

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
- 30 JUNE 2008

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 half year ended 30 June 2008 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 Standards Board ("MASB") and the Revised Guidelines on Financial Reporting for Licensed Institutions ("BNM/GP8") issued by Bank Negara Malaysia on 5 October 2004.

BALDEV SINGH
Chief Financial Officer

Date : 25 July 2008

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

UNAUDITED CONDENSED BALANCE SHEETS
AS AT 30 JUNE 2008

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		30 Jun 2008	31 Dec 2007	30 Jun 2008	31 Dec 2007
		RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short term funds		16,307,330	11,321,351	16,307,330	11,321,351
Securities purchased under resale agreements		2,677,115	1,858,579	2,677,115	1,858,579
Deposits and placements with banks and other financial institutions		708,003	1,448,953	708,003	1,448,953
Securities held-for-trading	11	536,858	1,236,193	536,858	1,236,193
Securities available-for-sale	12	2,728,722	4,272,517	2,728,722	4,272,517
Loans, advances and financing	13	27,754,456	26,007,124	27,754,456	26,007,124
Other assets	15	1,896,486	897,653	1,896,486	897,653
Statutory deposits with Bank Negara Malaysia		733,448	704,847	733,448	704,847
Investments in subsidiaries companies		-	-	21	21
Prepaid land lease payments		19,882	20,890	19,882	20,890
Property, plant and equipment		253,449	258,290	253,449	258,290
Intangible assets		47,463	41,869	47,463	41,869
Deferred tax assets		84,255	69,675	84,255	69,675
Total Assets		<u>53,747,467</u>	<u>48,137,941</u>	<u>53,747,488</u>	<u>48,137,962</u>
Liabilities					
Deposits from customers	16	41,004,083	36,314,839	41,004,104	36,314,860
Deposits and placements of banks and other financial institutions	17	4,631,651	4,441,901	4,631,651	4,441,901
Bills and acceptances payable		454,520	627,730	454,520	627,730
Other liabilities	18	2,593,564	1,815,550	2,593,564	1,815,550
Recourse obligation on loans sold to Cagamas Berhad		729,787	759,101	729,787	759,101
Provision for taxation and zakat		80,518	57,569	80,518	57,569
Subordinated bonds	19	955,182	1,000,000	955,182	1,000,000
Total Liabilities		<u>50,449,305</u>	<u>45,016,690</u>	<u>50,449,326</u>	<u>45,016,711</u>
Shareholders' Fund					
Share capital		114,500	114,500	114,500	114,500
Reserves		3,033,662	2,756,751	3,033,662	2,756,751
Proposed dividend		150,000	250,000	150,000	250,000
Shareholders' funds		<u>3,298,162</u>	<u>3,121,251</u>	<u>3,298,162</u>	<u>3,121,251</u>
Total Liabilities and Shareholders' Funds		<u>53,747,467</u>	<u>48,137,941</u>	<u>53,747,488</u>	<u>48,137,962</u>
Commitments and Contingencies	26	<u>92,326,232</u>	<u>76,966,309</u>	<u>92,326,232</u>	<u>76,966,309</u>

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2007 and the accompanying explanatory notes on page 5 to 26 attached to the unaudited condensed interim financial statements.

The financial statements were approved by the Board of Directors on 25 July 2008.

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

UNAUDITED CONDENSED INCOME STATEMENT
FOR THE HALF YEAR ENDED 30 JUNE 2008

Group and Bank

	<i>Note</i>	2nd quarter ended		Half year ended	
		30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
		RM'000	RM'000	RM'000	RM'000
Revenue		870,878	821,251	1,777,598	1,592,049
Interest income	20	533,340	498,915	1,051,932	982,219
Interest expense	21	(243,693)	(220,659)	(481,615)	(430,273)
Net interest income		289,647	278,256	570,317	551,946
Other operating income	22	243,765	230,703	546,315	433,497
Income from Islamic banking operations	28(f)	62,204	58,908	120,592	113,948
Operating income		595,616	567,867	1,237,224	1,099,391
Other operating expenses	23	(238,022)	(244,992)	(482,676)	(460,681)
Profit before allowance		357,594	322,875	754,548	638,710
Allowance for losses on loans and financing	24	(59,801)	(137,963)	(108,712)	(145,681)
Profit before taxation and zakat		297,793	184,912	645,836	493,029
Taxation and zakat		(69,379)	(50,008)	(164,433)	(136,278)
Profit attributable to shareholders		228,414	134,904	481,403	356,751
Earnings per RM0.50 ordinary share - basic/diluted		99.7 sen	58.9 sen	210.2 sen	155.8 sen
Dividends per RM0.50 ordinary share (net) - proposed		65.5 sen	87.3 sen	65.5 sen	87.3 sen

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2007 and the accompanying explanatory notes on page 5 to 26 attached to the unaudited condensed interim financial statements.

HSBC BANK MALAYSIA BERHAD
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**UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 JUNE 2008**

	<i>Group and Bank</i>									
	← Non-distributable			Distributable →				<i>Total reserves</i>	<i>Proposed dividend</i>	<i>Shareholders' funds</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available-for-sale reserve</i>	<i>Retained profits</i>			
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2007	114,500	741,375	114,500	118,966	190,000	23,597	1,259,993	2,448,431	250,000	2,812,931
Deferred tax adjustment on revaluation reserve	-	-	-	3,165	-	-	-	3,165	-	3,165
Net unrealised gains on revaluation	-	-	-	-	-	7,886	-	7,886	-	7,886
Net gains transferred to income statement	-	-	-	-	-	(9,065)	-	(9,065)	-	(9,065)
Net gains recognised directly in equity	-	-	-	3,165	-	(1,179)	-	1,986	-	1,986
Net profit for the period	-	-	-	-	-	-	356,751	356,751	-	356,751
Total recognised income and expense for the period	-	-	-	3,165	-	(1,179)	356,751	358,737	-	358,737
Dividend paid - 2006 final	-	-	-	-	-	-	-	-	(250,000)	(250,000)
Proposed dividend - 2007 interim	-	-	-	-	-	-	(200,000)	(200,000)	200,000	-
Balance as at 30 June 2007	114,500	741,375	114,500	122,131	190,000	22,418	1,416,744	2,607,168	200,000	2,921,668
Balance as at 1 July 2007	114,500	741,375	114,500	122,131	190,000	22,418	1,416,744	2,607,168	200,000	2,921,668
Deferred tax adjustment on revaluation reserve	-	-	-	818	-	-	-	818	-	818
Net unrealised gains on revaluation	-	-	-	-	-	24,671	-	24,671	-	24,671
Transfer to retained profit on realisation of assets	-	-	-	(180)	-	-	180	-	-	-
Net gains transferred to income statement	-	-	-	-	-	(5,742)	-	(5,742)	-	(5,742)
Net gains recognised directly in equity	-	-	-	638	-	18,929	180	19,747	-	19,747
Net profit for the period	-	-	-	-	-	-	379,836	379,836	-	379,836
Total recognised income and expense for the period	-	-	-	638	-	18,929	380,016	399,583	-	399,583
Dividend paid - 2007 interim	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Proposed dividend - 2007 final	-	-	-	-	-	-	(250,000)	(250,000)	250,000	-
Balance as at 31 December 2007	114,500	741,375	114,500	122,769	190,000	41,347	1,546,760	2,756,751	250,000	3,121,251
Balance as at 1 January 2008	114,500	741,375	114,500	122,769	190,000	41,347	1,546,760	2,756,751	250,000	3,121,251
Deferred tax adjustment on revaluation reserve	-	-	-	816	-	-	-	816	-	816
Net unrealised losses on revaluation	-	-	-	-	-	(17,760)	-	(17,760)	-	(17,760)
Transfer to retained profit on realisation of assets	-	-	-	(752)	-	-	752	-	-	-
Net gains transferred to income statement	-	-	-	-	-	(37,548)	-	(37,548)	-	(37,548)
Net gains/(losses) recognised directly in equity	-	-	-	64	-	(55,308)	752	(54,492)	-	(54,492)
Net profit for the period	-	-	-	-	-	-	481,403	481,403	-	481,403
Total recognised income and expense for the period	-	-	-	64	-	(55,308)	482,155	426,911	-	426,911
Dividend paid - 2007 final	-	-	-	-	-	-	-	-	(250,000)	(250,000)
Proposed dividend - 2008 interim	-	-	-	-	-	-	(150,000)	(150,000)	150,000	-
Balance as at 30 June 2008	114,500	741,375	114,500	122,833	190,000	(13,961)	1,878,915	3,033,662	150,000	3,298,162

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 2007 and the accompanying explanatory notes on page 5 to 26 attached to the unaudited condensed interim financial statements.

HSBC BANK MALAYSIA BERHAD
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UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 30 JUNE 2008

	<i>Group and Bank</i>	
	30 Jun 2008	30 Jun 2007
	RM'000	RM'000
Profit before taxation and zakat	645,836	493,029
Adjustments for non-operating and non-cash items	22,739	164,319
Operating profit before working capital changes	668,575	657,348
Changes in working capital:		
Net changes in operating assets	(2,153,017)	(956,014)
Net changes in operating liabilities	5,409,666	5,375,943
Taxation and zakat paid	(135,051)	(134,009)
Net cash generated from operations	3,790,173	4,943,268
Net cash generated from/(used in) investing activities	1,445,806	(2,107,309)
Net cash (used in)/generated from financing activities	(250,000)	250,000
	1,195,806	(1,857,309)
Net changes in cash and cash equivalents	4,985,979	3,085,959
Cash and cash equivalents at beginning of the period	11,321,351	6,114,345
Cash and cash equivalents at end of the period	16,307,330	9,200,304
Analysis of cash and cash equivalents		
Cash and short-term funds	16,307,330	9,200,304

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 2007 and the accompanying explanatory notes on page 5 to 26 attached to the unaudited condensed interim financial statements.

HSBC BANK MALAYSIA BERHAD
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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS
AS AT 30 JUNE 2008

1 Basis of Preparation

The unaudited condensed interim financial statements for the half year ended 30 June 2008 have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") as modified by Bank Negara Malaysia's Revised Guidelines on Financial Reporting for Licensed Institutions (BNM/GP8).

The unaudited interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2007. 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 financial year ended 31 December 2007.

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2007, except for the adoption of the following Financial Reporting Standards ("FRS's") and Interpretations that are effective for financial periods beginning on or after 1 July 2007:

- FRS 107 *Cash Flow Statements*
- FRS 111 *Construction Contracts*
- FRS 112 *Income Taxes*
- FRS 118 *Revenue*
- FRS 119 *Employee Benefits*
- FRS 120 *Accounting for Government Grants and Disclosure of Government Assistance*
- *Amendment to FRS 121, The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation*
- FRS 126 *Accounting and Reporting by Retirement Benefit Plans*
- FRS 129 *Financial Reporting in Hyperinflationary Economies*
- FRS 134 *Interim Financial Reporting*
- FRS 137 *Provisions, Contingent Liabilities and Contingent Assets*
- IC Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
- IC Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments*
- IC Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- IC Interpretation 6 *Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment*
- IC Interpretation 7 *Applying the Restatement Approach under FRS 129, Financial Reporting in Hyperinflationary Economies*
- IC Interpretation 8 *Scope of FRS 2*

1 Basis of Preparation (Cont'd)

The adoption of FRS's 107, 112, 118, 119, 134, 137, Amendment to FRS 121 and IC Interpretation 8 does not result in significant changes in the accounting policies of the Group and the Bank.

FRS's 111, 120, 126, 129, IC Interpretations 1, 2, 5, 6, and 7 are not applicable to the Group and the Bank.

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and 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 period in which the estimate is revised and in any future periods affected.

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

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

2 Auditors' Report On Preceding Annual Financial Statements

The audit report on the audited annual financial statements for the financial year ended 31 December 2007 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 half year ended 30 June 2008.

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 half year ended 30 June 2008.

6 Debt and Equity Securities

There were no issuances, cancellations, repurchases, resale or repayment of debt and equity securities during the financial period ended 30 June 2008.

7 Dividend

A final dividend of RM1.475 per ordinary share less tax at 26% totalling RM250 million in respect of the financial year ended 2007 was paid on 7 March 2008.

The directors now recommend an interim dividend of RM0.885 per ordinary share less tax at 26% totalling RM150 million in respect of the current financial year on the fully issued and paid up ordinary shares of the Bank.

8 Carrying Amount of Revalued Assets

Property, plant and equipment are stated at cost/valuation less accumulated depreciation and accumulated impairment losses except for freehold land which is stated at cost and directors' valuation. There was no change in the valuation of property, plant and equipment that were brought forward from the previous audited financial statements for the financial period ended 30 June 2008.

9 Significant Events Subsequent to the Balance Sheet Date

There were no material events subsequent to the balance sheet date that requires 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 except for the incorporation of HSBC Amanah Malaysia Bhd, a fully owned subsidiary of HSBC Bank Malaysia Berhad on 26 February 2008.

The Islamic Banking operations of HSBC Bank Malaysia Berhad is expected to be transferred to HSBC Amanah Malaysia Berhad within the current financial year.

11 Securities Held-for-Trading

	<i>Group and Bank</i>	
	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Money market instruments:		
Malaysian Government treasury bills	46,377	83,422
Bank Negara Malaysia bills and notes	291,890	316,580
Bank Negara Malaysia Islamic bills	69,035	315,096
Malaysian Government securities	102,128	413,625
Malaysian Government Islamic bonds	4,613	9,780
Cagamas bonds and notes	2,897	12,474
	516,940	1,150,977
Unquoted securities:		
Private debt securities (including commercial paper)	19,918	85,216
	536,858	1,236,193

12 Securities Available-for-Sale

	<i>Group and Bank</i>	
	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Money market instruments:		
Malaysian Government treasury bills	-	29,916
Bank Negara Malaysia bills and notes	109,982	775,282
Bank Negara Malaysia Islamic bills	-	804,051
Malaysian Government securities	418,547	371,059
Malaysian Government Islamic bonds	648,678	651,757
Khazanah bonds	143,288	277,853
Cagamas bonds and notes	209,870	540,095
Negotiable instruments of deposit	359,999	320,015
Bankers' acceptance and Islamic accepted bills	465,129	90,202
	2,355,493	3,860,230
Quoted securities:		
Shares	28,053	21,108
Loan stock	16,106	16,106
	44,159	37,214
Unquoted securities:		
Shares	49,504	77,342
Private debt securities	295,672	313,837
	345,176	391,179
Impairment loss:		
Quoted securities in Malaysia:		
Loan stock	(16,106)	(16,106)
	2,728,722	4,272,517

13 Loans, Advances and Financing

(i) By type

	<i>Group and Bank</i>	
	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Overdrafts	1,540,531	1,523,922
Term loans/ financing		
Housing loans/ financing	8,707,498	8,486,428
Syndicated term loans/ financing	148,875	155,159
Hire purchase receivables	294,050	251,516
Lease receivables	17,721	23,570
Other term loans/ financing	7,640,336	6,887,328
Bills receivable	1,839,834	1,519,669
Trust receipts	1,271,911	640,323
Claims on customers under acceptance credits	2,721,314	2,567,640
Staff loans/ financing	337,322	329,416
Credit/ charge cards	2,346,080	2,343,528
Revolving credit	1,692,709	2,024,455
Other loans/ financing	6,121	5,574
Less: Unearned interest and income	(135,105)	(131,370)
	28,429,197	26,627,158
Less: Allowance for bad and doubtful debts and financing:		
- General	(426,100)	(401,700)
- Specific	(248,641)	(218,334)
Total net loans, advances and financing	27,754,456	26,007,124

(ii) By type of customer

	<i>Group and Bank</i>	
	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Domestic non-bank financial institutions		
Stockbroking companies	7,534	153,084
Others	-	47,138
Domestic business enterprises		
Small medium enterprises	4,039,817	3,447,776
Others	10,219,565	9,211,129
Government and statutory bodies	13	23
Individuals	13,449,169	13,190,289
Other domestic entities	3,280	2,695
Foreign entities	709,819	575,024
	28,429,197	26,627,158

13 Loans, Advances and Financing (continued)

(iii) By interest/ profit rate sensitivity

	<i>Group and Bank</i>	
	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Fixed rate		
Housing loans/ financing	265,873	281,934
Hire purchase receivables	263,994	223,506
Other fixed rate loans/ financing	4,447,001	4,157,222
Variable rate		
BLR plus	19,413,540	17,596,513
Cost-plus	1,692,709	2,024,455
Other variable rates	2,346,080	2,343,528
	28,429,197	26,627,158

(iv) By sector

	<i>Group and Bank</i>	
	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	912,309	1,001,145
Mining and quarrying	264,523	177,656
Manufacturing	5,780,836	5,064,036
Electricity, gas and water	125,898	110,542
Construction	807,348	639,879
Real estate	705,964	690,951
Purchase of landed property:		
Residential	9,127,241	8,926,254
Non-residential	1,215,507	1,164,051
Wholesale & retail trade and restaurants & hotels	2,833,852	2,280,204
Transport, storage and communication	334,686	247,079
Finance, insurance and business services	1,316,706	1,496,488
Purchase of securities	40,073	48,123
Purchase of transport vehicles	44,524	39,915
Consumption credit	4,496,895	4,325,096
Others	422,835	415,739
	28,429,197	26,627,158

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

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

	<i>Group and Bank</i>	
	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
At beginning of period/year	438,025	538,401
Classified as non-performing during the period/ year	225,891	541,516
Reclassified as performing	(33,951)	(104,002)
Loans/ financing converted to securities	-	(19,339)
Amount recovered	(88,442)	(173,397)
Amount written off	(94,840)	(256,499)
Disposal	-	(94,727)
Other movements	7,061	6,072
At end of period/ year	453,744	438,025
Specific allowance	(248,641)	(218,334)
Net non-performing loans, advances and financing	205,103	219,691
Ratio of net non-performing loans, advances and financing to net loans, advances and financing	0.7%	0.8%

(ii) Movements in allowance for bad and doubtful debts

	<i>Group and Bank</i>	
	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
General allowance		
At beginning of period/ year	401,700	372,600
Made during the year	25,600	53,200
Amount written back during the period/ year	(1,200)	(24,100)
At end of period/ year	426,100	401,700
As % of gross loans, advances and financing less specific allowance	1.5%	1.5%
Specific allowance		
At beginning of period/ year	218,334	272,395
Made during the period/ year	132,295	318,312
Amount recovered during the period/ year	(18,057)	(69,895)
Amount written off	(90,987)	(308,547)
Other movements	7,056	6,069
At end of period/ year	248,641	218,334

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

(iii) By sector

	<i>Group and Bank</i>	
	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	1,223	2,400
Manufacturing	58,548	67,164
Construction	7,657	8,013
Real estate	13,959	14,552
Purchase of landed property:		
Residential	150,580	161,317
Non-residential	24,966	22,244
Wholesale & retail trade and restaurants & hotels	44,109	39,578
Transport, storage and communication	4,046	1,999
Finance, insurance and business services	7,262	3,548
Purchase of securities	364	363
Purchase of transport vehicles	238	286
Consumption credit	138,721	113,971
Others	2,071	2,590
	453,744	438,025

15 Other Assets

	<i>Group and Bank</i>	
	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Derivative financial assets	1,012,639	546,321
Interest/ income receivable	50,050	46,528
Other receivables, deposits and prepayments	833,797	304,804
	1,896,486	897,653

16 Deposits from Customers

(i) By type of deposit

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2008	31 Dec 2007	30 Jun 2008	31 Dec 2007
	RM'000	RM'000	RM'000	RM'000
Demand deposits	8,308,697	7,606,560	8,308,718	7,606,581
Savings deposits	5,528,231	5,159,481	5,528,231	5,159,481
Fixed/ investment deposits	22,674,606	20,316,874	22,674,606	20,316,874
Negotiable instruments of deposits	740,758	266,092	740,758	266,092
Wholesale money market deposits	2,328,553	1,882,951	2,328,553	1,882,951
Others	1,423,238	1,082,881	1,423,238	1,082,881
	41,004,083	36,314,839	41,004,104	36,314,860

16 Deposits from Customers (continued)

(ii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2008	31 Dec 2007	30 Jun 2008	31 Dec 2007
	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	159,680	156,972	159,680	156,972
Business enterprises	16,695,405	14,388,888	16,695,426	14,388,909
Individuals	19,033,005	17,780,919	19,033,005	17,780,919
Others	5,115,993	3,988,060	5,115,993	3,988,060
	41,004,083	36,314,839	41,004,104	36,314,860

17 Deposits and Placements of Banks and Other Financial Institutions

	<i>Group and Bank</i>	
	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Licensed banks	157,000	-
Bank Negara Malaysia	40,665	111,089
Other financial institutions	4,433,986	4,330,812
	4,631,651	4,441,901

18 Other Liabilities

	<i>Group and Bank</i>	
	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Derivative financial liabilities	908,131	507,882
Interest/ profit payable	207,166	196,813
Allowance for commitments and contingencies	2,245	2,245
Profit equalisation reserve	6,700	5,700
Other creditors and accruals	1,469,322	1,102,910
	2,593,564	1,815,550

19 Subordinated Bonds

	<i>Group and Bank</i>	
	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Subordinated bonds, at par	1,000,000	1,000,000
Fair value changes arising from fair value hedge	(44,818)	-
	955,182	1,000,000

The outstanding Subordinated bonds relate to the RM 1 billion Subordinated bonds issued in 2007 via 2 tranches:

- (a) 4.35% coupon rate for RM 500 million due 2022 callable with a 100 bp step up coupon in 2017
- (b) 5.05% coupon rate for RM 500 million due 2027 callable with a 100 bp step up coupon in 2022

During the financial period, the Bank has undertaken fair value hedge on the interest rate risk on a portion of each of the above two tranches of Subordinated bonds using interest rate swaps. Total amount of Subordinated bonds hedged is RM 420 million.

20 Interest Income

	<i>Group and Bank</i>			
	2nd quarter ended		Half year ended	
	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
	RM'000	RM'000	RM'000	RM'000
Loans and advances				
- Interest income other than recoveries from NPLs	376,256	360,744	749,942	713,830
- Recoveries from NPLs	10,003	9,217	17,425	19,377
Money at call and deposit placement with financial institutions	130,153	95,335	246,244	188,355
Securities available-for-sale	16,712	26,461	33,767	51,521
Others	630	-	1,043	-
	533,754	491,757	1,048,421	973,083
Amortisation of premium less accretion of discounts	6,816	12,698	16,446	19,382
Interest suspended	(7,230)	(5,540)	(12,935)	(10,246)
Total interest income	533,340	498,915	1,051,932	982,219

21 Interest Expense

	<i>Group and Bank</i>			
	2nd quarter ended		Half year ended	
	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
	RM'000	RM'000	RM'000	RM'000
Deposits and placements of banks and other financial institutions	22,553	21,339	42,257	36,038
Deposits from customers	200,028	169,776	395,692	335,746
Loans sold to Cagamas	8,904	9,979	17,767	20,267
Subordinated bonds	11,717	179	23,435	179
Others	491	19,386	2,464	38,043
	243,693	220,659	481,615	430,273

22 Other Operating Income

	<i>Group and Bank</i>			
	2nd quarter ended		Half year ended	
	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
	RM'000	RM'000	RM'000	RM'000
Fees and commissions	95,472	109,809	192,537	205,985
Net (losses)/ gains arising from sale of securities				
- Securities held-for-trading	(1,412)	6,837	16,353	(604)
- Securities available-for-sale	37,331	15,998	61,472	17,496
Net interest income from trading securities	13,818	11,529	30,556	19,183
Net unrealised gains/ (losses) on revaluation of trading securities	1,247	(10,882)	220	2,193
Net gains arising from dealing in foreign currency	2,665	80,743	104,968	142,873
Net unrealised gains from dealing in foreign currency	83,604	6,100	91,088	25,937
Net gains/ (losses) arising from trading in derivatives	2,080	(41,001)	6,940	(42,482)
Net unrealised gains on revaluation of derivatives	207	41,601	24,673	46,330
Dividend income from securities available-for-sale				
- Unquoted in Malaysia	42	645	162	765
Rental income	1,662	1,688	3,150	3,221
Net gains on disposal of property, plant and equipment	264	400	297	275
Other operating income	6,785	7,236	13,899	12,325
	243,765	230,703	546,315	433,497

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

Cards	41,532	36,015	82,782	71,829
Service charges and fees	29,711	30,818	59,729	58,298
Agency fees	9,618	18,339	19,119	35,318
Credit facilities	6,994	7,208	14,008	13,494

23 Other Operating Expenses

	<i>Group and Bank</i>			
	2nd quarter ended		Half year ended	
	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
	RM'000	RM'000	RM'000	RM'000
Personnel expenses	127,460	128,607	256,463	239,291
Promotion and marketing related expenses	12,537	18,999	26,272	32,870
Establishment related expenses	27,541	20,776	54,929	46,643
General administrative expenses	70,484	76,610	145,012	141,877
	238,022	244,992	482,676	460,681

The above expenditure includes the following major items :

Personnel expenses				
Salaries, allowances and bonuses	95,854	100,369	193,417	185,193
Employees Provident Fund contributions	18,110	15,014	35,172	29,641
Promotion and marketing related expenses				
Advertising and promotion	8,538	11,905	16,768	19,947
Establishment related expenses				
Depreciation of property, plant and equipment	7,310	6,807	14,681	13,659
Amortisation of intangible assets	4,249	4,109	8,108	5,486
Information technology costs	4,112	148	7,634	7,127
Hire of equipment	2,273	2,895	5,366	5,123
Rental of premises	4,505	2,991	8,566	6,275
Property, plant and equipment written off	31	26	172	45
General administrative expenses				
Intercompany expenses	44,019	44,887	90,107	87,083
Auditors' remuneration	87	87	175	175

24 Allowance for Losses on Loans and Financing

	<i>Group and Bank</i>			
	2nd quarter ended		Half year ended	
	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
	RM'000	RM'000	RM'000	RM'000
Allowance for bad and doubtful debts on loans and financing				
(a) Specific allowance				
Made during the financial period	72,330	145,665	132,295	205,319
Written back	(12,253)	(10,029)	(18,057)	(45,652)
(b) General allowance				
Made during the financial period	15,100	14,800	25,600	14,800
Written back	-	-	(1,200)	(4,200)
Bad debts on loans and financing				
Recovered	(17,529)	(18,201)	(33,779)	(36,123)
Written off	2,153	5,753	3,853	11,660
Allowance for losses on commitments and contingencies				
Written back	-	(25)	-	(123)
	59,801	137,963	108,712	145,681

25 Capital Adequacy

	<i>Bank</i>	
	30 Jun 2008	31 Dec 2007
	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 profits	2,028,915	1,796,760
Other reserves	114,500	114,500
	<u>3,189,290</u>	<u>2,957,135</u>
Less: Deferred tax adjustments	(98,713)	(105,145)
Total Tier 1 capital	<u>3,090,577</u>	<u>2,851,990</u>
Tier 2 capital		
Subordinated bonds	955,182	1,000,000
Revaluation reserves	72,007	72,383
General allowance for bad and doubtful debts and financing	426,100	401,700
Total Tier 2 capital	<u>1,453,289</u>	<u>1,474,083</u>
Total capital	4,543,866	4,326,073
Less: Investment in subsidiaries	(21)	(21)
Capital base *	<u>4,543,845</u>	<u>4,326,052</u>
Core capital ratio	8.4%	10.0%
Risk-weighted capital ratio	12.4%	15.1%
Core capital ratio (net of proposed dividend)	8.0%	9.1%
Risk-weighted capital ratio (net of proposed dividend)	12.0%	14.2%

Breakdown of gross risk-weighted assets ("RWA") in the various categories of risk-weights:

	<i>Bank</i>			
	30 Jun 2008		31 Dec 2007	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
0%	21,345,149	-	16,373,703	-
10%	-	-	264,455	26,446
20%	4,321,482	864,296	4,205,244	841,049
35%	7,859,633	2,750,872	-	-
50%	2,849,144	1,424,572	9,899,366	4,949,682
75%	8,667,855	6,500,891	-	-
100%	18,495,893	18,495,893	21,839,548	21,839,548
150%	306,987	460,480	-	-
Total RWA for market risk	-	2,377,258	-	980,958
Total RWA for operational risk	-	3,854,649	-	-
	<u>63,846,143</u>	<u>36,728,911</u>	<u>52,582,316</u>	<u>28,637,683</u>

* Profit after tax of RM 481.4 million for the current half year of which RM 487.8 million was included in the capital base, was subject to a limited review by the external auditors in accordance with Technical Buletin 4 issued by the Malaysian Institute of Certified Public Accountants.

26 Commitments and Contingencies

	<i>Group and Bank</i>					
	30 Jun 2008			31 Dec 2007		
	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount RM'000
Direct credit substitutes	1,468,969	1,468,969	1,343,977	1,478,440	1,478,440	1,462,396
Transaction-related contingent items	2,342,423	1,171,212	992,886	2,584,941	1,292,471	1,223,077
Short-term self-liquidating trade-related contingencies	578,888	115,778	104,810	438,700	87,740	73,252
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	19,444,823	3,888,963	3,144,788	19,642,907	-	-
- Maturity exceeding one year	3,190,588	1,595,294	1,282,784	634,924	317,462	317,462
Foreign exchange related contracts:						
- Less than one year	28,306,064	703,347	493,316	21,557,011	279,475	105,763
- One year to less than five years	2,772,733	219,232	91,525	1,799,862	175,660	73,788
- Five years and above	2,091,565	203,709	31,046	1,915,480	278,531	127,469
Interest rate related contracts:						
- Less than one year	9,091,638	29,968	8,604	6,696,171	21,700	4,906
- One year to less than five years	17,770,025	649,230	219,663	17,441,588	444,377	181,798
- Five years and above	4,208,748	323,808	98,125	1,677,521	110,951	50,038
Other commodity contracts:						
- One year to less than five years	78,721	13,985	2,797	-	-	-
Equity related contract	764,551	56,381	11,468	811,894	139,293	62,256
Sell buy back agreement	216,496	216,496	216,496	286,870	286,870	286,870
	92,326,232	10,656,372	8,042,285	76,966,309	4,912,970	3,969,075

* The credit equivalent and risk weighted amount is computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. From 2008 onwards, the credit conversion factors and risk weighting rules were based on Basel 2 Standardised Approach. Previous year balances that were computed on Basel 1 basis were not required to be restated.

27 Interest/ Profit Rate Risk

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

Bank 30 Jun 2008	Non-trading book						Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000			
ASSETS									
Cash and short term funds	15,929,911	-	-	-	-	377,419	-	16,307,330	3.51
Securities purchased under resale agreements	2,552,483	124,632	-	-	-	-	-	2,677,115	3.66
Deposits and placements with banks and other financial institutions	-	700,000	-	8,003	-	-	-	708,003	3.57
Securities held-for-trading	-	-	-	-	-	-	536,858	536,858	3.19
Securities available-for-sale	752,746	437,152	939,839	393,436	127,993	77,556	-	2,728,722	3.76
Loans, advances and financing									
- performing	22,246,517	2,160,217	870,265	1,153,348	296,409	822,597	-	27,549,353	6.34
- non-performing *	-	-	-	-	-	205,103	-	205,103	
Others	-	-	-	-	-	1,430,472	1,604,532	3,035,004	
Total Assets	41,481,657	3,422,001	1,810,104	1,554,787	424,402	2,913,147	2,141,390	53,747,488	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	20,279,653	4,948,016	7,854,119	723,319	50,000	7,148,997	-	41,004,104	2.77
Deposits and placements of banks and other financial institutions	2,927,662	488,763	507,244	55,741	827	651,414	-	4,631,651	3.19
Bills and acceptances payable	13,956	61,184	-	-	-	379,380	-	454,520	3.30
Recourse obligation on loans sold to Cagamas Berhad	-	-	-	729,787	-	-	-	729,787	4.71
Subordinated bonds	-	-	-	-	955,182	-	-	955,182	4.70
Others	-	-	-	-	-	1,055,151	1,618,931	2,674,082	
Total Liabilities	23,221,271	5,497,963	8,361,363	1,508,847	1,006,009	9,234,942	1,618,931	50,449,326	
Shareholders' funds	-	-	-	-	-	3,298,162	-	3,298,162	
Total Liabilities and Shareholders' funds	23,221,271	5,497,963	8,361,363	1,508,847	1,006,009	12,533,104	1,618,931	53,747,488	
On-balance sheet interest sensitivity gap	18,260,386	(2,075,962)	(6,551,259)	45,940	(581,607)	(9,619,957)	522,459	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	650,598	(735,598)	85,000	-	-	-	-	
- options	23,200	(354,345)	79,345	251,800	-	-	-	-	
- swaps	(270,299)	(391,556)	1,130,196	(1,431,459)	1,068,734	-	-	105,616	
Total interest sensitivity gap	18,013,287	(2,171,265)	(6,077,316)	(1,048,719)	487,127	(9,619,957)	522,459	105,616	

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

27 Interest/ Profit Rate Risk (continued)

Bank 31 Dec 2007	← Non-trading book →					Non-interest sensitive RM'000	Trading book RM'000	Effective interest rate %	
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				Total RM'000
ASSETS									
Cash and short term funds	9,727,281	-	-	-	-	1,594,070	-	11,321,351	3.56
Securities purchased under resale agreements	879,502	979,077	-	-	-	-	-	1,858,579	3.50
Deposits and placements with banks and other financial institutions	-	1,440,854	-	8,099	-	-	-	1,448,953	4.00
Securities held for trading	-	-	-	-	-	-	1,236,193	1,236,193	3.71
Securities available-for-sale	659,360	898,549	1,313,304	1,296,330	6,525	98,449	-	4,272,517	3.69
Loans, advances and financing									
- performing	20,483,360	2,413,919	755,898	994,843	325,056	814,357	-	25,787,433	6.55
- non-performing *	-	-	-	-	-	219,691	-	219,691	-
Others	-	-	-	-	-	1,326,054	667,191	1,993,245	-
TOTAL ASSETS	31,749,503	5,732,399	2,069,202	2,299,272	331,581	4,052,621	1,903,384	48,137,962	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	17,919,846	4,354,973	6,732,610	804,387	62,677	6,440,367	-	36,314,860	2.77
Deposits and placements of banks and other financial institutions	1,906,527	465,475	55,293	256,256	1,171	1,757,179	-	4,441,901	3.29
Bills and acceptances payable	57,297	65,067	-	-	-	505,366	-	627,730	3.30
Recourse obligation on loans sold to Cagamas Berhad	-	-	-	759,101	-	-	-	759,101	4.71
Subordinated bonds	-	-	-	-	1,000,000	-	-	1,000,000	4.70
Others	-	-	-	-	-	1,069,923	803,196	1,873,119	-
Total Liabilities	19,883,670	4,885,515	6,787,903	1,819,744	1,063,848	9,772,835	803,196	45,016,711	
Shareholders' funds	-	-	-	-	-	3,121,251	-	3,121,251	
Total Liabilities and Shareholders' funds	19,883,670	4,885,515	6,787,903	1,819,744	1,063,848	12,894,086	803,196	48,137,962	
On-balance sheet interest sensitivity gap	11,865,833	846,884	(4,718,701)	479,528	(732,267)	(8,841,465)	1,100,188	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	790,910	(800,910)	10,000	-	-	-	-	
- options	(72,800)	(306,885)	156,885	222,800	-	-	-	-	
- swaps	(1,166,983)	(296,659)	1,281,480	257,076	(26,307)	-	-	48,607	
Total interest sensitivity gap	10,626,050	1,034,250	(4,081,246)	969,404	(758,574)	(8,841,465)	1,100,188	48,607	

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

28 Operations of Islamic Banking

**Unaudited Condensed Balance Sheet
as at 30 June 2008 (26 Jamadilakhir 1429)**

	<i>Note</i>	30 Jun 2008 RM'000	31 Dec 2007 RM'000
Assets			
Cash and short term funds		2,031,167	1,139,046
Securities available-for-sale		674,553	821,927
Financing, advances and other loans	<i>(a)</i>	3,519,479	2,961,465
Other assets	<i>(c)</i>	22,585	6,879
Statutory deposits with Bank Negara Malaysia		91,000	77,100
Equipment		356	397
Intangible assets		120	213
Deferred tax asset		17,773	15,584
Total Assets		<u>6,357,033</u>	<u>5,022,611</u>
Liabilities			
Deposits from customers	<i>(d)</i>	4,531,494	3,323,111
Deposits and placements of banks and other financial institutions		161,776	5,772
Other liabilities	<i>(e)</i>	1,001,913	1,046,751
Provision for taxation and zakat		13,303	25,833
Total Liabilities		<u>5,708,486</u>	<u>4,401,467</u>
Islamic Banking Capital Funds			
Funds allocated from Head Office		430,000	430,000
Reserves		218,547	191,144
Islamic Banking Capital Funds		<u>648,547</u>	<u>621,144</u>
Total Liabilities and Islamic Banking Capital Funds		<u>6,357,033</u>	<u>5,022,611</u>
Commitments and Contingencies		<u>386,119</u>	<u>327,901</u>

28 Operations of Islamic Banking (continued)

**Unaudited Condensed Income Statement
for the half year ended 30 June 2008
(26 Jamadilakhir 1429)**

	2nd quarter ended		Half year ended	
	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositor's funds and others	73,662	74,207	151,280	146,069
Allowance for losses on financing	(16,685)	(8,575)	(27,184)	(18,624)
Profit equalisation reserve	-	(1,000)	(1,000)	(1,000)
Total distributable income	56,977	64,632	123,096	126,445
Income attributable to depositors	(39,711)	(39,869)	(73,984)	(77,688)
Income attributable to the Bank	17,266	24,763	49,112	48,757
Income derived from investment of Islamic banking capital funds	20,111	17,426	28,071	30,264
Total net income	37,377	42,189	77,183	79,021
Other operating expenses	(19,514)	(12,876)	(36,081)	(30,499)
Profit before taxation and zakat	17,863	29,313	41,102	48,522
Taxation and zakat	(5,046)	(7,992)	(11,792)	(13,208)
Profit after taxation and zakat	12,817	21,321	29,310	35,314

28 Operations of Islamic Banking (continued)

(a) Financing, advances and other loans

By type

	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Overdrafts	1,263	-
Term financing		
House financing	75,863	86,295
Hire purchase receivables	293,340	250,807
Lease receivables	17,206	23,055
Other term financing	1,538,583	1,379,211
Claims on customers under acceptance credits	1,799,570	1,416,825
Credit/ charge cards	1,282	1,105
Less: Unearned income	(135,105)	(131,370)
	3,592,002	3,025,928
Less: Allowance for bad and doubtful financing :		
General	(53,597)	(45,525)
Specific	(18,926)	(18,938)
Total net financing, advances and other loans	3,519,479	2,961,465

(b) Non-Performing Financing (NPF)

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

	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
At beginning of period/year	24,321	22,183
Classified as non-performing during the period/ year	39,955	87,200
Reclassified as performing	(178)	(631)
Amount recovered	(19,496)	(6,214)
Amount written off	(19,645)	(40,719)
Others	-	(37,498)
At end of period/year	24,957	24,321
Specific allowance	(18,926)	(18,938)
Net non-performing financing, advances and other loans	6,031	5,383
Ratio of net non-performing financing, advances and other loans to net financing, advances and other loans	0.2%	0.2%

28 Operations of Islamic Banking (continued)

(ii) Movements in allowance for bad and doubtful financing

	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
General allowance		
At beginning of period/year	45,525	48,740
Made during the period/year	9,072	535
Allowance written back during the period/year	(1,000)	(3,750)
At end of period/year	53,597	45,525
As % of gross financing, advances and other loans less specific allowance	1.5%	1.5%
Specific allowance		
At beginning of period/year	18,938	18,703
Allowance made during the period/year	22,895	47,487
Amount recovered	(2,936)	(6,697)
Amount written off	(19,971)	(40,555)
At end of period/year	18,926	18,938

(c) Other Assets

	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Derivative financial assets	10,116	-
Income receivable	7,653	6,692
Other receivables, deposits and prepayments	4,816	187
	22,585	6,879

(d) Deposits from Customers

(i) By type of deposit

	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Non-Mudharabah Fund		
Demand deposits	91,602	87,528
Savings deposits	425,674	382,606
	517,276	470,134
Mudharabah Fund		
General investment deposits	3,821,696	2,852,977
Others	192,522	-
	4,531,494	3,323,111

28 Operations of Islamic Banking (continued)

(e) Other Liabilities

	30 Jun 2008	31 Dec 2007
	RM'000	RM'000
Special placement deposits by Head Office	942,017	920,792
Settlement due to Head Office	-	52,838
Profit equalisation reserve	6,700	5,700
Profit payable	24,284	21,206
Other creditors and accruals	28,912	46,215
	<u>1,001,913</u>	<u>1,046,751</u>

(f) Income from Islamic Banking Operations

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

	2nd quarter ended		Half year ended	
	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositors' funds and others	73,662	74,207	151,280	146,069
Profit equalisation reserve	-	(1,000)	(1,000)	(1,000)
Income attributable to the depositors	(39,711)	(39,869)	(73,984)	(77,688)
Income attributable to special placement deposits by Head Office	8,142	8,144	16,225	16,303
	<u>42,093</u>	<u>41,482</u>	<u>92,521</u>	<u>83,684</u>
Income derived from investment of Islamic Banking capital funds	20,111	17,426	28,071	30,264
	<u>62,204</u>	<u>58,908</u>	<u>120,592</u>	<u>113,948</u>

29 Comparative Figures

The following comparative figures have been reclassified to conform with the current year's presentation.

	<i>Group</i>		<i>Bank</i>	
	As restated	As previously stated	As restated	As previously stated
	RM'000	RM'000	RM'000	RM'000
<i>Balance Sheet as at 31 Dec 2007</i>				
Deposits from customers	36,314,839	36,173,674	36,314,860	36,173,695
Deposits and placements of banks and other financial institutions	4,441,901	4,583,066	4,441,901	4,583,066

30 Review of Performance

The Bank recorded profit before tax of RM645.8 million for the half year ended 30 June 2008, an increase of 31.0% when compared against the corresponding period last year. Despite a competitive banking environment, operating income grew by RM137.8m or 12.5% against the half year ended 30 June 2007, mainly on trading profits due to higher volatility in the foreign exchange market, coupled with higher gains on sale of securities. Operating expenses increased in tandem with the growth in operating income, however, the increase was at a slower pace (4.8%), resulting in an improvement in the cost income ratio to 39.0% from 41.9% in the corresponding period last year.

The overall quality of the Bank's loan and advances portfolio improved, as net non-performing loans ratio decreased from 1.0% at 30 June 2007 to 0.7% currently, resulting in a decrease of RM37.0 million in allowance for losses on loans and financing for the half year ended 30 June 2008 compared to the corresponding period last year.

Total assets grew by RM5.6 billion or 11.7% compared to 31 December 2007, in tandem with the growth in customer deposits which were up RM4.7 billion or 12.9% as the banking sector remains flushed with liquidity. However, net loans, advances and financing at RM27.8 billion as at 30 June 2008 was up by RM1.8 billion against 31 December 2007.

31 Business Prospects

Despite rising inflationary pressures and the US subprime crisis, the Malaysian economy is forecasted to grow approximately 5.0% this year, with inflation projected to rise substantially due to the recent increase in fuel prices. The economic growth is supported by the diversified structure of the Malaysian economy, robust domestic demand from private and public sectors and the Malaysian government's strong commitment to promote international trade and investment.

Income growth from lending activities could become challenging due to intense competition in the highly liquid local financial markets, coupled with the effect of the expected decrease in domestic consumption due to mounting inflationary pressures. Meanwhile, fee income from investments could also be affected due to more cautious investor sentiments in view of the current local and global economic challenges. However, the recent move to liberalise borrowings in foreign currency and ringgit could improve the competitiveness of the Malaysian financial market by making it cheaper and more attractive for both local and foreign investors to do business locally.

The development of Malaysia as an Islamic financial hub in the Asian region has facilitated the process of establishing Malaysia as a centre for origination, distribution and trading of Islamic Bonds or sukuks. We intend to capitalise on the growth in Islamic banking and are in the process of setting up HSBC Amanah Malaysia Berhad, our Islamic Subsidiary in the second half of 2008 which will allow us to expand in new market sectors.

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