

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

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
**- 30 JUNE 2005**

**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)**

**UNAUDITED CONDENSED BALANCE SHEET**  
**AS AT 30 JUNE 2005**

	<i>Group</i>		<i>Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
<b>Assets</b>				
Cash and short term funds	<b>4,902,819</b>	5,767,418	<b>4,902,819</b>	5,767,418
Securities purchased under resale agreements	<b>1,564,203</b>	1,661,681	<b>1,564,203</b>	1,661,681
Deposits and placements with banks and other financial institutions	<b>856,518</b>	106,179	<b>856,518</b>	106,179
Securities:				
- Held for trading	<b>393,925</b>	871,201	<b>393,925</b>	871,201
- Available-for-sale	<b>5,203,470</b>	4,809,856	<b>5,203,470</b>	4,809,856
Loans, advances and financing	<b>20,297,931</b>	18,963,791	<b>20,297,931</b>	18,963,791
Other assets	<b>625,252</b>	303,861	<b>625,252</b>	303,861
Statutory deposits with Bank Negara Malaysia	<b>642,548</b>	762,948	<b>642,548</b>	762,948
Investments in subsidiary companies	-	-	<b>21</b>	21
Property, plant and equipment	<b>298,831</b>	299,721	<b>298,831</b>	299,721
Deferred tax asset	<b>68,010</b>	54,045	<b>68,010</b>	54,045
<b>Total Assets</b>	<b>34,853,507</b>	33,600,701	<b>34,853,528</b>	33,600,722
<b>Liabilities</b>				
Deposits from customers	<b>27,034,942</b>	26,556,685	<b>27,034,963</b>	26,556,706
Deposits and placements of banks and other financial institutions	<b>2,061,052</b>	1,432,336	<b>2,061,052</b>	1,432,336
Obligations on securities sold under repurchase agreements	<b>1,452,466</b>	1,812,105	<b>1,452,466</b>	1,812,105
Bills and acceptances payable	<b>364,361</b>	332,902	<b>364,361</b>	332,902
Other liabilities	<b>948,830</b>	613,012	<b>948,830</b>	613,012
Recourse obligation on loans sold to Cagamas Berhad	<b>606,742</b>	630,188	<b>606,742</b>	630,188
Provision for taxation	<b>92,994</b>	59,306	<b>92,994</b>	59,306
<b>Total liabilities</b>	<b>32,561,387</b>	31,436,534	<b>32,561,408</b>	31,436,555
<b>Shareholders' Fund</b>				
Share capital	<b>114,500</b>	114,500	<b>114,500</b>	114,500
Reserves	<b>2,057,620</b>	1,949,667	<b>2,057,620</b>	1,949,667
Proposed dividend	<b>120,000</b>	100,000	<b>120,000</b>	100,000
<b>Shareholders' funds</b>	<b>2,292,120</b>	2,164,167	<b>2,292,120</b>	2,164,167
<b>Total Liabilities and Shareholders' Funds</b>	<b>34,853,507</b>	33,600,701	<b>34,853,528</b>	33,600,722
<b>Commitments and Contingencies</b>	<b>52,857,118</b>	48,896,046	<b>52,857,118</b>	48,896,046

*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 2004.*

*The financial statements were approved by the management on 18 July 2005.*

**HSBC BANK MALAYSIA BERHAD**  
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**UNAUDITED CONDENSED INCOME STATEMENT**  
**FOR THE HALF YEAR ENDED 30 JUNE 2005**

	<i>Group and Bank</i>			
	<b>2nd quarter ended</b>		<b>Half year ended</b>	
	<b>30 June 2005</b>	30 June 2004	<b>30 June 2005</b>	30 June 2004
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Revenue	<b>536,131</b>	470,992	<b>1,050,073</b>	925,222
Interest income	<b>358,903</b>	322,459	<b>693,992</b>	629,081
Interest expense	<b>(151,595)</b>	(147,948)	<b>(304,232)</b>	(295,551)
Net interest income	<b>207,308</b>	174,511	<b>389,760</b>	333,530
Other operating income	<b>139,156</b>	124,649	<b>282,142</b>	250,180
Income from Islamic banking operations	<b>24,251</b>	18,315	<b>46,748</b>	34,634
Operating income	<b>370,715</b>	317,475	<b>718,650</b>	618,344
Other operating expenses	<b>(180,258)</b>	(173,427)	<b>(355,260)</b>	(317,114)
Profit before allowance	<b>190,457</b>	144,048	<b>363,390</b>	301,230
(Allowance for)/ Write back of losses on loans and financing	<b>(5,922)</b>	3,226	<b>(23,257)</b>	16,137
Write back of allowance for commitments and contingencies	<b>17</b>	259	<b>465</b>	6,530
Profit before taxation	<b>184,552</b>	147,533	<b>340,598</b>	323,897
Taxation	<b>(53,272)</b>	(23,230)	<b>(97,085)</b>	(75,382)
Profit attributable to shareholders	<b>131,280</b>	124,303	<b>243,513</b>	248,515
Earnings per RM0.50 share	<b>57.3 sen</b>	54.3 sen	<b>106.3 sen</b>	108.5 sen
Dividends per RM0.50 ordinary share (net)	<b>52.4 sen</b>	43.7 sen	<b>52.4 sen</b>	43.7 sen

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**HSBC BANK MALAYSIA BERHAD**  
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**UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF YEAR ENDED 30 JUNE 2005**

	<i>Group and Bank</i>									
	← Non-distributable					→ Distributable				
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available-for-sale reserve</i>	<i>Retained profit</i>	<i>Total reserves</i>	<i>Proposed dividend</i>	<i>Total</i>
<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Balance as at 1 January 2004										
- as previously reported	114,500	741,375	114,500	110,264	190,000	-	423,359	1,579,498	200,000	1,893,998
- prior year adjustment	-	-	-	-	-	6,820	35,813	42,633	-	42,633
	<b>114,500</b>	<b>741,375</b>	<b>114,500</b>	<b>110,264</b>	<b>190,000</b>	<b>6,820</b>	<b>459,172</b>	<b>1,622,131</b>	<b>200,000</b>	<b>1,936,631</b>
Net profit for the period										
- as previously reported	-	-	-	-	-	-	257,347	257,347	-	257,347
- prior year adjustment	-	-	-	-	-	-	(8,832)	(8,832)	-	(8,832)
Net unrealised gains on revaluation	-	-	-	-	-	26,684	-	26,684	-	26,684
Transfer to retained profit on realisation of assets	-	-	-	(1,127)	-	-	1,127	-	-	-
Dividend paid - 2003 final	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Proposed dividend - 2004 interim	-	-	-	-	-	-	(100,000)	(100,000)	100,000	-
Balance as at 30 June 2004	<b>114,500</b>	<b>741,375</b>	<b>114,500</b>	<b>109,137</b>	<b>190,000</b>	<b>33,504</b>	<b>608,814</b>	<b>1,797,330</b>	<b>100,000</b>	<b>2,011,830</b>
Balance as at 1 July 2004	114,500	741,375	114,500	109,137	190,000	33,504	608,814	1,797,330	100,000	2,011,830
Net profit for the period										
- as previously reported	-	-	-	-	-	-	215,930	215,930	-	215,930
- prior year adjustment	-	-	-	-	-	-	1,484	1,484	-	1,484
Net unrealised gains on revaluation	-	-	-	-	-	24,125	-	24,125	-	24,125
Gains reclassified to income statement	-	-	-	-	-	(958)	-	(958)	-	(958)
Surplus on revaluation of properties	-	-	-	11,756	-	-	-	11,756	-	11,756
Transfer to retained profit on realisation of assets	-	-	-	(1,927)	-	-	1,927	-	-	-
Dividend paid - 2004 interim	-	-	-	-	-	-	-	-	(100,000)	(100,000)
Proposed dividend - 2004 final	-	-	-	-	-	-	(100,000)	(100,000)	100,000	-
Balance as at 31 December 2004	<b>114,500</b>	<b>741,375</b>	<b>114,500</b>	<b>118,966</b>	<b>190,000</b>	<b>56,671</b>	<b>728,155</b>	<b>1,949,667</b>	<b>100,000</b>	<b>2,164,167</b>
Balance as at 1 January 2005	114,500	741,375	114,500	118,966	190,000	56,671	728,155	1,949,667	100,000	2,164,167
Net profit for the period	-	-	-	-	-	-	243,513	243,513	-	243,513
Net unrealised losses on revaluation	-	-	-	-	-	(13,022)	-	(13,022)	-	(13,022)
Net gains reclassified to income statement	-	-	-	-	-	(2,538)	-	(2,538)	-	(2,538)
Dividend paid - 2004 final	-	-	-	-	-	-	-	-	(100,000)	(100,000)
Proposed dividend - 2005 interim	-	-	-	-	-	-	(120,000)	(120,000)	120,000	-
Balance as at 30 June 2005	<b>114,500</b>	<b>741,375</b>	<b>114,500</b>	<b>118,966</b>	<b>190,000</b>	<b>41,111</b>	<b>851,668</b>	<b>2,057,620</b>	<b>120,000</b>	<b>2,292,120</b>

*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 2004.*

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**UNAUDITED CONDENSED CASH FLOW STATEMENT**  
**FOR THE HALF YEAR ENDED 30 JUNE 2005**

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	30 June 2004
	<b>RM'000</b>	RM'000
Profit before taxation	<b>340,598</b>	323,897
Adjustments for non-operating and non-cash items	<b>69,936</b>	30,212
Operating profit before working capital changes	<b>410,534</b>	354,109
Changes in working capital:		
Net changes in operating assets	<b>(1,776,979)</b>	(969,115)
Net changes in operating liabilities	<b>1,091,430</b>	2,371,761
Income tax paid	<b>(71,312)</b>	(70,237)
<b>Net cash generated from/ (used in) operations</b>	<b>(346,327)</b>	1,686,518
<b>Net cash generated from/ (used in) investing activities</b>	<b>(418,272)</b>	470,122
<b>Net cash used in financing activities</b>	<b>(100,000)</b>	(200,000)
	<b>(518,272)</b>	270,122
<b>Net change in cash and cash equivalents</b>	<b>(864,599)</b>	1,956,640
<b>Cash and cash equivalents at beginning of the period</b>	<b>5,767,418</b>	4,071,494
<b>Cash and cash equivalents at end of the period</b>	<b>4,902,819</b>	6,028,134
<b>Analysis of cash and cash equivalents</b>		
Cash and short-term funds	<b>4,902,819</b>	6,028,134

*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 2004.*

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**EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**AS AT 30 JUNE 2005**

**1 Basis of Preparation**

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The unaudited condensed interim financial statements for the half year ended 30 June 2005 have been prepared in accordance with generally accepted accounting principles in Malaysia and are consistent with those adopted in the previous audited financial statements except for the adoption of the revised guidelines on Financial Reporting for Licensed Institutions (BNM/GP8) issued by Bank Negara Malaysia which became effective for the current financial year. The adoption of the revised BNM/GP8 has resulted in changes in the accounting policies of the Bank and the details are disclosed in Note 27 and 28.

The unaudited condensed interim financial statements should be read in conjunction with the audited annual financial statements of the Bank for the financial year ended 31 December 2004.

**2 Audit Report**

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The audit report on the audited annual financial statements for the financial year ended 31 December 2004 was not subject to any qualification.

**3 Seasonality or Cyclicity of Operations**

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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**

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There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Bank for the half year ended 30 June 2005.

**5 Changes in Estimates**

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There were no significant changes in estimates of amounts reported in prior financial years that have a material effect on the financial results and position of the Bank for the half year ended 30 June 2005.

## **6 Issuance and Repayment of Debt and Equity Securities**

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There were no issuance and repayment of debt and equity securities during the half year ended 30 June 2005.

## **7 Dividend Paid**

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A final dividend of 121.3% less tax totalling RM100 million in respect of the financial year 2004 was paid on 2 March 2005.

## **8 Valuation of Property, Plant and Equipment**

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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 2004.

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

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

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

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There were no changes in the composition of the Group for the half year ended 30 June 2005.

## 11 Securities

### (i) Held for trading

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
Money market instruments:		
Malaysian Government treasury bills	11,220	34,578
Bank Negara Malaysia bills	41,975	-
Bank Negara Malaysia Islamic bills	32,765	14,938
Malaysian Government securities	87,447	164,715
Malaysian Government Islamic bonds	40,284	-
Negotiable instruments of deposit	30,002	365,066
Cagamas bonds and notes	65,185	122,643
	<b>308,878</b>	701,940
Unquoted securities:		
Private debt securities (including commercial paper)	85,047	169,261
	<b>393,925</b>	871,201

### (ii) Available-for-sale

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
Money market instruments:		
Malaysian Government treasury bills	-	14,400
Malaysian Government securities	933,536	1,341,902
Malaysian Government Islamic bonds	303,715	245,815
Khazanah bonds	259,378	198,556
Cagamas bonds and notes	1,335,071	1,060,284
Negotiable instruments of deposit	1,082,212	438,485
Bankers' acceptance and Islamic accepted bills	376,477	470,678
	<b>4,290,389</b>	3,770,120
Quoted securities in Malaysia:		
Shares	44,365	55,413
Warrants	242	209
Loan stock	14,348	20,122
	<b>58,955</b>	75,744
Unquoted securities:		
Shares	17,392	37,526
Private and Islamic debt securities	857,741	947,629
	<b>875,133</b>	985,155
Impairment loss:		
Quoted securities in Malaysia:		
Shares	(12,096)	(12,252)
Warrants	(7)	(7)
Loan stock	(8,904)	(8,904)
	<b>(21,007)</b>	(21,163)
	<b>5,203,470</b>	4,809,856

## 12 Loans, Advances and Financing

### (i) By type

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
Overdrafts	<b>2,035,077</b>	1,733,322
Term loans/ financing		
Housing loans/ financing	<b>7,538,684</b>	7,485,443
Syndicated term loans/ financing	<b>30,442</b>	32,099
Hire purchase receivables	<b>108,849</b>	126,994
Lease receivables	<b>53,617</b>	62,845
Other term loans/ financing	<b>4,264,551</b>	4,201,868
Bills receivable	<b>646,378</b>	449,465
Trust receipts	<b>424,523</b>	639,016
Claims on customers under acceptance credits	<b>3,041,811</b>	2,440,514
Staff loans/ financing	<b>303,505</b>	301,017
Credit/ charge cards	<b>1,355,214</b>	1,202,785
Revolving credit	<b>1,291,077</b>	1,179,794
Less: Unearned interest and income	<b>(125,459)</b>	(124,737)
	<b>20,968,269</b>	19,730,425
Less: Allowance for bad and doubtful debts and financing:		
- General	<b>(309,300)</b>	(289,300)
- Specific	<b>(361,038)</b>	(477,334)
Total net loans, advances and financing	<b>20,297,931</b>	18,963,791

### (ii) By type of customer

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
Domestic non-bank financial institutions		
- Stockbroking companies	<b>62,098</b>	2,545
- Others	<b>158,693</b>	165,216
Domestic business enterprises		
- Small medium enterprises	<b>2,313,797</b>	2,416,355
- Others	<b>7,705,091</b>	6,808,053
Government and statutory bodies	<b>73</b>	82
Individuals	<b>10,397,660</b>	10,122,427
Other domestic entities	<b>1,893</b>	4,862
Foreign entities	<b>328,964</b>	210,885
	<b>20,968,269</b>	19,730,425

## 12 Loans, Advances and Financing (continued)

### (iii) By interest/ profit rate sensitivity

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
Fixed rate		
Housing loans/ financing	<b>330,229</b>	326,339
Hire purchase receivables	<b>99,843</b>	116,371
Other fixed rate loans/ financing	<b>2,740,111</b>	2,348,061
Variable rate		
BLR plus	<b>13,816,737</b>	13,289,098
Cost-plus	<b>1,291,077</b>	1,179,793
Other variable rates	<b>2,690,272</b>	2,470,763
	<b>20,968,269</b>	19,730,425

### (iv) By sector

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
Agricultural, hunting, forestry and fishing	<b>916,656</b>	823,888
Mining and quarrying	<b>89,383</b>	89,952
Manufacturing	<b>4,075,623</b>	3,441,364
Electricity, gas and water	<b>103,886</b>	128,603
Construction	<b>475,674</b>	457,594
Real estate	<b>494,464</b>	364,586
Purchase of landed property:		
- Residential	<b>7,892,001</b>	7,731,230
- Non-residential	<b>864,814</b>	791,009
Wholesale & retail trade and restaurants & hotels	<b>1,983,426</b>	1,899,937
Transport, storage and communication	<b>117,785</b>	125,731
Finance, insurance and business services	<b>1,147,908</b>	1,208,512
Purchase of securities	<b>179,078</b>	274,707
Purchase of transport vehicles	<b>11,531</b>	2,461
Consumption credit	<b>2,425,458</b>	2,249,058
Others	<b>190,582</b>	141,793
	<b>20,968,269</b>	19,730,425

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

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

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
At beginning of year	<b>1,055,888</b>	1,170,239
Classified as non-performing during the period/ year	<b>198,081</b>	507,930
Reclassified as performing	<b>(52,945)</b>	(121,081)
Loans/ financing converted to securities	-	(487)
Amount recovered	<b>(156,942)</b>	(353,267)
Amount written off	<b>(159,776)</b>	(147,446)
Other movements	<b>85</b>	-
Closing balance	<b>884,391</b>	1,055,888
Specific allowance	<b>(361,038)</b>	(477,334)
Net non-performing loans, advances and financing	<b>523,353</b>	578,554
Ratio of net non-performing loans, advances and financing to net loans, advances and financing	<b>2.5%</b>	3.0%

#### (ii) Movements in allowance for bad and doubtful debts

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
<b>General allowance</b>		
At beginning of year	<b>289,300</b>	275,000
Allowance made during the period/ year	<b>20,000</b>	14,300
Closing balance	<b>309,300</b>	289,300
As % of gross loans, advances and financing less specific allowance	<b>1.5%</b>	1.5%
<b>Specific allowance</b>		
At beginning of year	<b>477,334</b>	576,236
Allowance made during the period/ year	<b>91,491</b>	233,789
Transferred to accumulated impairment loss in value of securities	-	(487)
Amount recovered	<b>(48,096)</b>	(186,857)
Amount written off	<b>(159,776)</b>	(145,347)
Other movements	<b>85</b>	-
Closing balance	<b>361,038</b>	477,334

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

#### (iii) By sector

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
Agricultural, hunting, forestry and fishing	1,777	2,153
Mining and quarrying	639	775
Manufacturing	289,483	370,082
Construction	32,674	57,149
Real estate	30,040	32,454
Purchase of landed property:		
- Residential	323,672	356,473
- Non-residential	26,773	32,784
Wholesale & retail trade and restaurants & hotels	55,974	61,237
Transport, storage and communication	5,224	2,875
Finance, insurance and business services	36,868	61,840
Purchase of securities	17,664	2,496
Purchase of transport vehicles	260	262
Consumption credit	59,327	61,580
Others	4,016	13,728
	<b>884,391</b>	<b>1,055,888</b>

### 14 Other Assets

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
Assets, including gains, resulting from off-balance-sheet interest rate, exchange rate and equities contracts which are marked to market	189,357	134,873
Interest/ income receivable	50,376	48,725
Other receivables, deposits and prepayments	385,519	120,263
	<b>625,252</b>	<b>303,861</b>

### 15 Deposits from Customers

#### (i) By type of deposit

	<i>Group</i>		<i>Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Demand deposits	5,644,772	6,178,442	5,644,793	6,178,463
Savings deposits	4,116,166	4,154,461	4,116,166	4,154,461
Fixed/ Investment deposits	14,957,419	14,614,959	14,957,419	14,614,959
Negotiable instruments of deposit	2,118,159	1,443,697	2,118,159	1,443,697
Others	198,426	165,126	198,426	165,126
	<b>27,034,942</b>	<b>26,556,685</b>	<b>27,034,963</b>	<b>26,556,706</b>

## 15 Deposits from Customers (continued)

### (ii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Government and statutory bodies	<b>6,404</b>	3,288	<b>6,404</b>	3,288
Business enterprises	<b>7,660,767</b>	7,286,845	<b>7,660,788</b>	7,286,866
Individuals	<b>13,742,701</b>	13,776,773	<b>13,742,701</b>	13,776,773
Others	<b>5,625,070</b>	5,489,779	<b>5,625,070</b>	5,489,779
	<b>27,034,942</b>	26,556,685	<b>27,034,963</b>	26,556,706

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

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
Licensed banks	<b>10,000</b>	-
Bank Negara Malaysia	<b>23,280</b>	15,533
Other financial institutions	<b>2,027,772</b>	1,416,803
	<b>2,061,052</b>	1,432,336

## 17 Other Liabilities

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
Interest/ profit payable	<b>135,151</b>	127,346
Liabilities, including losses, resulting from off-balance-sheet interest rate, exchange rate and equities contracts which are marked to market	<b>169,527</b>	124,435
Allowance for commitments and contingencies	<b>2,105</b>	2,793
Profit equalisation reserve	<b>1,440</b>	1,240
Other creditors and accruals	<b>640,607</b>	357,198
	<b>948,830</b>	613,012

## 18 Interest Income

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	30 June 2004
	<b>RM'000</b>	RM'000
Loans and advances		
- Interest income other than recoveries from NPL	<b>524,213</b>	479,895
- Recoveries from NPLs	<b>22,173</b>	28,690
Money at call and deposit placement with financial institutions	<b>89,040</b>	70,826
Available-for-sale securities	<b>65,826</b>	62,060
	<b>701,252</b>	641,471
Amortisation of premium less accretion of discounts	<b>(2,131)</b>	(5,586)
Interest suspended	<b>(5,129)</b>	(6,804)
Total interest income	<b>693,992</b>	629,081

## 19 Interest Expense

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	30 June 2004
	<b>RM'000</b>	RM'000
Deposits and placements of banks and other financial institutions	<b>12,804</b>	10,544
Deposits from customers	<b>253,687</b>	247,413
Loans sold to Cagamas	<b>14,445</b>	9,675
Others	<b>23,296</b>	27,919
	<b>304,232</b>	295,551

## 20 Other Operating Income

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	30 June 2004
	<b>RM'000</b>	RM'000
Fees and commissions	<b>169,908</b>	161,312
Net gains/ (losses) arising from sale of securities		
- Held for trading	<b>6,003</b>	16,673
- Available-for-sale	<b>9,570</b>	(130)
Net gains arising from dealing in foreign currency	<b>69,874</b>	69,490
Net gains arising from trading in derivatives	<b>6,858</b>	2,157
Dividend income		
- Available-for-sale	<b>2,207</b>	1,108
Net unrealised gains/ (losses) on revaluation of trading securities (including derivatives)	<b>3,479</b>	(3,465)
Unrealised gains from foreign exchange translations	<b>10,153</b>	957
Rental income	<b>3,001</b>	2,668
Net gains/ (losses) on disposal of property, plant and equipment	<b>430</b>	(627)
Other operating income	<b>659</b>	37
	<b>282,142</b>	250,180

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

Cards	<b>82,306</b>	61,837
Trade facilities	<b>21,958</b>	24,748
Unit trust	<b>13,318</b>	13,731
Credit facilities	<b>11,108</b>	10,633
Account services	<b>10,320</b>	14,476
Global custody	<b>10,612</b>	14,324

## 21 Other Operating Expenses

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	30 June 2004
	<b>RM'000</b>	RM'000
Personnel expenses	<b>166,543</b>	137,761
Promotion and marketing related expenses	<b>34,897</b>	33,494
Establishment related expenses	<b>43,313</b>	39,578
General administrative expenses	<b>110,507</b>	106,281
	<b>355,260</b>	317,114

The above expenditure includes the following major items:

Personnel expenses		
Salaries and bonuses	<b>132,867</b>	111,949
Employees Provident Fund contributions	<b>18,707</b>	15,742
Promotion and marketing related expenses		
Advertising and promotion	<b>22,510</b>	17,091
Travel and entertainment	<b>3,534</b>	3,929
Commercial sponsorships	<b>2,581</b>	4,030
Establishment related expenses		
Depreciation	<b>13,737</b>	15,656
Information technology costs	<b>9,962</b>	10,069
Hire of equipment	<b>5,347</b>	2,048
Rental of premises	<b>4,395</b>	3,926
General administrative expenses		
Intercompany expenses	<b>39,465</b>	27,474
Fees and commissions paid	<b>32,976</b>	24,386

## 22 Allowance for Losses on Loans and Financing

	<i>Group and Bank</i>	
	<b>30 June 2005</b>	30 June 2004
	<b>RM'000</b>	RM'000
Allowance for bad and doubtful debts on loans and financing		
(a) Specific allowance		
- Made in the financial period	<b>(91,491)</b>	(92,392)
- Written back	<b>48,096</b>	88,233
(b) General allowance		
- Made in the financial period	<b>(20,000)</b>	(8,400)
Bad debts on loans and financing		
- Recovered	<b>43,006</b>	31,166
- Written off	<b>(2,868)</b>	(2,470)
	<b>(23,257)</b>	16,137

## 23 Capital Adequacy

	<i>Bank</i>	
	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
<b>Tier 1 capital</b>		
Paid-up ordinary share capital	114,500	114,500
Share premium	741,375	741,375
Capital redemption reserve	190,000	190,000
Retained profit	971,668	828,155
Other reserves	114,500	114,500
	<b>2,132,043</b>	1,988,530
Less: Deferred tax adjustments	<b>(110,046)</b>	(102,131)
Total Tier 1 capital	<b>2,021,997</b>	1,886,399
<b>Tier 2 capital</b>		
Revaluation reserves	72,507	72,507
General allowance for bad and doubtful debts and financing	309,300	289,300
Total Tier 2 capital	<b>381,807</b>	361,807
Total capital	<b>2,403,804</b>	2,248,206
Less: Investment in subsidiaries	(21)	(21)
Holdings of other banking institutions' capital instruments	-	(20,134)
<b>Capital base *</b>	<b>2,403,783</b>	2,228,051
Core capital ratio	<b>9.4%</b>	9.3%
Risk-weighted capital ratio	<b>11.2%</b>	11.0%
Core capital ratio (net of proposed dividend)	<b>8.8%</b>	8.8%
Risk-weighted capital ratio (net of proposed dividend)	<b>10.6%</b>	10.5%

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

	<i>Bank</i>			
	<b>30 June 2005</b>		31 Dec 2004	
	<b>Principal</b>	<b>Risk-weighted</b>	Principal	Risk-weighted
	<b>RM'000</b>	<b>RM'000</b>	RM'000	RM'000
0%	8,256,880	-	7,722,709	-
10%	1,040,629	104,062	1,148,902	114,890
20%	4,522,848	904,570	5,220,831	1,044,166
50%	7,063,585	3,531,793	6,736,695	3,368,348
100%	16,539,418	16,539,418	15,723,321	15,723,321
Total risk-weighted assets				
equivalent for market risk	-	468,703	-	-
	<b>37,423,360</b>	<b>21,548,546</b>	36,552,458	20,250,725

\* Profit after tax of RM243.5 million for the current half year of which RM235.6 million was included in the capital base, was subject to a limited review by the external auditors in accordance with Technical Bulletin 4 issued by the Malaysian Institute of Certified Public Accountants.

## 24 Commitments and Contingencies

	<i>Group and Bank</i>					
	30 June 2005			31 Dec 2004		
	Principal amount	Credit equivalent amount *	Risk weighted amount	Principal amount	Credit equivalent amount *	Risk weighted amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	479,150	479,150	435,660	394,407	394,407	353,049
Transaction-related contingent items	1,399,252	699,626	674,192	1,351,320	675,660	655,519
Short-term self-liquidating trade-related contingencies	300,365	60,073	53,019	275,510	55,102	49,653
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	12,579,462	-	-	10,428,332	-	-
- Maturity exceeding one year	1,564,602	782,301	782,301	2,112,154	1,056,077	1,056,077
Foreign exchange related contracts:						
- Less than one year	20,730,756	343,115	116,404	21,684,272	310,835	99,290
- One year to less than 5 years	1,447,529	105,293	43,769	942,497	69,698	15,835
- 5 years and above	-	-	-	30,000	3,293	1,646
Interest rate related contracts:						
- Less than one year	2,317,189	5,682	1,524	3,374,150	6,311	1,631
- One year to less than 5 years	10,288,242	281,294	121,471	7,314,346	217,870	71,203
- 5 years and above	1,705,413	101,465	49,354	943,900	54,044	16,746
Others	45,158	-	-	45,158	-	-
	<b>52,857,118</b>	<b>2,857,999</b>	<b>2,277,694</b>	<b>48,896,046</b>	<b>2,843,297</b>	<b>2,320,649</b>

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

## 25 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 June 2005	Non-trading book					Non-interest sensitive RM'000	Trading book RM'000	Effective interest rate %	
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				Total RM'000
<b>ASSETS</b>									
Cash and short term funds	4,514,695	-	-	-	-	388,124	-	4,902,819	2.83
Securities purchased under resale agreements	558,851	771,605	233,747	-	-	-	-	1,564,203	2.76
Deposits and placements with banks and other financial institutions	-	855,880	638	-	-	-	-	856,518	2.87
Securities:									
- Held for trading	-	-	-	-	-	-	393,925	393,925	3.68
- Available-for-sale	965,813	542,799	1,016,137	2,608,219	20,606	49,896	-	5,203,470	3.11
Loans, advances and financing									
- performing	15,815,653	1,622,367	518,585	756,193	549,708	512,072	-	19,774,578	6.25
- non-performing *	-	-	-	-	-	523,353	-	523,353	-
Other non-interest sensitive balances	-	-	-	-	-	1,262,331	372,331	1,634,662	-
<b>TOTAL ASSETS</b>	<b>21,855,012</b>	<b>3,792,651</b>	<b>1,769,107</b>	<b>3,364,412</b>	<b>570,314</b>	<b>2,735,776</b>	<b>766,256</b>	<b>34,853,528</b>	
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>									
Deposits from customers	13,034,193	3,291,182	5,727,380	305,467	173,958	4,502,783	-	27,034,963	2.51
Deposits and placements of banks and other financial institutions	991,184	628,984	144,463	7,579	2,907	285,935	-	2,061,052	2.31
Obligation on securities sold under repurchase agreements	1,452,466	-	-	-	-	-	-	1,452,466	2.35
Bills and acceptances payable	31,726	96,156	13,341	-	-	223,138	-	364,361	2.67
Recourse obligation on loans sold to Cagamas Berhad	-	-	-	208,686	398,056	-	-	606,742	4.69
Other non-interest sensitive balances	-	-	-	-	-	617,247	424,577	1,041,824	-
<b>Total Liabilities</b>	<b>15,509,569</b>	<b>4,016,322</b>	<b>5,885,184</b>	<b>521,732</b>	<b>574,921</b>	<b>5,629,103</b>	<b>424,577</b>	<b>32,561,408</b>	
Shareholders' funds	-	-	-	-	-	2,292,120	-	2,292,120	-
<b>Total Liabilities and Shareholders' funds</b>	<b>15,509,569</b>	<b>4,016,322</b>	<b>5,885,184</b>	<b>521,732</b>	<b>574,921</b>	<b>7,921,223</b>	<b>424,577</b>	<b>34,853,528</b>	
On-balance sheet interest sensitivity gap	6,345,443	(223,671)	(4,116,077)	2,842,680	(4,607)	(5,185,447)	341,679	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	206,400	(156,200)	(70,200)	20,000	-	-	-	
- options	(335,000)	(109,300)	-	542,000	(97,700)	-	-	-	
- swaps	12,500	232,011	(123,064)	(236,447)	115,000	-	-	-	
<b>Total interest sensitivity gap</b>	<b>6,022,943</b>	<b>105,440</b>	<b>(4,395,341)</b>	<b>3,078,033</b>	<b>32,693</b>	<b>(5,185,447)</b>	<b>341,679</b>	<b>-</b>	

## 25 Interest/ Profit Rate Risk (continued)

Bank 31 Dec 2004	Non-trading book						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	Non-interest sensitive RM'000			<b>Total RM'000</b>
<b>ASSETS</b>									
Cash and short term funds	5,476,492	-	-	-	-	290,926	-	5,767,418	2.58
Securities purchased under resale agreements	129,250	711,244	-	-	-	-	821,187	1,661,681	2.77
Deposits and placements with banks and other financial institutions	-	83,600	-	22,579	-	-	-	106,179	2.57
Securities:									
- Held for trading	-	-	-	-	-	-	871,201	871,201	3.21
- Available-for-sale	374,711	560,091	1,482,087	2,203,613	97,247	92,107	-	4,809,856	3.45
Loans, advances and financing									
- performing	14,802,812	1,202,265	505,813	810,691	605,832	457,824	-	18,385,237	5.49
- non-performing *	-	-	-	-	-	578,554	-	578,554	-
Other non-interest sensitive balances	-	-	-	-	-	1,278,323	142,273	1,420,596	-
<b>TOTAL ASSETS</b>	<b>20,783,265</b>	<b>2,557,200</b>	<b>1,987,900</b>	<b>3,036,883</b>	<b>703,079</b>	<b>2,697,734</b>	<b>1,834,661</b>	<b>33,600,722</b>	
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>									
Deposits from customers	13,359,000	3,594,490	5,074,666	177,239	183,274	4,168,037	-	26,556,706	2.48
Deposits and placements of banks and other financial institutions	722,234	211,874	132,287	7,871	155	357,915	-	1,432,336	2.15
Obligation on securities sold under repurchase agreements	1,812,105	-	-	-	-	-	-	1,812,105	2.35
Bills and acceptances payable	54,394	67,584	7,360	-	-	203,564	-	332,902	2.72
Recourse obligation on loans sold to Cagamas Berhad	-	-	-	215,921	414,267	-	-	630,188	4.68
Other non-interest sensitive balances	-	-	-	-	-	547,883	124,435	672,318	-
<b>Total Liabilities</b>	<b>15,947,733</b>	<b>3,873,948</b>	<b>5,214,313</b>	<b>401,031</b>	<b>597,696</b>	<b>5,277,399</b>	<b>124,435</b>	<b>31,436,555</b>	
Shareholders' funds	-	-	-	-	-	2,164,167	-	2,164,167	-
<b>Total Liabilities and Shareholders' funds</b>	<b>15,947,733</b>	<b>3,873,948</b>	<b>5,214,313</b>	<b>401,031</b>	<b>597,696</b>	<b>7,441,566</b>	<b>124,435</b>	<b>33,600,722</b>	
On-balance sheet interest sensitivity gap	4,835,532	(1,316,748)	(3,226,413)	2,635,852	105,383	(4,743,832)	1,710,226	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	(201,200)	316,400	(115,200)	-	-	-	-	-
- options	(196,000)	(8,000)	110,000	94,000	-	-	-	-	-
- swaps	(136,950)	(383,848)	29,911	481,887	9,000	-	-	-	-
<b>Total interest sensitivity gap</b>	<b>4,502,582</b>	<b>(1,909,796)</b>	<b>(2,770,102)</b>	<b>3,096,539</b>	<b>114,383</b>	<b>(4,743,832)</b>	<b>1,710,226</b>	<b>-</b>	

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

## 26 Operations of Islamic Banking

### Unaudited Condensed Balance Sheet as at 30 June 2005 (23 Jamadil Awwal 1426)

	<i>Note</i>	<b>30 June 2005</b> RM'000	31 Dec 2004 RM'000
<b>Assets</b>			
Cash and short term funds		<b>556,971</b>	436,109
Securities:			
- Available-for-sale		<b>848,349</b>	942,354
Financing, advances and other loans	<i>(a)</i>	<b>2,352,807</b>	1,778,087
Other assets	<i>(c)</i>	<b>9,501</b>	42,032
Property, plant and equipment		<b>1,449</b>	1,665
Deferred tax asset		<b>10,013</b>	8,327
Total Assets		<b><u>3,779,090</u></b>	<u>3,208,574</u>
<b>Liabilities</b>			
Deposits from customers	<i>(d)</i>	<b>2,276,039</b>	2,014,358
Deposits and placements of banks and other financial institutions		<b>87,864</b>	44
Other liabilities	<i>(e)</i>	<b>1,049,647</b>	942,082
Provision for taxation		<b>8,594</b>	12,469
Total liabilities		<b><u>3,422,144</u></b>	<u>2,968,953</u>
<b>Islamic Banking Capital Fund</b>			
Funds allocated from Head Office		<b>300,000</b>	200,000
Reserves		<b>56,946</b>	39,621
Islamic Banking Capital Fund		<b><u>356,946</u></b>	<u>239,621</u>
Total Liabilities and Islamic Banking Capital Fund		<b><u>3,779,090</u></b>	<u>3,208,574</u>
Commitments and Contingencies		<b><u>289,790</u></b>	<u>262,286</u>

**26 Operations of Islamic Banking (continued)**

**Unaudited Condensed Income Statement for the half year ended 30 June 2005  
(23 Jamadil Awwal 1426)**

	<b>30 June 2005</b> <b>RM'000</b>	30 June 2004 RM'000
Income derived from investment of depositors' funds and others	<b>60,472</b>	37,599
Allowance for losses on financing	<b>(9,789)</b>	(12,303)
Profit equalisation reserve	<b>(200)</b>	(790)
Total distributable income	<b>50,483</b>	24,506
Income attributable to depositors	<b>(39,691)</b>	(22,661)
Income attributable to the Bank	<b>10,792</b>	1,845
Income derived from investment of Islamic banking capital funds	<b>13,467</b>	8,362
Total net income	<b>24,259</b>	10,207
Other operating expenses	<b>(1,811)</b>	(2,432)
Profit before taxation	<b>22,448</b>	7,775
Taxation	<b>(6,408)</b>	(836)
Profit after taxation	<b>16,040</b>	6,939

## 26 Operations of Islamic Banking (continued)

### (a) Financing, advances and other loans

#### (i) By type

	30 June 2005	31 Dec 2004
	RM'000	RM'000
Term financing		
House financing	114,761	107,051
Hire purchase receivables	107,911	125,501
Lease receivables	53,005	62,008
Other term financing	548,129	481,402
Claims on customers under acceptance credits	1,693,722	1,161,517
Credit/ charge cards	2,139	3,159
Less: Unearned income	(125,459)	(124,737)
	<u>2,394,208</u>	<u>1,815,901</u>
Less: Allowance for bad and doubtful financing:		
- General	(35,833)	(27,509)
- Specific	(5,568)	(10,305)
Total net financing, advances and other loans	<u>2,352,807</u>	<u>1,778,087</u>

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

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

	30 June 2005	31 Dec 2004
	RM'000	RM'000
At beginning of year	16,921	11,564
Classified as non-performing during the period/ year	3,558	12,788
Reclassified as performing	(103)	-
Amount recovered	(955)	(3,842)
Amount written off	(6,187)	(3,589)
Closing balance	<u>13,234</u>	<u>16,921</u>
Specific allowance	(5,568)	(10,305)
Net non-performing financing, advances and other loans	<u>7,666</u>	<u>6,616</u>
Ratio of net non-performing financing, advances and other loans to net financing, advances and other loans	<b>0.3%</b>	0.4%

**26 Operations of Islamic Banking (continued)**

**(ii) Movements in allowance for bad and doubtful financing**

	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
<b>General allowance</b>		
At beginning of year	27,509	10,921
Allowance made during the period/ year	8,324	16,588
Closing balance	<u>35,833</u>	<u>27,509</u>
As % of total financing less specific allowance	1.5%	1.5%
<b>Specific allowance</b>		
At beginning of year	10,305	6,844
Allowance made during the period/ year	1,742	8,699
Amount recovered	(334)	(1,558)
Amount written off	(6,145)	(3,680)
Closing balance	<u>5,568</u>	<u>10,305</u>

**(c) Other Assets**

	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
Settlement due from Head Office	-	32,217
Income receivable	9,261	9,670
Other receivables, deposits and prepayments	240	145
	<u>9,501</u>	<u>42,032</u>

**(d) Deposits from Customers**

**(i) By type of deposit**

	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
<b>Non-Mudharabah Fund</b>		
Demand deposits	15,590	14,300
Savings deposits	97,116	51,933
<b>Mudharabah Fund</b>		
General investment deposits	2,163,333	1,948,125
	<u>2,276,039</u>	<u>2,014,358</u>

**26 Operations of Islamic Banking (continued)**

**(e) Other Liabilities**

	<b>30 June 2005</b>	31 Dec 2004
	<b>RM'000</b>	RM'000
Special placement deposits by Head Office	<b>921,272</b>	922,488
Settlement due to Head Office	<b>104,640</b>	-
Profit equalisation reserve	<b>1,440</b>	1,240
Profit payable	<b>7,195</b>	4,803
Other creditors and accruals	<b>15,100</b>	13,551
	<b><u>1,049,647</u></b>	<u>942,082</u>

**(f) Net Islamic Banking Operating Income**

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

	<b>30 June 2005</b>	30 June 2004
	<b>RM'000</b>	RM'000
Income derived from investment of depositors' funds	<b>60,472</b>	37,599
Profit equalisation reserve	<b>(200)</b>	(790)
Income attributable to the depositors	<b>(39,691)</b>	(22,661)
Income attributable to special placement deposits by Head Office	<b>12,700</b>	12,124
	<b><u>33,281</u></b>	<u>26,272</u>
Income derived from investment of Islamic banking capital funds	<b>13,467</b>	8,362
	<b><u>46,748</u></b>	<u>34,634</u>

## **27 Change in Accounting Policies**

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### **Change in Accounting Policies**

During the half year ended 30 June 2005, the Bank adopted the revised BNM/GP8 which has resulted in the following new accounting policies:

- 1) 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 it is 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 will be stated at fair value and any gains or losses from a change in the fair value will be recognised in income statement.

- ii) **Available-for-sale**

Available-for-sale securities are securities that are not classified as held for trading or held-to-maturity investments and are 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 will be stated at cost. Any gains or losses arising from a change in fair value will be recognised directly in equity, net of applicable taxes, except for impairment losses which will be recognised in income statement.

- 2) All derivatives financial instruments are recognised as either assets or liabilities in the balance sheet and measured at fair value with the gains or losses 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:

- i) **Fair value hedge**

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

- 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 hedge is initially recognised in equity and subsequently released into the income statement in line with the income statement recognition of the element of the recognised asset, liability or highly probably forecast transaction which is being hedged. Any ineffective portion is reported in the income statement as it arises.

## 27 Change in Accounting Policies (continued)

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- 3) Effective interest method is applied when calculating the amortised cost of financial instruments. This method uses effective interest rate to spread the interest on a financial instrument, including adjustments for certain fees and transaction costs. Effective interest rate is defined as the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.
- 4) Impaired loans are measured at their estimated recoverable amount which is the present value of estimated future cash flows discounted at original effective interest rate. Additional allowance is provided if the recoverable amount is lower than the net book value of the loans (outstanding loans, advances and financing net of specific allowance).
- 5) For loans converted into debt or equity instruments, 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 the gain or loss from the conversion exercise.
- (a) 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.
- (b) 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 scheme is transferred to the "Impairment loss" account, which would be netted off from the "Securities" account in the balance sheet.
- 6) When a loan turns non-performing, interest accrued and recognised as income prior to the date the loans are 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.

### Prior Year Adjustments

The changes in accounting policies as described above were applied retrospectively and have the following cumulative impact on the opening retained profit of the Bank

	2004 RM'000
At 31 December 2004, as previously stated	699,690
Effect of adopting fair value accounting for held-for-trading securities	2,081
Effect of adopting fair value accounting for available-for-sale securities	(3,057)
Effect of adopting fair value accounting for derivatives	(752)
Effect of adopting effective interest method on financial instruments	55,084
Effect of amortisation of credit card annual fees	(12,502)
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	740,544
Additional provision for taxation	(12,389)
As at 31 December 2004, as restated	<hr/> <hr/> 728,155

## 28 Comparative Figures

The following comparative figures have been restated to reflect the changes in accounting policies explained in Note 27.

	<i>Group</i>		<i>Bank</i>	
	As restated RM'000	As previously stated RM'000	As restated RM'000	As previously stated RM'000
Balance Sheet as at 31 December 2004				
Dealing securities	-	869,119	-	869,119
Investment securities	-	4,733,868	-	4,733,868
Securities:				
- Held for trading	871,201	-	871,201	-
- Available-for-sale	4,809,856	-	4,809,856	-
Loans, advances and financing	18,963,791	18,908,629	18,963,791	18,908,629
Other assets	303,861	306,841	303,861	306,841
Deferred tax asset	54,045	79,473	54,045	79,473
Total assets	33,600,701	33,495,877	33,600,722	33,495,898
Deposits from customers	26,556,685	26,556,272	26,556,706	26,556,293
Other liabilities	613,012	602,737	613,012	602,737
Provision for taxation	59,306	50,306	59,306	50,306
Total liabilities	31,436,534	31,416,846	31,436,555	31,416,867
Reserves	1,949,667	1,864,531	1,949,667	1,864,531
Shareholders' funds	2,164,167	2,079,031	2,164,167	2,079,031
Total liabilities and shareholders' funds	33,600,701	33,495,877	33,600,722	33,495,898
<i>Group and Bank</i>				
			As restated RM'000	As previously stated RM'000
Income Statement for the half year ended 30 June 2004				
Revenue			925,223	937,545
Interest income			629,081	627,127
Interest expense			295,551	295,625
Net interest income			333,530	331,502
Other operating income			250,180	256,798
Income from Islamic banking operations			34,634	42,293
Operating income			618,344	630,593
Profit before allowance			301,230	313,479
Profit before taxation			323,897	336,146
Taxation			75,382	78,799
Profit attributable to shareholders			248,515	257,347
Earnings per RM0.50 share			108.5 sen	112.4 sen

## **29 Review of Performance**

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The Bank recorded profit before tax of RM340.6 million for the half year ended 30 June 2005, an increase of 5.2% over the corresponding period last year. All-round improvements were noted for net interest income (+RM56.2 million or 16.9%), other operating income (+RM32.0 million or 12.8%) and income from Islamic banking operations (+RM12.1 million or 35.0%). Profit before allowance grew by RM62.2 million or 20.6% despite higher other operating expenses (+RM38.1 million or 12.0%). Allowance for losses on loans and financing was contained at RM23.3 million compared to net recoveries of RM16.1 million in the previous corresponding period.

Net loans expanded by RM1.3 billion or 7.0% during the first half of the year whilst net non-performing loans ratio improved to 2.5% compared to 3.0% as at 31 December 2004.

## **30 Business Prospects**

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The global outlook continues to be led by concerns of higher oil prices and a slowdown in the US economy. Any slowdown in the world's largest economy is bound to have an impact on the Malaysian economy which is trade-driven, notwithstanding the latest better-than-expected Q1 GDP growth of 5.7% .

The Bank's plans are moving along in a very focused manner and will continue to emphasis on personal financial services, commercial banking as well as corporate institutional banking; and at the same time, build the Bank's private banking capability. The Group will also look to enhance its corporate advisory. The recent liberalisation in exchange controls regulations is welcomed and will allow the Bank to provide a wider choice of products to customers. Barring any unforeseen circumstances, the Bank expects to register satisfactory performance for the current financial year.