

Laporan Tahunan 2006

Annual Report 2006

Hong Leong Bank Berhad Laporan Tahunan 2006 Annual Report

2006



Corporate Vision

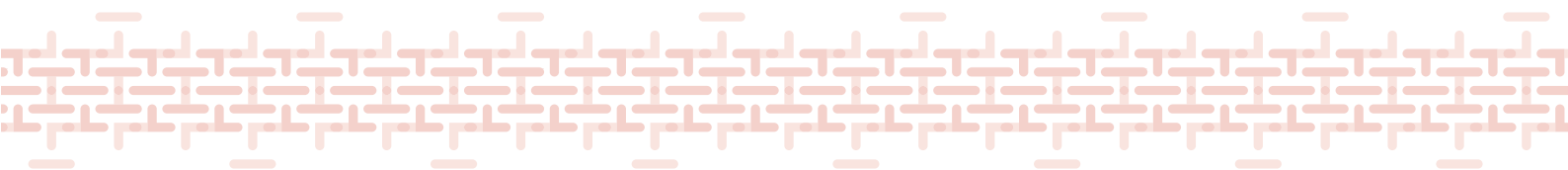


Our Vision

An Outstanding Financial Services Organisation,
Highly Competitive and Profitable,
Where People Make the Difference

Our Core Values

Integrity | Trust | Service



The Hong Leong Bank Story

Hong Leong Bank Berhad, a public listed company on the Malaysian Stock Exchange, is a member of the Hong Leong Group Malaysia (the Group). Headquartered in Malaysia, the Group has been in the financial services industry since 1968 through Hong Leong Finance Berhad and since 1982 through Dao Heng Bank Ltd in Hong Kong. Dao Heng Bank Ltd has since been sold to another banking institution. Today, the Group comprises a total of 14 listed companies worldwide with a combined market capitalization in excess of USD11 billion.

With more than 100 years of banking knowledge and experience, Hong Leong Bank has a strong market position and well-recognized business franchise. Hong Leong Bank, one of the leading local banks in Malaysia, has won many recognitions and accolades over the years: the Finance Asia 2002 Asia's Best Companies Award, the KPMG 2003 Shareholder Value Award, the CGC Top SMI Supporter Award 2004 and the Asian Banker's Best Credit Card Product Award 2006.

Hong Leong Bank Berhad started its humble beginnings in 1905 in Kuching, Sarawak, Malaysia under the name of Kwong Lee Mortgage & Remittance Company and later in 1934, incorporated as Kwong Lee Bank Limited. In 1989, it was renamed MUI Bank, operating in 35 branches. In January 1994, the Group acquired MUI Bank through Hong Leong Credit Berhad (now known as Hong Leong Financial Group Berhad). This milestone saw the birth of Hong Leong Bank and in the same year in October, Hong Leong Bank was listed on the Kuala Lumpur Stock Exchange.

In 2004, the finance company business of Hong Leong Finance Berhad was acquired by Hong Leong Bank. Today, the enlarged, merged entity has over 185 branches in Malaysia, Singapore and Hong Kong.

Hong Leong Group Malaysia (the Group) is one of the largest business groups in Malaysia and internationally. The strong foundation and solid growth of the Group is attributed to the Power of Vision - the Vision of its Executive Chairman, Tan Sri Quek Leng Chan. Today that Vision is manifested and entrenched in the Group's corporate culture, which is firmly rooted on the Group's core values of

QUALITY, ENTREPRENEURSHIP,
INNOVATION, HONOUR,
HUMAN RESOURCE, UNITY,
PROGRESS AND
SOCIAL RESPONSIBILITY.

The Group believes in embedding itself in the country and community within which it operates. Through its financial services arm Hong Leong Financial Group Berhad, which comprises Hong Leong Bank, Hong Leong Islamic Bank, Hong Leong Assurance, HLG Capital and Hong Leong Tokio Marine Takaful, the Group is well positioned as an integrated financial services provider.

Heritage values

Living up to our heritage values

The red and blue eggs, carrying the Bank's corporate colours, signify the Bank's heritage



The Business

Hong Leong Bank is a major financial services company in Malaysia. Its core commercial banking business consists of Personal Financial Services / Retail Banking, Wholesale Banking and Islamic Financial Services within its core domestic market. It has a regional investment banking business through HL Bank Singapore, its Singapore Branch.

The Bank is the main distribution franchise for the Hong Leong Financial Group that includes the Bank's subsidiaries, Hong Leong Islamic Bank and Hong Leong Tokio Marine Takaful, as well as its sister companies, Hong Leong Assurance and HLG Capital.

The Bank today serves its customers through a network of 186 Branches and 17 Business Centres throughout Malaysia and 1 Branch each in Singapore and Hong Kong, 536 Self-Service Terminals and a state-of-the-art, full service Call Centre. To serve high net worth customers, the Bank provides Priority Banking Centres and Private Banking Centres. The Bank also offers Hong Leong Online, Hong Leong Phone Banking and Hong Leong Mobile Banking.

Hong Leong Bank's "Reaching Out to You" has embedded the Bank well within the community. The Bank has also won many recognitions and accolades over the years for its banking products and services, and is known for its Integrity, Trust and Service.

The Hong Leong Bank Brand is well respected today. "Building relationships and adding value by providing clarity in financial decisions" to our customers is the essence of that Brand. As part of the Bank's Brand values, the organisation is relationship focused, sells honestly and lives up to its heritage values.

Hong Leong Bank's key business pillars are outlined below.

PERSONAL FINANCIAL SERVICES / RETAIL BANKING

Personal Financial Services / Retail Banking is a core segment of the Bank. Its principal business activities cover the provision of retail loans, deposit products, wealth management and private banking to individuals.

WHOLESALE BANKING

Wholesale Banking marks the convergence of the Bank's Business Banking, Trade Finance Services, Debt Capital Market and Treasury businesses. The move creates a platform to step up towards developing structured solutions and driving fee income. It targets small and medium-sized businesses, middle-market companies and large corporates.

HL Markets, the Bank's Treasury business is on a fast-track towards becoming a regional Centre of Excellence, spanning Treasury centres in Kuala Lumpur, Singapore and Hong Kong.

ISLAMIC FINANCIAL SERVICES

The Bank currently conducts its Islamic financial services business through 2 subsidiaries, Hong Leong Islamic Bank and Hong Leong Tokio Marine Takaful. This segment focuses on Syariah-compliant commercial banking as well as Islamic Wealth Management and Investment Banking.

OVERSEAS FRANCHISES

The Bank currently has 1 Branch each in Singapore and Hong Kong. HL Bank Singapore, the Singapore Branch is positioned towards becoming a leading regional investment bank focusing on Asset Management, Treasury, Investment Banking, Islamic Banking and Private Banking. It has been ranked No.1 in number of deals and No. 2 in deals size in Singapore's underwriter ranking in the first half of 2006*. **Rankings by Bloomberg*

ELECTRONIC BANKING

The Bank uses a mix of Self-Service Terminals, Hong Leong Online, Hong Leong Phone Banking and Hong Leong Mobile Banking. The Bank also leverages on various electronic payment capabilities, including MEPS Inter-bank Giro. The focus is on electronic banking as a key enabler of business, and to enhance mind share, stickiness, the Bank's Brand and ultimately the Group's franchise value through alternate channels.

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Corporate Information

DIRECTORS

YBHG TAN SRI QUEK LENG CHAN
Chairman

MS YVONNE CHIA
Group Managing Director/Chief Executive

ENCIK ZULKIFLEE HASHIM
Executive Director

MR CHEW PENG CHENG

MR KWEK LENG HAI

MR KWEK LENG SENG

YBHG DATUK DR HUSSEIN AWANG

MR TAN KEOK YIN

YBHG DATUK MOHAMED NAZIM BIN ABDUL RAZAK

MR CHOONG YEE HOW

MR QUEK KON SEAN

SECRETARY

MS LOH BEE HONG

AUDITORS

Messrs PricewaterhouseCoopers
Chartered Accountants
11th Floor, Wisma Sime Darby
Jalan Raja Laut
50350 Kuala Lumpur
Tel : 03-26931077
Fax : 03-26930997

REGISTRAR

Hong Leong Share Registration Services Sdn Bhd
Level 5, Wisma Hong Leong
18 Jalan Perak, 50450 Kuala Lumpur
Tel : 03-21641818
Fax : 03-21643703

REGISTERED OFFICE

Level 6, Wisma Hong Leong
18 Jalan Perak, 50450 Kuala Lumpur
Tel : 03-21648228
Fax : 03-21642503



Relationship Focused

Valuing relationships with customers beyond the immediate opportunity

The knots signify the strong ties the Bank has with its customers



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Sixty-fifth Annual General Meeting of Hong Leong Bank Berhad ("Bank") will be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Thursday, 19 October 2006 at 11.00 a.m. in order:

1. To lay before the meeting the audited financial statements together with the reports of the Directors and Auditors thereon for the year ended 30 June 2006.
2. To declare a final dividend of 15 sen per share less income tax at 28% for the year ended 30 June 2006 to be paid on 17 November 2006 to shareholders registered in the Record of Depositors on 31 October 2006.
3. To approve the payment of Directors' fees of RM516,575 for the year ended 30 June 2006, to be divided amongst the Directors in such manner as the Directors may determine.
4. To re-elect the following retiring Directors:-
 - (a) Mr Chew Peng Cheng
 - (b) Ms Yvonne Chia
 - (c) YBhg Datuk Mohamed Nazim bin Abdul Razak
 - (d) Mr Choong Yee How
 - (e) Mr Quek Kon Sean.
5. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Bank and authorise the Directors to fix their remuneration.
6. As a special business, to consider and, if thought fit, pass the following ordinary motion:

Authority To Directors To Issue Shares

"THAT pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue shares in the Bank, at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the issued capital of the Bank for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Bank."

(Resolution 1)

(Resolution 2)

(Resolution 3)

(Resolution 4)

(Resolution 5)

(Resolution 6)

(Resolution 7)

(Resolution 8)

(Resolution 9)



Notice of Annual General Meeting (continued)

7. To consider any other business of which due notice shall have been given.

FURTHER NOTICE IS HEREBY GIVEN that a depositor shall qualify for entitlement to the final dividend only in respect of :

- (a) shares transferred into the depositor's securities account before 4.00 p.m. on 31 October 2006 in respect of ordinary transfers; and
- (b) shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia Securities Berhad.

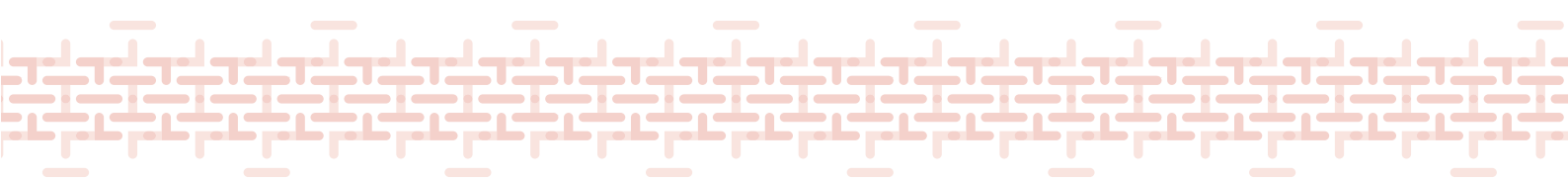
By Order of the Board

LOH BEE HONG
Secretary

Kuala Lumpur
27 September 2006

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy may but need not be a member of the Bank and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Bank. A member who is an authorised nominee may appoint not more than two proxies in respect of each securities account it holds.
2. The Form of Proxy must be deposited at the Registered Office of the Bank at Level 6, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than 48 hours before the time and date of the meeting or adjourned meeting.
3. Ordinary Resolution On Authority To Directors To Issue Shares
The Ordinary Resolution, if passed, will give authority to the Directors of the Bank to issue ordinary shares of the Bank for such purposes as the Directors consider would be in the interest of the Bank. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Bank.





Statement Accompanying Notice of Annual General Meeting

(Pursuant to Paragraph 8.28(2) of the Listing Requirements of the Bursa Malaysia Securities Berhad)

1. DIRECTORS WHO ARE STANDING FOR RE-ELECTION AT THE 65TH ANNUAL GENERAL MEETING OF THE BANK

Pursuant to Article 113 of the Bank's Articles of Association

Mr Chew Peng Cheng

Ms Yvonne Chia

YBhg Datuk Mohamed Nazim bin Abdul Razak

Pursuant to Article 92 of the Bank's Articles of Association

Mr Choong Yee How

Mr Quek Kon Sean

2. DETAILS OF ATTENDANCE OF DIRECTORS AT BOARD MEETINGS

There were ten (10) Board meetings held during the financial year ended 30 June 2006. Details of attendance of the Directors are set out in the Directors' Profile appearing on pages 12 to 16 of the Annual Report.

3. PLACE, DATE AND TIME OF 65TH ANNUAL GENERAL MEETING

The 65th Annual General Meeting of the Bank will be held at Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Thursday, 19 October 2006 at 11.00 a.m.

4. FURTHER DETAILS OF INDIVIDUALS WHO ARE STANDING FOR ELECTION AS DIRECTORS

No individual is seeking election at the forthcoming 65th Annual General Meeting of the Bank.

Honest Selling

Helping customers make the best decision by acting in their best interest

By building trust in customers, the Bank builds long-term relationships, ensuring whatever it offers is in the customer's best interest



Directors' Profile

YBHG TAN SRI QUEK LENG CHAN

Chairman/
Non-
Independent

Aged 63, Tan Sri Quek Leng Chan, a Malaysian, qualified as a Barrister-at-Law from Middle Temple, United Kingdom. He has extensive business experience in various business sectors, including financial services, manufacturing and real estate.

Tan Sri Quek is the Chairman of Hong Leong Bank Berhad ("HLB") and was appointed to the Board of Directors ("Board") of HLB on 3 January 1994. He is the Chairman of the Board Credit Supervisory Committee ("BCSC") and a member of the Executive Committee, Remuneration Committee and Nomination Committee of HLB.

He is the Chairman & Chief Executive Officer of Hong Leong Company (Malaysia) Berhad ("HLCM"), Executive Chairman of Hong Leong Industries Berhad ("HLI"), Hong Leong Financial Group Berhad (formerly known as Hong Leong Credit Berhad) ("HLFG"), GuocoLand (Malaysia) Berhad ("GLM"), Hume Industries (Malaysia) Berhad ("HIMB"), Narra Industries Berhad, Camerlin Group Berhad ("CGB") and O.Y.L. Industries Bhd ("OYL") and Chairman of HLG Capital Berhad ("HLGC"), Hong Leong Islamic Bank Berhad ("HLIB") and Hong Leong Assurance Berhad ("HLA").

Tan Sri Quek attended all the ten Board Meetings of HLB held during the financial year ended 30 June 2006.

He has no conflict of interest with HLB and has no conviction for offences within the past ten years.

MS YVONNE CHIA

Group
Managing
Director/
Chief
Executive/
Non-
Independent

Aged 53, Ms Yvonne Chia, a Malaysian, holds a Bachelor of Economics from the University of Malaya. An international banker, she started her career with Bank of America and held various positions in Hong Kong, Manila and Kuala Lumpur between 1976 to 1993; the last position being Vice-President and Country Head of Marketing. In March 1994, Ms Chia joined RHB Bank Berhad as General Manager and went on to become Chief Executive Officer/Managing Director of RHB Bank Berhad, a position she held until March 2002. She was made a Fellow of Institute of Bankers Malaysia in April 2002 and also a Certified Risk Professional (CRP) with BAI. In August 2005, Ms. Chia was appointed to Wharton Fellows of the University of Pennsylvania.

Ms Chia was appointed an Executive Director of HLB on 17 March 2003 and had been re-designated as Group Managing Director/Chief Executive of HLB on 10 November 2003. She is also a member of the Executive Committee and BCSC of HLB.

Ms Chia attended all the ten Board Meetings of HLB held during the financial year ended 30 June 2006.

Ms Chia is a Director of HLFG, a public listed company. Ms Chia is also a Director of Malaysia External Trade Development Corporation (MATRADE), Cagamas Berhad, HLIB and Hong Leong Tokio Marine Takaful Berhad, all public companies.

Ms Chia has no family relationship with other Directors or major shareholders of HLB, has no conflict of interest with HLB and no conviction for offences within the past ten years.

Directors' Profile (continued)

ENCIK ZULKIFLEE HASHIM



Aged 47, Encik Zulkiflee Hashim, a Malaysian, holds a Diploma in Credit Management. He started his career in the banking sector with Citibank NA and was its Vice President in 1990. From December 1991 to 1997, he was with Deutsche Bank Malaysia and was its Deputy Managing Director responsible for Corporate Banking, International Trade Finance, Operations and Transaction Banking Services Department. Encik Zulkiflee was appointed Executive Director of HLB on 30 July 1998 and is also a member of the Executive Committee and BCSC of HLB.

Encik Zulkiflee is a Director of WTB Corporation Berhad and HLF Credit (Perak) Berhad, both public companies.

Encik Zulkiflee attended all the ten Board Meetings of HLB held during the financial year ended 30 June 2006.

Encik Zulkiflee has no family relationship with other Directors or major shareholders of HLB, has no conflict of interest with HLB and has no conviction for offences within the past ten years.

MR CHEW PENG CHENG



Aged 65, Mr Chew Peng Cheng, a Malaysian, qualified as a Barrister-at-Law from the Inner Temple, London. He started his working career by joining the civil service and served in the Sarawak State Attorney-General's Chambers in Kuching as a Deputy Public Prosecutor from 1964 to 1965. Thereafter, he commenced private practice as an advocate in the chambers of Messrs Battenberg & Talma in Sibu from 1965 to 1974. In 1966 he joined Wah Tat Bank Berhad (now known as WTB Corporation Berhad) ("WTB") as a Director/Secretary and in 1975 was promoted to the helm as Managing Director/Chief Executive Director. Upon the completion of the merger between WTB and HLB, Mr Chew resigned from WTB and joined HLB as an Executive Director on 13 June 2001. On the completion on his employment contract with HLB, Mr Chew assumed the position of Non-Executive Director of HLB. Mr Chew currently holds directorship position in various other family-related private limited companies.

Mr Chew is also a member of the Remuneration Committee and Nomination Committee of HLB.

Mr Chew attended nine out of the ten Board Meetings of HLB held during the financial year ended 30 June 2006.

Mr Chew has no family relationship with other directors or major shareholders of HLB, has no conflict of interest with HLB and has no conviction for offences within the past ten years.

MR KWEK LENG HAI



Aged 53, Mr Kwek Leng Hai, a Singaporean, is a qualified chartered accountant and has extensive experience in financial services, manufacturing and property investment. He is the President and Chief Executive Officer of Guoco Group Limited ("GGL") and has been an Executive Director of GGL since 1990. He is also a director of GGL's key subsidiaries including GuocoLand Limited and BIL International Limited, both public listed companies in Singapore, and CGB, a public listed company in Malaysia.

Mr Kwek was appointed to the Board of HLB on 3 January 1994. He is also a Director of HLIB and HLCM, both public companies in Malaysia.

He attended nine out of the ten Board Meetings of HLB held during the financial year ended 30 June 2006.

Mr Kwek has no conflict of interest with HLB and has no conviction for offences within the past ten years.

Directors' Profile (continued)

MR KWEK LENG SENG

Non-
Executive
Director/
Non-
Independent

Aged 48, Mr Kwek Leng Seng, a Singaporean, holds an Honours Degree in Law from the University of Buckingham, London. He is currently the Group Managing Director of GLM, a position he held since end 1995, and the Chairman of GLM REIT Management Sdn Bhd, the Manager of Tower Real Estate Investment Trust which is listed on the Main Board of Bursa Malaysia Securities Berhad. He joined Hong Leong Group Malaysia in 1987 as the Claims Manager and Director of HLA. Between 1990 to mid 1994, he assumed directorship and managerial positions in various subsidiaries of GLM. In mid 1994, he became the Managing Director of HLG Securities Sdn Bhd and held the position until October 1995.

Mr Kwek was appointed to the Board of HLB on 3 January 1994 and is a member of the Nomination Committee of HLB.

He attended all the ten Board Meetings of HLB held during the financial year ended 30 June 2006.

Tan Sri Quek Leng Chan, Mr Kwek Leng Hai, Mr Kwek Leng Seng and Mr Quek Leng Chye, a deemed major shareholder of HLB, are brothers. Mr Kwek has no conflict of interest with HLB and has no conviction for offences within the past ten years.

YBHG DATUK DR HUSSEIN AWANG

Non-
Executive
Director/
Independent

Aged 66, Datuk Dr Hussein Awang, a Malaysian, obtained a Bachelor of Medicine and Bachelor of Surgery Degree from the University of Melbourne in 1964. He was made a Fellow of the Royal Australasian College of Surgeons in 1972. YBhg Datuk is presently the Consultant Urological Surgeon at Tawakal Specialist Centre, Kuala Lumpur, a position he had held since May 1984. He was the Senior Consultant Urological Surgeon and Head of Department of Urology, General Hospital, Kuala Lumpur from 1976 to May 1984. He was also Honorary Professor of Surgery (Urology), Department of Surgery, University Kebangsaan Malaysia, Kuala Lumpur from 1978 to May 1984. YBhg Datuk is a Foundation Fellow of the Academy of Science Malaysia.

YBhg Datuk was appointed as a Board and Board Audit & Risk Management Committee ("BARMC") member of HLB on 18 August 1994. He is also the Chairman of the Nomination Committee of HLB.

His directorships in other public companies include KPJ Healthcare Bhd, HLIB, HLA and Tasek Corporation Berhad.

YBhg Datuk attended all the ten Board Meetings of HLB held during the financial year ended 30 June 2006.

YBhg Datuk has no family relationship with other Directors or major shareholders of HLB, has no conflict of interest with HLB and has no conviction for offences within the past ten years.

Directors' Profile (continued)

MR TAN KEOK YIN



Non-Executive Director/Independent

Aged 62, Mr Tan Keok Yin, a Malaysian, graduated with a Bachelor of Arts (Honours) degree in Economics from the University of Malaya in 1966. He also completed an Executive Program in Management at the University of California, Berkeley in 1984 and a Program in International Boards and Directors at the Swedish Academy of Directors, Stockholm in 1995. He started his career with Bank Negara Malaysia ("BNM") in 1966 and served in various capacities in the Economics, Investments Department and the Penang Branch of BNM. In 1977, he joined the Federation of Malaysian Manufacturers ("FMM") as Deputy Director and was appointed Chief Executive Officer ("CEO") in 1981 till 1999. He served on various Government Boards and Committees and participated actively as speaker and panelist at the World Economic Forum, ASEAN Economic Cooperation meetings and other international business forums. He was also a Management Board member of the internationally recognised GS1 System (One Global System, formerly known as EAN International) located in Brussels, which presides over the global application of EAN - UCC bar codes and product numbering system in business and industries.

Mr Tan was appointed to the Board of HLB on 26 August 1994. He is the Chairman of the BARMC and Remuneration Committee of HLB and is a member of the Nomination Committee of HLB.

He is also a Director of Malaysian Pacific Industries Berhad, GLM and HLA

Mr Tan attended all the ten Board Meetings of HLB held during the financial year ended 30 June 2006.

Mr Tan has no family relationship with other Directors or major shareholders of HLB, has no conflict of interest with HLB and has no conviction for any offences within the past ten years.

YBHG DATUK MOHAMED NAZIM BIN ABDUL RAZAK



Non-Executive Director/Independent

Aged 44, Datuk Mohamed Nazim Bin Abdul Razak, a Malaysian, an architect by profession, graduated from the Architectural Association, School of Architecture, London. He served with YRM Architecture in London, a multi-disciplinary building design consultancy and has more than 16 years experience in the architectural field, 13 of which were in Kuala Lumpur. Besides being the Managing Director of NR Associates Sdn Bhd, he is also the Chairman of Bandar Tasik Semenyih Sdn Bhd, a property developer in the Klang Valley.

Datuk Mohamed Nazim was appointed as Non-Executive Independent member to the Board and BARMC of HLB on 30 June 2003.

Datuk Mohamed Nazim attended nine out of the ten Board Meetings of HLB held during the financial year ended 30 June 2006.

Datuk Mohamed Nazim is also a director of HLGC and OYL, both public listed companies, and ING Insurance Berhad and HLIB, both public companies.

Datuk Mohamed Nazim has no family relationship with other Directors or major shareholders of HLB, has no conflict of interest with HLB and has no conviction for offences within the past ten years.

Directors' Profile (continued)

MR CHOONG YEE HOW

Non-
Executive
Director/
Non-
Independent

Aged 50, Mr Choong Yee How, a Malaysian, obtained a Bachelor of Science (Honours) degree (major in Biochemistry) in 1979 and a Master of Business Administration in 1981 from the University of Otago, New Zealand. He has over 24 years of experience in banking, of which 23 were with Citibank in Malaysia. Mr Choong started his career with Citibank Malaysia as a Management Associate and was promoted to assume various senior positions within the Citibank Group; the last being President and Chief Executive Officer of Citibank Savings Inc, Philippines. Mr Choong is currently the President & Chief Executive Officer of HLFG.

Mr Choong was appointed to the Board of HLB on 9 March 2006 and is a member of the BCSC of HLB.

Mr Choong attended all the three Board Meetings of HLB held during his office as Director of HLB for the financial year ended 30 June 2006.

He is also a Director of HLFG and HLGC, both public listed companies, and HLA and HLIB, both public companies.

Mr Choong has no family relationship with other Directors or major shareholders of HLB, has no conflict of interest with HLB and has no conviction for offences within the past ten years.

MR QUEK KON SEAN

Non-
Executive
Director/
Non-
Independent

Aged 26, Mr Quek Kon Sean, a Malaysian, obtained Bachelor of Science and Master of Science degrees in Economics from the London School of Economics. In 2002, he joined Goldman Sachs International, London as an Analyst in the Investment Banking Division and in 2003, he joined HSBC, London in Debt Capital Markets. Mr Quek is currently the Executive Director of HLFG. Prior to joining HLFG, Mr Quek was the Management Executive of HL Management Co Sdn Bhd.

Mr Quek was appointed to the Board of HLB on 10 July 2006.

Mr Quek did not attend any of the Board Meetings of HLB held during the financial year ended 30 June 2006 as he was appointed after the financial year end.

He is also a Director of HLFG, HLGC and CGB, all public listed companies, and HLA, a public company.

Mr Quek is a son of Tan Sri Quek Leng Chan. Mr Quek has no conflict of interest with HLB and has no conviction for offences within the past ten years.



Board Audit & Risk Management Committee Report

CONSTITUTION

The Board Audit Committee of Hong Leong Bank Berhad ("HLB" or "the Bank") has been established since 18 August 1994 and was re-designated as the Board Audit & Risk Management Committee ("BARMC") on 10 January 2002.

COMPOSITION

Mr Tan Keok Yin
(Chairman, Independent Non-Executive Director)

YBhg Datuk Dr Hussein Awang
(Independent Non-Executive Director)

YBhg Datuk Mohamed Nazim Bin Abdul Razak
(Independent Non-Executive Director)

SECRETARY

The Secretary to the BARMC is Ms Hor Kam Peng who is the Group Chief Internal Auditor of HLB.

TERMS OF REFERENCE ("TOR")

- To nominate and recommend for the approval of the Board of Directors ("Board"), a person or persons as external auditor(s).
- To review the external audit fees.
- To review, with the external auditors, the audit plan.
- To review, with the external auditors, the audit report and audit findings and the management's response thereto.
- To consider the provision of non-audit services by the external auditors.
- To review the assistance given by the officers of HLB and its subsidiaries ("Group") to the external auditors.
- To review the quarterly reports and annual financial statements of the Bank and of the Group prior to the approval by the Board.
- To review the adequacy of the internal audit scope and plan, functions and resources of the internal audit department.
- To review the report and findings of the internal audit department including any findings of internal investigations and the management's response thereto.
- To review and report to the Board measures taken to:-
 - (a) Identify and examine principal risks faced by the Bank.
 - (b) Implement appropriate systems and internal controls to manage these risks.
- To evaluate and recommend to the Board, risk management policies and strategies proposed by management.
- To oversee and monitor implementation of the Risk Management framework and activities adopted by the Bank.
- To review any related party transactions that may arise within the Bank or the Group.





Board Audit & Risk Management Committee Report (continued)

- To decide on the appointment, remuneration, appraisal, transfer and dismissal of the Chief Internal Auditor ("CIA") as per Bank Negara Malaysia GP10.
- Other functions as may be agreed to by the BARMC and the Board.

AUTHORITY

The BARMC is authorised by the Board to review any activity of the Group within its TOR. It is authorised to seek any information it requires from any Director or member of management and all employees are directed to co-operate with any request made by the BARMC.

The BARMC is authorised by the Board to obtain independent legal or other professional advice if it considers necessary.

MEETINGS

The BARMC meets at least nine (9) times a year and additional meetings may be called at any time as and when necessary. All meetings to review the quarterly reports and annual financial statements are held prior to such quarterly reports and annual financial statements being presented to the Board for approval.

The head of finance and internal audit divisions, the Chief Risk Officer and external auditors are invited to attend BARMC meetings. At least once a year, the BARMC will have a separate session with the external auditors without the presence of Executive Directors.

Two (2) members of the BARMC, who shall be independent and non-executive, shall constitute a quorum.

After each BARMC meeting, the BARMC shall report and update the Board on significant issues and concerns discussed during the BARMC meetings and where appropriate, make the necessary recommendations to the Board.

ACTIVITIES

The BARMC carried out its duties in accordance with its TOR.

The BARMC met ten (10) times during the financial year ended 30 June 2006. Mr Tan Keok Yin and YBhg Datuk Dr Hussein Awang attended all the meetings held during the financial year while YBhg Datuk Mohamed Nazim Bin Abdul Razak attended six (6) meetings.

The BARMC reviewed the quarterly reports and annual financial statements of the Group. The BARMC met with the external auditors and discussed the nature and scope of the audit, considered significant changes in accounting and auditing issues, reviewed the management letter and management's response, examined pertinent issues which had significant impact on the results of the Group and discussed applicable accounting and auditing standards. The BARMC also reviewed the internal auditor's audit findings and recommendations, Bank Negara Malaysia's Examination Reports on the Bank Group, Monetary Authority of Singapore's Examination Reports on HLB Singapore Branch and Hong Kong Monetary Authority's Examination Reports on HLB Hong Kong Branch.

In addition, the BARMC reviewed the adequacy and integrity of internal control systems, including risk management and relevant management information system. It also reviewed the processes put in place to identify, evaluate and manage the significant risks encountered by the Group.

In preparation for compliance with the Basel II accord, the BARMC reviewed with management and external consultants various reports and actions to be taken by the Bank.

The BARMC reviewed various related party transactions carried out by the Group.

The BARMC also reviewed and approved the remuneration of the CIA and staff of the Internal Audit Division of HLB during the period under review.

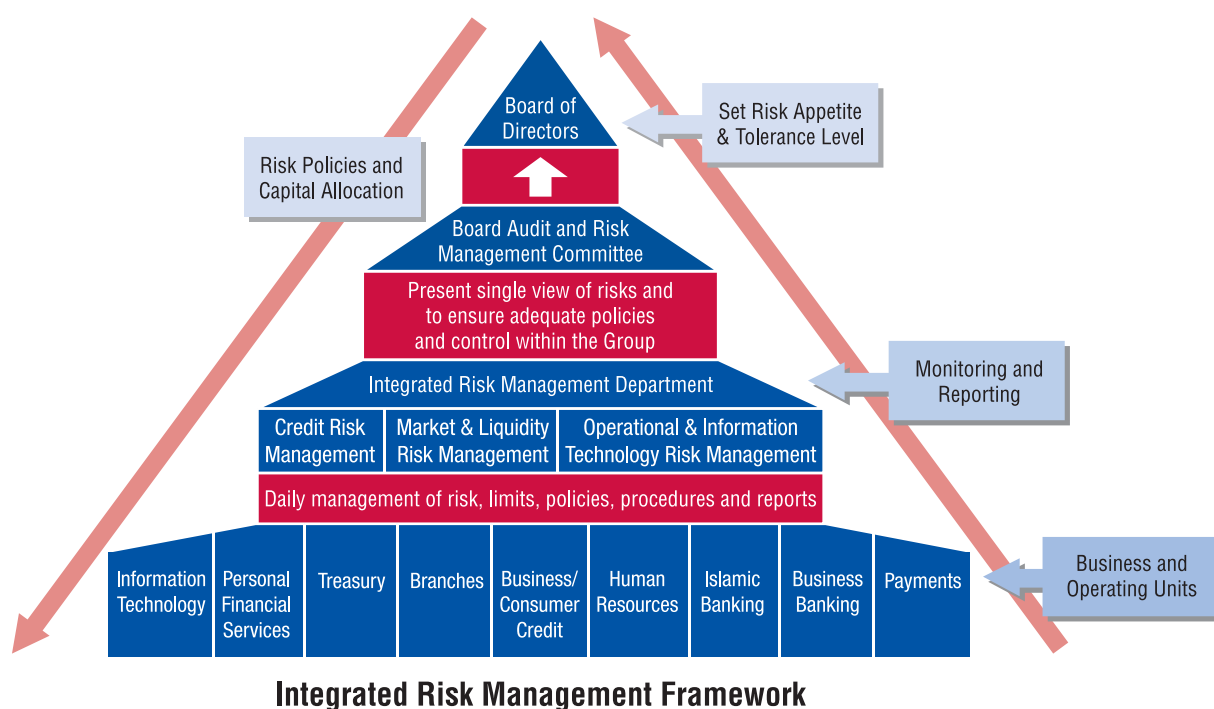
Board Audit & Risk Management Committee Report (continued)

INTERNAL AUDIT

During the financial year ended 30 June 2006, the internal audit department carried out its duties covering audit on operations, information technology system, credit, head office, branches, loan centre, business centre, mortgage sales centre, hire purchase centre, investigation and other assignments as directed. The department also worked closely with the Integrated Risk Management Unit to review, evaluate and improve the risk management framework and its effective deployment.

RISK MANAGEMENT

Managing risks is an integral part of the Group's overall business strategy, as risks, if left unchecked against a backdrop of rapidly changing financial landscape and increased uncertainty, can be detrimental to the Bank. Recognising the need to be proactive in the management of risks, the Bank has implemented an Integrated Risk Management framework where the Bank's risks are managed at various levels.



At the Business and Operating Units level, the units are risk owners and accountable for the risks inherent in their business. They manage the day-to-day risks of their respective operations.

The Integrated Risk Management Department ("IRM") monitors and reports the Group's Credit, Market, Liquidity, Operational and IT Risks and presents these risk in a single, consolidated view to the BARMC regularly.

The BARMC deliberates and evaluates the reports prepared by IRM on the adequacy and effectiveness of the controls to mitigate the Group's risks and thereafter reports and provide updates to the Board of Directors, and where appropriate, make the necessary recommendations to the Board.

At the apex of the IRM framework, the Board of Directors has the overall responsibility to ensure there is proper oversight of the management of risks in the Group. The Board of Directors set the risk appetite and tolerance level and allocates the Group's capital that is consistent with the Group's overall business objectives and desired risk profile.

Board Audit & Risk Management Committee Report (continued)

Credit Risk

Credit Risk is risk of financial loss due to a borrower or counterparty being unable or unwilling to deliver on its payment obligations to the Bank, which leads to a loss of revenue and the principal sum.

Operational Risk

Operational risk loss is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which also includes IT and legal risks.

Market Risk

Market risk is the risk of financial loss arising from exposure to adverse changes in values of financial instruments caused by changes in market prices or rates, which include changes to interest rates.

Liquidity Risk

Liquidity risk is the risk of financial loss arising from the inability to fund increases in assets and/or meet obligations as they fall due.

Hong Leong Bank Group's Key Risks

PREPARATION FOR CONVERGENCE OF CAPITAL MEASUREMENT AND CAPITAL STANDARDS UNDER BASEL II FRAMEWORK ("BASEL II") ON TRACK

The Bank places great importance to Basel II and views Basel II as a bank-wide initiative that will ensure that the Bank continues to meet international best practices for the Bank's credit, market and operational risk management practices. By adopting Basel II, the Bank will be able to enhance and embed sound risk management practices within the Bank and be equipped with the right risk management discipline, practices, processes and systems.

To underscore the importance of this initiative and ensure a concerted effort towards the successful implementation of various aspects of Basel II, a dedicated Basel II Project Steering Committee ("PSC"), chaired by the Bank's Chief Executive Officer, has been put in place. This Committee is tasked to oversee the implementation of Basel II individual work streams to ensure that the Bank is on track in meeting BNM's requirements. The PSC is supported by a dedicated Basel II department which monitors the progress of the Basel II initiatives and also providing status updates to the PSC on a regular basis.

The Bank is pleased to report that the Bank has shifted into high gear in its Basel II implementation to meet the 2008 deadline set by Bank Negara Malaysia. Major Basel II related projects are now under way, spearheaded through a coordinated effort involving all departments across the Bank. Under Pillar 1 (minimum capital), which requires the Bank to establish a proper risk infrastructure which can measure and calculate the risk weighted assets of the Bank, key projects include Basel II data enrichment projects using the Bank's Enterprise Data Warehouse. Concurrently, the Bank is also re-developing its Strategic Business Unit Scorecards to enhance their risk sensitivity and constructing statistical rating models to produce critical components to meet Basel II requirements. Operational risk of the Bank, as propounded by Basel II, is managed through a framework of policies, techniques and procedures by which operational risks inherent in the Bank's business are identified, assessed/measured, monitored, controlled/mitigated and reported to the Operational Risk Management Committee and the BARMC.

Under Pillar 2 (supervisory review), which concerns regulator assessment of the Bank's risk management policies and practices, the Bank is enhancing the risk management policies governing every aspect of the Bank's operations. There are several key projects in progress, which will result in the overhaul of the Bank's operating systems. This is done with the objective of tightening overall risk management, emphasizing on the strengthening of internal controls with the objective of having a sound risk management framework which promotes risk management transparency and accountability.

All the key projects mentioned above culminates with the Bank's fulfillment of Pillar 3 (disclosure) under Basel II, which mandates increased minimum public disclosure of the Bank's risk information. The implementation of its Basel II roadmap related projects will allow the Bank to fast track the evolution of its bankwide monitoring and reporting functions, paving the way for an unprecedented level of analytics and public disclosure.

Corporate Governance & Internal Control

"Corporate Governance is the process and structure used to direct and manage the business and affairs of the Company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of other stakeholders."

- Finance Committee on Corporate Governance

The Board of Directors ("Board") has reviewed the manner in which the Malaysian Code on Corporate Governance ("the Code") is applied in the Group as set out below. The Board is pleased to report compliance of the Group with the Best Practices set out in Part 2 of the Code except where otherwise stated.

A. DIRECTORS

I The Board

The Board assumes responsibility for effective stewardship and control of the Company and has established terms of reference to assist in the discharge of this responsibility.

The role and responsibilities of the Board broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Group's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage these risks; reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals and major capital expenditure and such other responsibilities that are required of them by Bank Negara Malaysia ("BNM") as specified in guidelines and circulars issued by BNM, from time to time.

The Board observes the Company Directors' Code of Ethics established by the Companies Commission of Malaysia and BNM/GP7 Code of Ethics: Guidelines on Code of Conduct for Directors, Officers and Employees in the Banking industry.

II Board Balance

The Board comprises eleven (11) directors, nine (9) of whom are non-executive. Of the non-executive directors, four (4) are independent. The profiles of the members of the Board are provided in the Annual Report.

The Board is of the view that the current Board composition fairly reflects the investment of shareholders in the Bank.

The Chairman ensures the smooth and effective functioning of the Board.

The Group Managing Director/Chief Executive is responsible for implementing the policies and decisions of the Board, overseeing the day-to-day operations, setting the plan and direction, benchmark and targets for operating companies, tracking compliance and business progress, initiating innovative business ideas to create competitive edge and development of business and corporate strategies with the aim of enhancing shareholders' wealth.

The Board met ten (10) times during the financial year ended 30 June 2006.

Corporate Governance & Internal Control (continued)

The Board has identified Mr Tan Keok Yin, the Chairman of the Board Audit & Risk Management Committee ("BARMC"), as the Independent Non-Executive Director of the Board to whom concerns may be conveyed, who would bring the same to the attention of the Board.

III Supply of Information

All Board members are supplied with information on a timely manner. Board reports are circulated prior to Board meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, performance of the Bank and of the Group and management's proposals which require the approval of the Board.

All Directors have access to the advice and services of the Company Secretary as well as to independent professional advice, including the internal auditors.

IV Appointments to the Board

The Nomination Committee was established on 17 June 2003 and the members are as follows:

YBhg Datuk Dr Hussein Awang	(Chairman, Independent Non-Executive Director)
YBhg Tan Sri Quek Leng Chan	(Non-Independent Non-Executive Director)
Mr Chew Peng Cheng	(Independent Non-Executive Director)
Mr Tan Keok Yin	(Independent Non-Executive Director)
Mr Kwek Leng Seng	(Non-Independent Non-Executive Director)

The Nomination Committee's functions and responsibilities are set out in the terms of reference as follows:

- Recommend to the Board the minimum requirements for appointments to the Board, Board committees and for the position of Chief Executive Officer.
- Review and recommend to the Board all Board appointments and re-appointments and removals including of the Chief Executive Officer.
- Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive and Independent Directors, and mix of skills and other core competencies required.
- Assess annually the effectiveness of the Board and key senior management officers as a whole and the contribution by each individual Director to the effectiveness of the Board and various Board Committees based on criteria approved by the Board.
- Oversee the appointment, management succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities.
- Ensure that the Board receives an appropriate continuous training programme.

During the financial year ended 30 June 2006, two (2) Nomination Committee meetings were held and the meetings were attended by all the members.

The Nomination Committee reviewed the membership of the Board, the professional qualifications and experiences of the directors and was satisfied that the Board composition in terms of size, the balance between executive, non-executive and independent directors and mix of skills was adequate. The Nomination Committee also reviewed the performance of the Board against its terms of reference and was satisfied that the Board was competent and effective in discharging its functions.

Corporate Governance & Internal Control (continued)

V Re-election

All Directors are required to submit themselves for re-election every three (3) years.

VI Training And Education

The Company does not have a formal training programme for new directors. However, to assist the directors in discharging their duties, the Company has developed a Director Manual which is given to every director for their reference. The Director Manual highlights, amongst others, the major duties and responsibilities of a director vis-à-vis various laws, regulations and guidelines governing the same. New directors will also be given a briefing on the businesses of the Group.

All Directors of the Company have completed the Mandatory Accreditation Programme. The Directors continuously receive briefings and updates on the Group's businesses, operations, risk management, internal controls, corporate governance, finance and any new or changes to the companies and other relevant legislation, rules and regulations.

During the financial year ended 30 June 2006, the Company organised in-house training programmes for the directors and senior management of the Company facilitated by industry experts. In addition to the in-house programmes, the Directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge.

VII Other Board Committees

Board Credit Supervisory Committee (BCSC)

The members of the BCSC for the financial year ended 30 June 2006 are as follows:

YBhg Tan Sri Quek Leng Chan	(Chairman)
Ms Yvonne Chia	
En Zulkiflee Hashim	
Mr Choong Yee How	(appointed on 9 March 2006)
Mr Tsui King Chung, David	(resigned on 1 December 2005).

The BCSC oversees the management of credit risk and other credit related activities of the Bank and all its subsidiaries.

During the financial year ended 30 June 2006, 14 BCSC meetings were held and all the meetings were attended by all the members.

Executive Committee (EXCO)

The members of the EXCO are YBhg Tan Sri Quek Leng Chan, Ms Yvonne Chia and En Zulkiflee Hashim and all matters were approved via circular resolutions. The duties and responsibilities of the EXCO include, amongst others, approving all financial markets transaction; opening, operating and closing of various types of accounts with various financial institutions and to perform such other duties and functions as may be determined by the Board from time to time.

B. DIRECTORS' REMUNERATION

The Remuneration Committee was established on 17 June 2003 and the members are as follows:

Mr Tan Keok Yin	(Chairman, Independent Non-Executive Director)
YBhg Tan Sri Quek Leng Chan	(Non-Independent Non-Executive Director)
Mr Chew Peng Cheng	(Independent Non-Executive Director)

Corporate Governance & Internal Control (continued)

The Remuneration Committee's functions and responsibilities are set out in the terms of reference as follows:

- Recommend to the Board the framework governing the remuneration of the:
 - Directors;
 - Chief Executive Officer; and
 - Key senior management officers.
- Review and recommend to the Board the specific remuneration packages of executive directors and the Chief Executive Officer.
- Review the remuneration package of key senior management officers.

During the financial year ended 30 June 2006, two (2) Remuneration Committee meetings were held and the meetings were attended by all the members.

I Level and make-up of Remuneration

The Group's remuneration scheme for Executive Directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmark to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Group's annual plan and budget.

For Non-Executive Directors, the level of remuneration reflects the level of responsibilities undertaken by them.

II Procedure

The remuneration packages of all executives of the Group including Executive Directors are laid out in the Group's Human Resources Manual, which is reviewed from time to time to align with market/industry practices.

The fees of Directors, including Non-Executive Directors, are recommended and endorsed by the Board for approval by the shareholders of the Bank at its Annual General Meeting.

III Disclosure

The aggregate remuneration of Directors (including those who have resigned during the year) for the financial year ended 30 June 2006 is as follows:

	Fees (RM)	Salaries & Other Emoluments (RM)	Total (RM)
Executive Directors	150,411	2,441,754	2,592,165
Non-Executive Directors	631,699	147,915	779,614

The number of Directors whose remuneration fall into the following bands is as follows:

Range of Remuneration (RM)	Executive	Non-Executive
50,000 and below	-	2
50,001 - 100,000	-	4
100,001 - 150,000	-	2
150,001 - 200,000	-	1
200,001 - 300,000	1	-
300,001 - 500,000	-	-
500,001 - 1,000,000	1	-

Corporate Governance & Internal Control (continued)

C. SHAREHOLDERS

I Dialogue between Companies and Investors

The Board acknowledges the importance of regular communication with shareholders and investors via the annual reports, circulars to shareholders and quarterly financial reports and the various announcements made during the year, through which shareholders and investors can have an overview of the Group's performance and operation.

The Company has a website at www.hlb.com.my which the shareholders can access for information which includes corporate information, press releases, financial information, products information and even career opportunities.

In addition, the Group Financial Controller could provide shareholders and investors with a channel of communication in which they can provide feedback to the Group.

Queries may be conveyed to the following person:

Name : Mr James Lim Tuang Ooi, Group Financial Controller
Tel No : 03-21642828
Fax No : 03-21641519
e-mail address : LimTO@hlbb.hongleong.com.my

II Annual General Meeting ("AGM")

The AGM provides an opportunity for the shareholders to seek and clarify any issues and to have a better understanding of the Group's performance. Shareholders are encouraged to meet and communicate with the Board at the AGM and to vote on all resolutions.

D. ACCOUNTABILITY AND AUDIT

The Board Audit Committee was established on 18 August 1994 and re-designated to BARMC on 10 January 2002. The financial reporting and internal control system of the Group is overseen by the BARMC, which comprises all Non-Executive Directors. The primary responsibilities of the BARMC are set out in the BARMC Report.

The BARMC met ten (10) times during the financial year ended 30 June 2006. Details of attendance of the committee members are set out in the BARMC Report appearing on pages 17 to 20 of the Annual Report.

The BARMC is supported by the Internal Audit Department whose principal responsibility is to conduct periodic audits on the internal control matters to ensure compliance with systems and/or standard operating procedures of the Group. Investigation will be made at the request of the BARMC and senior management on specific areas of concern when necessary. Significant breaches and deficiencies identified are discussed at the BARMC meetings where appropriate actions will be taken.

I Financial Reporting

The Board is responsible for ensuring the proper maintenance of accounting records of the Group. The Board receives the recommendation to adopt the financial statements from the BARMC, which assesses the financial statements with the assistance of the external auditors.

Corporate Governance & Internal Control (continued)

II Internal Control

The Board has overall responsibility for maintaining a system of internal controls which covers financial and operational controls and risk management. This system provides reasonable but not absolute assurance against material misstatements, losses and fraud.

Following the re-designation of the BARMC mentioned above, the BARMC is also entrusted with the responsibility of identifying and communicating to the Board critical risks the Group faces, changes to the Group's risk profile and management's action plans to manage the risks.

III Relationship with Auditors

The appointment of external auditors is recommended by the BARMC, which determines the remuneration of the external auditors. The external auditors meet with the BARMC to:

- present the scope of the audit before the commencement of audit; and
- review the results of the audit as well as the management letter after the conclusion of the audit.

E. STATEMENT ON INTERNAL CONTROL

The Board, recognising its responsibilities in promoting good corporate governance and ensuring sound internal controls and risk management practices, has set up the BARMC on 10 January 2002. The Board has also put in place an integrated Risk Management Framework to assist it in:

- identifying the significant risks faced by the Bank Group in the business environment as well as evaluating the impact of such risks;
- developing and approving the necessary controls and measures to manage these risks; and
- monitoring the adequacy and effectiveness of such controls and measures.

The BARMC, assisted by the Internal Audit Division, oversees and reports to the Board on the proper functioning of the Integrated Risk Management Framework, as part of its responsibilities of monitoring compliance with the business objectives, policies, reporting standards and control procedures of the Group.

The controls instituted by the Group's operating units and built into the risk management framework are not intended to eliminate all risks of failure to achieve business objectives but are designed to ensure all relevant and significant risks have been identified and managed as part of the management and decision-making process throughout the Group. As with all such frameworks, controls, by their nature, can only provide reasonable, but not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

The risk management framework is embedded in the management and decision-making process through the following structures:

- Key strategies to achieve the Bank Group's business plans and budget as approved by the Board, are tracked and reviewed by the operating divisions/departments to monitor achievement of these business plans and budgets.
- The various divisional and departmental heads of the Bank Group operate their respective units within the policies, functional, financial and operating reporting standards and control procedures developed by the Group. Such reporting standards and control procedures are supplemented on an ongoing basis by operating procedures, policies and action plans developed by the operating units to manage and monitor risks impacting the Bank Group and to suit the regulatory and business environment in which they operate.
- Where feasible and necessary, relevant group resources are focused to manage common risks on an integrated and Group-wide basis, using common tools, procedures and control systems as appropriate.

Corporate Governance & Internal Control (continued)

The Chief Risk Officer ('CRO') of the Group is the custodian of the Integrated Risk Management Framework and is responsible to:

- evaluate all identified risks for their continuing relevance in the business environment and inclusion in the Risk Management Framework;
- oversee and monitor the implementation of appropriate systems and risk management controls to manage these risks;
- assess the adequacy of action plans and control systems developed to manage these risks;
- monitor the performance of management in executing the action plans and operating the control systems; and
- regularly report to the BARMC and the Board on the state of internal controls and the efficacy of management of risks throughout the Group.

In discharging the above responsibilities, the CRO is guided by but not limited to the questions raised in the Appendix to the Statement of Internal Control - Guidance for Directors of Public Listed Companies and he reports regularly to the BARMC and the Board on risk matters. The Board receives regular reports on significant risk areas e.g. market risks, credit risks and operational risks.

As a licensed banking and finance institution, the business of the Group entails management of risks common to all financial intermediaries. The more significant risks are set out below:

- Credit risk - Exposure to a loss arising from the failure of a customer or a counterparty to honour debts or settlement of a security on purchase or on maturity.
- Interest rate risk - Exposure to loss arising from an unfavorable movement in interest rates, resulting in mismatch between income and expense between assets and liabilities.
- Market risk - Exposure to cash or opportunity loss from an unfavorable movement in equity prices and foreign exchange rates.
- Liquidity risk - Possibility of an inability to meet cash obligations at acceptable rates.
- Operational risk - Exposure to loss resulting from failure of operational procedures and/or control systems, including IT, legal and reputational risk.
- Product Risk - Possibility of products incurring financial or opportunity loss attributed to poor reception by customers, mispricing, poor product features and/or timing of entrant of the products.

F. DIRECTORS' RESPONSIBILITY IN FINANCIAL REPORTING

The Listing Requirements of Bursa Malaysia Securities Berhad require the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Bank as at the end of financial year and of the results and cash flow of the Group and of the Bank for the financial year.

The Directors are satisfied that in preparing the financial statements of the Group and of the Bank for the financial year ended 30 June 2006, the Group has used the appropriate accounting policies and applied them consistently. The Directors are also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

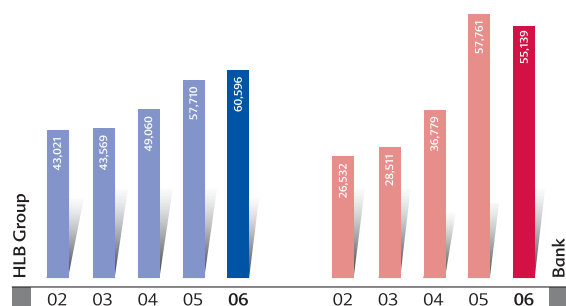
This Statement on Corporate Governance and Internal Control is made in accordance with the resolution of the Board of Directors.

Financial Highlights

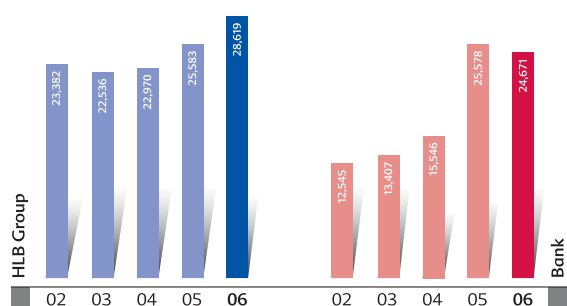
HLB Group	June 02 RM Million	June 03 RM Million	June 04 RM Million	June 05 RM Million	June 06 RM Million
Total Assets	43,021	43,569	49,060	57,710	60,596
Net Loans	23,382	22,536	22,970	25,583	28,619
Customers Deposits	34,080	35,999	37,802	39,916	44,276
Pre-tax Profit	710	802	529	713	764

Bank	June 02 RM Million	June 03 RM Million	June 04 RM Million	June 05 RM Million	June 06 RM Million
Total Assets	26,532	28,511	36,779	57,761	55,139
Net Loans	12,545	13,407	15,546	25,578	24,671
Customers Deposits	19,237	21,629	26,123	39,991	39,059
Pre-tax Profit	363	933	514	1,521	697

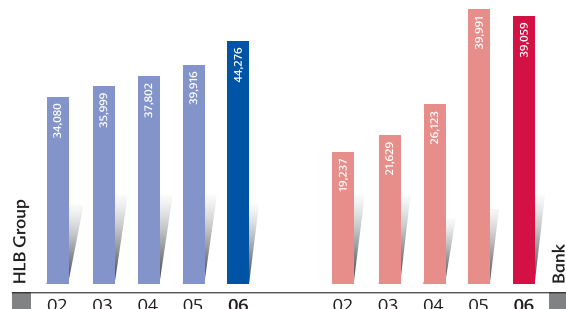
Total Assets
(RM Million)



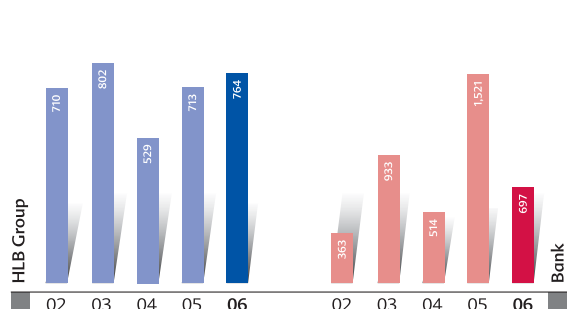
Net Loans
(RM Million)



Customers Deposits
(RM Million)



Pre-Tax Profit
(RM Million)





People Make the Difference

A company is not an organization. It takes people to transform a company into an organization.

- Hong Leong Group Malaysia



Chairman's Statement



On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements of the Hong Leong Bank Group ("Group") and Hong Leong Bank ("Bank") for the year ended 30 June 2006.

PERFORMANCE ON SHAREHOLDER VALUE CREATION

Fiscal year 2006 was another good year for the Group. Good strides to further our ongoing transformation agenda were made. The intrinsic value drivers and infrastructure to scale up the Group's foundation for a sustainable and profitable growth are now on a much stronger footing.

Overall, the Group posted a net profit before tax of RM764 million, a growth of 7% from the preceding financial year. The bottom line was spurred by higher contributions from non-interest income (36% growth) and an improving net interest income line (4% growth), notwithstanding a rise in loan loss provisions to meet new regulatory requirements. Stronger operating performance lifted earnings per share to 36.4 sen from 32.8 sen while returns on average shareholder funds improved to 12.5% from 11.6% a year ago.

The asset base, powered by a more vigorous loans growth, was up 5.0% to close at RM60.6 billion. Gross loans, advances and financing grew by 11.6% (vs 10.3% last year) while the Islamic financing portfolio rose from 12.9% to 13.7% of the overall loans book. Customer deposits rose 11% this year, underscoring the continued support for the franchise from the communities that we serve.

The underlying business is doing well. Income was up 12% on the underlying gross interest income and 36% on the non-interest income side. Non-interest income ratio strengthened to 27.6% from 22.7%. Net income growth was 12%, double the 6% operating expenses growth, underpinning a more efficient business model. The pre-provision operating profit rose 16%.

The Personal Financial Services segment continues to form the lion share of the Group's income sources, contributing 56.8% of Group profit before tax. The HL Markets and Business Banking divisions contributed 21.3% and 21.9% respectively of Group profit before tax. Our overseas franchise is also turning in stronger performances, with HL Bank Singapore (our Singapore branch) contributing 8.8% of Group profit before tax, from 5% a year ago. HL Bank Singapore has become a leading boutique investment bank across the straits, allowing us to benefit from new regional opportunities.

Asset quality remained intact. Gross NPL ratio decreased to 4.7% from 6.3% a year ago, while net NPL ratio was better at 3.1% from 4.6%. Loan loss provisions however rose by RM83 million on the back of a more stringent provisioning formula for Hire Purchase NPLs and provisions for NPLs of more than 7 years.

Chairman's Statement (continued)

Capital adequacy for the Group remained strong, with its core capital and risk-weighted capital ratios at 13.8% and 17.5% as at 30 June 2006. The Group's long term ratings by Moody's, Fitch, and Standard & Poor's are Baa1, BBB+, and BBB+ respectively. In January 2006, Rating Agency Malaysia (RAM) upgraded the Bank's long-term general rating from AA3 to AA2.

During the financial year, an interim dividend of 9 sen less 28% tax was paid on 28 March 2006. As a result of the Group's stronger performance, the Board is proposing a final dividend of 15 sen per share less income tax of 28%, payable on 17 November 2006 subject to the approval by shareholders in the coming Annual General Meeting. Subject to the approval, total dividends in respect of the financial year ended 30 June 2006 would be 24 sen per share or 48% of net profit.

MARKET OUTLOOK

We are cautiously optimistic on the market and economic prospects into the new financial year. Whilst we can never be immune to external shocks, we expect the Group's growth momentum to continue.

Overall, the country's economy remains resilient and is expected to maintain a healthy growth, underpinned by strong private demand and stable fundamentals. The implementation of the Ninth Malaysia Plan is a positive development for the economy.

Challenges from economic uncertainties associated with higher interest rates around the globe, inflationary pressures and volatilities in global oil and commodities prices however persist. Ballooning global imbalances and adjustments in exchange rates would pose additional risks. The growth momentum could potentially be slowed by a combination of factors, including deflating equities markets, rising interest rates and regulatory credit controls.

Higher interest rates could weaken asset quality and decelerate consumer credits. While the credit environment in most of our segments remains benign, we are cautious on the credit outlook.

The industry price war is expected to continue as the system is awash with liquidity. Margin compression continues to be a challenge. While consumer spending could be curtailed by rising interest rates, the outlook for Islamic banking and wealth management is strong.

Industry liberalisation is progressing with the opening of new foreign bank branches and the setting up of their own shared ATM network. New entrants, in the form of foreign participation and Islamic finance institutions, give rise to new competitive dynamics.



Chairman's Statement (continued)

POSITIONING AND STRATEGIC PROGRESS

On balance, the market conditions provide us opportunities to build on our track record. The Group is on a stronger footing and better positioned to leverage those opportunities. Barring unforeseen circumstances, we are optimistic that the Group will deliver even higher value for shareholders and stakeholders in the coming financial year.

The Group has a clear strategy going forward. The Management team is focused on creating shareholder's value. There are opportunities for organic growth, to innovate, differentiate and deliver on shareholder's vision. Inorganically, the Group will remain opportunistic where it fits the strategy.

On 30 January 2006, the Group was granted a Takaful licence by Bank Negara Malaysia to operate a new Takaful subsidiary with our partners, Hong Leong Assurance Bhd and Tokio Marine Asia Pte Ltd. The new Takaful entity, Hong Leong Tokio Marine Takaful Bhd, is expected to commence operations by the end of 2006. We are in a fast growing and globalising Islamic finance and Takaful market today, and the Group is ideally placed through its Islamic finance franchise to benefit from the current and future opportunities in that marketplace. Islamic Investment Banking and Wealth Management, in particular, present unique opportunities.

The Group will continue to work hard for dominant leadership in its chosen segments. The goal is to deeply entrench ourselves in the market. The brand equity and loyalty towards our products and services that come with that embedment continue to be our strength.

A balanced growth agenda, built on top line growth, innovation and asset quality is the foundation behind our franchise development. We must plan wisely and execute exceptionally. We must strive for world-class standards.

I am confident of the Group's prospects. With the support of my fellow Board members and management team, I believe we can build on the heritage of Hong Leong Bank and strengthen our capacity towards our Vision of becoming an outstanding financial services organisation, highly competitive and profitable, where people make the difference.

FULFILLING OUR RESPONSIBILITIES TO THE COMMUNITY

It remains our intent to fulfil our corporate responsibility. Our community programmes are important to the communities where we operate, embed our franchise and make a difference to current and future employees. Throughout the fiscal year, the Group actively participated in various social and community service work. These were carried out at both the corporate and individual levels as well as through Hong Leong Foundation.



Presenters and recipients at the Hong Leong Group Malaysia Scholarship Award Ceremony

Chairman's Statement (continued)



Each year, Hong Leong Foundation sets aside RM1 million for charity and welfare purposes, administered through Hong Leong Group's nine Regional Management Committees. This forms part of the Group's embedment and entrenchment efforts within our local communities. Group employees regularly participate in community services in their respective regions, organising visits to orphanages and welfare homes, blood donation campaign as well as initiating and participating in projects involving environmental and social issues.

In line with the Foundation's theme of 'Tomorrow's Generation', a total of 47 organisations including orphanages, educational and welfare homes, disabled and autistic centres as well as dialysis centres received some much needed funds to continue to provide service and care for the less fortunate.

The Foundation also supports education at a national level through two annual projects. The Scholarship Programme grants financial assistance to bright, deserving students, wishing to pursue tertiary education. By committing approximately RM1 Million each year, to date, the Group has disbursed more than RM10 million worth of Scholarship grants to over 540 recipients.

There is also the Students' Assistance Programme, initiated with the aim of addressing the immediate needs of deserving primary and secondary school children on items such as bags, books, uniforms, bicycles as well as school and examination fees subsidies to thousands of school children throughout the country.

A NOTE OF APPRECIATION

On behalf of the Board of Directors, I would like to record my gratitude to our customers, business partners and shareholders for their continuous support and confidence in the Group. A special note of appreciation goes to the Management team and employees of the Group for their passion, dedication, hard work and vision.

My sincere thanks also go to Bank Negara Malaysia, the Ministry of Finance, Government agencies, and regulatory authorities for their invaluable assistance, guidance and counsel.



Quek Leng Chan
Chairman

24 August 2006

Group Managing Director / Chief Executive's Review

2006 marked another milestone in our Transformation stewardship. The Group is in good shape, with a stronger growth momentum and a better grip of the market. Internal reforms focused on high performance, portfolio and business alignment, new capabilities, and new leadership.

Expansion of our customer segments and products continued and despite margin pressures, the increased breadth and balance suggest that, overall, the business performed well. And with the right people and the right infrastructure, we are now better positioned with the strength, flexibility and entrepreneurialism to seize market opportunities.

BUSINESS & OPERATIONAL REVIEW

Personal Financial Services

Personal Financial Services (PFS) is a core segment for the Group, with the Malaysian operations contributing 55.1% of Group profit before tax. PFS loans assets are now 72.5% of Group loans assets, up from 70.5% last year. Deposits from individuals rose 7.2% over the year, underscoring our franchise value amongst our customer base.

PFS loans assets rose strongly by 14.2%, powered by a 21.8% growth in Mortgages and 27.6% growth in Credit Cards. Growth in these 2 core products outpaced that of industry for key gains in market share. The Hire Purchase portfolio was held steady with flat growth in view of the price war. Mortgages ended at 67.8% of total PFS exposures, with Hire Purchase and Credit Cards at 25.2% and 5.6% of PFS loans assets respectively. At fiscal year end 2006, our customers entrusted us with RM6.6 billion of Asset under management (AuM) bankwide, up 65%. The Bank is making good inroads into Wealth Management to be a significant business contributor. Non-interest income from Wealth Management was up 20.2%, making significant contributions to a 29.1% growth in total PFS non-interest income.

Asset quality improved over the fiscal year. As at year end, gross Mortgage NPL ratio improved to 3.7% while Hire Purchase and Credit Card NPLs were down to 2.6% and 2.3% respectively. A strong credit culture and prudent credit controls and risk processes are a key mantra in the Group.

Innovation towards relevant, differentiated products is continuously being pursued. We are the first local commercial bank to launch Structured Investment products for our affluent customers. Hong Leong Club Rewards is the first programme in the market to reward customers for their entire retail banking relationship with the Bank and potentially the Hong Leong Group. Hong Leong Mobile Credit Card, the first proprietary virtual credit card that enables payments through SMS, won The Asian Banker's Best Credit Card Product Award in conjunction with its Excellence in Retail Financial Services Awards 2006 program. Enhancements were made to our Gold credit card and new credit card spending campaigns roll out. Hong Leong Cash-on-Call, a monthly instalment loan for cardmembers to withdraw cash anytime, anywhere with just a phone call away, was unveiled in the last quarter. We have also just launched Personal Lending, a monthly instalment credit product that offers fast loan approval within 48 hours nationwide - the fastest application turnaround time in the industry.



*The trophy for The Asian Banker's Best
Credit Card Product Award won by Hong Leong Bank*

Group Managing Director / Chief Executive's Review (continued)

Our drive for innovation and steady earnings is supported by a progressively more visible and trusted brand. We have targeted our brand building activities around a few lead products including Mortgage and Credit Cards for their mass appeal and potential to build scale. The PFS media strategy was repositioned to build optimum reach and frequency to target markets, and early results on acquisitions and spending campaigns are highly encouraging.

A distinguishing feature of our consumer proposition is the heavy use of consumer segmentation and analytics in our Enterprise Data Warehouse for both business opportunities and risk management in the Bank today. This growing competence in targeted marketing has enabled more accurate cross selling activities to increase average product holding levels and deepen customer relationships.

The completion of the first phase of the electronic loans origination system for PFS ("eCOS") and the automation of the collections and recovery process ("eCOLLECT") underscored key structural changes over the fiscal year for a smarter business model in the Bank. With eCOS in place, customers can expect an improved processing turnaround time as the system covers the loan lifecycle from the point of origination to full disbursement. Apart from cost savings and improved revenue, eCOS would enable a more effective management information system (MIS) and tracking, error reduction and better quality loans through its credit risk analysis capability. From eCOLLECT, we can expect project returns in the form of higher collections productivity and incorporation of best collection and recovery processes towards an efficient and integrated collection and recovery reporting environment.

Overall, key performance indicators in PFS today evidence greater depth and breadth in fulfilling the needs of our customers. There is a strong capacity to grow and compete aggressively in our chosen consumer markets. Earnings are more diversified and sustainable towards optimising the risk-reward profile of our retail books.

Business Banking

The Business Banking division posted a satisfactory performance. Profit before tax from the Malaysian operations stood at RM114 million, down 19% against the previous year. The slightly adverse variance resulted from higher provisions. A more stringent provisioning for NPLs of more than 7 years contributed to an increase of RM83 million in the provisioning level.

The underlying business remained sound, as the pre-provision operating profit rose 33.6% from RM184.7 million to RM246.7 million. At fiscal year end, gross Business Banking loans were up 5.5%, in line with industry growth rate. Non-interest income increased by 12.3%, with trade-related fee income contributing 58.1% to the mix.

Portfolio is balanced, with emphasis on key priority sectors such as manufacturing, general commerce and business services. The Middle Market segment continued to form the largest segment at close to two-thirds share of Business Banking assets. SMEs made up the next bulk financing bracket.

We made certain strides towards transforming Business Banking over the fiscal year. Internal structural reforms improved focus on portfolio segments. Working closely with HL Markets, a solutioning and advisory approach was adopted for capital market-oriented corporates. Differentiated propositions were targeted at our Middle Market clientele to boost utilisation and improve customer retention as well as grow new accounts, leaving the SME segment to be more portfolio-driven with programme products.

Business performance re-engineering of credit and relationship management processes are ongoing to optimise account loading and productivity ratios, and to reduce cost-to-serve in certain segments. For our Business customers, trade finance, export credit insurance, foreign currency accounts and forex solutions were continuously enhanced over the year. The architecture towards a new cash management and integrated payments capability is put in place for development in the coming months.



*Brochures of the variety of Personal Financial Services
Products offered by Hong Leong Bank*

Group Managing Director / Chief Executive's Review (continued)



Introducing Hong Leong Bank's Range of Structured Products (Left to Right: Ms Yvonne Chia, Group Managing Director, Hong Leong Bank; Mr Kua Wei Jin, Chief Operating Officer, Wholesale Banking, Hong Leong Bank; Ms Moey Tan, Chief Operating Officer, Personal Financial Services, Hong Leong Bank)

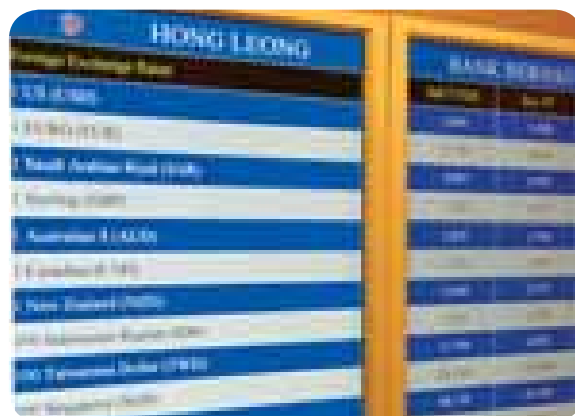
While there are certain pockets in Business Banking that could be stepped up quickly with the right capabilities, the Division overall, proved to be fairly resilient. The Division would continue to reach out to profitable industry segments, provide quality financial services to businesses and business wealth creators, and build a differentiated Business Banking franchise.

HL Markets

At fiscal year start, HL Markets, the re-branded Treasury Division was officially launched. At fiscal year end, HL Markets has achieved the first phase of its Transformation agenda, from essentially a support department to a proprietary independent profit centre within the Group today. Notwithstanding constraining market conditions, HL Markets Malaysia saw a 20.7% rise in profit before tax to RM157 million. Non-interest income was up by 16.6% to RM87.2 million.

To fast track the strategic goal towards a regional Centre of Excellence in treasury, HL Markets executed several key business initiatives on a regional basis across all 3 treasury centres in Malaysia, Hong Kong and Singapore. These included portfolio and business realignment, structural adjustments, new capabilities as well as deployment of cross-border resources towards a common fulfilment.

In line with our regional capital market-driven strategies, a new Debt Capital Markets (DCM) setup and infrastructure was institutionalised as a new capability under the purview of HL Markets. There was solid progress on market awareness on this front, with the team working towards a clear value proposition, profile and pipeline of potential mandates under negotiation as at the date of writing.



The fiscal year also saw the official launch of structured products - the Pearl and Jade series. With HL Market's stewardship, Hong Leong Bank is notably the first local commercial bank to launch Structured Investment products. HL Markets actively participated alongside PFS in the "Structured Investment Products" campaign for our Priority Banking customers, ensuring a successful debut.

From an infrastructure perspective, the implementation of the Murex Treasury platform is on schedule. Profile building to increase brand recognition remained a high priority agenda. Throughout the fiscal year, HL Markets consistently engaged in training and joint marketing efforts with strategic alliance partners, notably other financial institutions.

The HL Markets franchise has significantly propelled the Group's product offerings and bottom line. Today, HL Markets is firmly on track towards transforming the traditional treasury business to a paradigm of modern Treasury Business Solution provider. HL Markets has become progressively a key business driver within the Group to spearhead new products and services with other lines of business in the Group. Striving for a resilient and balanced mix of treasury income is still underway and remains one of the most important goals of HL Markets.

Group Managing Director / Chief Executive's Review (continued)

Hong Leong Islamic Bank

The fiscal year was a monumental one for Hong Leong Islamic Bank Berhad (HLIB). It marked the first year of its operations. The year ended on a positive note, with HLIB successfully carrying out its transition from being a window operation embedded within the Group to becoming an independent full-fledged Islamic banking subsidiary. HLIB aims to carve out a business that is strong and stable while strategically leveraging on the strengths and infrastructure of the mother bank, the strong customer base and extensive distribution channels.

Commendable growth in the domestic market was achieved, led largely by the domestic Islamic PFS and Business Banking segments. HLIB's total assets grew 11% to reach RM6.4 billion. The growth is attributable to a higher financing base, which was up by 16% to reach RM3.9 billion, and a notable increase of 33% in Treasury. Its capital adequacy ratio (CAR) stood at a robust 14.0%.

Portfolio rebalancing was carried out to reduce its dependency and exposure to the Hire Purchase-i financing sector, and to shift the focus of its portfolio mix towards the Mortgage-i business. As a result, growth in Hire Purchase-i was reduced to 16.5% as compared to 78% from that of the previous year. Mortgage-i saw an increase of 10% over the fourth quarter of the fiscal year.

HLIB's profitability remained intact, registering profit before tax of RM62.4 million. Its total profit income grew 18% to RM315 million due to the growth in retail financing but was to some extent offset by its income attributable to depositors (i.e. profit expense), which increased by 28% from the previous year.

HLIB pursued a more robust business model for growth in its core segments in Commercial Banking and for expansion into Islamic Wealth Management and Investment Banking. Efforts to develop an Islamic Investment Banking franchise are underway. There has been meaningful progress in laying the infrastructure and foundation towards this new competence, particularly in the Debt Capital Markets (DCM) segment.

Overseas Franchise

HL Bank Singapore (the Group's branch in Singapore) posted a commendable performance by contributing 8.8% of Group profit before tax, up from 5%. HL Bank's profit before tax surged 86.1%, spurred by 103.6% rise in non-interest income to RM80 million.

HL Bank progressed very nicely towards becoming a leading regional boutique investment bank focusing on Treasury, Investment Banking, Islamic Banking and Private Banking. Over the year, it focused on business expansion initiatives to grow its critical mass to its size and business model, and on growing core competences. The regional Private Banking Centre of Excellence for the Group is hubbed out of HL Bank, and it is making steady headway in regional client acquisition and Asset under Management (AuM) growth.

HL Bank was ranked number 1 for number of deals and number 2 for deals size in Bloomberg's first half 2006 ranking of Singapore underwriters. Funds raised by HL Bank since 2002 include 29 Initial Public Offerings (IPO) and 24 placements, totalling S\$1.39 billion. Deal size has been increasing, with the latest Yanlord Land Group Limited IPO raising S\$313 million.

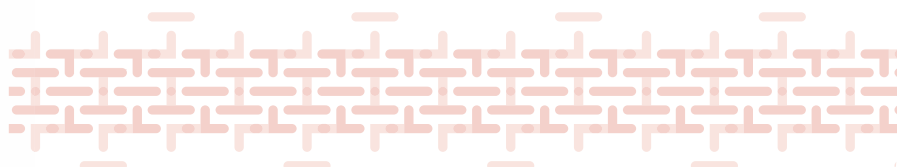
The Hong Kong Branch turned in a better performance, almost breaking even for the fiscal year. The branch is developing an alternative platform and springboard to serve our customers and trade flows between China, Hong Kong and the South East Asia regions.

Electronic Banking

Electronic banking (e-banking) is today a serious alternative, and Internet banking pervasive particularly amongst our younger customers. The goal for this segment is to enhance mind share, stickiness, our Brand and ultimately the Group's franchise value through alternate channels.



Group Managing Director / Chief Executive's Review (continued)



We are in the midst of re-investing in a new Integrated Financial Portal to replace the current Retail Internet Banking system with new and expanded functionalities, including new electronic payment capabilities. With an increased industry focus on payment systems, a key priority is to build on our MEPS Inter-bank Giro (IBG) capabilities, focusing on bulk payments with straight-through-processing to IBG, regional Automated Teller Machines (ATM) link-ups and cross-border payments. On the consumer side, there are various new electronic payment technologies in addition to the traditional ATMs and credit cards. We are leveraging on these new electronic payment channels, including debit card options, and mobile payments and financial services.

We continue to use a mix of electronic channels, from the current 536 Self Service Terminals (SSTs) (Automated Teller Machines, Cheque Deposit Machines and Cash Deposit Machines), to Hong Leong Online, Hong Leong Phone Banking and Hong Leong Mobile Banking to deliver convenience, accessibility and productivity objectives. Reducing our cost-to-serve through the electronic delivery medium is an equally important thrust. Overall, channel migration strategy is now delivering close to 70% of machineable transactions through SSTs. We are seeking to leverage newer technologies to expand the range of machineable transactions.



ASSET QUALITY

Throughout the year, the Group stayed vigilant, adhering to prudent credit policies, a strong credit culture and robust credit controls and risk processes. Proactive risk management has been complemented by a generally benign credit environment. Our NPL ratios improved. Gross NPL ratio decreased from 6.3% to 4.7%. Net NPL ratio went down to 3.1% from 4.6%. Loan loss provisions however rose by RM83 million on the back of a more stringent provisioning formula for Hire Purchase NPLs and provisions for NPL accounts of more than 7 years. Over the fiscal year, coverage ratio was adequately held at 65.9%, above industry average.

RISK MANAGEMENT AND BASEL 2

During the fiscal year, the Group shifted into high gear in its Basel 2 implementation, fulfilling 2008 deadline set by Bank Negara Malaysia. Major Basel 2-related projects are in progress. Key projects include enhancement of risk management policies and the Basel 2 data enrichment projects using the Bank's Enterprise Data Warehouse. Concurrently, Strategic Business Unit Scorecards are being worked on to align to risk sensitivity and for constructing statistical rating models. Operational risks are proactively managed through a framework of policies, techniques and procedures by which operational risks inherent in the Bank's business are identified, measured, monitored, controlled, mitigated and reported to the Operational Risk Management Committee and the Board Audit and Risk Management Committee.

Group Managing Director / Chief Executive's Review (continued)

Good progress was made to achieve the objective of tightening overall risk management and strengthening of internal controls through a sound risk management framework. With a line of sight to risk management transparency and measurement, the implementation of the Group's Basel 2 roadmap-related projects would pave the way for an unprecedented level of analytics for both business and risk management.

PEOPLE MAKE THE DIFFERENCE

Investments in our people continue. We are constantly working on embedding leadership, entrepreneurship and strong governance at all levels. Today, there is fresh leadership across our businesses for renewed energy, competitiveness and management strength.

Structural reforms are also underway to build people resources with a focus on diversity, high and sustainable performance, talent retention and world-class capability in business-critical disciplines. As good talents are in great demand, our talent management programme keeps pace with changing expectations in the way we recruit, develop and retain our people. Structured training is a key focus, for credit, Islamic finance as well as wealth management certification. Our integrated Human Resources Management System (HRMS) assists to ensure that we remain on track in achieving greater competitiveness and productivity levels.



A training session for Hong Leong Bank staff

THE NEXT STAGE

Although the banking system is highly liquid and experiencing margin pressures, the operating environment remains favourable. The country continues to grow well into the Ninth Malaysia Plan. With the full implementation of the Financial Sector Master Plan, we have to step up to engage competitors, both local and foreign, and compete with the best-in-class. Catalysts for mergers and acquisitions also exist, both within the country and regionally, and the Group remains opportunistic where it fits the strategy.

There are unique opportunities for sustainable, profitable growth and to innovate, differentiate and deliver our Vision. Our Management Agenda outlines the journey towards that Vision. It sets out the following aspirations and pace for the Group over the longer term as we seek:

- To strengthen and embed our core position in Malaysia towards a strong domestic presence
- To establish regional and international presence, and Centres of Excellence in Islamic Banking, Private Banking and Investment Banking, and
- To establish a strong regional business to participate in markets outside our domestic core.

We will continue to put our customers and community in the forefront. Hong Leong Bank's "Reaching Out to You" has embedded us well with the community. Being close to our customers is key and our customer knowledge is growing all the time.

The Hong Leong Bank Brand is well respected today. The customer is at the heart of our Brand. "Building relationships and adding value by providing clarity in financial decisions" to our customers is the essence of the Hong Leong Bank Brand. Customers value this element of clarity, openness and transparency. To succeed, we must be relationship focused, sell honestly and live up to our heritage values.

We are investing for the future, developing new products and customer coverage and growing our sales channels. Ultimately, we want to be recognised for having the strongest and most responsible sales culture in industry.

Group Managing Director / Chief Executive's Review (continued)



Distribution of Hong Leong Financial Group products offered through Hong Leong Bank

The Bank is also the main distribution franchise for the Hong Leong Financial Group that encompasses Hong Leong Islamic Bank, and our sister companies, Hong Leong Assurance and HLG Capital. We want to be recognised as a national leader in distributing financial services. We integrate our channels, both physical and electronic, so that our customers are able to use any channel they want, any time they want.

Hong Leong Bank wants to be recognised for brilliant customer service, quality products and for consistently delivering our core values of Integrity, Trust and Service. This year, we have conducted over 70 "I Care" workshops and trained over 1,500 employees on our service values. This momentum will certainly continue.

It is our responsibility to create the right environment for a culture of innovation at all levels. The bank-wide innovation agenda focuses on revenue enhancement, speed-to-market, new capabilities including analytics, Internet and mobile banking, cash management and Treasury solutions as well as productivity gains.

Cross-selling across the entire Hong Leong Financial Group is increasingly a competitive advantage for us. The Bank is already a heavy user of consumer analytics for both business opportunities and risk management through our Enterprise Data Warehouse. This is an area of growing and differentiating competence for us.

Wealth management is the next frontier. The huge creation of personal wealth across the region means that the wealth management business is strategically important and an integral part of our growth strategy. To convert our affluent customer base to wealth management offerings, our key steps will be on the scope and depth of our services, the role of technology to serve our customers profitably, our service delivery and expansion of customer access to Group or third-party products. As products become more complex, one mantra we follow strictly is about educating customers on investment products. Selling responsibly and educating them on product risks so that they can make informed decisions are key performance indicators for our financial advisers and sales staff.

The convergence of the business banking, trade, debt capital market and treasury businesses offers a compelling need to reorganise them into a Wholesale Banking division. The move creates a platform to step up towards developing tailored solutions and driving fee income. The Bank is reorganising to build these new business capabilities.

We would continue to invest in enabling technologies, people as well as new capabilities. Our culture and discipline of efficiency would nonetheless stay intact, as we vigorously pursue the rate at which revenues exceed expenses.

Hong Leong Bank has always delivered good shareholder returns historically and we fully expect to continue creating value for our shareholders and manage our capital sensibly. The Management today is challenged to achieve internal returns on shareholder funds and return on asset targets alongside absolute profit targets. Customer acquisitions and sustainable growth, and franchise value creation are other key result areas. We will leverage on the Hong Leong franchise to bring new products to customers and improve our market position.

To conclude, I would like to thank our customers, the Management team and fellow colleagues, shareholders, Board of Directors, Bank Negara Malaysia, the Ministry of Finance as well as Government agencies and other authorities, for their continued support and confidence in the Group.

Yvonne Chia
Group Managing Director /
Chief Executive

24 August 2006