

AFFIN HOLDINGS BERHAD
(Company no. 23218 - W)
Condensed Interim Financial Statements
Unaudited Balance Sheets As At 30 June 2007

	<-----GROUP----->		<-----COMPANY----->	
	Financial Quarter Ended 30/06/2007 RM'000	Previous Financial Year Ended 31/12/2006 RM'000	Financial Quarter Ended 30/06/2007 RM'000	Previous Financial Year Ended 31/12/2006 RM'000
ASSETS				
Cash and short term funds	11,041,240	7,734,134	121,539	95,016
Deposits and placements with financial institutions	750,751	326,524	-	3,484
Securities held for trading	499,306	533,805	-	-
Securities available-for-sale	4,546,426	5,245,310	-	-
Securities held-to-maturity	907,964	1,065,972	-	-
Loans, advances and financing	16,768,176	17,356,971	-	-
Statutory deposits with Bank Negara Malaysia	801,220	820,755	-	-
Investment in subsidiaries	-	-	3,517,616	3,523,400
Amount due from subsidiaries	-	-	1,387	45,731
Investment in jointly-controlled entity	107,403	107,913	111,180	111,180
Investment in associate	107,952	98,342	10,597	10,597
Trade debtors	716,262	401,651	-	-
Other assets	249,516	211,851	2,638	846
Tax recoverable	78,838	104,196	25,285	38,003
Deferred tax assets	53,589	87,430	60	161
Prepaid land lease payments	17,461	17,767	-	-
Property, plant and equipment	225,706	229,172	1,166	1,257
Land held for sale	100,814	100,814	-	-
Intangible assets	1,043,362	1,048,148	-	-
TOTAL ASSETS	38,015,986	35,490,755	3,791,468	3,829,675
LIABILITIES AND EQUITY				
Deposits from customers	25,647,998	25,688,093	-	-
Deposits and placements of banks and other financial institutions	4,127,369	1,351,527	-	-
Obligation on securities sold under repurchase agreements	1,508,975	1,760,313	-	-
Bills and acceptances payable	78,415	281,177	-	-
Trade creditors	634,081	369,678	-	-
Recourse obligation on loans sold to Cagamas Berhad	517,556	637,758	-	-
Other liabilities	783,186	739,913	10,624	14,023
Provision for taxation	24,626	-	-	-
Amount due to subsidiaries	-	-	817,683	714,078
Deferred tax liabilities	33,182	22,809	-	-
Borrowings	1,020,000	1,162,644	520,000	653,530
TOTAL LIABILITIES	34,375,388	32,013,912	1,348,307	1,381,631

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	<-----GROUP----->		<-----COMPANY----->	
	Financial Quarter Ended 30/06/2007 RM'000	Previous Financial Year Ended 31/12/2006 RM'000	Financial Quarter Ended 30/06/2007 RM'000	Previous Financial Year Ended 31/12/2006 RM'000
EQUITY				
Share capital	1,279,604	1,252,913	1,279,604	1,252,913
Reserves:-				
Share premium	1,087,483	1,077,424	1,087,483	1,077,424
Statutory reserve	410,230	410,230	-	-
Retained profits	830,246	723,233	76,074	117,707
Investment fluctuation reserve	33,035	13,043	-	-
TOTAL EQUITY	3,640,598	3,476,843	2,443,161	2,448,044
TOTAL LIABILITIES AND EQUITY	38,015,986	35,490,755	3,791,468	3,829,675
COMMITMENTS AND CONTINGENCIES	21,967,656	17,846,701	-	-
CAPITAL ADEQUACY				
<u>Before deducting proposed dividends:</u>				
Core capital ratio	10.17%	11.07%		
Risk-weighted capital ratio	13.07%	14.15%		
<u>After deducting proposed dividends:</u>				
Core capital ratio	10.17%	11.07%		
Risk-weighted capital ratio	13.07%	14.15%		
NET ASSETS PER SHARE (RM)	2.85	2.78		

The Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2006.

AFFIN HOLDINGS BERHAD

(Company no. 23218 - W)

Condensed Interim Financial Statements

Unaudited Income Statements For The Financial Period Ended 30 June 2007

<u>Group</u>	<-----Individual Quarter----->		<-----Cumulative Quarter----->	
	Current Year Quarter ended 30/06/2007 RM'000	Preceding Year Corresponding Quarter ended 30/06/2006 RM'000	Current year- to-date ended 30/06/2007 RM'000	Preceding Year- to-date ended 30/06/2006 RM'000
Revenue	560,962	486,550	1,070,521	925,362
Interest income	410,313	390,322	798,781	734,813
Interest expense	(251,992)	(226,010)	(488,007)	(406,094)
Net interest income	158,321	164,312	310,774	328,719
Income from Islamic operations	29,684	27,190	62,745	40,930
Other operating income	93,082	63,269	165,217	120,020
Operating income	281,087	254,771	538,736	489,669
Other operating expenses	(130,896)	(134,924)	(262,394)	(260,188)
Operating profit before loan and financing loss and provision	150,191	119,847	276,342	229,481
Allowance for losses on loans and financing	(27,399)	(29,184)	(58,893)	(61,774)
Impairment losses	(15,739)	(12,385)	(16,346)	(16,804)
Transfer (to)/from profit equalisation reserve	1,008	(1,000)	211	4,707
Operating profit	108,061	77,278	201,314	155,610
Finance cost	(7,482)	(10,998)	(15,609)	(21,647)
Share of results of jointly controlled entity	153	-	(510)	-
Share of results of associate	8,146	6,436	12,530	8,020
Profit before taxation and zakat	108,878	72,716	197,725	141,983
Taxation	(34,186)	(20,859)	(60,521)	(39,043)
Zakat	(2,265)	-	(2,265)	-
Net profit for the financial period	72,427	51,857	134,939	102,940
Earnings per share (sen)	5.68	4.24	10.64	8.45
Fully diluted earnings per share (sen)	5.53	4.06	10.36	8.09

The Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2006.

AFFIN HOLDINGS BERHAD
(Company no. 23218 - W)
Condensed Interim Financial Statements
Unaudited Income Statements For The Financial Period Ended 30 June 2007

<u>Company</u>	<-----Individual Quarter----->		<-----Cumulative Quarter----->	
	Current Year Quarter ended 30/06/2007 RM'000	Preceding Year Corresponding Quarter ended 30/06/2006 RM'000	Current year ended 30/06/2007 RM'000	Preceding Year ended 30/06/2006 RM'000
Revenue	5,399	47,778	10,724	54,854
Interest income	1,095	1,308	2,420	2,384
Interest expense	-	-	-	-
Net interest income	1,095	1,308	2,420	2,384
Income from Islamic operations	-	-	-	-
Other operating income	4,305	46,471	8,305	52,474
Operating income	5,400	47,779	10,725	54,858
Other operating expenses	(1,477)	(3,852)	(2,938)	(4,669)
Impairment loss on investment in subsidiary	(5,784)	-	(5,784)	-
Operating profit before loan and financing loss and provision	(1,861)	43,927	2,003	50,189
Allowance for losses on loans and financing	-	-	-	-
Transfer from/(to) profit equalisation reserve	-	-	-	-
Operating profit	(1,861)	43,927	2,003	50,189
Finance cost	(7,482)	(10,649)	(15,609)	(21,156)
Share of results of associate	-	-	-	-
(Loss) / profit before taxation and zakat	(9,343)	33,278	(13,606)	29,033
Taxation	165	(8,438)	(101)	(8,630)
Zakat	-	-	-	-
Net loss for the financial period	(9,178)	24,840	(13,707)	20,403

The Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2006.

AFFIN HOLDINGS BERHAD
(Company no. 23218 - W)
Unaudited Condensed Consolidated Statement Of Changes In Equity
For The Financial Period Ended 30 June 2007

GROUP	Issued and fully paid ordinary shares of RM1 each		Non-distributable				Distributable	TOTAL EQUITY RM'000
	Number of shares '000	Nominal value RM'000	Share premium RM'000	Statutory reserves RM'000	Investment fluctuation reserve RM'000	Other reserve RM'000	Retained profits RM'000	
At 1 January 2007	1,252,913	1,252,913	1,077,424	410,230	13,043	-	723,233	3,476,843
Issue of share capital:								
- pursuant to the exercise of Employees Shares Options Scheme	26,691	26,691	10,059	-	-	-	-	36,750
Net change in fair value of securities available-for-sale	-	-	-	-	19,992	-	-	19,992
Net profit for the financial year	-	-	-	-	-	-	134,939	134,939
Dividend paid	-	-	-	-	-	-	(27,926)	(27,926)
At 30 June 2007	1,279,604	1,279,604	1,087,483	410,230	33,035	-	830,246	3,640,598
At 1 January 2006	1,211,388	1,211,388	1,063,541	364,669	(11,490)	944	577,380	3,206,432
Issue of share capital arising from:								
- pursuant to the exercise of Employees Shares Options Scheme	18,337	18,337	5,698	-	-	-	-	24,035
Net change in fair value of securities available-for-sale	-	-	-	-	(54,485)	-	-	(54,485)
Net profit for the financial year	-	-	-	-	-	-	102,940	102,940
Dividend paid	-	-	-	-	-	-	(17,557)	(17,557)
At 30 June 2006	1,229,725	1,229,725	1,069,239	364,669	(65,975)	944	662,763	3,261,365

The Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2006.

AFFIN HOLDINGS BERHAD
(Company no. 23218 - W)
Unaudited Condensed Statement Of Changes In Equity
For The Financial Period Ended 30 June 2007

<u>Company</u>	Issued and fully paid ordinary shares of RM1 each		Non-distributable	Distributable	Total RM'000
	Number of shares '000	Nominal value RM'000	Share premium RM'000	Retained profits RM'000	
At 1 January 2007	1,252,913	1,252,913	1,077,424	117,707	2,448,044
Issue of share capital pursuant to the exercise of Employees Share Options Scheme	26,691	26,691	10,059	-	36,750
Net loss for the financial period	-	-	-	(13,707)	(13,707)
Dividend paid	-	-	-	(27,926)	(27,926)
At 30 June 2007	1,279,604	1,279,604	1,087,483	76,074	2,443,161
At 1 January 2006	1,211,388	1,211,388	1,063,541	137,268	2,412,197
Issue of share capital pursuant to the exercise of Employees Share Options Scheme	18,337	18,337	5,698	-	24,035
Net profit for the financial period	-	-	-	20,403	20,403
Dividend paid	-	-	-	(17,557)	(17,557)
At 30 June 2006	1,229,725	1,229,725	1,069,239	140,114	2,439,078

The Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2006.

AFFIN HOLDINGS BERHAD
(Company no. 23218 - W)
Unaudited Condensed Consolidated Cash Flow Statement
For The Financial Period Ended 30 June 2007

	Group	
	As at 30/06/2007 RM'000	As at 30/06/2006 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation and zakat	197,725	141,983
Adjustment for non-operating and non-cash items	(5,025)	(75,361)
Operating profit before changes in working capital	192,700	66,622
Net changes in operating assets	(227,142)	523,652
Net changes in operating liabilities	2,452,300	3,216,731
Payment of tax and zakat	(19,344)	(17,231)
Taxation refund	17,614	52,453
Net cash generated from operating activities	2,416,128	3,842,227
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from securities	96,539	99,657
Net disposal/(purchase) of:		
- securities	913,461	(817,174)
- property, plant and equipment	(11,812)	(19,380)
- intangible assets	(911)	-
Dividend received from:		
- associate	2,920	2,880
- securities	1,006	1,503
Net cash used in investing activities	1,001,203	(732,514)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in borrowings	(142,644)	(59,970)
Proceeds from issuance of shares	36,750	24,035
Capital injection to a newly established subsidiary by minority interests	-	65,219
Dividends paid to shareholders	(27,926)	(17,557)
Net cash used in financing activities	(133,820)	11,727
Net increase in cash and cash equivalents	3,283,511	3,121,440
Cash and cash equivalents at beginning of the period	7,702,346	3,326,204
Cash and cash equivalents at end of the period	10,985,857	6,447,644
 <u>Analysis of cash & cash equivalent</u>		
Cash and short term funds	11,041,240	6,473,850
Adjustment for money held in trust on behalf of clients and remisers	(55,383)	(26,206)
	10,985,857	6,447,644

The Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2006.

Part A - Explanatory Notes pursuant to Financial Reporting Standard ('FRS 134') and Revised Guidelines on Financial Reporting for Licensed Institutions ('BNM/GP8') issued by Bank Negara Malaysia

A1. BASIS OF PREPARATION

The unaudited condensed interim financial statements for the quarter ended 30 June 2007 have been prepared under the historical cost convention except for the following assets and liabilities which are stated at fair values:

- (i) securities held-for-trading,
- (ii) securities available-for-sale,
- (iii) derivative financial instruments, and
- (iv) investment properties.

The unaudited condensed financial statements has been prepared in accordance with FRS134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board ('MASB') and Chapter 9, part K of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the year ended 31 December 2006. The explanatory notes to this interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the Group since the year ended 31 December 2006.

A2. ACCOUNTING POLICIES AND METHODS OF COMPUTATIONS

The significant accounting policies and methods of computations applied for the condensed interim financial statements are consistent with those applied in the annual financial statements for the year ended 31 December 2006, except for the adoption of the revised FRS 117 Leases issued by the MASB that is effective for the Group's annual reporting date, 31 December 2007. The principal effects of the change in accounting policy resulting from the adoption of the revised FRS 117 are disclosed in Note A26.

A3. AUDITOR'S REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the audited financial statements for the financial year ended 31 December 2006 was not subjected to any qualification.

A4. SEASONAL OR CYCLICAL FACTORS

The operations of the Group are generally not affected by any seasonal or cyclical factors but are in tandem with the country's economic situation.

A5. ITEMS OF UNUSUAL NATURE, SIZE AND INCIDENCE AFFECTING NET ASSETS, EQUITY, NET INCOME OR CASH FLOWS

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group and the Company during the current financial quarter ended 30 June 2007.

A6. CHANGES IN ESTIMATES

There were no material changes in estimates of amounts reported in prior financial years that have a material effect in the current financial quarter ended 30 June 2007.

A7. DEBT AND EQUITY SECURITIES

Save as disclosed below, there were no issuance, cancellations, share buy-backs, resale of shares bought back and repayment of debts and equity securities by the Company.

Issuance of shares

During the financial period, the Company's issued and paid-up capital was increased from RM1,252,912,615 to RM1,279,604,015 by the issuance of 26,691,400 new ordinary shares at nominal value of RM1.00 pursuant to the exercise of options granted under the company's Employees' Share Options Scheme at the following option prices:

<u>Number of new ordinary shares issued</u>	<u>Option price per share</u>
2,157,000	RM 1.00
24,534,400	RM 1.41

A8. DIVIDEND

A final dividend of 3 sen per share less 27% tax for the financial year ended 31 December 2006 which was approved by the shareholders in the Annual General Meeting held on 13 April 2007, amounting to RM27,925,307 was paid on 8 June 2007.

A9. SECURITIES HELD

	Group	
	As at 30/06/2007 RM'000	As at 31/12/2006 RM'000
(a) <u>Securities held-for-trading</u>		
At fair value		
Malaysian Government Investment Issuance ('GII')	30,759	-
Quoted Securities		
- Warrants	284	341
Unquoted Securities		
- Private Debt Securities	468,263	533,464
Total securities held for trading	499,306	533,805

A9. SECURITIES HELD (cont.)

	Group	
	As at 30/06/2007 RM'000	As at 31/12/2006 RM'000
(b) <u>Securities available-for-sale</u>		
At fair value		
Malaysian Government Securities	477,815	839,030
Malaysian Government Treasury Bills	102,479	102,957
Malaysian Government Investment Issuance ('GII')	158,800	260,196
Cagamas Bonds	467,700	516,326
Khazanah Bonds	227,676	698,036
Bankers' Acceptance and Islamic Accepted Bills	854,342	540,334
Bank Negara Malaysia Notes	235,628	123,713
Negotiable Instruments of Deposit	520,019	664,985
Negotiable Islamic Debt Certificate	29,799	148,000
Islamic Corporate Notes	2,019	-
	3,076,277	3,893,577
Quoted Securities		
- Shares	241,331	239,093
- Private Debt Securities	3,739	29,820
Unquoted Securities		
- Private Debt Securities	1,356,357	1,210,186
- Irredeemable Convertible Unsecured Loan Stock	2,338	-
	4,680,042	5,372,676
Allowance for impairment of securities	(133,616)	(127,366)
Total securities available-for-sale	4,546,426	5,245,310
(c) <u>Securities held-to-maturity</u>		
At amortised cost		
Malaysian Government Securities	323,884	331,968
Cagamas Bonds	50,012	60,089
Khazanah Bonds	-	8,274
	373,896	400,331
Quoted Securities		
- Private Debt Securities	54,675	54,675
- Irredeemable Convertible Unsecured Loan Stock ('ICULS')	-	15,000
Unquoted Securities		
- Private Debt Securities	551,753	668,540
	980,324	1,138,546
At cost		
Unquoted Securities		
- Shares	64,600	64,615
- Private Debt Securities	16	16
	1,044,940	1,203,177
Allowance for impairment of securities	(136,976)	(137,205)
Total securities held-to-maturity	907,964	1,065,972
Total securities held	5,953,696	6,845,087

A10. LOANS, ADVANCES AND FINANCING

(a) <u>BY TYPE</u>	Group	
	As at 30/06/2007 RM'000	As at 31/12/2006 RM'000
Overdrafts	1,775,959	1,900,549
Term loans/financing		
Housing loans/financing	3,812,037	3,818,732
Syndicated term loan/financing	849,146	535,728
Hire purchase receivables	6,729,925	6,686,710
Other term loans/financing	4,144,767	4,273,817
Bills receivable	87,230	97,752
Trust receipts	443,797	473,237
Claims on customers under acceptance credits	677,528	719,865
Staff loans/financing (of which RM NIL to Directors)	167,199	170,229
Credit/charge cards	94,404	95,084
Revolving credit	1,268,261	1,665,137
Other loans/financing	18,420	17,444
	<hr/>	<hr/>
	20,068,673	20,454,284
Less: Unearned interest and income	(1,965,887)	(1,863,854)
Gross loans, advances and financing	18,102,786	18,590,430
Less: Allowance for bad and doubtful debts and financing		
- General	(268,420)	(267,970)
- Specific	(1,066,190)	(965,489)
Total net loans, advances and financing	16,768,176	17,356,971
	<hr/>	<hr/>
(b) <u>BY TYPE OF CUSTOMER</u>		
Domestic non-banking institutions		
- Stockbroking companies	10,158	25,415
- Others	473,083	478,823
Domestic business enterprises		
- Small medium enterprises	4,918,571	4,666,017
- Others	3,553,028	3,922,470
Government and statutory bodies	59,596	124,886
Individuals	8,854,992	8,863,393
Other domestic entities	31,650	201,185
Foreign entities	201,708	308,241
	<hr/>	<hr/>
	18,102,786	18,590,430

A10. LOANS, ADVANCES AND FINANCING (cont.)

	Group	
	As at 30/06/2007 RM'000	As at 31/12/2006 RM'000
(c) <u>BY INTEREST / PROFIT RATE SENSITIVITY</u>		
Fixed rate		
Housing loans/financing	605,006	533,902
Hire purchase receivables	5,687,096	5,650,066
Other fixed rate loan/financing	4,267,321	4,301,776
Variable rate		
BLR plus	3,486,295	4,091,603
Cost-plus	4,057,068	4,013,083
	18,102,786	18,590,430
(d) <u>BY ECONOMIC PURPOSE</u>		
Construction	362,323	151,345
Purchase of landed property		
(of which: - Residential	3,230,476	3,106,837
- Non-residential)	895,166	554,966
Purchase of securities	962,440	479,833
Purchase of transport vehicles	5,693,288	5,366,188
Fixed assets other than land and building	193,436	63,411
Personal uses	576,878	565,748
Credit card	94,348	95,084
Consumer durable	5,460	6,317
Working capital	2,552,772	1,440,613
Others	3,536,199	6,760,088
	18,102,786	18,590,430
(e) <u>NON-PERFORMING LOANS/FINANCING</u>		
(i) <u>Movements in non-performing loans, advances and financing</u>		
	As at	As at
	30/06/2007	31/12/2006
	RM'000	RM'000
Balance at the beginning of financial period/year	3,089,706	3,290,501
Classified as non-performing during the financial period/year	446,824	947,097
Reclassified as performing during the financial period/year	(357,933)	(463,928)
Loans/financing converted to securities	(14,778)	-
Amount recovered	(224,901)	(506,821)
Amount written-off	(26,125)	(177,143)
Balance at the end of financial period/year	2,912,793	3,089,706
less: Specific allowance	(1,066,190)	(965,489)
Net non-performing loans, advances and financing	1,846,603	2,124,217
Net NPL as a % of gross loans, advances and financing less specific allowance	10.84%	12.05%

A10. LOANS, ADVANCES AND FINANCING (cont.)

(e) NON-PERFORMING LOANS/FINANCING (cont.)

	Group	
	As at 30/06/2007 RM'000	As at 31/12/2006 RM'000
(ii) <u>Non-performing loans, advances and financing by economic purpose</u>		
Construction	64,304	73,793
Purchase of landed property:		
- Residential	583,381	625,936
- Non-residential	146,482	155,761
Purchase of securities	131,976	131,557
Purchase of transport vehicles	265,463	259,165
Fixed assets other than land and building	22,598	-
Personal uses	47,251	53,569
Credit card	3,037	3,144
Consumer durable	795	1,233
Working capital	354,977	235,122
Others	1,292,529	1,550,426
	2,912,793	3,089,706
(iii) <u>Aging of net non-performing loans, advances and financing</u>		
Less than 5 years	1,395,560	1,609,495
5 years to 7 years	451,043	514,722
	1,846,603	2,124,217
(iv) <u>Movement in allowance for bad and doubtful debts</u>		
	Group	
	As at 30/06/2007 RM'000	As at 31/12/2006 RM'000
General allowance		
Balance at the beginning of financial period/year	267,970	327,039
Allowance made during the financial period/year	450	-
Amount written back during the financial period/year	-	(59,069)
Balance at the end of financial period/year	268,420	267,970
As % of gross loans, advances and financing less specific allowance	1.58%	1.52%
Specific allowance		
Balance at the beginning of financial period/year	965,489	828,846
Allowance made during the financial period/year	182,056	388,729
Amount transferred to allowance for impairment of securities held-to-maturity	(9,246)	-
Amount written-off	(25,156)	(176,055)
Amount written back during the financial period/year	(46,953)	(76,031)
Balance at the end of financial period/year	1,066,190	965,489

A11. OTHER ASSETS

	Group	
	As at 30/06/2007 RM'000	As at 31/12/2006 RM'000
Clearing accounts	7,829	6,763
Money order and postal order purchased	1,693	3,212
Accrued income / interest receivable	76,630	34,250
Premium receivable	330	2,024
Foreclosed properties	86,525	85,068
Derivative assets	32,021	22,314
Other debtors, deposits and prepayments	44,488	58,220
	249,516	211,851

A12. OTHER LIABILITIES

	Group	
	As at 30/06/2007 RM'000	As at 31/12/2006 RM'000
Bank Negara Malaysia and Credit Guarantee Corporation Funding Programmes of a subsidiary	162,650	167,342
Liabilities directly associated with land held for sale	33,081	33,081
Interest payable	191,852	170,171
Margin and collateral deposits	35,728	24,314
Trust accounts for clients and remisers	55,383	31,788
Clearing accounts	58,880	64,236
Defined contribution plan	6,291	7,429
Accrued employee benefits	2,032	1,772
Derivative liabilities	33,699	27,119
Other creditors and accruals	197,043	207,777
Profit equalisation reserve	289	501
Provision for zakat	6,258	4,383
	783,186	739,913

A13. INTEREST INCOME

	<-----Group----->			
	Current	Preceding		
	Financial	Year		
	Quarter	Financial	Current	Preceding
	ended	Quarter	Year-to-date	Year-to-date
	30/06/2007	ended	30/06/2007	30/06/2006
	RM'000	30/06/2006	RM'000	RM'000
		RM'000		
Loans and advances				
- Interest income other than recoveries from NPL	238,840	244,947	477,366	473,631
- Recoveries from NPL	27,787	23,487	51,869	42,147
Money at call and deposit placement with financial institutions	69,171	43,971	129,102	66,932
Securities				
- Held-for-trading	6,338	6,688	13,178	13,882
- Available-for-sale	31,975	34,389	64,230	64,062
- Held-for-maturity	9,387	10,724	19,131	21,713
Interest rate derivatives	14,796	10,474	20,684	21,622
Others	710	6	1,188	11
	<u>399,004</u>	<u>374,686</u>	<u>776,748</u>	<u>704,000</u>
Accretion of discount less amortisation of premium	11,309	15,636	22,033	30,813
	<u>410,313</u>	<u>390,322</u>	<u>798,781</u>	<u>734,813</u>

A14. INTEREST EXPENSE

Deposits and placements of banks and other financial institutions	13,531	10,431	25,033	23,166
Deposits from customers	186,343	168,549	377,458	305,379
Subordinated term loan	7,791	8,476	15,527	16,860
Loans sold to Cagamas	5,576	11,096	11,637	23,565
Interest rate derivatives	22,847	10,107	28,035	21,531
Others	15,904	17,351	30,317	15,593
	<u>251,992</u>	<u>226,010</u>	<u>488,007</u>	<u>406,094</u>

A15. OTHER OPERATING INCOME

	<-----Group----->			
	Preceding			
	Year	Financial		
	Quarter	Quarter	Current	Preceding
	ended	ended	Year-to-date	Year-to-date
	30/06/2007	30/06/2006	30/06/2007	30/06/2006
	RM'000	RM'000	RM'000	RM'000
<u>Fees income:</u>				
Fees on loans, advances and financing	50	558	195	952
Brokerage (net)	21,192	12,573	44,987	23,013
Portfolio management fees	1,191	103	2,282	206
Corporate advisory fees	640	1,091	3,001	4,494
Commission	4,540	3,901	9,915	8,372
Service charges and fees	12,437	13,689	27,798	26,733
Guarantee fees	4,227	4,796	7,652	8,608
Other fee income	843	1,155	1,273	2,628
	45,120	37,866	97,103	75,006
<u>Investment income:</u>				
Gains/(losses) arising from sales of securities:				
- Held-for-trading	6,467	(4,124)	9,255	(4,410)
- Available-for-sale	23,725	3,777	24,540	7,826
- Held-to-maturity	(1,236)	237	662	320
Unrealised gains on revaluation of securities held-for-trading	(3,586)	(594)	(1,221)	(346)
Gains/(losses) on revaluation of derivatives:				
- realised	440	(71)	1,298	164
- unrealised	767	3,518	(944)	5,236
	26,577	2,743	33,590	8,790
<u>Dividend income:</u>				
- Securities held-for-trading	-	-	19	1
- Securities available-for-sale	285	8	291	9
- Securities held-to-maturity	572	1,126	696	1,493
	857	1,134	1,006	1,503
<u>Other income:</u>				
Foreign exchange gains/(losses):				
- realised	11,219	(3,438)	18,926	2,295
- unrealised	4,619	14,782	6,561	18,008
Gain on disposal of property, plant and equipment	200	1,396	955	1,916
Other non-operating income	4,490	8,786	7,076	12,502
	20,528	21,526	33,518	34,721
Total Other Operating Income	93,082	63,269	165,217	120,020

A16. OTHER OPERATING EXPENSES

	<-----Group----->			
	Current Financial Quarter ended 30/06/2007 RM'000	Preceding Year Financial Quarter ended 30/06/2006 RM'000	Current Year-to-date 30/06/2007 RM'000	Preceding Year-to-date 30/06/2006 RM'000
<u>Personnel costs</u>				
Wages, salaries and bonus	49,985	51,274	96,698	105,248
Defined contribution plan	7,942	7,717	15,808	15,806
Termination benefits	3,000	3,000	6,000	6,000
Other personnel costs	6,878	10,647	13,244	15,719
	67,805	72,638	131,750	142,773
<u>Promotion and marketing-related expenses</u>				
Business promotion and advertisement	856	590	1,525	1,169
Entertainment	598	562	1,049	995
Travelling and accomodation	991	1,025	1,792	1,720
Dealers' handling fees	6,618	6,807	12,825	13,735
Others	(632)	1,360	737	2,763
	8,431	10,344	17,928	20,382
<u>Establishment-related expenses</u>				
Rental of premises	5,949	6,253	11,967	12,480
Equipment rental	(673)	1,279	599	2,247
Repair and maintenance	4,904	7,881	10,501	14,051
Depreciation	6,844	7,219	13,629	14,343
Amortisation	4,058	3,559	8,022	6,834
Lease rental - leasehold properties	73	75	146	152
Others	13,282	10,333	24,645	18,641
	34,437	36,599	69,509	68,748
<u>General administrative expenses</u>				
Telecommunication expenses	2,096	2,359	3,989	4,662
Director's Remuneration	447	909	750	1,523
Auditors' remuneration:				
(i) Statutory audit				
- current year	385	209	662	478
- (over)/underprovision in previous years	21	-	11	60
(ii) Others	61	102	97	200
Professional fees	3,066	2,005	6,483	3,813
Property, plant & equipment written off	73	371	491	447
Others	14,074	9,388	30,723	17,102
	20,223	15,343	43,206	28,285
Total other operating expenses	130,896	134,924	262,393	260,188

A17. ALLOWANCE FOR LOSSES ON LOANS AND FINANCING

	<-----Group----->			
	Current Financial Quarter ended 30/06/2007 RM'000	Preceding Year Financial Quarter ended 30/06/2006 RM'000	Current Year-to-date 30/06/2007 RM'000	Preceding Year-to-date 30/06/2006 RM'000
<u>Allowance for bad and doubtful debts</u>				
<u>on loans and financing:-</u>				
Specific allowance				
- Made during the financial year	91,656	107,442	182,056	172,005
- Written back	(28,649)	(17,592)	(46,953)	(33,507)
General allowance (net)	414	(40,361)	450	(41,638)
<u>Bad debts:-</u>				
- recovered	(36,752)	(21,860)	(78,565)	(37,736)
- written off	644	1,409	2,162	1,979
<u>Losses arising from non-performing loans</u>				
<u>sold to Danaharta:-</u>				
- written back on final settlement	(39)	-	(39)	-
<u>Addition / (Writeback) of allowance for bad</u>				
<u>and doubtful debts:</u>				
- trade debtors	(48)	(99)	(72)	(160)
- other debtors	173	245	(146)	831
	27,399	29,184	58,893	61,774

A18. IMPAIRMENT LOSSES

Addition / (Writeback) of allowance for impairment loss:				
- Property, plant and equipment	(38)	-	(38)	-
- Securities available-for-sale	15,777	5,945	16,561	5,945
- Securities held-to-maturity	-	6,440	(177)	10,859
	15,739	12,385	16,346	16,804

A19. SEGMENTAL INFORMATION ON REVENUE AND PROFIT

The segment analysis by activity for the financial quarter and period ended 30 June 2007 and 30 June 2006 are as follows:-

RM '000	<-----Current year's quarter ended 30 June 2007----->						
	Commercial Banking and Hire Purchase	Investment Banking	Stockbroking	Insurance	Others	Eliminations	Group
Segment revenue	487,917	50,496	19,112	-	3,437	-	560,962
Intersegment revenue	152	77	411	-	1,338	(1,978)	-
Revenue	<u>488,069</u>	<u>50,573</u>	<u>19,523</u>	-	<u>4,775</u>	<u>(1,978)</u>	<u>560,962</u>
Segment results	105,815	11,826	8,275	-	(17,829)	(26)	108,061
Finance costs	-	-	-	-	(7,482)	-	(7,482)
Share of results of:							
- jointly controlled entity	-	-	-	153	-	-	153
- associate	-	-	-	8,146	-	-	8,146
Profit before taxation and zakat	<u>105,815</u>	<u>11,826</u>	<u>8,275</u>	<u>8,299</u>	<u>(25,311)</u>	<u>(26)</u>	<u>108,878</u>
Taxation and zakat	(30,703)	(3,289)	(2,345)	-	(114)	-	(36,451)
Net profit for the financial period	<u>75,112</u>	<u>8,537</u>	<u>5,930</u>	<u>8,299</u>	<u>(25,425)</u>	<u>(26)</u>	<u>72,427</u>

A19. SEGMENTAL INFORMATION ON REVENUE AND PROFIT

RM '000	<-----Preceding year's corresponding quarter ended 30 June 2006----->						
	Commercial Banking and Hire Purchase	Investment Banking	Stockbroking	Insurance	Others	Eliminations	Group
Segment revenue	415,440	57,477	10,705	-	2,928	-	486,550
Intersegment revenue	1,594	453	21	-	47,854	(49,922)	-
Revenue	<u>417,034</u>	<u>57,930</u>	<u>10,726</u>	-	<u>50,782</u>	<u>(49,922)</u>	<u>486,550</u>
Segment results	79,343	(2,481)	2,846	-	44,262	(46,692)	77,278
Finance costs	-	-	(528)	-	(10,649)	179	(10,998)
Share of results of:							
- jointly controlled entity	-	-	-	-	-	-	-
- associate	-	-	-	6,436	-	-	6,436
Profit before taxation and zakat	<u>79,343</u>	<u>(2,481)</u>	<u>2,318</u>	<u>6,436</u>	<u>33,613</u>	<u>(46,513)</u>	<u>72,716</u>
Taxation and zakat	(22,477)	(2,167)	(674)	-	(8,549)	13,008	(20,859)
Net profit for the financial period	<u>56,866</u>	<u>(4,648)</u>	<u>1,644</u>	<u>6,436</u>	<u>25,064</u>	<u>(33,505)</u>	<u>51,857</u>

A19. SEGMENTAL INFORMATION ON REVENUE AND PROFIT

<-----Current year's cumulative period ended 30 June 2007----->

RM '000	Commercial Banking and Hire Purchase	Investment Banking	Stockbroking	Insurance	Others	Eliminations	Group
Segment revenue	917,316	104,272	42,712	-	6,221	-	1,070,521
Intersegment revenue	312	486	456	-	7,016	(8,270)	-
Revenue	<u>917,628</u>	<u>104,758</u>	<u>43,168</u>	<u>-</u>	<u>13,237</u>	<u>(8,270)</u>	<u>1,070,521</u>
Segment results	177,041	24,084	19,226	-	3,957	(22,994)	201,314
Finance costs	-	-	-	-	(15,609)	-	(15,609)
Share of results of:							
- jointly controlled entity	-	-	-	(510)	-	-	(510)
- associate	-	-	-	12,530	-	-	12,530
Profit before taxation and zakat	<u>177,041</u>	<u>24,084</u>	<u>19,226</u>	<u>12,020</u>	<u>(11,652)</u>	<u>(22,994)</u>	<u>197,725</u>
Taxation and zakat	(50,994)	(6,802)	(5,498)	-	(572)	1,080	(62,786)
Net profit for the financial period	<u>126,047</u>	<u>17,282</u>	<u>13,728</u>	<u>12,020</u>	<u>(12,224)</u>	<u>(21,914)</u>	<u>134,939</u>

A19. SEGMENTAL INFORMATION ON REVENUE AND PROFIT

RM '000	<-----Preceding year's cumulative period ended 30 June 2006----->						
	Commercial Banking and Hire Purchase	Investment Banking	Stockbroking	Insurance	Others	Eliminations	Group
Segment revenue	786,265	114,059	19,290	-	5,748	-	925,362
Intersegment revenue	1,610	813	151	-	54,032	(56,606)	-
Revenue	<u>787,875</u>	<u>114,872</u>	<u>19,441</u>	<u>-</u>	<u>59,780</u>	<u>(56,606)</u>	<u>925,362</u>
Segment results	143,365	10,586	3,320	-	50,122	(51,783)	155,610
Finance costs	-	-	(861)	-	(21,156)	370	(21,647)
Share of results of:							
- jointly controlled entity	-	-	-	-	-	-	-
- associate	-	-	-	8,020	-	-	8,020
Profit before taxation and zakat	<u>143,365</u>	<u>10,586</u>	<u>2,459</u>	<u>8,020</u>	<u>28,966</u>	<u>(51,413)</u>	<u>141,983</u>
Taxation and zakat	<u>(35,783)</u>	<u>(7,887)</u>	<u>(743)</u>	<u>-</u>	<u>(9,010)</u>	<u>14,380</u>	<u>(39,043)</u>
Net profit for the financial period	<u>107,582</u>	<u>2,699</u>	<u>1,716</u>	<u>8,020</u>	<u>19,956</u>	<u>(37,033)</u>	<u>102,940</u>

A20. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

The Group's and the Company's property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

There were no changes in the valuation of property, plant and equipment that were brought forward from the previous audited financial statements for the year ended 31 December 2006.

A21. SUBSEQUENT MATERIAL EVENT

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

A22. CHANGES IN THE COMPOSITION OF THE GROUP

Establishment of AFFIN Investment Banking Group

On 14 December 2006, AFFIN Investment Bank Berhad ("AIBB") entered into a Business Transfer Agreement with AFFIN Securities Sdn Bhd ("ASSB") to acquire certain assets and liabilities of ASSB for a cash purchase consideration of RM103.53 million. On 22 December 2006, the Kuala Lumpur High Court of Malaya had given the Order under Section 124(B) of the Securities Commission Act, 1993 confirming the scheme of transfer involving the sale and transfer of the stockbroking business ("Stockbroking Business") of ASSB to AIBB. Pursuant to the Order, the Stockbroking Business was transferred to AIBB on 1 January 2007.

The transfer of Stockbroking Business is made pursuant to the Guidelines on Investment Banks jointly issued by Bank Negara Malaysia and the Securities Commission on 1 July 2005, that provide for, amongst others, the creation of investment banks. All the requisite approvals required for the transfer of Stockbroking Business had been obtained.

A23. COMMITMENTS AND CONTINGENCIES

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

GROUP	Current financial period ended 30/06/2007			Previous financial year ended 31/12/2006		
	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	717,775	717,775	717,775	478,338	478,338	478,338
Transaction-related contingent items	2,473,673	1,236,837	1,236,837	2,324,962	1,162,481	1,162,481
Short-term self-liquidating trade-related contingencies	3,529,552	705,910	198,572	3,868,200	773,640	217,947
Obligations under underwriting agreements	435,002	288,004	288,004	444,024	225,024	225,024
Foreign exchange related contracts						
- Less than one year	5,296,666	66,976	17,552	1,329,025	27,848	8,505
- One year to less than five years	332,588	36,259	18,130	401,401	41,574	20,787
Interest rate related contracts						
- Less than one year	1,522,611	16,696	8,348	2,027,000	864	432
- One year to less than five years	291,373	7,929	3,965	249,962	4,155	1,725
- Five years and above	101,750	5,338	2,669	90,150	4,657	2,328
Irrevocable commitments to extend credit:						
- Maturity exceeding 1 year	2,970,749	1,485,375	1,456,590	2,486,068	1,243,034	1,208,967
- Maturity not exceeding 1 year	4,295,917	-	-	4,147,571	-	-
	21,967,656	4,567,099	3,948,442	17,846,701	3,961,615	3,326,534

* The credit equivalent amount and risk-weighted amount are arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

A24. INTEREST / PROFIT RATE RISK

GROUP	<-----Non-trading Book----->						Trading Book	Total	Weighted average interest rate (%)
	Up to 1 month	1-3 months	> 3-12 months	> 1-5 years	Over 5 years	Non-interest bearing			
30 June 2007	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
ASSETS									
Cash & short-term funds	10,820,204	-	-	-	-	221,036	-	11,041,240	3.67
Deposits & placements with banks and other financial institutions	940	687,461	62,350	-	-	-	-	750,751	4.67
Securities held for trading	-	29,845	-	-	-	-	469,461	499,306	7.36
Securities available-for-sale	623,984	713,248	1,221,936	1,552,739	308,063	126,456	-	4,546,426	4.07
Securities held-to-maturity	772	71,848	410,900	133,597	51,247	239,600	-	907,964	4.20
Loans, advances & financing:									
- Performing	7,494,295	728,208	1,295,161	4,557,267	1,115,061	(268,419)	-	14,921,573	7.90
- Non-performing	-	-	-	-	-	1,846,603	-	1,846,603	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	801,220	-	801,220	
Other assets	709,378	-	11	87	-	1,809,912	1,863	2,521,251	
Tax recoverable	-	-	-	-	-	78,838	-	78,838	
Land held for sale	-	-	-	-	-	100,814	-	100,814	
TOTAL ASSETS	19,649,573	2,230,610	2,990,358	6,243,690	1,474,371	4,956,060	471,324	38,015,986	
LIABILITIES, INSURANCE RESERVES AND EQUITY									
Deposits from customers	12,913,492	6,058,625	4,885,337	126,192	-	1,664,352	-	25,647,998	3.08
Deposits & placements of banks and other financial institutions	3,055,199	967,303	104,867	-	-	-	-	4,127,369	4.13
Obligations on securities sold repurchase agreements	1,499,810	9,165	-	-	-	-	-	1,508,975	3.36
Bills and acceptance payable	8,646	5,004	-	-	-	64,765	-	78,415	3.49
Recourse obligation on loans sold to Cagamas Berhad	46,285	15,741	422,103	33,427	-	-	-	517,556	3.39
Other liabilities	697,661	-	-	-	-	749,029	3,759	1,450,449	
Provision for taxation	-	-	-	-	-	24,626	-	24,626	
Borrowings	-	-	320,000	700,000	-	-	-	1,020,000	5.44
TOTAL LIABILITIES	18,221,093	7,055,838	5,732,307	859,619	-	2,502,772	3,759	34,375,388	

A24. INTEREST / PROFIT RATE RISK (cont.)

GROUP	<-----Non-trading Book----->						Trading Book	Total	Weighted average interest rate (%)
	Up to 1 month	1-3 months	> 3-12 months	> 1-5 years	Over 5 years	Non-interest bearing			
<u>30 June 2007</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
EQUITY									
Shareholders' Funds	-	-	-	-	-	3,640,598	-	3,640,598	
Total liabilities and shareholders' funds	18,221,093	7,055,838	5,732,307	859,619	-	6,143,370	3,759	38,015,986	
On balance sheet- interest sensitivity gap	1,428,480	(4,825,228)	(2,741,949)	5,384,071	1,474,371	(1,187,310)	467,565	-	
Off balance sheet- interest sensitivity gap	165,991	205,824	(158,838)	(127,977)	(85,000)	-	-	-	
Total interest sensitivity gap	1,594,471	(4,619,404)	(2,900,787)	5,256,094	1,389,371	(1,187,310)	467,565	-	

A24. INTEREST / PROFIT RATE RISK (cont.)

GROUP	<-----Non-trading Book----->						Trading Book	Total	Weighted average interest rate (%)
	Up to 1 month	1-3 months	> 3-12 months	> 1-5 years	Over 5 years	Non-interest bearing			
<u>31 December 2006</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
ASSETS									
Cash and short-term funds	7,548,677	-	-	-	-	185,457	-	7,734,134	3.58
Deposits & placements with banks and other financial institutions	15,528	307,532	3,464	-	-	-	-	326,524	3.56
Securities held for trading	-	-	-	-	-	-	533,805	533,805	7.53
Securities available-for-sale	437,175	967,460	1,002,319	2,309,410	384,443	144,503	-	5,245,310	3.80
Securities held-to-maturity	-	14,809	561,726	146,286	86,285	256,866	-	1,065,972	4.23
Loans, advances & financing:									
- performing	8,040,792	972,718	1,024,562	4,274,512	1,188,140	(267,970)	-	15,232,754	7.96
- non-performing	-	-	-	-	-	2,124,217	-	2,124,217	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	820,755	-	820,755	
Other assets	379,303	20,859	4	55	-	1,799,855	2,198	2,202,274	
Tax recoverable	-	-	-	-	-	104,196	-	104,196	
Land held for sale	-	-	-	-	-	100,814	-	100,814	
Total assets	16,421,475	2,283,378	2,592,075	6,730,263	1,658,868	5,268,693	536,003	35,490,755	
LIABILITIES									
Deposits from customers	11,647,823	7,484,831	4,722,527	70,963	-	1,761,949	-	25,688,093	3.00
Deposits & placements of banks and other financial institutions	917,427	220,440	213,660	-	-	-	-	1,351,527	4.21
Obligations on securities sold repurchase agreements	1,757,341	2,972	-	-	-	-	-	1,760,313	3.40
Bills and acceptance payable	110,338	75,771	2,662	-	-	92,406	-	281,177	3.80
Recourse obligation on loans sold to Cagamas Berhad	37,697	-	143,340	456,721	-	-	-	637,758	4.00
Other liabilities	411,079	-	-	-	-	716,507	4,814	1,132,400	
Provision for taxation	-	-	-	-	-	-	-	-	
Borrowings	794,114	48,530	120,000	200,000	-	-	-	1,162,644	5.54
Total liabilities	15,675,819	7,832,544	5,202,189	727,684	-	2,570,862	4,814	32,013,912	

A24. INTEREST / PROFIT RATE RISK (cont.)

GROUP	<-----Non-trading Book----->						Trading Book	Total	Weighted average interest rate (%)
	Up to 1 month	1-3 months	> 3-12 months	> 1-5 years	Over 5 years	Non-interest bearing			
<u>31 December 2006</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
EQUITY									
Shareholders' Funds	-	-	-	-	-	3,476,843	-	3,476,843	
Total liabilities and shareholders' funds	15,675,819	7,832,544	5,202,189	727,684	-	6,047,705	4,814	35,490,755	
On balance sheet- interest sensitivity gap	745,656	(5,549,166)	(2,610,114)	6,002,579	1,658,868	(779,012)	531,189	-	
Off balance sheet- interest sensitivity gap	242,556	441,000	(379,000)	(304,556)	-	-	-	-	
Total interest sensitivity gap	988,212	(5,108,166)	(2,989,114)	5,698,023	1,658,868	(779,012)	531,189	-	

A25. CAPITAL ADEQUACY

The capital adequacy ratios in respect of the banking subsidiaries are as follows:-

	As at 30/06/2007 RM'000	As at 31/12/2006 RM'000
<u>Tier I Capital</u>		
Paid-up share capital	1,501,938	1,501,938
Share premium	420,252	420,252
Retained profits	374,211	374,211
Statutory reserve	464,363	464,363
	<hr/>	<hr/>
	2,760,764	2,760,764
less: Goodwill	(189,999)	(137,323)
Deferred tax assets/(liabilities)	(61,207)	(61,207)
Total Tier 1 capital (a)	<u>2,509,558</u>	<u>2,562,234</u>
<u>Tier II Capital</u>		
Subordinated loans/financing	500,000	500,000
General allowance for bad and doubtful debts and financing	267,956	267,656
Total Tier 2 capital (b)	<u>767,956</u>	<u>767,656</u>
Total capital (a) + (b)	3,277,514	3,329,890
less: Investment in subsidiaries	(53,229)	(53,229)
Capital base	<u>3,224,285</u>	<u>3,276,661</u>
<u>Before deducting proposed dividends:</u>		
Core capital ratio	10.17%	11.07%
Risk-weighted capital ratio	<u>13.07%</u>	<u>14.15%</u>
<u>After deducting proposed dividends:</u>		
Core capital ratio	10.17%	11.07%
Risk-weighted capital ratio	<u>13.07%</u>	<u>14.15%</u>

A26. CHANGE IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS

(a) Change in Accounting Policies

During the financial period ended 30 June 2007, the Group have adopted the revised FRS 117 Leases issued by the MASB which is applicable for the financial year ending 31 December 2007 for the Group, which resulted in a change in accounting policy during the financial period under review.

FRS 117: Leases

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

The Group have applied the change in accounting policy in respect of leasehold land in accordance with the transitional provision of FRS 117. At 1 January 2007, the unamortised carrying amount of leasehold land is classified as prepaid land lease payments. The reclassification of leasehold land as prepaid land lease payments has been accounted for retrospectively.

(b) Comparative figures

The above change in accounting policy did not affect the recognitions and measurement of the Group's net assets but has resulted in reclassification of prior year's comparatives as follow:-

	<-----GROUP----->		
	As previously reported RM '000	Reclassified RM '000	As restated RM '000
<u>Balance sheet as at 31 December 2006</u>			
Property, plant and equipment - cost	564,395	(21,080)	543,315
Accumulated depreciation	(307,985)	3,313	(304,672)
Accumulated impairment loss	(9,471)	-	(9,471)
Net book value	246,939	(17,767)	229,172
Prepaid land lease payments	-	21,080	21,080
Accumulated amortisation - prepaid land lease payments	-	(3,313)	(3,313)
Net book value	-	17,767	17,767
<u>Income Statement for second quarter ended 30 June 2006</u>			
Depreciation	7,292	(73)	7,219
Lease rental - leasehold properties	-	73	73
<u>Income Statement for cumulative period ended 30 June 2006</u>			
Depreciation	14,489	(146)	14,343
Lease rental - leasehold properties	-	146	146

A27. OPERATIONS OF ISLAMIC BANKING

(i) **Unaudited Islamic Balance Sheet**

	GROUP	
	Current Financial Quarter Ended 30/06/2007 RM'000	Previous Financial Year Ended 31/12/2006 RM'000
ASSETS		
Cash and short term funds	4,031,791	2,207,863
Securities available-for-sale	276,255	381,288
Securities held-to-maturity	-	90,600
Loans, advances and financing	1,298,820	1,233,014
Statutory deposit with Bank Negara Malaysia	43,900	42,000
Other assets	34,109	36,416
Deferred tax assets	4,904	4,122
Property, plant and equipment	223	188
Intangible assets	1,851	2,092
TOTAL ASSETS	5,691,853	3,997,583
LIABILITIES, ISLAMIC BANKING FUNDS		
Deposits from customers	3,078,398	2,823,420
Deposits and placements of banks and other financial institutions	1,998,231	300,450
Bills and acceptances payable	13,650	23,690
Other liabilities	290,575	562,160
Provision for tax and zakat	5,919	7,150
Total Liabilities	5,386,773	3,716,870
Total Islamic Banking Capital Funds	305,080	280,713
TOTAL LIABILITIES & ISLAMIC BANKING FUNDS	5,691,853	3,997,583
COMMITMENTS AND CONTINGENCIES	3,521,398	4,228,741

A27. OPERATIONS OF ISLAMIC BANKING (cont.)

(ii) **Unaudited Islamic Income Statement**

<-----GROUP----->

	Current Year Quarter ended 30/06/2007 RM'000	Preceding Year Corresponding Quarter ended 30/06/2006 RM'000	Current year- to-date ended 30/06/2007 RM'000	Preceding Year- to-date ended 30/06/2006 RM'000
Income derived from investment of depositors' funds and others	56,993	34,717	103,620	68,407
Allowance for losses on financing	1,468	(1,121)	755	(3,418)
Transfer from/(to) profit equalisation reserve	1,008	(1,000)	211	4,707
	<u>59,469</u>	<u>32,596</u>	<u>104,586</u>	<u>69,696</u>
Income attributable to depositors	(32,153)	(12,338)	(55,209)	(37,887)
Income attributable to shareholders	27,316	20,258	49,377	31,809
Income derived from investment of Islamic banking capital funds	2,928	2,709	6,817	8,308
	<u>30,244</u>	<u>22,967</u>	<u>56,194</u>	<u>40,117</u>
Other operating expenses	(11,163)	(7,986)	(21,131)	(9,384)
Profit before tax and zakat	19,081	14,981	35,063	30,733
Taxation	(3,864)	(4,302)	(8,142)	(4,302)
Zakat	(2,240)	-	(2,240)	-
Net profit for the financial period	<u><u>12,977</u></u>	<u><u>10,679</u></u>	<u><u>24,681</u></u>	<u><u>26,431</u></u>

(iii) **Financing**

<u>BY TYPE</u>	Group	
	As at 30/06/2007 RM'000	As at 31/12/2006 RM'000
Cash line	104,858	94,263
Term financing		
Housing financing	1,190,147	1,041,001
Syndicated term financing	-	7,669
Hire purchase receivables	410,040	342,194
Other term financing	353,941	353,623
Bills financing	11,137	7,070
Trust receipts	62,633	69,578
Interest-free accepted bills	38,471	49,282
Staff financing	12,135	12,637
Revolving credit	3,024	3,024
	<u>2,186,386</u>	<u>1,980,341</u>
less: Unearned income	(861,658)	(720,664)
	<u>1,324,728</u>	<u>1,259,677</u>
less: Allowance for bad and doubtful debts and financing		
- General	(20,185)	(21,893)
- Specific	(5,723)	(4,770)
Total net financing	<u><u>1,298,820</u></u>	<u><u>1,233,014</u></u>

A27. OPERATIONS OF ISLAMIC BANKING (cont.)

(iv) Non-performing financing (NPF)

<u>Movements in non-performing financing</u> <u>(including income receivables):</u>	GROUP	
	As at 30/06/2007 RM'000	As at 31/12/2006 RM'000
Balance at the beginning of financial period/year	39,150	481,426
Classified as non-performing during the financial period/year	29,339	71,439
Reclassified as performing during the financial period/year	(29,023)	(31,981)
Amount written-off	-	(688)
Amount written back in respect of recoveries	(2,521)	(5,025)
Amount transferred to Conventional books	-	(476,021)
Balance at the end of financial period/year	36,945	39,150
less: Specific allowance	(5,723)	(4,770)
Net non-performing loans, advances and financing	31,222	34,380
As % of gross loans, advances and financing less specific allowance	2.37%	2.74%

Movements in allowance for bad and doubtful financing:

General allowance

Balance at the beginning of financial period/year	21,893	28,717
Allowance made during the year	300	-
Amount transferred to Conventional books	(2,008)	(6,824)
Balance at the end of financial year	20,185	21,893
As % of gross loans, advances and financing less specific allowance	1.53%	1.74%

Specific allowance

Balance at the beginning of financial period/year	4,770	102,147
Allowance made during the financial period/year	1,364	6,912
Amount written off	-	(165)
Amount written back in respect of recoveries	(411)	(652)
Amount transferred to Conventional books	-	(103,472)
Balance at the end of financial period/year	5,723	4,770

A27. OPERATIONS OF ISLAMIC BANKING (cont.)

(v) Deposits from customers

	GROUP	
	As at 30/06/2007 RM'000	As at 31/12/2006 RM'000
<u>By type of deposits</u>		
Non-Mudharabah Funds		
Demand deposits	1,094,957	1,371,377
Savings deposits	159,943	149,542
Negotiable Instruments of Deposits	289,857	770,899
	1,544,757	2,291,818
Mudharabah Funds		
Savings deposits	5,799	5,700
General investment deposits	607,107	412,515
Special investment deposits	920,735	113,387
	1,533,641	531,602
	3,078,398	2,823,420

**Part B - Explanatory Notes pursuant to Appendix 9B of the Listing Requirements of Bursa
Malaysia Securities Berhad**

B1. REVIEW OF PERFORMANCE OF THE COMPANY AND ITS PRINCIPAL SUBSIDIARIES

The Group posted a pre-tax profit of RM108.9 million for the second quarter ended 30 June 2007, an improvement of RM36.2 million as compared to the pre-tax profit of RM72.7 million for the preceding year's corresponding quarter ended 30 June 2006. For the six months ended 30 June 2007, the Group recorded a higher pre-tax profit of RM197.7 million as compared to RM142.0 million for the preceding year's corresponding period. This was mainly due to the increase in both other operating income and Islamic banking income of RM45.2 million and RM21.8 million, lower finance cost and lower loan loss provision of RM6.0 million and RM2.9 million respectively. The net interest income however reduced by RM17.9 million for the period under review.

AFFIN Bank Berhad ("ABB") group recorded a pre-tax profit of RM105.8 million for the current financial quarter, an improvement of RM26.5 million as compared to RM79.3 million for the preceding year's corresponding quarter. As at 30 June 2007, the ABB group reported a higher pre-tax profit of RM177.0 million as compared to RM143.4 million for the preceding year's corresponding period. This was mainly due to the increase in both Islamic banking income and other operating income of RM20.7 million and RM12.4 million, lower impairment loss on securities and lower loan loss provision by RM9.9 million and RM9.4 million respectively. The net interest income however reduced by RM12.7 million while overhead expenses increased by RM1.6 million, with a lower writeback of profit equalisation reserve of RM4.5 million for the period under review.

AFFIN Investment Bank Berhad ("AIBB") group reported a higher pre-tax profit of RM20.1 million for the current financial quarter ended 30 June 2007, an increase of RM17.4 million as compared to RM2.7 million reported in the preceding year's corresponding quarter. As at 30 June 2007, the group's pre-tax profit of RM43.3 million was RM28.9 million higher than the pretax profit of RM14.4 million achieved last year. This was mainly attributable to the increase in fee-based income and investment income of RM42.0 million and RM6.3 million respectively, writeback of impairment loss on securities of RM0.2 million as against the provision of RM6.1 million for the corresponding period ended 30 June 2006, partially offset by the increase in overhead expenses of RM25.5 million and lower writeback of loan loss provision of RM2.4 million for the period under review. Overall, the stockbroking operations acquired by AIBB on 1 January 2007, contributed a pre-tax profit of approximately RM19.2 million for the period under review.

AFFIN Moneybrokers Sdn Bhd posted a higher pre-tax profit of RM517,000 for the financial quarter ended 30 June 2007 as compared to RM275,000 for the same quarter last year, mainly due to the increase in net brokerage income. Similar to that of the preceding year's corresponding half year, the company recorded a pre-tax profit of RM1.0 million for the six months ended 30 June 2007.

B2. COMMENTS ON CURRENT FINANCIAL PERFORMANCE AGAINST THE PRECEDING QUARTER'S

For the current financial quarter, the Group recorded a higher pre-tax profit of RM108.9 million, an increase of RM20.1 million as compared to RM88.8 million for the preceding quarter ended 31 March 2007. This was mainly due to the increase in other operating income, net interest income and share of results from associate of RM20.2 million, RM6.6 million and RM3.7 million respectively. The impairment loss on securities however increased by RM15.1 million while the loan loss provision reduced by RM4.1 million for the period under review.

B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR

Barring any unforeseen circumstances, the Group is expected to achieve satisfactory results for the financial year ending 31 December 2007.

B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

There were no profit forecast and profit guarantee issued by the Company.

B5. TAXATION

	<-----Group----->			
	Current financial quarter ended 30/06/2007 RM'000	Preceding year corresponding quarter ended 30/06/2006 RM'000	Current year- to-date 30/06/2007 RM'000	Preceding year- to-date 30/06/2006 RM'000
Malaysian Taxation:				
- Income tax based on profit for the period	15,132	(1,183)	23,141	239
Deferred tax relating to net originating temporary differences	19,054	19,623	36,991	40,988
Under/(Over)provision in previous year:				
- Current taxation	-	402	389	(4,201)
- Deferred taxation	-	2,017	-	2,017
	34,186	20,859	60,521	39,043

The effective tax rate was slightly higher than the prevailing statutory tax rate, mainly due to certain expenses being disallowed for tax purposes.

B6. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There were no material gains or losses on disposal of investments or properties other than in the ordinary course of business of the Group.

B7. PURCHASE OR DISPOSAL OF QUOTED SECURITIES

There were no purchases or disposals of quoted securities for the financial period other than in the ordinary course of business of the Group.

B8. STATUS OF CORPORATE PROPOSALS

a) Proposed private placement of up to 10% of the issued and paid-up share capital of the Company

On 5 October 2004, AFFIN Investment Bank Berhad (f.k.a. AFFIN Merchant Bank Berhad)("AIBB") had on behalf of the Board of Directors announced that the Company proposed to undertake a proposed private placement of new ordinary shares of RM1.00 each ('Placement Shares') representing up to 10% of issued and paid-up share capital of AHB to selected investors to be identified later. The issue price of the placement shares would be determined by the Board, based on market based principles and at a level which would be in the best interests of the company and would take into account the interests of its shareholders. In any event, the issue price of the placement shares shall not be less than the par value of RM1.00. On 26 November 2004, the Company announced that the SC had vide its letter dated 25 November 2004 approved the Proposed Private Placement, subject to the following conditions:-

- i) The Company is required to inform SC when the Proposed Private Placement is implemented.
- ii) The Company is required to fully comply with other requirements as stipulated in the SC Issues Guidelines in relation to the Proposed Private Placement.

On 23 March 2007, AIBB had on behalf of the Board of Directors announced that SC had vide its letter dated 26 March 2007 granted a fifth and final extension of time to 24 May 2007 for the Company to implement the private placement.

On 24 May 2007, AIBB had on behalf of the Board of Directors announced that the Company had not sought the extension of time from the SC for the Proposed Private Placement that had lapsed on 24 May 2007.

b) Proposed acquisition by Boustead Holdings Berhad (Boustead) of the London Assurance Shareholdings in Royal & Sun Alliance Insurance (M) Bhd and Proposed transfer of Boustead's entire shareholdings in Royal & Sun Alliance Insurance (M) Bhd to AXA AFFIN Assurance Berhad

On 25 July 2005, the Board of Directors of AHB announced that Bank Negara Malaysia had vide its letter dated 21 July 2005 stated that it had no objection in principle for Boustead (a company related to AHB by virtue of LTAT being a common major shareholder in AHB and Boustead) to commence negotiations to acquire the entire 45.0% equity interest held by the London Assurance ('London Assurance') in Royal & Sun Alliance Insurance (M) Bhd ('RoyalSun').

Boustead intends to rationalise its shareholdings in RoyalSun and consolidate its interests in RoyalSun into AXA AFFIN Assurance Berhad, a 40.0% associated company of AFFIN Holdings Berhad thereafter.

Further announcement on the development will be made to Bursa Malaysia Securities Berhad at the appropriate time.

B8. STATUS OF CORPORATE PROPOSALS (cont.)

c) **Proposed acquisition of a minority stake in AHB by The Bank of East Asia, Limited ("Proposed Acquisition") and the proposed placement of new ordinary shares of RM1.00 each representing up to 15% of the issued and paid-up share capital in AHB ("Proposed Placement")**

On 24 November 2006, the Board of Directors of AHB announced that AHB had obtained approval from Bank Negara Malaysia to commence negotiations with The Bank of East Asia, Limited ("BEA") relating to a possible acquisition of a minority stake in AHB.

On 25 April 2007, the Board of Directors of AHB announced that the Company had on 24 April 2007 entered into a preliminary agreement with BEA to fix the pricing mechanism with respect to the Proposed Acquisition ("Agreement").

Pursuant to the Agreement, BEA (or one or more of its affiliates) shall enter into definitive agreements with (i) AHB pursuant to which it will subscribe for new ordinary shares of RM1.00 each in AHB ("AHB shares") and (ii) certain shareholders of AHB pursuant to which it will purchase existing AHB shares from these shareholders. Upon completion of the Proposed Acquisition, BEA (or one or more of its affiliates) intend to hold up to 25% of the enlarged share capital of AHB.

The subscription price and the purchase price per AHB share payable by BEA (or one or more of its affiliates) pursuant to the Proposed Acquisition shall each be an amount equal to the higher of:

- (a) 1.3 times of the consolidated net asset value based on the latest audited consolidated financial statements of AHB for the financial year ended 31 December 2006 minus goodwill over the total issued and paid-up capital of AHB as at 31 December 2006; or
- (b) the par value per AHB Share.

On 31 July 2007, AFFIN Investment Bank Berhad had on behalf of the Board of Directors of AHB, announced that the Company proposed to undertake a proposed placement of new ordinary shares of RM1.00 each ("Placement Shares") representing up to 15% of the issued and paid-up share capital in AHB ("Proposed Placement"). The Proposed Placement will entail the issuance of the Placement Shares to BEA and/or its affiliates.

The Proposed Placement is subject to the approvals of the following:

- (i) Minister of Finance ("MOF") via Bank Negara Malaysia ("BNM") pursuant to Sections 45, 46 and 49 of the Banking and Financial Institutions Act, 1989, Section 22 of the Islamic Banking Act, 1983 and Section 67 of the Insurance Act, 1996;
- (ii) Securities Commission ("SC") for the Proposed Placement and listing of and quotation for the Placement Shares on the Main Board of Bursa Securities;
- (iii) Licensing Department of the SC, for the change in the indirect shareholding of AFFIN Fund Management Berhad (formerly known as AFFIN Fund Management Sdn Bhd), a wholly-owned subsidiary of AFFIN Investment which in turn is a wholly-owned subsidiary of AHB, pursuant to the fund manager's licence;
- (iv) Equity Compliance Unit ("ECU") of the SC, pursuant to the Foreign Investment Committee's Guideline on the Acquisition of Interests, Mergers and Takeovers by Local and Foreign Interests;
- (v) Bursa Securities for the listing of and quotation for the new AHB Shares to be issued pursuant to the Proposed Placement;
- (vi) shareholders of AHB at an extraordinary general meeting ("EGM") to be convened;
- (vii) shareholders of BEA (if necessary);
- (viii) Hong Kong Monetary Authority (if required) for BEA to acquire the Placement Shares; and
- (ix) other relevant authorities in Malaysia, Hong Kong or elsewhere, if any.

B8. STATUS OF CORPORATE PROPOSALS (cont.)

d) **Joint venture between AFFIN Fund Management Sdn Bhd ("AFM") with Asia Equity Partners Sdn Bhd ("AEP")("JV")**

On 7 March 2007, the Board of Directors of AHB announced the signing of a joint venture agreement ("JVA") on 6 March 2007 between AFM, a wholly-owned subsidiary of AFFIN Investment Bank Berhad (which in turn, is a wholly-owned subsidiary of the Company) and AEP, for the purpose of collaborating and sharing each other's expertise and network to establish and set up a RM150 million commercial property fund ("Proposed Fund") within the prime or central locations in Malaysia.

Pursuant to the JVA, AFM and AEP intend to jointly establish and set up the Proposed Fund. The Proposed Fund shall be incorporated as a closed-end investment company in Malaysia and will seek to acquire commercial properties with strong potential for growth in rental income and capital value. The Proposed Fund shall comprise equity investment of RM150 million with a duration not exceeding five (5) years.

Under the Proposed Fund, AFM will act as the Fund Manager whilst AEP will act as the Portfolio Advisor. The JV would not involve any capital investment by AFM as there would not be any joint venture company to be incorporated.

The JV is conditional upon satisfaction of the following condition precedent:

- (i) AFM's Board, shareholders, SC and/or any other authorities, if required; and,
- (ii) AEP's Board, shareholders and/or investment committee or other relevant authorities, if required.

B9. GROUP BORROWINGS AND DEBT SECURITIES

	Group	
	As at 30/06/2007 RM'000	As at 31/12/2006 RM'000
(i) <u>Deposits from Customers</u>		
<u>By Type of Deposits:-</u>		
Demand Deposits	3,032,838	3,310,680
Savings Deposits	855,022	869,449
Fixed Deposits	17,269,161	17,290,828
Negotiable Instruments of Deposits ('NIDs')	3,126,107	4,103,749
Special Investment Deposits	920,735	113,387
Money Market Deposits	444,135	-
	25,647,998	25,688,093
Maturity structure of fixed deposits and NIDs are as follows:		
Due within six months	18,120,893	19,606,037
Six months to one year	2,167,855	1,721,273
One year to three years	101,856	62,764
Three years to five years	4,664	4,503
	20,395,268	21,394,577
<u>By Type of Customers:-</u>		
Government and statutory bodies	5,217,768	3,830,618
Business enterprises	8,085,457	6,017,788
Individuals	3,243,495	3,350,313
Others	9,101,278	12,489,374
	25,647,998	25,688,093
(ii) <u>Deposits and Placements of Banks and Other Financial Institutions</u>		
<u>By Type of Institutions:-</u>		
Licensed banks	650,778	733,470
Licensed investment banks	100,000	37,013
Bank Negara Malaysia	1,154,856	-
Other financial institutions	2,221,735	581,044
	4,127,369	1,351,527
<u>By Maturity Structure:-</u>		
Due within six months	4,127,369	1,351,527
(iii) <u>Borrowings</u>		
Unsecured		
- One year or less (short-term)	320,000	462,644
- More than one year (medium/long-term)	700,000	700,000
	1,020,000	1,162,644

B10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Value of contract classified by remaining period to maturity/repricing date (whichever is earlier) as at reporting date are as follows:-

RM'000

Items	Principal Amount	> 1 - 3 months	> 3 - 6 months	> 6 - 12 months	> 1 - 5 years	> 5 years	Margin requirement
Foreign Exchange	5,629,254	3,238,165	1,979,766	78,735	332,588	-	-
- Forwards	1,276,488	912,121	25,772	6,007	332,588	-	-
- Swaps	4,352,766	2,326,044	1,953,994	72,728	-	-	-
Interest Rate related	1,915,734	1,239,675	165,000	117,936	291,373	101,750	26
- Forwards	1,026,675	1,026,675	-	-	-	-	-
- Futures	353,000	163,000	125,000	65,000	-	-	26
- Swaps	536,059	50,000	40,000	52,936	291,373	101,750	-
Total	7,544,988	4,477,840	2,144,766	196,671	623,961	101,750	26

Foreign exchange and interest rate related contracts are subject to market risk and credit risk.

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amount subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at end of the financial year, the notional amount of foreign exchange exposure which was not hedged and hence, exposed to market risk was RM2.5 million (FYE 31/12/2006: RM 4.2 million), while the notional amount of interest rate contract was RM489.1 million (FYE 31/12/2006: RM 505.1 million).

Credit risk

Credit risk arises from the possibility that a counter-party may be unable to meet the terms of a contract in which the bank has a gain position. As at the reporting date, the amounts of foreign exchange and interest rate credit risk, measured in term of the cost to replace the profitable contracts, was RM86.8 million (FYE 31/12/2006: RM69.4 million) and RM46.4 million (FYE 31/12/2006: RM9.7 million) respectively. This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

Related accounting policies

i. Derivative financial instruments

Derivatives are initially recognised at fair values at inception and are subsequently remeasured at their fair values. Fair values are obtained from quoted market price in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either : (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or (2) hedges of highly probable future cash flow attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criterias are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

B10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (cont.)

Related accounting policies (cont.)

a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method used is amortised to income statement over the period to maturity. The adjustments to the carrying amount of a hedged equity security remain in retained earnings until the disposal of the equity securities.

b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain and loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect income statement (for example, when the projected hedged transaction crystallised). When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

ii. **Forward exchange related contracts**

Unmatured forward exchange contracts are valued at forward rates as at balance sheet date applicable to their respective dates of maturity and unrealised losses and gains are recognised in the income statement for the period.

B11. MATERIAL LITIGATION

As at the reporting date, there is currently a lawsuit against the commercial bank subsidiary, namely AFFIN Bank Berhad ('ABB') in which a first summary judgement was made against ABB by the Deputy Registrar. Subsequently, a second judgement was made against ABB in the High Court. Total contingent liabilities arising from this lawsuit, inclusive of interests accruing at 8% p.a., is RM 41.1 million. ABB has had its First and Second appeals set aside and has made a Third appeal to the Court of Appeal to set aside summary judgement. The verdict of the Third Appeal was delivered on 6 April 2007 where the Court has ordered a full trial to be mentioned on 23 April 2007 which was further postponed to 7 August 2007. As the Directors are confident that they will be successful in winning this appeal, no provision has been made at this juncture.

In addition, there is a lawsuit against the investment bank subsidiary, namely AFFIN Investment Bank Berhad ('AIBB') in respect of counter claims of approximately RM200.1 million and interest thereon until full settlement. As the Directors are confident that they will be successful in winning the case, no provision has been made at this juncture.

There are various other legal suits against ABB in respect of claims and counter claims of approximately RM60.7 million (31 December 2006: RM85.9 million). Based on legal advice, the Directors are of the opinion that no provision for damages need to be made in the financial statements, as the probability of adverse adjudication against ABB is remote.

B12. PROPOSED DIVIDENDS

No dividend has been proposed or declared for the second quarter ended 30 June 2007.

B13. EARNINGS PER SHARE

	<-----Group----->			
	Current Financial Quarter ended 30/06/2007	Preceding Year Financial Quarter ended 30/06/2006	Current Year- to-date 30/06/2007	Preceding Year- to-date 30/06/2006
Net profit attributable to equity holders of the parent (RM'000)	72,427	51,857	134,939	102,940
Weighted average number of ordinary share in issue	1,276,121,125	1,223,979,614	1,268,277,711	1,218,274,653
Adjustment for share options	34,243,689	54,137,640	34,243,689	54,137,640
Adjusted weighted average number of ordinary shares for diluted earnings per share	1,310,364,814	1,278,117,254	1,302,521,400	1,272,412,293
Basic earning per share (sen)	5.68	4.24	10.64	8.45
Diluted earnings per share (sen)	5.53	4.06	10.36	8.09

Basic earnings per share

The basic earnings per share of the Group for the three months ended 30 June 2007 has been calculated based on the net profit attributable to the equity holders of the parent of RM72,427,000 (30 June 2006: RM51,857,000) divided by the weighted average number of ordinary shares in issue during the financial quarter of 1,276,121,125 (30 June 2006: 1,223,979,614).

The basic earnings per share of the Group for the financial period ended 30 June 2007 has been calculated based on the net profit attributable to the equity holders of the parent of RM134,939,000 (30 June 2006: RM102,940,000) divided by the weighted average number of ordinary shares in issue during the financial period of 1,268,277,711 (30 June 2006: 1,218,274,653).

Diluted earnings per share

For the diluted earnings per share calculation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has two categories of dilutive potential ordinary shares: share options granted to employees and warrants convertible into ordinary shares.

The shares option is assumed to be converted into ordinary shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options.

The number of shares calculated is compared with the number of shares that would have been issued assuming the exercise of the shares options. The difference added to the denominator as an issue of ordinary shares for no consideration. This calculation serves to determine the 'bonus' element in the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to the net profit for the financial period for the share options

The conversion of warrants is considered dilutive when they would result in the issue of new ordinary shares for less than market value of the shares. As the current exercise price of the warrants is higher than the market value of the ordinary shares, there is no impact of dilution to the earnings per share. Hence, the warrants are not taken into the computation of diluted earnings per share.

B14. ECONOMIC PROFIT

	<-----Group----->			
	Current Financial Quarter ended 30/06/2007 RM'000	Preceding Year Financial Quarter ended 30/06/2006 RM'000	Current Year- to-date 30/06/2007 RM'000	Preceding Year- to-date 30/06/2006 RM'000
Net profit for the financial period/year	72,427	51,857	134,939	102,940
Less: Economic charge	(96,819)	(100,145)	(190,676)	(198,832)
Economic loss for the financial period/year	<u>(24,392)</u>	<u>(48,288)</u>	<u>(55,737)</u>	<u>(95,892)</u>

Formula for calculation of economic charge:

- (i) Economic charge = Cost of equity x Average total equity for the financial period
- (ii) Cost of equity = Beta x Market risk premium + Risk-free rate

Beta = 5-year adjusted Bloomberg Beta

Market risk premium = the market return in excess of the return earned on risk-free assets.

Risk-free rate = the rate of return of a 10-year Malaysian Government Securities at the closing of the reporting period