

Hong Leong Islamic Bank Berhad
Audited Balance Sheet As At 30 June 2006

	Note	Financial Period Ended 30/06/2006 RM'000
<u>ASSETS</u>		
Cash and short-term funds	4	1,370,943
Securities Held-for-trading	5 (i)	129,027
Securities Available-for-sale	5 (ii)	178,524
Securities Held-to-maturity	5 (iii)	589,337
Financing, advances and other financing	6	3,944,758
Other assets		36,525
Statutory deposits with Bank Negara Malaysia		163,424
Property, plant and equipment		2,060
Deferred tax assets		19,063
Total Assets		<u><u>6,433,661</u></u>
<u>LIABILITIES AND SHAREHOLDER'S FUNDS</u>		
Deposits from customers	8	5,701,544
Deposits and placements of banks and other financial institutions	9	135,000
Bills and acceptance payable		1,424
Other liabilities	10	52,037
Provision for taxation		2,373
Total Liabilities		<u><u>5,892,378</u></u>
Share Capital		500,000
Reserves		41,283
Total Shareholders' Funds		<u><u>541,283</u></u>
Total Liabilities and Shareholders' Funds		<u><u>6,433,661</u></u>
<u>COMMITMENTS AND CONTINGENCIES</u>	16	<u><u>427,370</u></u>
<u>CAPITAL ADEQUACY</u>		
Core capital ratio	15	12.60%
Risk-weighted capital ratio	15	14.04%
Core capital ratio net of proposed dividends	15	12.60%
Risk-weighted capital ratio net of proposed dividends	15	14.04%
Net tangible asset per share (RM)		1.08

Hong Leong Islamic Bank Berhad
Audited Income Statements
For The Financial Period Ended 30 June 2006

	Note	From The Date Of Incorporation 28/03/2005 To 30/06/2006 RM'000
Income derived from investment of depositors' funds and others	11	293,792
Income derived from investment of shareholders' funds	12	27,359
Allowance for losses on financing	13	(23,007)
Profit equalisation reserve		10,035
Total distributable income		308,179
Income attributable to the depositors	14	(164,231)
Total net income		143,948
Other operating expenses		(81,502)
Profit before taxation and zakat		62,446
Zakat		(49)
Taxation		(19,301)
Profit after taxation and zakat		43,096
Profit attributable to shareholders		43,096
Earnings per share - basic (sen)		11.83
Earnings per share - fully diluted (sen)		11.83

Hong Leong Islamic Bank Berhad
Audited Statements Of Changes In Equity
For The Financial Period Ended 30 June 2006

	←	<u>Non distributable Reserves</u>		→	<u>Distributable</u>	
	Share Capital RM'000	Fair Value Reserves RM'000	Statutory Reserves RM'000	Retained Profit RM'000	Total RM'000	
Issued and Paid-Up Capital	500,000	-	-	-	500,000	
Net profit for the period	-	-	-	43,096	43,096	
Transfer to statutory reserves	-	-	21,548	(21,548)	-	
Net fair value changes in available-for-sale securities, net of tax	-	(1,813)	-	-	(1,813)	
Balance as at 30/06/2006	500,000	(1,813)	21,548	21,548	541,283	

Hong Leong Islamic Bank Berhad
Audited Cash Flow Statements
For The Financial Period Ended 30 June 2006

From The Date
Of Incorporation
28/03/2005 To
30/06/2006
RM'000

Cash Flows From Operating Activities

Profit before zakat and taxation for the financial period	62,446
Adjustments for :	
Depreciation	395
Gain from redemption of securities held-to-maturity	(44)
Gain from securities available-for-sale	(675)
Loss from securities held-for-trading	415
Allowance for losses on financing and advances	26,030
Net unrealised gain on revaluation of securities held-for-trading and derivative financial instruments	(431)
Amortisation of premium less accretion of discounts	4,379
Finance income from securities available-for-sale	(5,277)
Finance income from securities held-to-maturity	(13,172)
Operating profit before working capital changes	74,066
(Increase)/Decrease In Operating Assets	
Financing, advances and other financing	(568,321)
Statutory deposits with Bank Negara Malaysia	(112,274)
Other assets	(18,962)
Deposit and placement with banks and other financial institutions	191,396
Securities held-for-trading	(75,261)
(Increase)/Decrease In Operating Liabilities	
Deposits from customers	812,184
Deposits and placements of banks and others financial institutions	43,250
Bills and acceptance payable	862
Other liabilities	(73,996)
Net cash from operating activities	272,944
Zakat paid	(32)
Income taxes paid	(16,563)
Net cash generated from/(used in) operating activities	256,349

Cash Flows From Investing Activities

Net purchase of securities available-for-sale	(174,385)
Net purchase of securities held-to-maturity	(207,094)
Purchase of property, plant and equipment	(2,349)
Net cash generated from/(used in) investing activities	(383,828)

Cash Flows From Financing Activities

Proceeds from share issuance	50,000
Net cash from/(used in) financing activities	50,000

Net Increase/(Decrease) in Cash and Cash Equivalents	(77,479)
Cash and Cash Equivalents at Beginning of Financial Period	-
Effect of cash transferred from Hong Leong Bank Berhad ("HLB")	1,448,422
Cash and Cash Equivalents at End of Financial Period	1,370,943

HONG LEONG ISLAMIC BANK BERHAD ("HLIB" or "Bank")

Notes To The Audited Financial Statements For The Financial Period Ended 30 June 2006

1 Basis of preparation

The financial statements of the Bank are prepared in accordance with the provision of the Companies Act 1965, Bank Negara Malaysia Guidelines (GP8-i), applicable approved accounting standards in Malaysia (MASB-i) and Shariah requirements.

2 Performance review

HLIB is a full-fledged Islamic bank and a wholly owned subsidiary of HLB offering commercial products and services to retail and corporate customers.

There was no comparison with the preceding year as the Bank was incorporated on 28 March 2005 and commenced its business on 1 July 2005.

It had shown positive balance sheet growth, with the Financing base at RM3.9 billion and the Deposits from customer at RM5.7 billion. Financing to deposit ratio stood at 71%.

The core capital ratio and risk-weighted capital ratio stood at 12.60% and 14.04% respectively as at 30 June 2006, supported by an initial share capital base of RM 500 million. The ratio was maintained above the regulatory minimum of 4% and 8% respectively.

3 Current year prospects - Outlook for next financial year ending 30/06/2007

HLIB continuing to expand the range of traditional deposits and financing products for consumer and business markets in Malaysia, HLIB will aggressively develop the more internationally accepted Musharaka and Ijarah-based products as well as wealth management and private banking capabilities. Moving forward, HLIB will be planning and implementing a range of strategies that include marketing initiative, developing out talents and fostering strategic relationships and to deliver our reputation as a responsible and trusted financial partner who builds relations and adds value that exceeds our customers expectation.

**Financial
Period Ended
30/06/2006
RM'000**

4 Cash and short-term funds

Cash and balances with banks and others financial institutions	4,943
Money at call and interbank placements with remaining maturity not exceeding one month	1,366,000
	1,370,943

5 Securities

i) Securities Held-for-trading

BNM Bills	19,897
Malaysian Government treasury bills	7,950
Negotiable Islamic Debt Certificates	101,180
	129,027

ii) Securities Available-for-sale

Cagamas bonds	98,359
Malaysia Government investment certificates	24,615
Unquoted securities	
Private and Islamic debt securities	55,550
	178,524

iii) Securities Held-to-maturity

Malaysia Government investment certificates	123,208
Cagamas bonds	440,360
Khazanah bonds	4,874
Unquoted securities	
Shares	575
Private and Islamic debt securities	20,320
	589,337

**Financial
Period Ended
30/06/2006
RM'000**

6 Financing, advances and other financing

(i) By type

Cash line	10,196
Term financing	
- House financing	1,045,491
- Hire purchase receivables	3,343,399
- Lease receivables	15,098
- Other term financing	548,171
Claims on customers under acceptance credits	103,291
Staff financing	123
Revolving credit	2,900
Others	1,096
	5,069,765
Less: Unearned income	(1,037,941)
	4,031,824
Less: Allowance for bad and doubtful financing	
- General	(60,158)
- Specific	(26,908)
Total net financing, advances and other financing	3,944,758

(ii) By contract

Bai' Bithaman Ajil (deferred payment sale)	979,754
Ijarah (lease)	13,794
Ijarah Muntahia Bittamlik/AITAB (lease ended with ownership)	2,934,985
Murabahah (cost-plus)	103,291
	4,031,824

(iii) By type of customer

Domestic non-bank financial institutions	
- Others	47,526
Domestic business enterprises	
- Small medium enterprise	304,939
- Others	675,536
Individuals	2,985,206
Other domestic entities	1,053
Foreign entities	17,564
	4,031,824

(iv) By profit rate sensitivity

Fixed rate	
- House financing	508,189
- Hire purchase receivables	2,934,985
- Others fixed rate financing	376,575
Variable rate	
Others	212,075
	4,031,824

**Financial
Period Ended
30/06/2006
RM'000**

(v) By sector

Agriculture, hunting, forestry & fishing	80,406
Mining and quarrying	3,567
Manufacturing	166,479
Electricity, gas and water	8,351
Construction	78,196
Real estate	40,336
Purchase of landed property:	
- Residential	483,382
- Non-residential	101,662
Wholesale & retail trade and restaurant & hotels	172,665
Transport, storage and communication	73,497
Finance, insurance and business services	187,862
Purchase of securities	3,575
Purchase of transport vehicles	2,567,419
Consumption credit	17,140
Others	47,287
	4,031,824

7 Non-performing financing

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

Amount transferred from HLB	70,437
Classified as non-performing during the period	240,128
Reclassified as performing	(195,844)
Amount recovered	(32,270)
Amount written off	(6,814)
At end of period	75,637
Less: Specific allowance	(26,908)
Net non-performing financing, advances and other financing	48,729
Ratio of net non-performing financing, advances and other financing to total net financing, advances and other financing	1.2%

**Financial
Period Ended
30/06/2006
RM'000**

(ii) Movements in allowance for bad and doubtful financing

General allowance

Amount transferred from HLB	55,009
Allowance provided	5,341
Allowance written back	(192)
At end of period	<u>60,158</u>

As % of gross financing, advances and other financing less specific allowance	<u>1.5%</u>
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Specific allowance

Amount transferred from HLB	13,063
Allowance provided	26,771
Amount written back	(6,111)
Amount written off	(6,815)
At end of period	<u>26,908</u>

(iii) NPF by sector

Agriculture, hunting, forestry & fishing	7
Mining and quarrying	-
Manufacturing	1,161
Electricity, gas and water	118
Construction	538
Real estate	685
Purchase of landed property:	
- Residential	24,725
- Non-residential	13,044
Wholesale & retail trade and restaurant & hotels	1,840
Transport, storage and communication	281
Finance, insurance and business services	695
Purchase of securities	2,092
Purchase of transport vehicles	29,747
Consumption credit	561
Others	143
	<u>75,637</u>

**Financial
Period Ended
30/06/2006
RM'000**

8 Deposits from customer

(i) By type of deposit

Non-Mudharabah

Demand deposits	127,218
Savings deposits	433,735
Negotiable islamic debt certificate	1,739,230
	2,300,183

Mudharabah

Savings deposits	292,243
General investment deposits	2,094,070
Special investment deposits	1,013,613
Others	1,435
	3,401,361

5,701,544

(ii) By type of customer

Government and statutory bodies	434,955
Business enterprise	3,572,117
Individuals	925,347
Others	769,125
	5,701,544

9 Deposits and placements of banks and other financial institutions

Mudharabah

Licensed islamic banks	15,000
Licensed finance companies	120,000
	135,000

**Financial
Period Ended
30/06/2006
RM'000**

10 Other Liabilities

Amount due to holding company	4,989
Profit equalisation reserves	2,438
Provision for zakat	44
Profit payable	32,611
Others	11,955
	52,037

11 Income derived from investment of depositors' funds and others

Income derived from investment of :	
- General investment deposits	156,430
- Other deposits	137,362
	293,792

(i) Income derived from investment of general investment deposits

Finance income and hibah

Financing, advances and other financing	113,937
Securities Held-for-trading	5,794
Securities Available- for-sale	2,570
Securities Held-to-maturity	6,416
Money at call and deposit with financial institutions	22,429
	151,146

Amortisation of premium less accretion of discount	2,133
Total finance income and hibah	153,279

Other operating income

Fee and commission	
- Commission	222
- Service Charges & fees	1,100
- Other fees income	1,439
Gain/(loss) from sale of held-for-trading securities	(202)
Gain/(loss) from sale of available-for-sale securities	329
Gain/(loss) from sale of held-to-maturity securities	21
Unrealised gain/(loss) on revaluation of held-for-trading securities	215
Others	27
	3,151
	156,430

**Financial
Period Ended
30/06/2006
RM'000**

(ii) Income derived from investment of other deposits

Finance income and hibah

Financing, advances and other financing	100,048
Securities Held-for-trading	5,088
Securities Available- for-sale	2,257
Securities Held-to-maturity	5,634
Money at call and deposit with financial institutions	19,695
	132,722
Amortisation of premium less accretion of discount	1,873
Total finance income and hibah	134,595

Other operating income

Fee and commission	
- Commission	195
- Service Charges & fees	966
- Other fees income	1,263
Gain/(loss) from sale of held-for-trading securities	(178)
Gain/(loss) from sale of available-for-sale securities	289
Gain/(loss) from sale of held-to-maturity securities	19
Unrealised gain/(loss) on revaluation of held-for-trading securities	189
Others	24
	2,767
	137,362

**Financial
Period Ended
30/06/2006
RM'000**

12 Income derived from investment of shareholders, fund

Finance income and hibah

Financing, advances and other financing	19,925
Securities Held-for-trading	1,013
Securities Available- for-sale	450
Securities Held-to-maturity	1,122
Money at call and deposit with financial institutions	3,923
	26,433

Amortisation of premium less accretion of discount	373
Total finance income and hibah	26,806

Other operating income

Fee and commission	
- Commission	39
- Service Charges & fees	192
- Guarantee fees	1
- Other fees income	252
Gain/(loss) from sale of held-for-trading securities	(35)
Gain/(loss) from sale of available-for-sale securities	57
Gain/(loss) from sale of held-to-maturity securities	4
Unrealised gain/(loss) on revaluation of held-for-trading securities	38
Others	5
	553

27,359

13 Allowance for losses on financing

Allowance for bad and doubtful financing

(a) Specific allowance	
- Provided	26,771
-Written back	(6,111)
(b) General allowance	
- Provided	5,341
- Written back	(192)

Bad debts on financing

- Recovered	(3,023)
- Written off	221
	23,007

**Financial
Period Ended
30/06/2006
RM'000**

14 Income attributable to the depositors

Deposits from customers	
- Mudharabah	115,062
- Non-Mudharabah	25,775
Deposits and placements of banks and other financial institutions	
- Mudharabah	23,394
	<u>164,231</u>

15 Capital adequacy

Tier I capital

Paid-up share capital	500,000
Other reserves	43,096
	<u>543,096</u>
Less: Deferred tax assets/(liabilities)	(19,063)
Total Tier I capital	<u>524,033</u>

Tier II capital

General allowance for bad and doubtful financing	60,158
Total Tier II capital	<u>60,158</u>

Capital base

	<u>584,191</u>
Core capital ratio	12.60%
Risk-weighted capital ratio	14.04%
Core capital ratio net of proposed dividends	12.60%
Risk-weighted capital ratio net of proposed dividends	14.04%

16 Commitments and contingencies

**Financial Period Ended
30/06/2006**

	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Transaction-related contingent items	238	119	119
Short-term self-liquidating trade-related contingencies	5,771	1,154	1,154
Other assets sold with recourse and commitment with certain drawdown	1,810	1,810	1,810
Commitment on securities sold under sell and buy back agreements	30,177	30,177	30,177
Irrecoverable commitments to extend credit:			
- Maturity not exceeding one year	13,881	-	-
- Maturity exceeding one year	374,586	187,293	187,293
Foreign exchange related contracts:			
- Less than one year	907	-	-
	<u>427,370</u>	<u>220,553</u>	<u>220,553</u>

17 Profit rate risk

	Non-trading book					Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit 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				
Assets									
Cash and short term funds	1,366,361	-	-	-	-	4,582	-	1,370,943	3.4%
Securities Held-for-trading	-	-	-	-	-	-	129,027	129,027	3.2%
Securities Available-for-sale	-	-	10,128	136,004	35,000	(2,608)	-	178,524	4.6%
Securities Held-for-maturity	-	165,041	4,875	418,846	-	575	-	589,337	2.9%
Financing, advances and other financing									
- performing	30,225	3,374	286,220	2,232,396	1,403,973	(59,028)	-	3,897,160	6.1%
- non-performing	-	-	-	-	-	47,598	-	47,598	-
Other assets	-	-	-	-	-	221,072	-	221,072	-
Total assets	1,396,586	168,415	301,223	2,787,246	1,438,973	212,191	129,027	6,433,661	
Liabilities									
Deposits from customers	3,064,970	2,109,755	493,026	32,357	-	1,436	-	5,701,544	3.1%
Deposits & placement of banks & other financial institutions	75,000	60,000	-	-	-	-	-	135,000	3.6%
Bills and acceptance payable	223	729	80	-	-	392	-	1,424	3.6%
Other liabilities	-	-	-	-	-	54,410	-	54,410	-
Total liabilities	3,140,193	2,170,484	493,106	32,357	-	56,238	-	5,892,378	
Shareholder's funds	-	-	-	-	-	541,283	-	541,283	
Total liabilities and shareholder's funds	3,140,193	2,170,484	493,106	32,357	-	597,521	-	6,433,661	
On-balance sheet profit sensitivity gap	(1,743,607)	(2,002,069)	(191,883)	2,754,889	1,438,973	(385,330)	129,027	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(1,743,607)	(2,002,069)	(191,883)	2,754,889	1,438,973	(385,330)	129,027	-	