545,80
Purchase of landed property:		
- Residential	8,953,961	8,384,96
- Non-residential	1,019,027	970,92
Wholesale & retail trade and restaurants & hotels	2,296,170	2,164,10
Transport, storage and communication	174,796	190,84
Finance, insurance and business services	1,332,493	1,347,02
Purchase of securities	115,595	173,52
Purchase of transport vehicles	34,284	17,56
Consumption credit	3,765,751	2,894,13
Others	313,495	195,49
	24,988,932	22,126,84
By maturity structure		J.DL
	Group as <b>2006</b>	
	2006 RM'000	200 RM'00

# $\frac{7}{(i)}$

Maturing within one year

One year to three years

Over five years

Three years to five years

Non-Performing Loans/ Financing (NPL/ NPF)		
(i) Movements in non-performing loans, advances and financing		
	Group and	d Bank
	2006	2005
	RM'000	RM'000
At beginning of year	688,626	1,055,888
Classified as non-performing during the year	325,223	314,067
Reclassified as performing	(111,016)	(199,467)
Amount recovered	(176,815)	(275,478)
Amount written off	(188,153)	(207,031)
Other movements	536	647
At end of year	538,401	688,626
Specific allowance	(272,395)	(322,943)
Net non-performing loans, advances and financing	266,006	365,683
Ratio of net non-performing loans, advances and financing		
to net loans, advances and financing	1.1%	1.7%

12,772,516

1,711,717

2,197,706

8,306,993

24,988,932

9,843,898

1,596,418

1,732,472

8,954,061

22,126,849

7 Non-Performing Loans/ Financing (NPL/ NPF) (continued)		
(ii) Movements in allowance for bad and doubtful debts		
	Group and	l Bank
	2006	2005
	RM'000	RM'000
General allowance		
At beginning of year	327,200	289,300
Allowance made during the year	45,400	37,900
At end of year	372,600	327,200
As % of gross loans, advances and financing		
less specific allowance	1.5%	1.5%
less specific anowance	1.3 /0	1.570
Specific allowance		
At beginning of year	322,943	477,334
Allowance made during the year	224,961	192,822
Amount recovered	(98,275)	(144,029)
Amount written off	(177,770)	(203,831)
Other movements	536	647
At end of year	272,395	322,943
(iii) By sector	Group and	l Bank
	2006	2005
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	2,190	2,202
Mining and quarrying	541	631
Manufacturing	100,486	185,029
Construction	24,585	31,718
Real estate	16,863	17,589
Purchase of landed property:		
- Residential	226,133	255,725
- Non-residential	20,057	23,088
Wholesale & retail trade and restaurants & hotels	38,191	53,291
Transport, storage and communication	3,224	4,628
Finance, insurance and business services	20,711	28,300
Purchase of securities	362	17,806
Purchase of transport vehicles	170	177
Consumption credit Others	82,041	65,210
Others	$\frac{2,847}{538,401}$	3,232 688,626
	530,401	000,020

#### 8 Other Assets

	Group and Bank		
	2006	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	313,578	203,871	
Interest/ income receivable	55,658	34,082	
Other receivables, deposits and prepayments	208,853	133,872	
	578,089	371,825	

#### 9 Statutory Deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amounts of which are determined at set percentages of total eligible liabilities.

10 Investments in Subsidiary Companies

	Bank	
	2006	2005
	RM'000	RM'000
Unquoted shares, at cost - in Malaysia	21	21

The subsidiary companies of the Bank are as follows:

Name	Principal activities	Country of incorporation	Percentage of c	equity held
HSBC (Kuala Lumpur) Nominees Sdn Bhd	Nominee company	Malaysia	<b>2006</b> 100%	2005 100%
HSBC Nominees (Tempatan) Sdn Bhd	Nominee company	Malaysia	100%	100%
HSBC Nominees (Asing) Sdn Bhd	Nominee company	Malaysia	100%	100%

All income and expenditure arising from the nominee activities of the subsidiary companies have been recognised in the Bank's results.

# 11 Property, Plant and Equipment

Freehold land	Short term leasehold land	Long term leasehold	Building on freehold	Building on short term leasehold	Building on long term leasehold	Office equipment,			
	leasehold	leasehold			O		_		
			freehold	leasehold					
land		1 1				fixtures and	Computer	Motor	m . 1
		land	land	land	land	fittings	equipment	vehicles	Total <b>RM'000</b>
KIVI UUU	KIVI UUU	KWI UUU	KIVI UUU	KWI UUU	KIVI UUU	KWI UUU	KM 000	KWI UUU	KM 000
76,500	8,261	14,204	127,693	6,139	9,810	135,927	141,465	8,034	528,033
-	_	_	3,421	-	_	9,363	18,181	354	31,319
-	-	-	-	-	_	(872)	(7,732)	(1,775)	(10,379)
-	-	-	(541)	(92)	(447)	(7,931)	(47,212)	_	(56,223)
-	-	-	-	-	-	(3,093)	3,093	-	-
76,500	8,261	14,204	130,573	6,047	9,363	133,394	107,795	6,613	492,750
-	-	-	4,203	-	-	133,394	107,795	6,613	252,005
76,500	8,261	14,204	126,370	6,047	9,363	-	-	-	240,745
76,500	8,261	14,204	130,573	6,047	9,363	133,394	107,795	6,613	492,750
-	199	287	2,595	201	200	111,460	105,615	2,560	223,117
-	199	286	2,979	201	197	9,921	13,007	1,465	28,255
-	-	-	-	-	-	(853)	(6,327)	(904)	(8,084)
-	-	-	(300)	(60)	(249)	(7,745)	(45,571)	-	(53,925)
-	-	-	-	-	-	(1,536)	1,536	-	-
-	398	573	5,274	342	148	111,247	68,260	3,121	189,363
76,500	7,863	13,631	125,299	5,705	9,215	22,147	39,535	3,492	303,387
	76,500 76,500 76,500	76,500 8,261	76,500 8,261 14,204 199 287 - 199 286 398 573	76,500       8,261       14,204       127,693         -       -       -       3,421         -       -       -       -         -       -       -       (541)         -       -       -       -         76,500       8,261       14,204       130,573         -       -       -       4,203         76,500       8,261       14,204       130,573         -       199       287       2,595         -       199       286       2,979         -       -       -       -         -       -       -       -         -       -       -       -         -       -       -       -         -       -       -       -         -       -       -       -         -       -       -       -         -       -       -       -         -       -       -       -         -       -       -       -         -       -       -       -         -       -       -       -         -	76,500       8,261       14,204       127,693       6,139         -       -       -       3,421       -         -       -       -       -       -         -       -       -       (541)       (92)         -       -       -       (541)       (92)         -       -       -       -       -         76,500       8,261       14,204       130,573       6,047         76,500       8,261       14,204       130,573       6,047         -       199       287       2,595       201         -       199       286       2,979       201         -       -       -       -       -         -       -       -       -       -         -       -       -       -       -         -       -       -       -       -         -       -       -       -       -         -       -       -       -       -         -       -       -       -       -         -       -       -       -       -         -       - <td< td=""><td>76,500       8,261       14,204       127,693       6,139       9,810         -       -       -       3,421       -       -         -       -       -       -       -       -         -       -       -       -       -       -         -       -       -       -       -       -         76,500       8,261       14,204       130,573       6,047       9,363         76,500       8,261       14,204       130,573       6,047       9,363         -       199       287       2,595       201       200         -       199       286       2,979       201       197         -       -       -       -       -       -         -       -       -       (300)       (60)       (249)         -       -       -       -       -       -         -       398       573       5,274       342       148</td><td>76,500       8,261       14,204       127,693       6,139       9,810       135,927         -       -       -       3,421       -       -       9,363         -       -       -       -       -       (872)         -       -       -       -       -       (7,931)         -       -       -       -       -       (3,093)         76,500       8,261       14,204       130,573       6,047       9,363       133,394         -       -       -       4,203       -       -       133,394         76,500       8,261       14,204       126,370       6,047       9,363       133,394         -       199       287       2,595       201       200       111,460         -       199       286       2,979       201       197       9,921         -       -       -       -       -       (853)         -       -       -       -       -       (853)         -       -       -       -       -       -       (1,536)         -       -       -       -       -       -       -       -<!--</td--><td>76,500         8,261         14,204         127,693         6,139         9,810         135,927         141,465           -         -         -         3,421         -         -         9,363         18,181           -         -         -         -         -         (872)         (7,732)           -         -         -         -         -         (872)         (7,732)           -         -         -         -         -         (872)         (7,732)           -         -         -         -         -         (3,093)         3,093           76,500         8,261         14,204         130,573         6,047         9,363         133,394         107,795           76,500         8,261         14,204         126,370         6,047         9,363         -         -           76,500         8,261         14,204         130,573         6,047         9,363         133,394         107,795           -         199         286         2,979         201         197         9,921         13,007           -         199         286         2,979         201         197         9,921         13,007     <!--</td--><td>76,500         8,261         14,204         127,693         6,139         9,810         135,927         141,465         8,034           -         -         -         3,421         -         -         9,363         18,181         354           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (3,093)         3,093         -           -         -         -         -         (3,093)         3,093         -           -         -         -         -         133,394         107,795         6,613           -         -         -         -         -         -         -         -         -           -         -         -         -         -         -         -         -&lt;</td></td></td></td<>	76,500       8,261       14,204       127,693       6,139       9,810         -       -       -       3,421       -       -         -       -       -       -       -       -         -       -       -       -       -       -         -       -       -       -       -       -         76,500       8,261       14,204       130,573       6,047       9,363         76,500       8,261       14,204       130,573       6,047       9,363         -       199       287       2,595       201       200         -       199       286       2,979       201       197         -       -       -       -       -       -         -       -       -       (300)       (60)       (249)         -       -       -       -       -       -         -       398       573       5,274       342       148	76,500       8,261       14,204       127,693       6,139       9,810       135,927         -       -       -       3,421       -       -       9,363         -       -       -       -       -       (872)         -       -       -       -       -       (7,931)         -       -       -       -       -       (3,093)         76,500       8,261       14,204       130,573       6,047       9,363       133,394         -       -       -       4,203       -       -       133,394         76,500       8,261       14,204       126,370       6,047       9,363       133,394         -       199       287       2,595       201       200       111,460         -       199       286       2,979       201       197       9,921         -       -       -       -       -       (853)         -       -       -       -       -       (853)         -       -       -       -       -       -       (1,536)         -       -       -       -       -       -       -       - </td <td>76,500         8,261         14,204         127,693         6,139         9,810         135,927         141,465           -         -         -         3,421         -         -         9,363         18,181           -         -         -         -         -         (872)         (7,732)           -         -         -         -         -         (872)         (7,732)           -         -         -         -         -         (872)         (7,732)           -         -         -         -         -         (3,093)         3,093           76,500         8,261         14,204         130,573         6,047         9,363         133,394         107,795           76,500         8,261         14,204         126,370         6,047         9,363         -         -           76,500         8,261         14,204         130,573         6,047         9,363         133,394         107,795           -         199         286         2,979         201         197         9,921         13,007           -         199         286         2,979         201         197         9,921         13,007     <!--</td--><td>76,500         8,261         14,204         127,693         6,139         9,810         135,927         141,465         8,034           -         -         -         3,421         -         -         9,363         18,181         354           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (3,093)         3,093         -           -         -         -         -         (3,093)         3,093         -           -         -         -         -         133,394         107,795         6,613           -         -         -         -         -         -         -         -         -           -         -         -         -         -         -         -         -&lt;</td></td>	76,500         8,261         14,204         127,693         6,139         9,810         135,927         141,465           -         -         -         3,421         -         -         9,363         18,181           -         -         -         -         -         (872)         (7,732)           -         -         -         -         -         (872)         (7,732)           -         -         -         -         -         (872)         (7,732)           -         -         -         -         -         (3,093)         3,093           76,500         8,261         14,204         130,573         6,047         9,363         133,394         107,795           76,500         8,261         14,204         126,370         6,047         9,363         -         -           76,500         8,261         14,204         130,573         6,047         9,363         133,394         107,795           -         199         286         2,979         201         197         9,921         13,007           -         199         286         2,979         201         197         9,921         13,007 </td <td>76,500         8,261         14,204         127,693         6,139         9,810         135,927         141,465         8,034           -         -         -         3,421         -         -         9,363         18,181         354           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (3,093)         3,093         -           -         -         -         -         (3,093)         3,093         -           -         -         -         -         133,394         107,795         6,613           -         -         -         -         -         -         -         -         -           -         -         -         -         -         -         -         -&lt;</td>	76,500         8,261         14,204         127,693         6,139         9,810         135,927         141,465         8,034           -         -         -         3,421         -         -         9,363         18,181         354           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (872)         (7,732)         (1,775)           -         -         -         -         -         (3,093)         3,093         -           -         -         -         -         (3,093)         3,093         -           -         -         -         -         133,394         107,795         6,613           -         -         -         -         -         -         -         -         -           -         -         -         -         -         -         -         -<

The land and buildings of the Bank were revalued by directors on the open market value basis as of 31 December 2004 based on professional valuations.

# 11 Property, Plant and Equipment (continued)

					Group an	d Bank				
					Building on	Building on	Office			
		Short term	Long term	Building on	short term	long term	equipment,			
2005	Free hold	leasehold	leasehold	freehold	leasehold	leasehold	fixtures and	Computer	Motor	
	land	land	land	land	land	land	fittings	equipment	vehicles	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation										
Balance as at 1 January 2005	76,500	8,261	14,204	126,911	6,139	9,810	130,015	127,238	8,058	507,136
Additions	-	-	-	782	-	-	15,277	21,820	2,316	40,195
Disposals	-	-	-	_	-	-	(1,510)	(1,011)	(2,281)	(4,802)
Written off	-	-	-	-	-	-	(7,855)	(6,582)	(59)	(14,496)
Balance as at 31 December 2005	76,500	8,261	14,204	127,693	6,139	9,810	135,927	141,465	8,034	528,033
Representing items at:										
Cost	-	-	-	782	-	-	135,927	141,465	8,034	286,208
Valuation - 2004	76,500	8,261	14,204	126,911	6,139	9,810	-	-	-	241,825
	76,500	8,261	14,204	127,693	6,139	9,810	135,927	141,465	8,034	528,033
Accumulated depreciation										
Balance as at 1 January 2005	-	-	-	-	-	-	110,149	99,564	2,904	212,617
Charge for the year	-	199	287	2,595	201	200	9,700	13,303	1,654	28,139
Disposals	-	-	-	-	-	-	(663)	(935)	(1,939)	(3,537)
Written off	-	-	-	-	-	-	(7,726)	(6,317)	(59)	(14,102)
Balance as at 31 December 2005	-	199	287	2,595	201	200	111,460	105,615	2,560	223,117
Net book value at 31 December 2005	76,500	8,062	13,917	125,098	5,938	9,610	24,467	35,850	5,474	304,916

# 12 Intangible Assets

	Group and Bank
2006	Computer software RM'000
Cost	KM 000
Balance as at 1 January 2006	23,538
Additions	29,785
Written off	(1,214)
Balance as at 31 December 2006	52,109
Accumulated depreciation	
Balance as at 1 January 2006	18,310
Charge for the year	5,762
Written off	(1,135)
Balance as at 31 December 2006	22,937
Net book value at 31 December 2006	29,172
2005	D154000
Cost	RM'000
Balance as at 1 January 2005	20,900
Additions	2,860
Written off	(222)
Balance as at 31 December 2005	23,538
Accumulated depreciation	
Balance as at 1 January 2005	15,698
Charge for the year	2,783
Written off	(171)
Balance as at 31 December 2005	18,310
Net book value at 31 December 2005	5,228

### 13 Deferred Tax

The amounts, determined after appropriate offsetting, are as follows:		
	Group and	Bank
	2006	2005
	RM'000	RM'000
Deferred tax liabilities	(43,525)	(40,351)
Deferred tax assets	112,855	97,160
	69,330	56,809

Deferred tax liabilities and assets are offset above where there is a legally enforceable right to set off current tax assets against current tax liabilities.

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

	Group and Bank	
	2006	2005
	RM'000	RM'000
Property, plant and equipment		
- capital allowances	(9,893)	(9,443)
- revaluation	(24,455)	(24,919)
Available-for-sale reserve	(9,177)	(5,989)
Allowances		
- general allowance	104,328	91,616
- others	2,210	1,074
Share based payment	5,345	3,262
Lease receivables	972	1,208
	69,330	56,809

### 13 Deferred tax (continued)

# Movement in temporary differences during the year

### Group and Bank

		Recognised in			Recognised in		
	As at	income	Recognised	Restated at	income	Recognised	As at
	01-Jan-05	statement	in equity	31-Dec-05	statement	in equity	31-Dec-06
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment							
- capital allowance	(9,085)	(358)	-	(9,443)	(450)	-	(9,893)
- revaluation	(25,207)	288	-	(24,919)	464	-	(24,455)
Available for sale reserves	(22,039)	-	16,050	(5,989)	-	(3,188)	(9,177)
Allowances							
- general allowances	81,004	10,612	-	91,616	12,712	-	104,328
- others	1,183	(109)	-	1,074	1,136	-	2,210
Share based payments	1,656	1,606	-	3,262	2,083	-	5,345
Lease receivables	1,675	(467)	-	1,208	(236)	-	972
Interest in suspense	26,514	(26,514)	-	-	-	-	-
	55,701	(14,942)	16,050	56,809	15,709	(3,188)	69,330

14 Deposits from Customers (i) By type of deposit				
	Gra	пир	Bai	nk
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Demand deposits	6,273,226	5,689,273	6,273,247	5,689,294
Savings deposits	4,734,188	4,243,692	4,734,188	4,243,692
Fixed / Investment deposits	19,147,567	16,400,684	19,147,567	16,400,684
Negotiable instruments of dep	osit <b>1,073,968</b>	1,702,320	1,073,968	1,702,320
Others	593,259	281,382	593,259	281,382
	31,822,208	28,317,351	31,822,229	28,317,372

The maturity structure of fixed / investment deposits and negotiable instruments of deposit is as follows:

	Group and Bank	
	2006	2005
	RM'000	RM'000
Due within six months	16,060,096	14,544,092
Six months to one year	3,687,742	3,135,727
One year to three years	240,060	248,841
Three years to five years	85,003	26,957
Over five years	148,634	147,387
	20,221,535	18,103,004
Three years to five years	85,003 148,634	26,957 147,387

### (ii) By type of customer

	<u>Group</u>		Bai	nk
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	97,772	15,780	97,772	15,780
Business enterprises	12,195,118	9,532,602	12,195,139	9,532,623
Individuals	15,964,350	14,185,641	15,964,350	14,185,641
Others	3,564,968	4,583,328	3,564,968	4,583,328
	31,822,208	28,317,351	31,822,229	28,317,372

15	Deposits and	Placements	of Banks and	Other Financia	al Institutions

	Group an	Group and Bank	
	2006	2005	
	RM'000	RM'000	
Licensed banks	81,000	120,000	
Bank Negara Malaysia	18,774	38,247	
Other financial institutions	1,834,552	1,796,552	
	1,934,326	1,954,799	

# 16 Other Liabilities

	Group and	d Bank
	2006	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	309,747	183,219
Interest/ profit payable	175,082	144,243
Allowance for commitments and contingencies	2,369	3,030
Profit equalisation reserve	4,700	1,700
Other creditors and accruals	859,543	610,325
	1,351,441	942,517

Movement in allowance for commitments and contingencies is as follows:

overheld in allowance for communicitis and condugencies is as follows.		
	Group and Bank	
	<b>2006</b> 20	
	RM'000	RM'000
At beginning of year	3,030	2,793
Allowance made during the year	419	1,075
Amount released	(1,077)	(615)
	(658)	460
Other movements	(3)	(223)
At end of year	2,369	3,030

# 17 Provision for Taxation and Zakat

	Group and Bank	
	2006	2005
	<b>RM'000</b> R	M'000
Taxation	31,278	29,667
Zakat	-	49
	31,278	29,716

#### 18 Share Capital

	Group an	d Bank
	2006	2005
	RM'000	RM'000
Authorised		
Ordinary shares of RM0.50 each	500,000	500,000
Preference shares of RM0.50 each	500,000	500,000
	1,000,000	1,000,000
Issued and Fully Paid		
Ordinary shares of RM0.50 each	114,500	114,500

#### 19 Reserves

	Group and	Group and Bank	
	2006	2005	
	RM'000	RM'000	
Share premium	741,375	741,375	
Statutory reserve	114,500	114,500	
Revaluation reserve	118,966	118,966	
Capital redemption reserve	190,000	190,000	
Available-for-sale reserve	23,597	15,399	
Retained profits	1,259,993	972,587	
	2,448,431	2,152,827	

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

The capital redemption reserve is maintained in compliance with Section 61 of the Companies Act, 1965 arising from the full redemption of RM190 million cumulative redeemable preference shares.

The Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividend out of all its retained profits.

# 20 Interest Income

	Group and	Group and Bank	
	2006	2005	
	RM'000	RM'000	
Loans and advances			
- Interest income other than recoveries from NPLs	1,337,368	1,062,576	
- Recoveries from NPLs	51,077	66,219	
Money at call and deposit placement with			
financial institutions	306,601	208,391	
Securities available-for-sale	78,225	119,577	
	1,773,271	1,456,763	
Amortisation of premium less accretion of discounts	10,007	(1,829)	
Interest suspended	(19,591)	(11,589)	
Total interest income	1,763,687	1,443,345	

# 21 Interest Expense

	Group and	Group and Bank	
	2006	2005	
	RM'000	RM'000	
Deposits and placements of banks and other			
financial institutions	71,188	36,925	
Deposits from customers	592,439	517,936	
Loans sold to Cagamas	42,379	29,730	
Others	67,248	51,690	
	773,254	636,281	

# 22 Other Operating Income

	Group and	Group and Bank	
	2006	2005	
	RM'000	RM'000	
Fees and commissions	372,021	349,573	
Net gains arising from sale of securities			
- Securities held-for-trading	29,064	15,733	
- Securities available-for-sale	17,369	29,309	
Net interest trading income	22,075	16,328	
Net gains arising from dealing in foreign currency	266,934	181,692	
Net gains arising from trading in derivatives	15,243	5,249	
Dividend income from securities available-for-sale			
- Quoted in Malaysia	1,098	1,497	
- Unquoted in Malaysia	1,155	1,494	
Net unrealised (losses)/gains on revaluation of			
trading securities (including derivatives)	(3,761)	7,409	
Net unrealised (losses)/ gains from foreign exchange translations	(14,565)	5,585	
Rental income	6,539	6,147	
Net gains on disposal of property, plant and equipment	379	696	
Gain from sale of a business operation	35,156	-	
Other operating income	13,148	2,551	
	761,855	623,263	
The above fees and commissions were derived from the following major contribu			
Cards	170,642	173,381	
Service charges and fees	103,200	95,809	
Agency fees	41,940	35,649	
Credit facilities	25,627	18,567	

# 23 Other Operating Expenses

	Group and	l Bank
_	2006	2005
	RM'000	RM'000
Personnel expenses	448,935	356,397
Promotion and marketing related expenses	70,862	81,741
Establishment related expenses	92,296	84,509
General administrative expenses	263,122	268,608
<u> </u>	875,215	791,255
The above expenditure includes the following major items / statutory disclosures:		
Personnel expenses		
Salaries, allowances and bonuses	334,195	273,972
Employees Provident Fund contributions	53,143	40,617
Directors' remuneration (Note 24)	7,121	7,629
Promotion and marketing related expenses		
Advertising and promotion	43,608	46,700
Commercial sponsorships	6,439	6,748
Establishment related expenses		
Depreciation of property, plant and equipment	28,255	28,139
Amortisation of intangible assets	5,762	2,783
Information technology costs	18,001	19,388
Hire of equipment	8,466	8,679
Rental of premises	10,539	8,072
Property, plant and equipment written off	2,298	440
Intangible assets written off	<b>79</b>	5
General administrative expenses		
Intercompany expenses	149,802	115,229
Fees and commissions paid	35,866	52,630
Auditors' remuneration	325	325

The number of employees of the Bank as at 31 December 2006 was 4,996 (31 December 2005: 4,715).

# 24 CEO and Directors' Remuneration

	Group and	l Bank
	2006	2005
	RM'000	RM'000
Executive Directors and CEO		
Salary and other remuneration	4,234	4,464
Bonuses	954	1,266
Benefits-in-kind	1,588	1,573
	6,776	7,303
Non-Executive Directors		
Fees	332	315
Other remuneration	13	11
	345	326

# 24 CEO and Directors' Remuneration (continued)

The number of directors of the Bank whose remuneration including benefits-in-kind for the financial year falls into the following bands:

	Number of Directors	
	2006	2005
Executive Directors		
RM4,300,001 - RM4,350,000	1	_
RM4,200,001 - RM4,250,000	-	1
RM2,450,001 - RM2,500,000	1	-
RM2,050,001 - RM2,100,000	-	1
RM1,000,001 - RM1,050,000	-	1
	2	3
Non-Executive Directors		
RM50,001 - RM100,000	6	6
	6	6

25 Allowance for Losses on Loans and Financing

5 Allowance for Losses on Loans and Financing		
	Group and Bank	
	2006	2005
	RM'000	RM'000
Allowance for bad and doubtful debts on loans and financing		
(a) Specific allowance		
- Made in the financial year	224,961	192,822
- Written back	(98,275)	(144,029)
(b) General allowance		, , ,
- Made in the financial year	45,400	37,900
Bad debts on loans and financing		
- Recovered	(76,302)	(82,924)
- Written off	11,686	6,053
Allowance for losses on commitments and contingencies		
- Made in the financial year	419	1,075
- Written back	(1,077)	(615)
	106,812	10,282

### 26 Taxation and Zakat

	Group and	l Bank
	2006	2005
	RM'000	RM'000
Malaysian income tax	283,310	227,000
Deferred tax		
Origination and reversal of temporary differences	(15,709)	(11,572)
Over provision in respect of prior years	(6,000)	(30,126)
Reversal of deductible temporary differences in respect of prior years	-	26,514
	261,601	211,816
Zakat	55	49
	261,656	211,865

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:

	Group and Bank	
	2006 RM'000	2005 RM'000
Profit before taxation	949,062	736,678
Income tax using Malaysian tax rates (28%)	265,737	206,270
Non-deductible expenses	12,276	9,277
Tax exempt income	(10,412)	(119)
Over provision in respect of prior years	(6,000)	(30,126)
Reversal of deductible temporary differences in respect of prior years	-	26,514
Tax expense	261,601	211,816

### 27 Earnings per Share

The earnings per ordinary share have been calculated based on the net profit and 229,000,000 (2005:229,000,000) ordinary shares of RM0.50 each in issue during the year.

# 28 Significant Related Party Transactions and Balances

	20	006	200	)5
		Other		Other
	Parent	related	Parent	related
	companies	companies	companies	companies
	RM'000	RM'000	RM'000	RM'000
Income				
Interest on intercompany placements	-	22,130	-	24,982
Interest on current accounts	-	12,918	-	7,185
Fees and commission	-	10,585	-	8,218
Other income	-	8,551	_	2,267
		54,184		42,652
Expenditure				
Interest on intercompany deposits	-	33,528	_	13,658
Interest on current accounts	-	29	_	20
Fees and commission	-	3,053	_	1,975
Operating expenses	41,379	108,423	6,513	108,716
	41,379	145,033	6,513	124,369
Amount due from				
Intercompany placements	-	184,408	-	742,698
Current account balances	-	460,673	_	165,697
Other assets	-	12,724	-	5,200
		657,805		913,595
Amount due to				
Intercompany deposits	-	382,504	-	518,738
Current account balances	-	132,919	_	121,721
Other liabilities	80,408	122,147	25,409	57,895
	80,408	637,570	25,409	698,354
	00,100	057,570	23,107	070,

# 29 Capital Adequacy

- Suprair rucquacy	Pan	Bank		
	2006	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	1,509,993	1,122,587		
Other reserves	114,500	114,500		
	2,670,368	2,282,962		
Less: Deferred tax adjustments	(104,554)	(88,845)		
Total Tier 1 capital	2,565,814	2,194,117		
Tier 2 capital				
Revaluation reserves	72,507	72,507		
General allowance for bad and doubtful debts and financing	372,600	327,200		
Total Tier 2 capital	445,107	399,707		
Total comital	2 010 021	2 502 924		
Total capital	3,010,921	2,593,824		
Less: Investment in subsidiaries	(21)	(21)		
Capital base	3,010,900	2,593,803		
Core capital ratio	10.1%	9.8%		
•				
Risk-weighted capital ratio	11.9%	11.6%		
Core capital ratio (net of proposed dividend)	9.1%	9.1%		
Risk-weighted capital ratio (net of proposed dividend)	10.9%	10.9%		

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

	Bank				
		2006	2	005	
	Principal	Risk-weighted	Principal	Risk-weighted	
	RM'000	RM'000	RM'000	RM'000	
0%	12,062,562	-	10,475,706	-	
10%	327,586	32,759	399,528	39,953	
20%	3,369,913	673,983	3,158,802	631,760	
50%	8,562,107	4,281,053	7,715,056	3,857,528	
100%	19,728,370	19,728,370	17,342,260	17,342,260	
Total risk-weighted assets					
equivalent for market risk		678,808		553,272	
	44,050,538	25,394,973	39,091,352	22,424,773	

#### 30 Commitments and Contingencies

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

The table below shows the contract or underlying principal amounts, credit equivalents amounts and risk weighted amounts of unmatured off-balance sheet transactions as at balance sheet date. The contract or underlying principle amounts indicate the volume of business outstanding and do not represent amount at risk.

	Group and Bank						
		2006		2005			
		Credit	Risk		Credit	Risk	
	Principal	equivalent	weighted	Principal	equivalent	weighted	
	amount	amount *	amount	amount	amount *	amount	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Direct credit substitutes Transaction-related contingent	713,289	713,289	672,985	610,872	610,872	571,773	
items	2,413,779	1,206,889	1,155,394	1,883,990	941,995	916,181	
Short-term self-liquidating trade-							
related contingencies	436,088	87,218	71,399	259,019	51,804	46,555	
Irrevocable commitments to extend credit: - Maturity not exceeding one							
year	17,263,576	-	-	15,131,142	-	-	
- Maturity exceeding one year	915,711	457,856	457,856	1,298,798	649,399	649,399	
Foreign exchange related contracts:							
- Less than one year	14,144,291	210,429	78,462	11,751,863	228,029	88,034	
- One year to less than 5 years	668,208	52,944	24,917	1,818,966	137,126	54,254	
Interest rate related contracts:							
- Less than one year	9,527,856	23,883	7,269	2,768,837	7,667	2,341	
- One year to less than 5 years	12,788,488	338,967	134,989	11,166,070	289,349	124,080	
- 5 years and above	498,225	30,440	13,673	976,309	60,427	28,417	
Others	717,556	186,884	153,087	50,994	12,166	8,835	
	60,087,067	3,308,799	2,770,031	47,716,860	2,988,834	2,489,869	

<sup>\*</sup> The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

### 30 Commitments and Contingencies (continued)

		d Bank			
	2006		2005		
	Contracted	Fair	Contracted	Fair	
	amount	value	amount	value	
	RM'000	RM'000	RM'000	RM'000	
Foreign exchange related contracts					
- forward and future contracts	12,840,173	(1,155)	11,526,475	13,158	
- options purchased	411,132	1,968	431,202	17,834	
- options written	241,943	(2,237)	428,368	(17,827)	
- swaps	1,319,251	1,560	1,184,784	6,704	
Interest rate related contracts					
- forward and future contracts	4,706,358	1,504	2,037,078	(895)	
- options	2,033,282	(2,495)	2,334,158	(3,122)	
- swaps	16,074,929	4,687	10,539,980	4,799	

### Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2006, the amount of credit risk, measured in terms of the cost to replace the profitable contracts, was RM280million (As at 31 December 2005: RM203million). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

### 31 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.

	<b></b>	Non-trading book				Effective			
Bank 2006	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	Trading book RM'000	Total RM'000	interest rate %
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		1 072 275		17 507				1 000 003	2.60
institutions Securities held for trading	-	1,972,375	-	17,507	-	-	795,937	1,989,882 795,937	3.68 3.87
Securities available-for-sale	612,610	527,659	720,049	1,888,479	14,454	43,212	193,931	3,806,463	3.72
Loans, advances and	012,010	321,037	720,047	1,000,477	14,454	43,212		3,000,403	3.72
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	16,226,218	3,497,782	6,033,105	669,024	169,181	5,226,919	-	31,822,229	2.91
Deposits and placements									
of banks and other									
financial institutions	1,202,396	297,444	26,614	4,950	2,763	400,159	-	1,934,326	3.33
Obligation on securities									
sold under repurchase agreements	1,660,739							1,660,739	2.93
Bills and acceptances	1,000,739	-	-	-	-	-	-	1,000,739	2.93
payable	77,146	60,278	2,984	_	_	349,647	_	490,055	3.27
Recourse obligation on loans	,2.10	00,2.0	_,,			0.5,0.7		150,000	0.2.
sold to Cagamas Berhad	-	-	81,689	818,062	-	-	-	899,751	4.57
Others	-	-	-	-	-	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		(250 922)	244 922	(0.4.000)					
- futures - options	720,897	(250,833) 196,255	344,833 (130,601)	(94,000) (786,551)	-	-	-	-	
- options - 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)	
эспэшчиу дар	1,500,650	1,073,001	(7,170,747)	1,407,134	474,444	(1,413,043)	173,410	(4,765)	_

<sup>\*</sup> This is arrived after deducting specific allowance from non-performing loans.

### 31 Interest/ Profit Rate Risk (continued)

•	4		- Non-tradii	ng book		<b></b>			Effective
Bank 2005	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	Trading book RM'000	Total RM'000	interest rate %
ASSETS									
Cash and short term funds Securities purchased	7,364,991	-	-	-	-	345,611	-	7,710,602	3.20
under resale agreements Deposits and placements with	1,123,087	160,613	166,060	-	-	-	-	1,449,760	3.00
banks and other financial institutions	-	479,942	-	-	-	-	<u>-</u>	479,942	3.22
Securities held for trading	-	-	-	-	-	-	703,727	703,727	3.57
Securities available-for-sale Loans, advances and financing	331,223	816,071	642,419	1,431,880	20,135	43,007	-	3,284,735	3.53
- performing - non-performing *	16,368,497	1,642,167	514,933	1,177,644	760,572	647,210 365,683	-	21,111,023 365,683	6.02
Others	-	-	-	-	-	1,206,314	231,433	1,437,747	-
TOTAL ASSETS	25,187,798	3,098,793	1,323,412	2,609,524	780,707	2,607,825	935,160	36,543,219	_
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers Deposits and placements of banks and other	12,929,993	4,521,310	5,691,566	325,798	167,934	4,680,771	-	28,317,372	2.63
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	40,079	00,972	7,209	-	-	339,020	-	473,940	2.71
sold to Cagamas Berhad Others	-	-	-	439,904	348,027	662,159	310,074	787,931 972,233	4.57
Total Liabilities Shareholders' funds	15,601,005	4,789,781	6,057,476	772,264	518,383	6,076,909 2,417,327	310,074	34,125,892 2,417,327	-
Total Liabilities and Shareholders' funds	15,601,005	4,789,781	6,057,476	772,264	518,383	8,494,236	310,074	36,543,219	_
On-balance sheet interest	0.596.702	(1, (00, 000)	(4.724.064)	1 027 260	262.224	(5.006.411)	(25.09)		_
sensitivity gap Off-balance sheet interest sensitivity gap Interest rate contracts	9,586,793	(1,690,988)	(4,734,064)	1,837,260	262,324	(5,886,411)	625,086	-	
- futures	-	150,267	(228, 267)	78,000	-	-	-	-	
- options - swaps	(243,130) (715,538)	8,100 288,501	- 5,967	454,330 432,121	(219,300) (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	

 $<sup>\</sup>ensuremath{^{*}}$  This is arrived at after deducting specific allowance from non-performing loans.

### 32 Collateral

In the normal course of business, the Bank pledges assets to raise liabilities and accepts assets as collateral that are permitted for resale or repledge. Collateral pledged and received are mainly via repurchase agreements and reverse repurchase agreements.

	Bank		
	2006	2005	
	RM'000	RM'000	
Carrying amount of assets pledged as collateral			
- Collateral pledged for repurchase agreements	1,708,280	1,617,617	
Fair value of assets accepted as collateral and collateral sold/ repledged			
- Collateral accepted for reverse repurchase agreement	2,303,513	1,517,383	
- Collateral sold	11,969	123,955	

### 33 Fair Values of Financial Assets and Liabilities

The following table summarises the fair value of the financial assets and liabilities carried on the balance sheet as at 31 December.

	2006	2006	2005	2005
	Carrying	Fair	Carrying	Fair
	amount	Value	amount	Value
	RM'000	RM'000	RM'000	RM'000
Financial Assets				
Cash and short term funds	6,114,345	6,114,345	7,710,602	7,710,602
Securities purchased under				
resale agreements	2,273,539	2,273,539	1,449,760	1,449,760
Deposits and placements with banks				
and other financial institutions	1,989,882	1,989,882	479,942	479,942
Securities held-for-trading	795,937	795,937	703,727	703,727
Securities available-for-sale	3,806,463	3,810,062	3,284,735	3,297,692
Loans, advances and financing	24,343,937	24,269,662	21,476,706	21,443,719
Financial Liabilities				
Deposits from customers	31,822,229	31,835,556	28,317,372	28,311,164
Deposits and placements of				
banks and other financial				
institutions	1,934,326	1,934,317	1,954,799	1,954,786
Obligations on securities sold				
under repurchase agreements	1,660,739	1,660,739	1,617,617	1,617,617
Bills and acceptances payable	490,055	490,055	475,940	475,940
Recourse obligation on loans sold				
to Cagamas Berhad	899,751	909,689	787,931	801,336

#### 33 Fair Values of Financial Assets and Liabilities (continued)

The methods and assumptions used in estimating the fair values of financial instruments are as follows:

Cash and short term funds
Securities purchased under resale agreements
Deposits and placements with banks and other financial institutions
Obligations on securities sold under repurchase agreements
Bills and acceptances payable

The carrying amounts approximate fair value due to their relatively short-term nature.

#### Securities

Listed equity shares are valued at the quoted market price whilst unlisted equity shares whose fair value cannot be reliably measured are stated at cost. Fair value of the unlisted equity shares is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. Unlisted equity shares, whose fair value can be reliably measured, are valued using an appropriate valuation model.

Fair values for other securities are estimated using market prices for these financial instruments. Where market prices are not available, fair values have been estimated using prices for financial instruments with similar characteristics, or a suitable valuation technique where practicable to do so.

#### Loans, advances and financing

For personal and commercial loans and advances which mature or reprice after six months, fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates). Performing loans are grouped to the extent possible, into homogenous pools segregated by maturity within each pool. In general, cash flows are discounted using current market rates for instruments with similar maturity, repricing and credit risk characteristics. For non-performing loans, the fair value is the carrying value of the loans, net of specific allowances. General allowances are deducted from the fair value of loans, advances and financing.

### Deposits from customers Deposits and placements of banks and other financial institutions Recourse obligation on loans sold to Cagamas Berhad

Deposits, placements and obligations which mature or reprice after six months are grouped by residual maturity. Fair value is estimated using discounted cash flows, applying either market rates, where applicable, or current rates offered for deposits of similar remaining maturities.

#### **Unrecognised financial instruments**

The valuation of financial instruments not recognised in the balance sheet reflects their current market rates at the balance sheet date. The contracted amount and fair value of financial instruments not recognised in the balance sheet as at 31 December are disclosed in Note 30.

### 34 Lease Commitments

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

Year	<u>Group and Bank</u> <b>RM'000</b>
Less than one year	12,634
Between one and five years	19,302
More than five years	1,120

### 35 Capital Commitments

	Group and	Group and Bank		
	2006	2005		
	RM'000	RM'000		
Capital expenditure:				
- Authorised and contracted for	8,776	9,037		
- Authorised but not contracted for	1,963	4,002		
	10,739	13,039		

### 36 Equity-based Compensation

The Bank participated in the following cash settled share compensation plans operated by the HSBC Group for the acquisition of HSBC Holdings plc shares.

#### a. Executive Share Option Scheme/Group Share Option Plan

The HSBC Holdings Group Share Option Plan, and previously the HSBC Holdings Executive Share Option Scheme, are discretionary share incentive plans under which HSBC employees, based on performance criteria and potential, are granted options to acquire HSBC Holdings ordinary shares. The exercise price of options granted under the Group Share Option Plan, is the higher of the average market value of the ordinary shares on the five business days prior to the grant of the option or the market value of the ordinary shares on the date of grant of the option. The exercise price of options granted under the Executive Share Option Scheme was the market value of the ordinary shares on the business day prior to the grant of the option. They are normally exercisable between the third and tenth anniversary of the date of grant. The cost of the awards is amortised over the vesting period.

Movements in the number of share options held by employees are as follows:

		Weighted		Weighted
		average		average
Year	2006	exercise	2005	exercise
	Number	price	Number	price
	('000')	£	(000')	£
Outstanding at 1 January	2,195	7.85	2,471	7.85
Exercised in the year	(318)	7.72	(221)	7.87
Lapsed in the year	(24)	8.06	(55)	7.89
Outstanding at 31 December	1,853	7.87	2,195	7.85
Options vested at 31 December	1,232		1,047	
	2006		2005	
	RM'000		RM'000	
Compensation cost recognised				
during the year	10,618		4,741	

The Group Share Option Plan ceased in 2005 and is replaced by the Achievement Shares Award. The existing share options held by employees granted under Group Share Option Plan prior to 2005 will continue until they are exercised or lapsed.

#### **36** Equity-based Compensation (continued)

#### **b.** Savings-Related Share Option Schemes

The Savings-Related Share Option Schemes are all-employee share plans under which eligible HSBC employees are granted options to acquire HSBC Holdings ordinary shares. Employees may make monthly contributions up to £250 over a period of three or five years which may be used, on the third or fifth anniversary of the commencement of the relevant savings contract, to exercise the options; alternatively the employee may elect to have the savings (plus interest) repaid in cash. The options are exercisable within six months following the third or fifth anniversary of the commencement of the relevant savings contract. The exercise price is set at a discount of up to 20 per cent to the market value of the ordinary shares at the date of grant. The cost of the awards is amortised over the vesting period.

Movements in the number of share options held by employees are as follows:

		Weighted average		Weighted average
Year	2006	exercise	2005	exercise
	Number	price	Number	price
	('000')	£	(000')	£
Outstanding at 1 January	1,786	6.19	2,544	6.00
Granted in the year	547	7.67	553	6.68
Exercised in the year	(528)	5.44	(17)	5.93
Lapsed in the year	(83)	6.78	(1,284)	6.06
Transfers	(10)	6.50	(10)	6.08
Outstanding at 31 December	1,712	6.60	1,786	6.19
Options vested at 31 December	515		12	
	2006		2005	
	RM'000		RM'000	
Compensation cost recognised during the year	7,438		5,737	

#### **36** Equity-based Compensation (continued)

#### c. Restricted Share Plan

The HSBC Holdings Restricted Share Plan is intended to align the interests of executives with those of shareholders by linking executive awards to the creation of superior shareholder value. This is achieved by focusing on predetermined targets. The cost of the conditional awards is recognised through an annual charge based on the likely level of vesting of shares, apportioned over the period of service to which the award relates.

Year	2006	2005
	Number	Number
	('000')	(000')
Outstanding at 1 January	217	184
Additions during the year	54	60
Released in the year	(22)	(27)
Outstanding at 31 December	249	217
	2006	2005
	RM'000	RM'000
Compensation cost recognised during the year	2,400	1,771

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan is £8.66 (2005: £8.26). The closing price of the HSBC share at 31 December 2006 was £9.31 (2005: £9.33). The weighted average remaining vesting period as at 31 December 2006 was 1.31 years (2005: 1.96 years).

#### d. Achievement Share Award

Achievement Share Award was introduced in 2005 to replace the Group Share Option Plan. HSBC Holdings ordinary shares are awarded to senior executives, without corporate performance conditions and will be released to the individual after three years, provided participants remain continuously employed within the HSBC Group. Additional awards are made during the three-year life of the award. These represent the equivalent value of dividends reinvested in shares. At the end of three years, the original Award together with the Additional Share Awards (added to the original award) will be released. The cost of the awards is recognised through an annual charge based on the cost of the shares purchased, apportioned over a period of three years to which the award relates.

Year	2006 Number	2005 Number
	(000')	(000')
Outstanding at 1 January	88	-
Additions during the year	94	88
Outstanding at 31 December	182	88
	2006	2005
	RM'000	RM'000
Compensation cost recognised during the year	3,396	1,336

The weighted average purchase price for all shares purchased by HSBC for awards under the Achievement Shares Award is £8.99 (2005: £8.43). The closing price of the HSBC share at 31 December 2006 was £9.31 (2005: £9.33). The weighted average remaining vesting period as at 31 December 2006 was 2.52 years (2005: 2.17 years).

Company No: 127776-V

#### 37 Change in Accounting Policy

### **Change in Accounting Policy**

In the current financial year, 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 38(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	(19,253)
As at 31 December 2005, as restated	972,587

### **38** Comparative Figures

The presentation and classification of items in the current financial statements have been consistent with the previous financial year except for the following:

#### (a) Changes in accounting policy explained in Note 37.

	Group d	and Bank
		As previously
	As restated	stated
	RM'000	RM'000
Balance Sheet		
as at 31 December 2005		
Securities available-for-sale	3,284,735	3,277,490
Other assets	371,825	376,829
Deferred tax asset	56,809	53,547
Other liabilities	942,517	917,761
Reserves	2,152,827	2,172,080

# 38 Comparative Figures (continued)

(a)	Changes in accounting policy explained in Note 37.		
` '		Group a	and Bank
			As previously
		As restated	stated
		RM'000	RM'000
	Income Statement for the financial year ended 31 December 2005		
	Other operating expenses	791,255	780,777
	Profit before allowance	746,960	757,438
	Profit before taxation and zakat	736,678	747,156
	Profit attributable to shareholders	524,813	533,685
	Earnings per RM0.50 share	229.2 sen	233.1 sen
(b)	Reclassification to conform to current years' presentation	Commen	I D I
		<u>Group a</u>	and Bank
		As restated	As previously stated
		RM'000	RM'000
	Balance Sheet	KWI000	KW 000
	as at 31 December 2005		
	Property, plant and equipment	304,916	310,144
	Intangible assets	5,228	-

### 39 Operations of Islamic Banking

# Balance Sheet as at 31 December 2006 (10 Zulhijjah 1427)

		2006	2005
Assets	Note	RM'000	RM'000
Cash and short term funds	(a)	975,534	1,157,855
Deposits and placements with banks and			
other financial institutions	<i>(b)</i>	160,000	90,000
Securities available-for-sale	<i>(c)</i>	1,040,407	1,026,595
Financing, advances and other loans	(d)	3,080,253	2,853,518
Other assets	<i>(f)</i>	11,096	13,666
Statutory deposits with Bank Negara Malaysia		89,600	98,500
Equipment		268	342
Intangible assets		552	1,089
Deferred tax asset	<i>(g)</i>	15,603	13,737
Total Assets		5,373,313	5,255,302
Liabilities			
Deposits from customers	(h)	3,654,806	3,512,422
Deposits and placements of banks and			
other financial institutions	(i)	186,806	270,124
Other liabilities	<i>(j)</i>	958,576	946,987
Provision for taxation and zakat	<i>(k)</i>	20,683	20,680
Total liabilities		4,820,871	4,750,213
Islamic Banking Capital Funds			
Funds allocated from Head Office		430,000	430,000
Reserves	(l)	122,442	75,089
Islamic Banking Capital Funds		552,442	505,089
Total Liabilities and Islamic Banking Capital Funds		5,373,313	5,255,302
Commitments and Contingencies	(v)	311,526	241,408

The accompanying sub-notes form an integral part of the Financial Statements.

### Income Statement for the Year Ended 31 December 2006 (10 Zulhijjah 1427)

	Note	2006 RM'000	2005 RM'000
Income derived from investment of depositors' funds			
and others	(m)	258,252	138,540
Allowance for losses on financing	(n)	(23,713)	(19,193)
Profit equalisation reserve	(j)	(3,000)	(460)
Total distributable income		231,539	118,887
Income attributable to depositors	(0)	(156,397)	(86,415)
Income attributable to the Bank		75,142	32,472
Income derived from investment of Islamic banking capital funds	<i>(p)</i>	47,294	30,432
Total net income		122,436	62,904
Other operating expenses	(q)	(57,957)	(5,173)
Profit before taxation and zakat		64,479	57,731
Taxation and zakat	<i>(s)</i>	(18,383)	(16,555)
Profit after taxation and zakat		46,096	41,176

The accompanying sub-notes form an integral part of the Financial Statements.

### Statement of Changes in Equity for the Year Ended 31 December 2006 (10 Zulhijjah 1427)

	<b>←</b> Non-distrib	outable 🕕 1	Distributable		
	Funds allocated from Head Office	Available- for-sale reserve	Retained profits	Total reserves	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2005	200,000	4,198	33,021	37,219	237,219
Funds allocated  Net profit for the year	230,000	- -	- 41,176	- 41,176	230,000 41,176
Net gains and losses not recognised in the income statement					
- Net unrealised losses on revaluation		(3,306)	-	(3,306)	(3,306)
Balance as at 31 December 2005	430,000	892	74,197	75,089	505,089
Balance as at 1 January 2006	430,000	892	74,197	75,089	505,089
Net profit for the year	-	-	46,096	46,096	46,096
Net gains and losses not recognised in the income statement					
- Net unrealised gains on revaluation	-	1,302	-	1,302	1,302
Net gains reclassified to income statement		(45)	-	(45)	(45)

430,000

2,149

120,293

122,442

The accompanying sub-notes form an integral part of the Financial Statements.

Balance as at 31 December 2006

### Cash Flow Statement for the Year Ended 31 December 2006 (10 Zulhijjah 1427)

	2006 RM'000	2005 RM'000
Cash Flows from Operating Activities	KIVI UUU	KWI 000
Profit before taxation and zakat	64,479	57,731
Adjustments for :	04,472	37,731
Equipment written off	36	2
Intangible assets written off	4	-
Depreciation of equipment	85	83
Amortisation of intangible assets	538	524
Operating profit before changes in operating assets	65,142	58,340
(Increase)/ Decrease in operating assets		
Deposits and placements with banks and other financial institutions	(70,000)	(90,000)
Financing, advances and other loans	(226,735)	(1,075,431)
Other assets	(18,165)	28,366
Statutory deposits with Bank Negara Malaysia	8,900	(98,500)
Increase/ (Decrease) in operating liabilities		
Deposits from customers	142,384	1,498,064
Deposits and placements of banks and other financial institutions	(83,318)	270,080
Other liabilities	11,589	(9,966)
Net cash (used in)/ generated from operating activities	(170,203)	580,953
Cash Flows from Investing Activities		
Purchase of equipment	(47)	(221)
Purchase of intangible assets	(5)	(154)
Securities available-for-sale	(12,066)	(88,832)
Net cash used in from investing activities	(12,118)	(89,207)
Cash Flows from Financing Activities		
Funds allocated from Head Office		230,000
Net cash generated from financing activities	<del>-</del>	230,000
Net (decrease)/ increase in Cash and Cash Equivalents	(182,321)	721,746
Cash and Cash Equivalents at beginning of year	1,157,855	436,109
Cash and Cash Equivalents at end of year	975,534	1,157,855
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	975,534	1,157,855

The accompanying sub-notes form an integral part of the Financial Statements.

39	Operations of Islamic Banking (continued)		
(a)	Cash and Short Term Funds		
		2006	2005
		RM'000	RM'000
	Cash and balances with banks and other financial institutions	534	855
	Money at call and deposit placements maturing within one month	975,000	1,157,000
		975,534	1,157,855
<b>(b)</b>	Deposits and Placements with Banks and Other Financial Institutions	•••	
		2006	2005
		RM'000	RM'000
	Bank Negara Malaysia	160,000	90,000
(c)	Securities Available-for-Sale		
		2006	2005
		RM'000	RM'000
	Money market instruments:		
	Malaysian Government Islamic Treasury bills	39,408	-
	Bank Negara Malaysia Islamic bills	-	308,442
	Malaysian Government Islamic bonds	373,915	-
	Negotiable Islamic instruments of deposit	9,990	4,988
	Islamic accepted bills	-	55,830
	Islamic Khazanah bonds	262,200	-
	Islamic Cagamas bonds	3,994	
		689,507	369,260
	Unquoted securities:		
	Islamic debt securities	350,900	657,335
		1,040,407	1,026,595
	The maturity structure of money market instruments held as securities available		
		2006	2005
		RM'000	RM'000
	Maturing within one year	78,034	369,260
	One year to three years	611,473	260.260
		689,507	369,260

39	Operations of Islamic Banking (continued)		
<b>(d)</b>	Financing, Advances and Other Loans		
<b>(i)</b>	By type	2006	2005
		RM'000	RM'000
	Term financing		
	House financing	104,471	113,141
	Hire purchase receivables	190,341	110,885
	Lease receivables	30,339	49,224
	Other term financing	1,367,673	843,590
	Claims on customers under acceptance credits	1,596,149	1,927,977
	Credit /charge cards	1,538	1,409
	Less: Unearned income	(142,815)	(141,321)
		3,147,696	2,904,905
	Less: Allowance for bad and doubtful financing:	-, ,	<b>,</b> -
	- General	(48,740)	(43,770)
	- Specific	(18,703)	(7,617)
	Total net financing, advances and other loans	3,080,253	2,853,518
(ii)	By contract		
	•	2006	2005
		RM'000	RM'000
	Bai' Bithaman Ajil (deferred payment sale)	534,376	521,209
	Ijarah (operating lease)	28,749	45,875
	Ijarah Thumma Al-Bai (hire purchase / finance lease)	169,010	101,385
	Murabahah (cost-plus)	1,222,689	1,346,043
	Others	1,192,872	890,393
		3,147,696	2,904,905
			_,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
(iii)	By type of customer	•006	2007
		2006	2005
		RM'000	RM'000
	Domestic business enterprises		
	- Small medium enterprises	968	1,535
	- Others	2,258,307	2,527,761
	Individuals	878,439	369,256
	Foreign entities	9,982	6,353
		3,147,696	2,904,905

39	Operations of Islamic Banking (continued)		
(d)	Financing, Advances and Other Loans (continued)		
(iv)	By profit rate sensitivity	2007	2005
		2006 RM'000	2005 RM'000
	Fixed rate	RIVI 000	KWI 000
		83,945	89,747
	House financing Hire purchase receivables	169,011	101,386
	Other financing	2,893,202	2,712,363
	Variable rate	2,893,202	2,712,303
	Other financing	1,538	1,409
	Other imaneing	3,147,696	2,904,905
		3,147,070	2,904,903
(v)	By sector		
( )	2, 50001	2006	2005
		RM'000	RM'000
	Agriculture, hunting, forestry and fishing	258,335	288,150
	Mining and quarrying	2,198	4,786
	Manufacturing	1,430,224	1,382,641
	Electricity, gas and water	5,921	6,031
	Construction	38,016	80,901
	Real estate	12,563	15,498
	Purchase of landed property:	,	
	- Residential	83,945	89,747
	- Non-residential	7,751	7,788
	Wholesale & retail trade and restaurants & hotels	367,010	545,386
	Transport, storage and communication	48,697	41,779
	Finance, insurance and business services	10,344	80,230
	Consumption credit	802,561	283,966
	Others	80,131	78,002
		3,147,696	2,904,905
( <del>i</del> )	By maturity structure		
(VI)	by maturity structure	2006	2005
		RM'000	RM'000
	Maturing within one year	1,623,977	1,965,726
	One year to three years	375,700	196,852
	Three years to five years	824,741	419,758
	Over five years	323,278	322,569
		3,147,696	2,904,905

### (e) Non-Performing Financing (NPF)

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

		2006	2005
		RM'000	RM'000
	At beginning of year	12,805	16,921
	Classified as non-performing during the year	21,692	5,409
	Reclassified as performing	(399)	(346)
	Amount recovered Amount written off	(4,073)	(2,520)
		(7,842)	(6,659)
	At end of year	22,183	12,805
	Specific allowance Net non-performing financing, advances and other loans	(18,703) 3,480	(7,617) 5,188
	Net non-performing financing, advances and other loans	3,400	3,100
	Ratio of net non-performing financing, advances and other loans		
	to net financing, advances and other loans	0.1%	0.2%
(**)			
(ii)	Movements in allowance for bad and doubtful financing	2006	2005
		RM'000	2003 RM'000
	Conord allowones	KWI UUU	KWI 000
	General allowance At beginning of year	43,770	27,509
	Allowance made during the year	*	
	At end of year	4,970	16,261 43,770
	At end of year	40,740	43,770
	As % of total financing less specific allowance	1.5%	1.5%
		2006	2005
		RM'000	RM'000
	Specific allowance		
	At beginning of year	7,617	10,305
	Allowance made during the year	23,716	4,870
	Amount recovered	(4,926)	(936)
	Amount written off	(7,704)	(6,622)
	At end of year	18,703	7,617
(iii)	Non-performing financing by sector	2006	2005
		2006	2005
	N C	RM'000	RM'000
	Manufacturing  Description of landed grounds and accounts and a second and accounts and account and accounts and accounts and accounts and accounts and account accounts and accounts and accounts and account accounts and account accounts and accounts and account accounts and accounts and account accounts and accounts and accounts and accounts and account accounts and account accounts and accounts and account accounts and account accounts and accounts and accounts and account account account account accounts and account ac	5,462	4,939
	Purchase of landed property:	2.001	1 645
	- Residential	2,081	1,645
	Wholesale & retail trade and restaurants & hotels	1,195	1,785
	Transport, storage and communication	885	2,290
	Consumption credit Others	11,016	601
	Onicis	1,544 22,183	1,545 12,805
		44,103	12,003

39	Operations of Islamic Banking (continued)		
<b>(f)</b>	Other Assets	• • • •	
		2006	2005
	Sattlement due from Head Office	RM'000	RM'000
	Settlement due from Head Office Income receivable	1,589 9,436	4,655 8,677
	Other receivables, deposits and prepayments	9,430 71	8,677 334
	Office receivables, deposits and prepayments	11,096	13,666
			,
(g)	Deferred Tax Asset		
		2006	2005
		RM'000	RM'000
	Deferred tax assets	15,603	13,737
	The recognised deferred tax assets are as follows:		
		2006	2005
	Lease receivables	RM'000	RM'000
	- capital allowance	1,117	1,353
	Available-for-sale reserve	(837)	(347)
	Allowances	,	, ,
	- general allowance	13,647	12,256
	- others	1,676	475
		15,603	13,737
(h)	Deposits from Customers		
(i)	By type of deposit	2006	2005
( )	V V K V V V V V V V V V V V V V V V V V	RM'000	RM'000
	Non-Mudharabah Fund		
	Demand deposits	60,949	38,948
	Savings deposits	271,085	157,048
		332,034	195,996
	Mudharabah Fund	2 222 772	2 216 426
	General investment deposits	3,322,772 3,654,806	3,316,426 3,512,422
		3,034,000	3,312,422
	The maturity structure of general investment deposits is as follows:	2006	2005
		RM'000	RM'000
	Due within six months	3,015,895	3,142,528
	Six months to one year	304,234	173,898
	One year to three years	2,353	_
	Three years to five years	290	
		3,322,772	3,316,426
(ii)	By type of customer		
(==)	-0 -0 F - 01 00000000	2006	2005
		RM'000	RM'000
	Government and statutory bodies	92,209	10,335
	Business enterprises	2,216,611	2,481,328
	Individuals	1,231,061	893,263
	Others	114,925	127,496
		3,654,806	3,512,422

39	Operations of Islamic Banking (continued)		
(i)	Deposits and Placements of Banks and Other Financial Institutions		
		2006	2005
		RM'000	RM'000
	Mudharabah Fund		
	Licensed Islamic banks	67,500	70,000
	Licensed banks	25,000	50,000
	Bank Negara Malaysia	1,330	124
	Other financial institutions	92,976	150,000
		186,806	270,124
		<u> </u>	
<b>(j</b> )	Other Liabilities		
		2006	2005
		RM'000	RM'000
	Special placement deposits by Head Office	920,792	921,294
	Profit equalisation reserve	4,700	1,700
	Profit payable	19,738	9,675
	Other creditors and accruals	13,346	14,318
		958,576	946,987
	Movement in profit equalisation recognic to a follower		
	Movement in profit equalisation reserve is as follows:	2007	2005
		2006 RM'000	2005 RM'000
	A.1		
	At beginning of year	1,700	1,240
	Provided in the financial year	3,000	1 700
	At end of year	4,700	1,700
(k)	Provision for Taxation and Zakat		
` ′		2006	2005
		RM'000	RM'000
	Taxation	20,683	20,631
	Zakat	-	49
		20,683	20,680
<b>(1)</b>	Reserves		
(1)	10001100	2006	2005
		RM'000	RM'000
	Retained profits	120,293	74,197
	Available-for-sale reserve	2,149	892
	Transport for bare 1000110	122,442	75,089
		1-2,112	75,007

Income Derived from Investment of Depositors' Funds and Others		
	2006	2005
	RM'000	RM'000
Income derived from investment of:		
(i) general investment deposits	186,920	90,262
(ii) specific investment deposits	42,249	35,913
(iii) other deposits	29,083	12,365
	258,252	138,540
(i) Income derived from investment of general investment deposits		
·	2006	2005
	RM'000	RM'000
Finance income and hibah:		
Financing, advances and other loans	148,777	80,324
Money at call and deposit with financial institutions	36,718	9,583
Total finance income and hibah	185,495	89,907
Other operating income		
Net gain from dealing in foreign currency	1,425	355
	186,920	90,262
(ii) Income derived from investment of specific investment deposits		
	2006	2005
	RM'000	RM'000
Finance income and hibah:		
Available-for-sale securities	31,603	36,964

10,646

42,249

(1,051)

35,913

Accretion of discount less amortisation of premium

Total finance income and hibah

39	Operations of Islamic Banking (continued)		
( <b>m</b> )	Income Derived from Investment of Depositors' Funds and Others (co	ntinued)	
	(iii) Income derived from investment of other deposits		
	•	2006	2005
		RM'000	RM'000
	Finance income and hibah:		
	Financing, advances and other loans	23,148	11,004
	Money at call and deposit with financial institutions	5,713	1,313
	Total finance income and hibah	28,861	12,317
	Other operating income		
	Net gain from dealing in foreign currency	222	48
		29,083	12,365
(n)	Allowance for Losses on Financing		
	•	2006	2005
		RM'000	RM'000
	Allowance for bad and doubtful debts on financing:		
	(a) Specific allowance		
	- Made in the financial year	23,716	4,870
	- Written back	(4,926)	(936)
	(b) General allowance		
	- Made in the financial year	4,970	16,261
	Bad debts on loans and financing		
	- Recovered	(170)	(1,287)
	- Written off	123	285
		23,713	19,193
<b>(o)</b>	Income Attributable to Depositors		
(-)	· · · · · · · · · · · · · · · · · · ·	2006	2005
		RM'000	RM'000
	Deposits from customers		
	- Mudharabah Fund	117,765	59,267
	- Non-Mudharabah Fund	3,867	369
	Deposits and placements of banks and other financial institutions	,	
	- Mudarabah Fund	2,113	988
	Special placement deposits by Head Office	32,652	25,791
		156,397	86,415

39	Operations of Islamic Banking (continued)		
<b>(p)</b>	Income Derived from the Investment of Islamic Banking Capital Funds		
		2006	2005
		RM'000	RM'000
	Financing income and hibah:		
	Financing, advances and other loans	21,867	10,695
	Money at call and deposit with financial institutions	5,397	1,276
	Total finance income and hibah	27,264	11,971
	Other operating income		
	Fees and commission	19,821	18,414
	Net gain from dealing in foreign currency	209	47
		47,294	30,432
	The above fees and commissions were derived from the following major contri	butors:	
	Service charges and fees	15,743	13,573
	Agency fees	2,814	2,787
	Cards	861	1,563
(q)	Other operating expenses		
•		2006	2005
		RM'000	RM'000
	Personnel expenses	18,468	3,362
	Promotion and marketing related expenses	1,286	401
	Establishment related expenses	3,396	838
	General administrative expenses	34,807	572
	·	57,957	5,173
(r)	Shariah Committee's Remuneration		
(1)	Sharian Committee & Remuneration	2006	2005
		RM'000	RM'000
	Shariah Committee	RM 000 94	62
	Sharian Commuce	24	02

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39 Operations of Islamic Bankin	(continued	)
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Taxation and Zakat		
	2006	2005
	RM'000	RM'000
Malaysian income tax	20,683	20,631
Deferred tax		
Origination and reversal of temporary differences	(2,355)	(4,125)
	18,328	16,506
Zakat	55	49
	18,383	16,555

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:

	2006	2005
	RM'000	RM'000
Profit before taxation	64,479	57,731
Income tax using Malaysian tax rates (28%)	18,054	16,165
Non-deductible expenses	274	341
	18,328	16,506

### (t) Income from Islamic Banking Operations

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

	2006	2005
	RM'000	RM'000
Income derived from investment of depositors' funds and others	258,252	138,540
Profit equalisation reserves	(3,000)	(460)
Income attributable to the depositors	(156,397)	(86,415)
Income attributable to special placement deposits by Head Office	32,652	25,791
	131,507	77,456
Income derived from the investment of Islamic banking		
capital funds	47,294	30,432
Income from Islamic banking operations	178,801	107,888

### (u) Capital Adequacy

The capital adequacy ratios of the Islamic Banking Operation are as follows:

3 · I· · · · · · · · · · · · · · · · · ·	2006	2005
	RM'000	RM'000
Tier 1 capital		
Funds allocated from Head Office	430,000	430,000
Retained profits	120,293	74,197
	550,293	504,197
Less: Deferred tax adjustments	(16,440)	(14,085)
Total Tier 1 capital	533,853	490,112
Tier 2 capital  General allowance for bad and doubtful debts and financing	48,740	43,770
Total Tier 2 capital	48,740	43,770
Capital base	582,593	533,882
Core capital ratio	14.6%	13.4%
Risk-weighted capital ratio	15.9%	14.6%

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

	2006		2005	
	Principal	Risk-weighted	Principal	Risk-weighted
	RM'000	RM'000	RM'000	RM'000
0%	1,900,515	-	1,534,433	-
10%	-	-	-	-
20%	20,124	4,025	188,240	37,648
50%	71,765	35,882	76,568	38,284
100%	3,620,676	3,620,676	3,580,919	3,580,919
	5,613,080	3,660,583	5,380,160	3,656,851

### (v) Commitments and Contingencies

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

The table below shows the contract or underlying principal amounts, credit equivalents amounts and risk weighted amounts of unmatured off-balance sheet transactions as at balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amount at risk.

		2006			2005	
		Credit	Risk		Credit	Risk
	Principal	equivalent	weighted	Principal	equivalent	weighted
	amount	amount *	amount	amount	amount *	amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Irrevocable commitments to extend credit: - Maturity not exceeding one						
year	18,291	-	-	63,262	-	-
<ul> <li>Maturity exceeding one year</li> </ul>	173,210	86,605	86,605	171,446	85,723	85,723
Others	120,025	120,025	120,025	6,700	6,700	6,700
_	311,526	206,630	206,630	241,408	92,423	92,423

<sup>\*</sup> The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

### (w) Profit Rate Risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows of the Islamic banking operations. The following table indicates the effective profit rates at the balance sheet date and the periods of repricing or maturity, whichever is earlier.

•	<b> </b>	Non-trading book —						Effective	
2006	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-profit sensitive RM'000	Trading book RM'000	Total RM'000	profit rate %
ASSETS									
Cash and short term funds	975,392	-	-	-	-	142	-	975,534	3.59
Deposits and placements with banks and other									
financial institutions	-	160,000	-	-	-	-	-	160,000	3.69
Securities available-for-sale Financing, advances	-	19,966	157,709	862,732	-	-	-	1,040,407	3.97
and other loans									
- performing	1,573,208	34,647	26,908	1,123,773	318,237	-	-	3,076,773	7.66
- non-performing * Others	-	-	-	-	-	3,480	-	3,480	-
Others	<del>-</del>	<u>-</u>	<u>-</u>	<u>-</u>	-	117,119	-	117,119	-
TOTAL ASSETS	2,548,600	214,613	184,617	1,986,505	318,237	120,741	-	5,373,313	
LIABILITIES AND ISLAMIC BANKING CAPITAL FUNDS Deposits from customers Deposits and placements of banks and other financial	2,168,356	805,645	617,213	2,643	-	60,949	-	3,654,806	3.20
institutions Others	186,806 940,075	-	-	-	-	39,184	-	186,806 979,259	3.21 3.59
Officis	740,073					37,104		717,237	3.37
<b>Total Liabilities</b> Islamic Banking Capital Funds	3,295,237	805,645	617,213	2,643	-	<b>100,133</b> 552,442	-	4,820,871 552,442	
Total Liabilities and Islamic Banking Capital Funds	3,295,237	805,645	617,213	2,643	-	652,575	-	5,373,313	
On-balance sheet profit sensitivity gap	(746,637)	(591,032)	(432,596)	1,983,862	318,237	(531,834)	-		
Total profit sensitivity gap	(746,637)	(591,032)	(432,596)	1,983,862	318,237	(531,834)	-	-	

 $<sup>\</sup>ensuremath{^{*}}$  This is arrived at after deducting the specific allowance from non-performing loans.

### (w) Profit Rate Risk (continued)

	•	Non-trading book —				<b></b>		Effective	
2005	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-profit sensitive RM'000	Trading book RM'000	Total RM'000	profit rate %
ASSETS									
Cash and short term funds	1,157,491	-	-	-	-	364	-	1,157,855	2.95
Deposits and placements with banks and other									
financial institutions	-	90,000	-	-	-	-	-	90,000	3.00
Securities available-for-sale Financing, advances and other loans	-	509,934	180,324	336,337	-	-	-	1,026,595	3.79
- performing	1,894,987	1,756	36,205	600,012	315,370	-	-	2,848,330	4.47
- non-performing *	-	-	-	-	-	5,188	-	5,188	-
Others	-	-	-	-	-	127,334	-	127,334	-
TOTAL ASSETS	3,052,478	601,690	216,529	936,349	315,370	132,886	-	5,255,302	
LIABILITIES AND ISLAMIC BANKING CAPITAL FUNDS Deposits from customers	1,503,233	968,594	1,001,647	_	_	38,948	-	3,512,422	2.74
Deposits and placements of banks and other financial									
institutions	270,124	-	-	-	-	-	-	270,124	2.96
Others	920,792	-	-	-	-	46,875	-	967,667	3.12
Total Liabilities	2,694,149	968,594	1,001,647	-	-	85,823	-	4,750,213	
Islamic Banking Capital Funds	-	-	-	-	-	505,089	-	505,089	
Total Liabilities and									
Islamic Banking Capital Funds	2,694,149	968,594	1,001,647	-	-	590,912	-	5,255,302	
On-balance sheet profit sensitivity gap	358,329	(366,904)	(785,118)	936,349	315,370	(458,026)	-	-	
Total profit sensitivity gap	358,329	(366,904)	(785,118)	936,349	315,370	(458,026)	_	_	

 $<sup>\</sup>boldsymbol{*}$  This is arrived at after deducting the specific allowance from non-performing loans.

### (x) Fair Values of Financial Assets and Liabilities

The following table summarises the fair value of the financial assets and liabilities carried on the balance sheet as at 31 December.

	2006	2006	2005	2005
	Carrying	Fair	Carrying	Fair
	amount	Value	amount	Value
	RM'000	RM'000	RM'000	RM'000
Financial Assets				
Cash and short term funds	975,534	975,534	1,157,855	1,157,855
Deposits and placements with banks				
and other financial institutions	160,000	160,000	90,000	90,000
Securities available-for-sale	1,040,407	1,040,407	1,026,595	1,026,595
Financing, advances and other loans	3,080,253	3,021,062	2,853,518	2,824,925
Financial Liabilities				
Deposits from customers	3,654,806	3,655,543	3,512,422	3,512,023
Deposits and placements of banks				
and other financial institutions	186,806	186,806	270,124	270,124

The methods and assumptions used to estimate the fair values of the financial assets and financial liabilities of the operations of Islamic banking are as stated in Note 33.

#### (y) Shariah Committee

In line with Bank Negara Malaysia's "Guidelines on the Governance of Shariah Committee for The Islamic Financial Institutions" known as BNM/GPS 1, the following Shariah scholars were appointed:

- 1) Dr. Mohamad Akram Laldin, Head of Fiqh and Usul Al-fiqh Department at International Islamic University of Malaysia. He is a graduate of University of Jordan, Shariah Department and a Ph.D holder in Islamic Law from the University of Edinburgh, Scotland.
- 2) Dr. Rusni Hassan, Assistant Professor of Law at International Islamic University of Malaysia. She holds a double degree, LLB and LLB (Shariah) as well as Ph.D in Law from the same university.
- 3) Khairul Anuar Ahmad, lecturer with Selangor Islamic College University. He holds a Bachelor and Master of Shariah from University of Malaya.

Monthly meetings are held to discuss Shariah issues complemented by ad-hoc meetings to resolve urgent Shariah matters. The Committee peruse all the documents from inception of a product, to documentation and marketing to ensure that the process flow complies with Shariah at all times. No major Shariah issues were raised and none remain unresolved.

A Shariah Compliance executive was employed during the year to support the Shariah function and the Committee. This role will expand to include Shariah review of operations and other relevant Shariah work.

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 31 MARCH 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 first financial quarter / period ended 31 March 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 GP8 Guidelines issued by Bank Negara Malaysia on 5 October 2004.

BALDEV SINGH Chief Financial Officer

Date: 20 April 2007

### HSBC BANK MALAYSIA BERHAD

(Company No. 127776-V) (Incorporated in Malaysia)

# UNAUDITED CONDENSED BALANCE SHEET AS AT 31 MARCH 2007

		Gra	оир	Bank		
		31 Mar 2007	31 Dec 2006	31 Mar 2007	31 Dec 2006	
	Note	RM'000	RM'000	RM'000	RM'000	
Assets						
Cash and short term funds		5,208,215	6,114,345	5,208,215	6,114,345	
Securities purchased under						
resale agreements		2,893,018	2,273,539	2,893,018	2,273,539	
Deposits and placements with banks						
and other financial institutions		2,660,975	1,989,882	2,660,975	1,989,882	
Securities held-for-trading	11	1,456,506	795,937	1,456,506	795,937	
Securities available-for-sale	12	5,461,935	3,806,463	5,461,935	3,806,463	
Loans, advances and financing	13	24,042,636	24,343,937	24,042,636	24,343,937	
Other assets	15	701,535	578,089	701,535	578,089	
Statutory deposits with						
Bank Negara Malaysia		705,148	698,648	705,148	698,648	
Investments in subsidiaries companies		-	-	21	21	
Property, plant and equipment		302,263	303,387	302,263	303,387	
Intangible assets		35,619	29,172	35,619	29,172	
Deferred tax assets		69,063	69,330	69,063	69,330	
Total Assets		43,536,913	41,002,729	43,536,934	41,002,750	
T !- L!!!!!						
Liabilities	16	22 022 000	21 022 200	22 024 001	21 922 220	
Deposits from customers	16	33,933,980	31,822,208	33,934,001	31,822,229	
Deposits and placements of banks	17	2 005 022	1.024.226	2 005 022	1.024.226	
and other financial institutions	17	2,095,032	1,934,326	2,095,032	1,934,326	
Obligations on securities sold		1 010 155	1 ((0.720	1 010 155	1 ((0.720	
under repurchase agreements		1,812,175	1,660,739	1,812,175	1,660,739	
Bills and acceptances payable		461,060	490,055	461,060	490,055	
Other liabilities	18	1,503,649	1,351,441	1,503,649	1,351,441	
Recourse obligation on loans						
sold to Cagamas Berhad		890,443	899,751	890,443	899,751	
Provision for taxation and zakat		51,077	31,278	51,077	31,278	
Total Liabilities		40,747,416	38,189,798	40,747,437	38,189,819	
Shareholders' Fund						
Share capital		114,500	114,500	114,500	114,500	
Reserves		2,674,997	2,448,431	2,674,997	2,448,431	
Proposed dividend		-	250,000	-	250,000	
Shareholders' funds		2,789,497	2,812,931	2,789,497	2,812,931	
Total Liabilities and Shareholders' Funds		43,536,913	41,002,729	43,536,934	41,002,750	
Commitments and Contingencies	25	65,047,866	60,087,067	65,047,866	60,087,067	

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 24 attached to the unaudited condensed interim financial statements.

## HSBC BANK MALAYSIA BERHAD (Company No. 127776-V)

(Incorporated in Malaysia)

# UNAUDITED CONDENSED INCOME STATEMENT FOR THE FIRST FINANCIAL QUARTER ENDED 31 MARCH 2007

	_	Group an	d Bank
		31 Mar 2007	31 Mar 2006
	Note	RM'000	RM'000
Revenue		770,798	619,962
Interest income	19	483,304	393,829
Interest expense	20	(209,614)	(166,731)
Net interest income		273,690	227,098
Other operating income	21	202,794	164,468
Income from Islamic banking operations	27 (f)	55,040	31,303
Operating income		531,524	422,869
Other operating expenses	22	(215,689)	(201,190)
Profit before allowance		315,835	221,679
Allowance for losses on loans and financing	23	(7,718)	(13,727)
Profit before taxation and zakat		308,117	207,952
Taxation and zakat		(86,270)	(65,696)
Profit attributable to shareholders		221,847	142,256
Earnings per RM0.50 ordinary share			
- basic/diluted		96.9 sen	62.1 sen

#### HSBC BANK MALAYSIA BERHAD

(Company No. 127776-V) (Incorporated in Malaysia)

# UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FIRST FINANCIAL QUARTER ENDED 31 MARCH 2007

	Group and Bank								
	4			Non-distril Reserv		<b></b>	Distributable Reserves		
					Capital	Available-			Total
	Share	Share	Statutory	Revaluation	redemption	for-sale	Retained	Proposed	Shareholders'
	capital	premium	reserve	reserve	reserve	reserve	profit	dividend	funds
	RM'000	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	-	-	-	-	-	-	142,256	-	142,256
Net gains and losses not recognised in the income statement									-
- Net unrealised losses on revaluation	-	_	-	_	-	(2,972)	_	-	(2,972)
Net gains reclassified to income statement	-	-	-	_	-	(651)	-	-	(651)
Dividend paid - 2005 final	-	-	-	_	-	` <u>-</u>	-	(150,000)	(150,000)
Balance as at 31 March 2006	114,500	741,375	114,500	118,966	190,000	11,776	1,114,843	-	2,405,960
Balance as at 1 April 2006	114,500	741,375	114,500	118,966	190,000	11,776	1,114,843	_	2,405,960
Net profit for the period	-	· -	-	· -	-	-	545,150	-	545,150
Net gains and losses not recognised in the income statement									-
- Net unrealised gains on revaluation	-	_	-	_	_	18,360	-	-	18,360
Net gains reclassified to income statement	-	_	-	_	_	(6,539)	-	-	(6,539)
Dividend paid - 2006 interim	-	-	-	-	-	-	(150,000)	-	(150,000)
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	-	-	-	-	-	-	221,847	-	221,847
Net gains and losses not recognised in the income statement									-
- Net unrealised gains on revaluation	-	-	-	-	-	6,031	-	-	6,031
Net gains reclassified to income statement	-	-	-	-	-	(1,312)	-	-	(1,312)
Dividend paid - 2006 final		-	-	-	-	-	-	(250,000)	(250,000)
Balance as at 31 March 2007	114,500	741,375	114,500	118,966	190,000	28,316	1,481,840	-	2,789,497

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 24 attached to the unaudited condensed interim financial statements.

#### HSBC BANK MALAYSIA BERHAD

(Company No. 127776-V) (Incorporated in Malaysia)

# UNAUDITED CONDENSED CASH FLOW STATEMENT FOR THE FIRST FINANCIAL QUARTER ENDED 31 MARCH 2007

	Group and Bank	
	31 Mar 2007	31 Mar 2006
	RM'000	RM'000
Profit before taxation and zakat	308,117	207,952
Adjustments for non-operating and non-cash items	25,711	37,036
Operating profit before working capital changes	333,828	244,988
Changes in working capital:		
Net changes in operating assets	(1,805,524)	(1,174,498)
Net changes in operating liabilities	2,537,917	14,493
Taxation and zakat paid	(67,501)	(52,494)
Net cash generated from/(used in) operations	998,720	(967,511)
Net cash used in investing activities	(1,654,850)	(179,688)
Net cash used in financing activities	(250,000)	(150,000)
G	(1,904,850)	(329,688)
Net changes in cash and cash equivalents	(906,130)	(1,297,199)
Cash and cash equivalents at beginning of the period	6,114,345	7,710,602
Cash and cash equivalents at end of the period	5,208,215	6,413,403
Analysis of cash and cash equivalents		
Cash and short-term funds	5,208,215	6,413,403

#### HSBC BANK MALAYSIA BERHAD

(Company No. 127776-V) (Incorporated in Malaysia)

# EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS AS AT 31 MARCH 2007

#### 1 Basis of Preparation

The unaudited condensed interim financial statements for the first financial quarter ended 31 March 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 GP8 Guidelines 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.

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 are used in applying accounting policies that have significant effect on the amount recognised in the financial statements.

#### 2 Auditors' Report On Preceeding 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 first financial quarter ended 31 March 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 first financial quarter ended 31 March 2007.

#### 6 Debt and Equity Securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the first financial quarter ended 31 March 2007.

#### 7 Dividend

A final dividend of 303% less tax totalling RM250 million in respect of the financial year ended 2006 was paid on 2 March 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 year ended 31 December 2006.

#### 9 Significant Events Subsequent to the Balance Sheet Date

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

#### 10 Changes in the Composition of the Group

There were no changes in the composition of the Group for the first financial quarter ended 31 March 2007.

becaring item for fracing		
	Group and Bank	
	31 Mar 2007	31 Dec 2006
	RM'000	RM'000
Money market instruments:		
Malaysian Government treasury bills	129,818	116,400
Bank Negara Malaysia bills and notes	720,268	202,738
Bank Negara Malaysia Islamic bills	54,511	14,887
Malaysian Government securities	203,848	213,998
Malaysian Government Islamic bonds	32,391	23,361
Khazanah bonds	-	11,404
Cagamas bonds and notes	4,763	4,745
Ç	1,145,599	587,533
Unquoted securities:	, ,	
Private debt securities (including commercial paper)	310,907	208,404
	1,456,506	795,937

# 12 Securities Available-for-Sale

2 Securities Available-101-Sale		
	Group a	nd Bank
	31 Mar 2007	31 Dec 2006
	RM'000	RM'000
Money market instruments:		
Malaysian Government treasury bills	58,577	30,794
Malaysian Government Islamic treasury bills	39,763	39,408
Bank Negara Malaysia bills	591,576	-
Bank Negara Malaysia Islamic bills	150,777	-
Malaysian Government securities	470,597	574,899
Malaysian Government Islamic bonds	644,060	579,980
Khazanah bonds	271,663	262,200
Cagamas bonds and notes	842,757	841,168
Negotiable instruments of deposit	1,185,041	477,020
Bankers' acceptance and Islamic accepted bills	779,277	531,279
	5,034,088	3,336,748
Quoted securities		
Shares	24,301	20,340
Loan stock	13,445	12,492
	37,746	32,832
Unquoted securities:		
Shares	28,572	28,572
Private and Islamic debt securities	371,467	420,895
	400,039	449,467
Impairment loss:		
Quoted securities in Malaysia:		
Shares	(2,679)	(5,701)
Loan stock	(7,259)	(6,883)
	(9,938)	(12,584)
	5,461,935	3,806,463

By type		
	Group a	nd Bank
	31 Mar 2007	31 Dec 2006
	RM'000	RM'000
Overdrafts	1,407,754	1,489,375
Term loans/ financing		
- Housing loans/ financing	8,599,867	8,569,510
- Syndicated term loans/ financing	118,880	41,277
- Hire purchase receivables	207,338	191,050
- Lease receivables	28,541	30,854
- Other term loans/ financing	6,257,408	6,395,010
Bills receivable	1,643,332	1,093,859
Trust receipts	399,296	412,58
Claims on customers under acceptance credits	2,110,638	2,717,23
Staff loans/ financing	313,472	312,70
Loans to executive directors	272	23
Credit/ charge cards	2,023,934	2,017,52
Revolving credit	1,669,979	1,848,25
Other loans/ financing	11,792	12,28
Less: Unearned interest and income	(124,821)	(142,81
	24,667,682	24,988,932
Less: Allowance for bad and doubtful debts and financing:		
- General	(368,400)	(372,60
- Specific	(256,646)	(272,39
Total net loans, advances and financing	24,042,636	24,343,93

### (ii) By type of customer

	Group and Bank	
	31 Mar 2007	31 Dec 2006
	RM'000	RM'000
Domestic non-bank financial institutions		
- Stockbroking companies	157,288	150,087
- Others	178,457	162,927
Domestic business enterprises		
- Small medium enterprises	4,322,072	4,338,440
- Others	6,770,879	7,093,461
Government and statutory bodies	39	46
Individuals	12,778,072	12,798,944
Other domestic entities	3,619	3,508
Foreign entities	457,256	441,519
	24,667,682	24,988,932

13 Loans, Advances and Financing (con	ntinued)
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By interest/ profit rate sensitivity		
	Group a	ınd Bank
	31 Mar 2007	31 Dec 2006
	RM'000	RM'000
Fixed rate		
Housing loans/ financing	301,889	307,762
Hire purchase receivables	184,126	169,72
Other fixed rate loans/ financing	4,978,321	5,399,98
Variable rate		
BLR plus	15,509,433	15,245,69
Cost-plus	1,669,979	1,848,25
Other variable rates	2,023,934	2,017,52
	24,667,682	24,988,93
By sector		
	Group a	ınd Bank
	31 Mar 2007	31 Dec 200
	RM'000	RM'00
Agricultural, hunting, forestry and fishing	1,009,032	999,70
Mining and quarrying	130,819	191,67
Manufacturing	4,364,026	4,569,02
Electricity, gas and water	155,477	134,45
Construction	429,118	452,64
Real estate	401,626	635,85
Purchase of landed property:		
- Residential	8,919,558	8,953,96
- Non-residential	1,082,719	1,019,02
Wholesale & retail trade and restaurants & hotels	2,341,356	2,296,17
Transport, storage and communication	184,683	174,79
Finance, insurance and business services	1,420,244	1,332,49
Purchase of securities	101,555	115,59
Purchase of transport vehicles	36,385	34,28
Consumption credit	3,816,774	3,765,75
Others	274,310	313,49
	24,667,682	24,988,93

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

At beginning of year   538,401   688,626     Classified as non-performing during the period/ year   122,781   325,223     Reclassified as performing during the period/ year   122,781   325,223     Reclassified as performing during the period/ year   18,646   (111,016     Amount recovered   (56,498   (176,815)     Amount written off   (45,724   (188,153)     Other movements   131   536     At end of period/year   540,445   538,401     Specific allowance   (256,646   (272,395)     Net NPL as % of gross loans, advances and financing less specific allowance   283,799   266,006     Net NPL as % of gross loans, advances and financing less specific allowance   1.2%   1.1%     Movements in allowance for bad and doubtful debts   Group ⊥ Burk	(i)	Movements in non-performing loans, advances and financing		
RM'000			Group a	nd Bank
At beginning of year Classified as non-performing during the period/ year Reclassified as performing Response R			31 Mar 2007	31 Dec 2006
Classified as non-performing during the period/year Reclassified as performing (18,646) (111,016) (111,016) (116,646) (111,016) (116,646) (111,016) (116,646) (111,016) (116,646) (116,647) (106,815) (106,8			RM'000	RM'000
Reclassified as performing         (18,646)         (111,016)           Amount recovered         (56,498)         (176,815)           Amount written off         (45,724)         (188,153)           Other movements         131         536           At end of period/year         540,445         538,401           Specific allowance         (256,646)         (272,395)           Net non-performing loans, advances and financing less specific allowance         1.2%         1.1%           (ii) Movements in allowance for bad and doubtful debts         Group and			538,401	688,626
Amount recovered         (56,498)         (176,815)           Amount written off         (45,724)         (188,153)           Other movements         131         536           At end of period/year         540,445         538,401           Specific allowance         (256,646)         (272,395)           Net non-performing loans, advances and financing less specific allowance         283,799         266,006           Net NPL as % of gross loans, advances and financing less specific allowance         31 Mar 2007         31 Dec 2006           Rul'out         Rul'out         Rul'out           General allowance         372,600         Rul'out           At beginning of year         4,200         45,400           At end of period/year         4,200         45,400           At end of period/year         1,5%         1,5%           Specific allowance         1,5%         1,5%           Specific allowance         272,395         322,943           At beginning of year         272,395         322,943           At beginning of year         272,395         322,943           Made during the period/ year         272,395         322,943		Classified as non-performing during the period/ year	122,781	325,223
Amount written off Other movements         (445,724)         (188,153)           Other movements         131         536           At end of period/year         540,445         538,401           Specific allowance         (256,646)         (272,395)           Net non-performing loans, advances and financing less specific allowance         283,799         266,006           (ii) Movements in allowance for bad and doubtful debts		Reclassified as performing	(18,646)	(111,016)
Other movements         131         536           At end of period/year         540,445         538,401           Specific allowance         (256,646)         (272,395)           Net non-performing loans, advances and financing less specific allowance         283,799         266,006           Net NPL as % of gross loans, advances and financing less specific allowance         1.2%         1.1%           (ii) Movements in allowance for bad and doubtful debts         Group at Bank         31 Mar 2007         31 Dec 2006           RM'000         RM'000         RM'000         RM'000         RM'000           General allowance         372,600         327,200         (Written back)/made during the period/ year         (4,200)         45,400         45,400         At 5,400         372,600         372,600         At end of period/year         368,400         372,600         372,600         372,600         At beginning of year         1,5%		Amount recovered	(56,498)	(176,815)
At end of period/year         540,445         538,401           Specific allowance         (256,646)         (272,395)           Net non-performing loans, advances and financing less specific allowance         283,799         266,006           Net NPL as % of gross loans, advances and financing less specific allowance         1.2%         1.1%           Group and Bank           31 Mar 2007         31 Dec 2006         RM'000         RM'000           Remeasure         RM'000         RM'000         RM'000           General allowance         372,600         327,200           (Written back)/made during the period/ year         (4,200)         45,400           At end of period/year         368,400         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         59,643         224,961           Amount recovered         (35,623)         (98,275)           Amount written off         (39,900)         (177,770)           Other movements         131         536		Amount written off	(45,724)	(188,153)
Specific allowance Net non-performing loans, advances and financing less specific allowance         (256,646)         (272,395)           Net NPL as % of gross loans, advances and financing less specific allowance         1.2%         1.1%           (ii) Movements in allowance for bad and doubtful debts		Other movements	131	536
Net non-performing loans, advances and financing less specific allowance         283,799         266,006           Net NPL as % of gross loans, advances and financing less specific allowance         1.2%         1.1%           (ii) Movements in allowance for bad and doubtful debts		At end of period/year	540,445	538,401
Net NPL as % of gross loans, advances and financing less specific allowance         1.2%         1.1%           (ii) Movements in allowance for bad and doubtful debts         Group JBank           31 Mar 2007         31 Dec 2006         RM'000         RM'000           General allowance         RM'000         RM'000         RM'000           At beginning of year         372,600         327,200           (Written back)/made during the period/ year         4,200         45,400           At end of period/year         368,400         372,600         372,600           As % of gross loans, advances and financing less specific allowance         1.5%         1.5%           Specific allowance         272,395         322,943           At beginning of year         272,395         322,943           Made during the period/ year         59,643         224,961           Amount recovered         (35,623)         (98,275)           Amount written off         (39,900)         (177,770)           Other movements         131         536			(256,646)	(272,395)
Less specific allowance   L.2%   1.1%		Net non-performing loans, advances and financing	283,799	266,006
Group and Bank           31 Mar 2007         31 Dec 2006           RM'000         RM'000         RM'000           General allowance           At beginning of year         372,600         327,200           (Written back)/made during the period/ year         (4,200)         45,400           At end of period/year         368,400         372,600           As % of gross loans, advances and financing less specific allowance         1.5%         1.5%           Specific allowance         272,395         322,943           Made during the period/ year         59,643         224,961           Amount recovered         (35,623)         (98,275)           Amount written off         (39,900)         (177,770)           Other movements         131         536			1.00/	
Group and Bank           31 Mar 2007         31 Dec 2006           RM'000         RM'000           General allowance         372,600         327,200           (Written back)/made during the period/ year         (4,200)         45,400           At end of period/year         368,400         372,600           As % of gross loans, advances and financing less specific allowance         1.5%         1.5%           Specific allowance         272,395         322,943           Made during the period/ year         59,643         224,961           Amount recovered         (35,623)         (98,275)           Amount written off         (39,900)         (177,770)           Other movements         131         536		less specific allowance	1.2%	1.1%
General allowance         31 Mar 2007 RM'000         31 Dec 2006 RM'000           At beginning of year         372,600         327,200           (Written back)/made during the period/ year         (4,200)         45,400           At end of period/year         368,400         372,600           As % of gross loans, advances and financing less specific allowance         1.5%         1.5%           Specific allowance         272,395         322,943           Made during the period/ year         59,643         224,961           Amount recovered         (35,623)         (98,275)           Amount written off         (39,900)         (177,770)           Other movements         131         536	(ii)	Movements in allowance for bad and doubtful debts	_	
General allowance         RM'000         RM'000           At beginning of year         372,600         327,200           (Written back)/made during the period/ year         (4,200)         45,400           At end of period/year         368,400         372,600           As % of gross loans, advances and financing less specific allowance         1.5%         1.5%           Specific allowance         272,395         322,943           Made during the period/ year         59,643         224,961           Amount recovered         (35,623)         (98,275)           Amount written off         (39,900)         (177,770)           Other movements         131         536				
General allowance         At beginning of year       372,600       327,200         (Written back)/made during the period/ year       45,400       45,400         At end of period/year       368,400       372,600         As % of gross loans, advances and financing less specific allowance       1.5%       1.5%         Specific allowance       272,395       322,943         Made during the period/ year       59,643       224,961         Amount recovered       (35,623)       (98,275)         Amount written off       (39,900)       (177,770)         Other movements       131       536				
At beginning of year       372,600       327,200         (Written back)/made during the period/ year       45,400       45,400         At end of period/year       368,400       372,600         As % of gross loans, advances and financing less specific allowance       1.5%       1.5%         Specific allowance       272,395       322,943         Made during the period/ year       59,643       224,961         Amount recovered       (35,623)       (98,275)         Amount written off       (39,900)       (177,770)         Other movements       131       536			RM'000	RM'000
(Written back)/made during the period/ year       (4,200)       45,400         At end of period/year       368,400       372,600         As % of gross loans, advances and financing less specific allowance       1.5%       1.5%         Specific allowance       272,395       322,943         Made during the period/ year       59,643       224,961         Amount recovered       (35,623)       (98,275)         Amount written off       (39,900)       (177,770)         Other movements       131       536			252 (00	227 200
At end of period/year       368,400       372,600         As % of gross loans, advances and financing less specific allowance       1.5%       1.5%         Specific allowance       272,395       322,943         Made during the period/ year       59,643       224,961         Amount recovered       (35,623)       (98,275)         Amount written off       (39,900)       (177,770)         Other movements       131       536				
As % of gross loans, advances and financing less specific allowance  Specific allowance  At beginning of year  Made during the period/ year  Amount recovered  Amount written off  Other movements  As % of gross loans, advances and financing  1.5%				
Specific allowance         1.5%         1.5%           Specific allowance         272,395         322,943           Made during the period/ year         59,643         224,961           Amount recovered         (35,623)         (98,275)           Amount written off         (39,900)         (177,770)           Other movements         131         536		At end of period/year	300,400	372,000
Specific allowance         At beginning of year       272,395       322,943         Made during the period/ year       59,643       224,961         Amount recovered       (35,623)       (98,275)         Amount written off       (39,900)       (177,770)         Other movements       131       536		As % of gross loans, advances and financing		
At beginning of year       272,395       322,943         Made during the period/ year       59,643       224,961         Amount recovered       (35,623)       (98,275)         Amount written off       (39,900)       (177,770)         Other movements       131       536		less specific allowance	1.5%	1.5%
At beginning of year       272,395       322,943         Made during the period/ year       59,643       224,961         Amount recovered       (35,623)       (98,275)         Amount written off       (39,900)       (177,770)         Other movements       131       536		Specific allowance		
Made during the period/ year       59,643       224,961         Amount recovered       (35,623)       (98,275)         Amount written off       (39,900)       (177,770)         Other movements       131       536		-	272,395	322,943
Amount recovered       (35,623)       (98,275)         Amount written off       (39,900)       (177,770)         Other movements       131       536			,	
Amount written off       (39,900)       (177,770)         Other movements       131       536		· · · · · · · · · · · · · · · · · · ·		
		Amount written off	(39,900)	(177,770)
At end of period/year <b>256,646</b> 272,395		Other movements	131	536
		At end of period/year	256,646	272,395

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

(iii)	$\mathbf{R}_{\mathbf{v}}$	sector
<b>\ 111</b> <i>1</i>	I) V	Sector

, 2, seeds		
	Group and Bank	
	31 Mar 2007	31 Dec 2006
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	2,113	2,190
Mining and quarrying	453	541
Manufacturing	99,430	100,486
Construction	9,305	24,585
Real estate	15,999	16,863
Purchase of landed property:		
- Residential	249,415	226,133
- Non-residential	21,213	20,057
Wholesale & retail trade and restaurants & hotels	33,193	38,191
Transport, storage and communication	2,720	3,224
Finance, insurance and business services	7,284	20,711
Purchase of securities	366	362
Purchase of transport vehicles	170	170
Consumption credit	96,149	82,041
Others	2,635	2,847
	540,445	538,401

### 15 Other Assets

	Group and Bank	
	<b>31 Mar 2007</b> 31 Dec 20	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	295,711	313,578
Interest/ income receivable	77,060	55,658
Other receivables, deposits and prepayments	328,764	208,853
	701,535	578,089

## 16 Deposits from Customers

## (i) By type of deposit

J 13 F 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Group		Bank	
	31 Mar 2007	31 Dec 2006	31 Mar 2007	31 Dec 2006
	RM'000	RM'000	RM'000	RM'000
Demand deposits	6,941,124	6,273,226	6,941,145	6,273,247
Savings deposits	4,823,125	4,734,188	4,823,125	4,734,188
Fixed/ Investment deposits	20,020,576	19,147,567	20,020,576	19,147,567
Negotiable instruments of deposit	913,996	1,073,968	913,996	1,073,968
Others	1,235,159	593,259	1,235,159	593,259
	33,933,980	31,822,208	33,934,001	31,822,229

#### 16 Deposits from Customers (continued)

	Group		Bank	
	31 Mar 2007	31 Dec 2006	31 Mar 2007	31 Dec 2006
	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	119,487	97,772	119,487	97,772
Business enterprises	13,582,073	12,195,118	13,582,094	12,195,139
Individuals	16,272,889	15,964,350	16,272,889	15,964,350
Others	3,959,531	3,564,968	3,959,531	3,564,968
	33,933,980	31,822,208	33,934,001	31,822,229

### 17 Deposits and Placements of Banks and Other Financial Institutions

	Group and Bank	
	<b>31 Mar 2007</b> 31 Dec 2006	
	RM'000	RM'000
Licensed banks	132,462	81,000
Bank Negara Malaysia	157,651	18,774
Other financial institutions	1,804,919	1,834,552
	2,095,032	1,934,326

#### 18 Other Liabilities

	Group and Bank	
	31 Mar 2007	31 Dec 2006
	RM'000	RM'000
Liabilities, including losses, resulting from off-balance-sheet interest rate	2,	
exchange rate and equities contracts which are marked to market	267,290	309,747
Interest/ profit payable	174,080	175,082
Allowance for commitments and contingencies	2,270	2,369
Profit equalisation reserve	4,700	4,700
Other creditors and accruals	1,055,309	859,543
	1,503,649	1,351,441

#### 19 Interest Income

Group and Bank	
31 Mar 2007	31 Mar 2006
RM'000	RM'000
353,086	300,844
10,160	12,322
93,020	63,870
25,060	19,753
481,326	396,789
6,684	539
(4,706)	(3,499)
483,304	393,829
	31 Mar 2007 RM'000 353,086 10,160 93,020 25,060 481,326 6,684 (4,706)

20	<b>Interest Expense</b>
----	-------------------------

	Group and Bank	
	31 Mar 2007	31 Mar 2006
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	14,699	10,462
Deposits from customers	165,970	131,853
Loans sold to Cagamas	10,288	10,240
Others	18,657	14,176
	209,614	166,731

## 21 Other Operating Income

	Group and Bank	
	<b>31 Mar 2007</b> 31 Mar 2006	
	RM'000	RM'000
Fees and commissions	96,176	93,720
Net (losses)/gains arising from sale of securities		
- Securities held-for-trading	(7,441)	2,402
- Securities available-for-sale	1,498	904
Net interest trading income	7,654	3,234
Net gains arising from dealing in foreign currency	62,130	58,312
Net (losses)/gains arising from trading in derivatives	(1,481)	9,794
Dividend income from securities available-for-sale		
- Quoted in Malaysia	-	6
- Unquoted in Malaysia	120	200
Net unrealised gains/(losses) on revaluation of trading securities		
(including derivatives)	17,804	(2,449)
Net unrealised gains/(losses) from foreign exchange translations	19,837	(5,087)
Rental income	1,533	1,710
Net (losses)/gains on disposal of property, plant and equipment	(125)	712
Other operating income	5,089	1,010
	202,794	164,468
The above fees and commissions were derived from the following major	contributors:	
Cards	35,814	47,380
Service charges and fees	25,790	22,452
Agency fees	16,979	10,501
Credit facilities	6,286	5,059

	~ -	_	_
22	()ther	Operating	Expenses

22 Other Operating Expenses	Group	ınd Bank
	31 Mar 2007	31 Mar 2006
D 1	RM'000	RM'000
Personnel expenses	110,684	101,880
Promotion and marketing related expenses	13,871	13,517
Establishment related expenses	25,867	22,747
General administrative expenses	65,267	63,046
	215,689	201,190
The above expenditure includes the following major items :		
Personnel expenses		
Salaries, allowances and bonuses	84,824	77,980
Employees Provident Fund contributions	14,627	12,774
Promotion and marketing related expenses		
Advertising and promotion	8,042	9,033
Commercial sponsorships	946	994
Establishment related expenses		
Depreciation of property, plant and equipment	6,852	7,315
Information technology costs	6,979	4,662
Hire of equipment	2,228	2,491
Rental of premises	3,284	2,209
General administrative expenses	,	,
Intercompany expenses	42,196	30,189
Fees and commissions paid	1,424	15,141

#### 23 Allowance for Losses on Loans and Financing

	Group and Bank	
	31 Mar 2007	31 Mar 2006
	RM'000	RM'000
Allowance for bad and doubtful debts on loans and financing		
Specific allowance		
Made during the financial period	59,654	35,153
Written back	(35,623)	(18,459)
General allowance		
(Written back)/made during the financial period	(4,200)	9,400
Bad debts on loans and financing		
Recovered	(17,922)	(14,419)
Written off	5,907	2,923
Allowance for losses on commitments and contingencies		
Made during the financial period	-	129
Written back	(98)	(1,000)
	7,718	13,727

## 24 Capital Adequacy

 Capital Macquacy			
	Bank		
	31 Mar 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	1,259,993	1,509,993	
Other reserves	114,500	114,500	
	2,420,368	2,670,368	
Less: Deferred tax adjustments	(104,554)	(104,554)	
Total Tier 1 capital	2,315,814	2,565,814	
Tier 2 capital			
Revaluation reserves	72,507	72,507	
General allowance for bad and doubtful debts and financing	368,400	372,600	
Total Tier 2 capital	440,907	445,107	
1			
Total capital	2,756,721	3,010,921	
Less: Investment in subsidiaries	(21)	(21)	
Capital base	2,756,700	3,010,900	
Core capital ratio	8.9%	10.1%	
Risk-weighted capital ratio	10.6%	11.9%	
Core capital ratio (net of proposed dividend)	8.9%	9.1%	
Risk-weighted capital ratio (net of proposed dividend)	10.6%	10.9%	
- * * * * * * * * * * * * * * * * * * *			

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

		Bank				
	31 M	ar 2007	31 De	ec 2006		
	Principal	Risk-weighted	Principal	Risk-weighted		
	RM'000	RM'000	RM'000	RM'000		
0%	13,173,267	-	12,062,562	-		
10%	327,606	32,761	327,586	32,759		
20%	4,528,852	905,770	3,369,913	673,983		
50%	8,737,696	4,368,848	8,562,107	4,281,053		
100%	19,556,474	19,556,474	19,728,370	19,728,370		
Total risk-weighted assets						
equivalent for market risk		1,056,827		678,808		
	46,323,895	25,920,680	44,050,538	25,394,973		

### 25 Commitments and Contingencies

	Group and Bank					
	-	31 Mar 2007		3	31 Dec 2006	_
		Credit	Risk		Credit	Risk
	Principal	equivalent	weighted	Principal	equivalent	weighted
	amount	amount *	amount	amount	amount *	amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	820,743	820,743	782,872	713,289	713,289	672,985
Transaction-related contingent						
items	2,399,990	1,199,995	1,163,206	2,413,779	1,206,889	1,155,394
Short-term self-liquidating trade-						
related contingencies	545,618	109,124	86,993	436,088	87,218	71,399
Irrevocable commitments to						
extend credit:						
- Maturity not exceeding one						
year	17,795,051	-	-	17,263,576	-	-
- Maturity exceeding one year	868,157	434,079	434,079	915,711	457,856	457,856
Foreign exchange related						
contracts:						
- Less than one year	17,423,577	227,184	79,538	14,144,291	210,429	78,462
- One year to less than five years	1,718,880	110,262	51,198	668,208	52,944	24,917
Interest rate related contracts:						
- Less than one year	8,427,990	18,775	5,067	9,527,856	23,883	7,269
- One year to less than five years	13,483,027	355,140	138,182	12,788,488	338,967	134,989
- Five years and above	585,415	37,212	15,731	498,225	30,440	13,673
Others	979,418	235,705	191,407	717,556	186,884	153,087
	65,047,866	3,548,219	2,948,273	60,087,067	3,308,799	2,770,031

<sup>\*</sup> 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.

4			— Non-tradin	g book ——		<b></b>			Effective
Bank 31 Mar 2007	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	Trading book RM'000	Total RM'000	interest rate %
ASSETS									
Cash and short term funds	4,728,126	-	-	-	-	480,089	-	5,208,215	3.56
Securities purchased									
under resale agreements	1,390,345	1,024,465	478,208	-	-	-	-	2,893,018	3.53
Deposits and placements with banks and other financial									
institutions	_	2,660,935	40					2,660,975	3.86
Securities held-for-trading	-	2,000,935	40		-	-	1,456,506	1,456,506	3.67
Securities available-for-sale	844,619	1,076,458	1,664,100	1,811,255	15,309	50,194	1,430,300	5,461,935	3.66
Loans, advances and	2 - 1,0 - 2	_,,,,,,,,,	-,	_,,		,		-,,	
financing									
- performing	18,676,447	2,181,279	699,094	1,093,347	512,164	596,506	-	23,758,837	6.84
- non-performing *	-	-	-	-	-	283,799	-	283,799	
Others	-	-	-	•	-	1,423,136	390,513	1,813,649	_
Total Assets	25,639,537	6,943,137	2,841,442	2,904,602	527,473	2,833,724	1,847,019	43,536,934	_
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	16,795,278	4,041,923	6,125,950	883,840	148,927	5,938,083	-	33,934,001	2.91
Deposits and placements of banks and other									
financial institutions	1,173,835	245,843	48,167	5,077	2,731	619,379	-	2,095,032	3.18
Obligation on securities									
sold under repurchase									
agreements	1,812,175	-	-	-	-	-	-	1,812,175	2.96
Bills and acceptances	64,000	46 500				250 452		461.060	2.20
payable Recourse obligation on loans	64,099	46,508	-	-	-	350,453	-	461,060	3.28
sold to Cagamas Berhad	_	_	80,598	809,845	_	-	_	890,443	4.57
Others	-	-	-	•	-	961,660	593,066	1,554,726	
Total Liabilities	19,845,387	4,334,274	6,254,715	1,698,762	151,658	7,869,575	593,066	40,747,437	_
Shareholders' funds	-	-,55-1,27-1	-	-	-	2,789,497	-	2,789,497	
Total Liabilities and									_
Shareholders' funds	19,845,387	4,334,274	6,254,715	1,698,762	151,658	10,659,072	593,066	43,536,934	
On-balance sheet									_
interest sensitivity gap	5,794,150	2,608,863	(3,413,273)	1,205,840	375,815	(7,825,348)	1,253,953	-	
Off-balance sheet									
interest sensitivity gap									
Interest rate contracts		574.720	(566,530)	(0.000)					
- futures	591,186	574,739 158,260	(566,739) (55,000)	(8,000) (694,446)	-	-	-	-	
- options - swaps	(985,494)	1,002,487	(753,311)	641,752	95,200	-		634	
Total interest	. , ,		. , ,						_
sensitivity gap	5,399,842	4,344,349	(4,788,323)	1,145,146	471,015	(7,825,348)	1,253,953	634	
	, , , , , , , , , , , , , , , , , , , ,	, ,-	., -,,	, ,, ,	,	., -,,-	, - <del>, - ,</del>		_

 $<sup>\</sup>ensuremath{^{*}}$  This is derived after deducting specific allowance from non-performing loans.

### 26 Interest/ Profit Rate Risk (continued)

+			Non-trading	g book ———		<b></b>		I	Effective
Bank 31 Dec 2006	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	Trading book RM'000	Total RM'000	interest rate %
ASSETS									
Cash and short term funds Securities purchased	5,803,102	-	-	-	-	311,243	-	6,114,345	3.67
under resale agreements Deposits and placements with banks and other financial	674,820	806,490	792,229	-	-	-	-	2,273,539	3.60
institutions Securities held-for-trading	-	1,972,375	-	17,507	-	-	- 795,937	1,989,882 795,937	3.68 3.87
Securities available-for-sale Loans, advances and financing	612,610	527,659	720,049	1,888,479	14,454	43,212	193,931	3,806,463	3.72
- performing	19,461,601	1,902,625	503,647	1,131,363	419,732	658,963	-	24,077,931	6.88
- non-performing * Others	-	-	-	-	-	266,006 1,349,370	329,277	266,006 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	16,226,218	3,497,782	6,033,105	669,024	169,181	5,226,919	-	31,822,229	2.91
financial institutions Obligation on securities sold under repurchase	1,202,396	297,444	26,614	4,950	2,763	400,159	-	1,934,326	3.33
agreements Bills and acceptances	1,660,739	-	-	-	-	-	-	1,660,739	2.93
payable Recourse obligation on loans	77,146	60,278	2,984	-	-	349,647	-	490,055	3.27
sold to Cagamas Berhad Others	-	-	81,689	818,062	-	1,052,983	329,736	899,751 1,382,719	4.57
Total Liabilities Shareholders' funds	19,166,499	3,855,504	6,144,392	1,492,036	171,944 -	7,029,708 2,812,931	329,736	38,189,819 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 Off-balance sheet interest sensitivity gap Interest rate contracts	7,385,634	1,353,645	(4,128,467)	1,545,313	262,242	(7,213,845)	795,478	-	
- futures	-	(250,833)	344,833	(94,000)	-	-	-	-	
- options - swaps	720,897 (605,675)	196,255 344,814	(130,601) (264,514)	(786,551) 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)	

<sup>\*</sup> This is derived after deducting specific allowance from non-performing loans.

### 27 Operations of Islamic Banking

# Unaudited Condensed Balance Sheet as at 31 March 2007 (12 Rabiulawal 1428)

	Note	31 Mar 2007 RM'000	31 Dec 2006 RM'000
Assets			
Cash and short term funds		1,282,017	975,534
Deposits and placements with banks			
and other financial institutions		150,000	160,000
Securities available-for-sale		1,000,466	1,040,407
Financing, advances and other loans	(a)	2,953,430	3,080,253
Other assets	(c)	12,638	11,096
Statutory deposits with Bank Negara Malaysia		90,800	89,600
Equipment		248	268
Intangible assets		437	552
Deferred tax asset		15,203	15,603
Total Assets		5,505,239	5,373,313
Liabilities			
Deposits from customers	( <i>d</i> )	3,611,743	3,654,806
Deposits and placements of banks			
and other financial institutions		339,494	186,806
Other liabilities	(e)	980,325	958,576
Provision for taxation and zakat		5,440	20,683
Total Liabilities		4,937,002	4,820,871
Islamic Banking Capital Fund			
Funds allocated from Head Office		430,000	430,000
Reserves		138,237	122,442
Islamic Banking Capital Funds		568,237	552,442
Total Liabilities and Islamic Banking Capital Funds		5,505,239	5,373,313
Commitments and Contingencies		333,087	311,526

#### **27** Operations of Islamic Banking (continued)

#### Unaudited Condensed Income Statement for the First Financial Quarter Ended 31 March 2007 (12 Rabiulawal 1428)

	31 Mar 2007 RM'000	31 Mar 2006 RM'000
Income derived from investment of depositor's funds and others (Allowance for)/Write back of losses on financing	71,862 (10,049)	52,342 1,117
Profit equalisation reserve	-	(3,000)
Total distributable income	61,813	50,459
Income attributable to depositors	(37,819)	(34,621)
Income attributable to the Bank	23,994	15,838
Income derived from investment of Islamic banking capital funds	12,838	9,323
Total net income	36,832	25,161
Other operating expenses	(17,623)	(4,688)
Profit before taxation and zakat	19,209	20,473
Taxation and zakat	(5,216)	(5,687)
Profit after taxation and zakat	13,993	14,786

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

Financing advances and other lanes		
Financing, advances and other loans		
By type		
	31 Mar 2007	31 Dec 2006
	RM'000	RM'000
Term financing		
House financing	98,062	104,471
Hire purchase receivables	206,628	190,341
Lease receivables	28,026	30,339
Other term financing	1,304,261	1,367,673
Claims on customers under acceptance credits	1,507,856	1,596,149
Credit/ charge cards	1,428	1,538
Less: Unearned income	(124,821)	(142,815)
	3,021,440	3,147,696
Less: Allowance for bad and doubtful financing:		
General	(48,740)	(48,740)
Specific	(19,270)	(18,703)
Total net financing, advances and other loans	2,953,430	3,080,253

# (b) Non-Performing Financing (NPF)

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

	31 Mar 2007 RM'000	31 Dec 2006 RM'000
At beginning of year	22,183	12,805
Classified as non-performing during the period/ year	12,169	21,692
Reclassified as performing	(46)	(399)
Amount recovered	(1,646)	(4,073)
Amount written off	(9,390)	(7,842)
At end of period/year	23,270	22,183
Specific allowance	(19,270)	(18,703)
Net non-performing financing, advances and other loans	4,000	3,480
Net NPL as % of gross financing, advances and other loans		
less specific allowance	0.1%	0.1%

27	Operations of Islamic Banking (continued)		
(ii)	Movements in allowance for bad and doubtful financing		
		31 Mar 2007	31 Dec 2006
		RM'000	RM'000
	General allowance		
	At beginning of year	48,740	43,770
	Made during the period/year		4,970
	At end of period/year	48,740	48,740
	As % of gross financing, advances and other loans		
	less specific allowance	1.6%	1.5%
	Specific allowance		
	At beginning of year	18,703	7,617
	Made during the period/year	11,249	23,716
	Amount recovered	(1,248)	(4,926)
	Amount written off	(9,434)	(7,704)
	At end of period/year	19,270	18,703
(c)	Other Assets	31 Mar 2007	31 Dec 2006
		RM'000	RM'000
	Settlement due from Head Office	-	1,589
	Income receivable	12,599	9,436
	Other receivables, deposits and prepayments	39	71
		12,638	11,096
( <b>d</b> )	Deposits from Customers		
(i)	By type of deposit		
(*)	-1 -1 ke or mekonie	31 Mar 2007	31 Dec 2006
		RM'000	RM'000
	Non-Mudharabah Fund		
	Demand deposits	69,328	60,949
	Savings deposits	286,335	271,085
		355,663	332,034
	Mudharabah Fund		
	General investment deposits	3,256,080	3,322,772
		3,611,743	3,654,806

#### **27** Operations of Islamic Banking (continued)

(e)	Other Liabilities		_
		31 Mar 2007	31 Dec 2006
		RM'000	RM'000
	Special placement deposits by Head Office	920,792	920,792
	Profit equalisation reserve	4,700	4,700
	Profit payable	21,855	19,738
	Other creditors and accruals	32,978	13,346
		980,325	958,576

#### (f) Income from Islamic Banking Operations

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

	31 Mar 2007	31 Mar 2006
	RM'000	RM'000
Income derived from investment of depositors' funds and others	71,862	52,342
Profit equalisation reserve	-	(3,000)
Income attributable to the depositors	(37,819)	(34,621)
Income attributable to special placement deposits by Head Office	8,159	7,259
	42,202	21,980
Income derived from investment of Islamic Banking capital funds	12,838	9,323
	55,040	31,303

#### 28 Review of Performance

The Bank recorded profit before tax of RM308.1 million for the first financial quarter ended 31 March 2007, an increase of 48.2% over the corresponding period last year. The higher profit was attributed to all-round improvements in net interest income (+RM46.6 million or 20.5%), other operating income (+RM38.3 million or 23.3%) and income from Islamic banking operations (+RM23.7 million or 75.8%). In tandem with the growth in operating income, operating expenses increased (RM14.5 million or 7.2%) albeit a smaller quantum, resulting in a lower cost income ratio of 40.6% (Mar06: 47.6%).

#### 29 Business Prospects

Malaysia registered a robust economic growth rate of 5.9% last year and it is expected to grow at 6% in the current year, mainly supported by the development projects under the Ninth Malaysian Plan, coupled with the business friendly policies adopted by the government. With inflation well contained, we expect the momentum of economic growth to sustain.

The banking sector is expected to be more competitive and challenging as there is ample liquidity in the financial markets exacerbated by new Islamic banks expanding their network in the local market. However, the business sentiment remains positive as we are well positioned to explore and capture new business opportunities on every potential growth area by leveraging on our strong brand, network and expertise.

The Bank aims to become the most preferred bank in the country by providing financial solutions via value added products and excellent service to our customers. To achieve this, we have embarked on many operational process re-engineering activities and customer focused initiatives to reduce operation costs and improve customer service delivery.

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

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