

**Hong Leong Bank Berhad**  
**Condensed Financial Statements**  
**Unaudited Statements of Financial Position As At 31 December 2010**

	The Group		The Bank	
	Financial Period Ended	Financial Year Ended	Financial Period Ended	Financial Year Ended
	31/12/2010	30/06/2010	31/12/2010	30/06/2010
Note	RM'000	RM'000	RM'000	RM'000
<b><u>ASSETS</u></b>				
Cash and short-term funds	13,921,478	15,682,086	12,710,624	13,928,247
Deposits and placements with financial institutions	6,280,308	7,470,559	5,585,676	7,004,664
Securities purchased under resale agreements	184,760	-	184,760	-
Financial assets held for trading	8 11,031,802	8,836,753	8,587,260	6,703,224
Financial investments available-for-sale	9 5,291,222	4,428,770	4,099,290	3,859,367
Financial investments held-to-maturity	10 6,846,575	6,641,003	6,999,872	7,042,610
Loans, advances and financing	11 40,841,786	37,749,070	35,927,704	33,589,093
Other assets	12 1,577,951	1,718,603	1,968,468	2,014,821
Amount due from subsidiaries	-	-	701,219	1,009,958
Statutory deposits with Bank Negara Malaysia	440,500	394,000	364,000	347,000
Investment in subsidiary companies	-	-	1,023,117	714,092
Investment in associated company	1,253,661	1,172,175	946,505	946,505
Investment in jointly controlled entity	75,296	76,023	76,711	76,711
Prepaid land lease payments	13,914	14,139	13,052	13,274
Property, plant and equipment	349,974	332,845	326,754	311,163
Intangible assets	52,346	49,410	48,874	46,935
Deferred tax assets	123,266	140,137	102,976	122,544
<b>Total Assets</b>	<b>88,284,839</b>	<b>84,705,573</b>	<b>79,666,862</b>	<b>77,730,208</b>
<b><u>LIABILITIES AND SHAREHOLDERS' FUNDS</u></b>				
Deposits from customers	13 71,430,107	69,712,692	63,733,790	63,239,050
Deposits and placements of banks and other financial institutions	14 5,408,270	3,876,403	5,384,773	3,791,129
Bills and acceptances payable	1,039,531	304,140	890,591	285,366
Other liabilities	15 2,641,672	3,664,921	2,626,902	3,890,295
Subordinated Bonds	696,489	650,454	696,489	650,454
Provision for taxation	141,493	72,940	121,973	58,851
<b>Total Liabilities</b>	<b>81,357,562</b>	<b>78,281,550</b>	<b>73,454,518</b>	<b>71,915,145</b>
Share Capital	1,580,107	1,580,107	1,580,107	1,580,107
Reserves	6,025,795	5,531,824	5,310,862	4,922,864
Less: Treasury Shares	(678,625)	(687,908)	(678,625)	(687,908)
<b>Total Shareholders' Equity</b>	<b>6,927,277</b>	<b>6,424,023</b>	<b>6,212,344</b>	<b>5,815,063</b>
Minority interest	-	-	-	-
<b>Total Equity</b>	<b>6,927,277</b>	<b>6,424,023</b>	<b>6,212,344</b>	<b>5,815,063</b>
<b>Total Liabilities and Equity</b>	<b>88,284,839</b>	<b>84,705,573</b>	<b>79,666,862</b>	<b>77,730,208</b>
<b><u>COMMITMENTS AND CONTINGENCIES</u></b>	25 <b>105,059,125</b>	<b>99,159,250</b>	<b>106,633,548</b>	<b>100,792,710</b>
<b><u>CAPITAL ADEQUACY</u></b>				
<b><u>Before deducting proposed dividends</u></b>				
Core capital ratio	21 15.67%	15.50%	13.01%	13.34%
Risk-weighted capital ratio	21 15.67%	15.50%	13.01%	13.34%
<b><u>After deducting proposed dividends</u></b>				
Core capital ratio	21 15.43%	15.08%	12.75%	12.90%
Risk-weighted capital ratio	21 15.43%	15.08%	12.75%	12.90%
Net asset per share attributable to ordinary equity holders of the parent (RM) *	4.77	4.43	4.28	4.01

\* The Net assets per share attributable to ordinary equity holders of the parent (RM) is computed as Total Shareholders' Funds (excluding Minority Interest) divided by total number of ordinary shares in circulation

**Hong Leong Bank Berhad**  
**Condensed Financial Statements**  
**Unaudited Income Statements**  
**For The Financial Quarter Ended 31 December 2010**

**The Group**

	Note	Current Quarter Ended 31/12/2010 RM'000	Corresponding Quarter Ended 31/12/2009 RM'000	Current Period Ended 31/12/2010 RM'000	Corresponding Period Ended 31/12/2009 RM'000
Interest income	16	729,114	631,924	1,438,615	1,256,792
Interest expense	17	(355,739)	(285,863)	(689,904)	(575,884)
Net interest income		373,375	346,061	748,711	680,908
Net income from Islamic Banking business		49,366	47,889	96,212	95,969
Other operating income	18	181,223	125,454	298,828	254,204
Net Income		603,964	519,404	1,143,751	1,031,081
Other operating expenses	19	(248,582)	(238,638)	(466,581)	(448,794)
Operating profit before provision Allowance for impairment on loans, advances and financing	20	355,382	280,766	677,170	582,287
Impairment loss on other assets		-	6,081	-	6,081
Share of profit after tax of equity accounted associated company		315,516	264,091	596,307	522,393
		44,635	27,194	81,486	57,719
Share of profit after tax of equity accounted joint venture company		(466)	-	(727)	-
Profit before taxation (and zakat)		359,685	291,285	677,066	580,112
Taxation		(68,236)	(66,524)	(128,403)	(121,172)
Zakat		(17)	(12)	(31)	(25)
Net profit for the period		291,432	224,749	548,632	458,915
<b>Attributable to:</b>					
Equity holders of the parent		291,432	224,749	548,632	458,960
Minority Interest		-	-	-	(45)
Net profit for the period		291,432	224,749	548,632	458,915
Earnings per share - basic (sen)		20.1	15.5	37.8	31.7
Earnings per share - fully diluted (sen)		20.1	15.5	37.8	31.7

**Hong Leong Bank Berhad**  
**Condensed Financial Statements**  
**Unaudited Statements of Comprehensive Income**  
**For The Financial Quarter Ended 31 December 2010**

**The Group**

	<b>Current Quarter Ended 31/12/2010 RM'000</b>	<b>Corresponding Quarter Ended 31/12/2009 RM'000</b>	<b>Current Period Ended 31/12/2010 RM'000</b>	<b>Corresponding Period Ended 31/12/2009 RM'000</b>
Net profit for the period	291,432	224,749	548,632	458,915
Other comprehensive income/(loss):				
Currency translation difference	9,682	(7,845)	(4,749)	(7,864)
Net fair value changes on financial investments available-for-sale	(8,352)	(5,955)	5,175	51,096
Income tax relating to components of other comprehensive income	2,088	1,489	(1,294)	(12,774)
Other comprehensive gain/(loss) for the financial period	3,418	(12,311)	(868)	30,458
Total comprehensive income for the financial period, net of tax	<u>294,850</u>	<u>212,438</u>	<u>547,764</u>	<u>489,373</u>
Attributable to:				
- Equity holders of the Company	294,850	212,438	547,764	489,418
- Minority interests	-	-	-	(45)
	<u>294,850</u>	<u>212,438</u>	<u>547,764</u>	<u>489,373</u>

**Hong Leong Bank Berhad**  
**Condensed Financial Statements**  
**Unaudited Income Statements**  
**For The Financial Quarter Ended 31 December 2010**

**The Bank**

	Note	Current Quarter Ended 31/12/2010 RM'000	Corresponding Quarter Ended 31/12/2009 RM'000	Current Period Ended 31/12/2010 RM'000	Corresponding Period Ended 31/12/2009 RM'000
Interest income	16	735,497	641,439	1,459,553	1,268,172
Interest expense	17	(371,760)	(295,564)	(723,944)	(586,652)
Net interest income		363,737	345,875	735,609	681,520
Other operating income	18	215,268	131,198	334,610	255,622
Net Income		579,005	477,073	1,070,219	937,142
Other operating expenses	19	(225,406)	(212,962)	(423,141)	(404,520)
Operating profit before provision Allowance for impairment on loans, advances and financing		353,599	264,111	647,078	532,622
Impairment loss	20	(32,675) -	(25,455) 6,081	(65,630) -	(66,598) 6,081
Profit before taxation (and zakat)		320,924	244,737	581,448	472,105
Taxation		(75,677)	(59,662)	(137,060)	(107,168)
Profit after taxation		245,247	185,075	444,388	364,937
Profit attributable to shareholders		245,247	185,075	444,388	364,937
Earnings per share - basic (sen)		16.9	12.8	30.6	25.2
Earnings per share - fully diluted (sen)		16.9	12.8	30.6	25.2

**Hong Leong Bank Berhad**  
**Condensed Financial Statements**  
**Unaudited Statements of Comprehensive Income**  
**For The Financial Quarter Ended 31 December 2010**

**The Bank**

	<b>Current Quarter Ended 31/12/2010 RM'000</b>	<b>Corresponding Quarter Ended 31/12/2009 RM'000</b>	<b>Current Period Ended 31/12/2010 RM'000</b>	<b>Corresponding Period Ended 31/12/2009 RM'000</b>
Net profit for the period	<u>245,247</u>	<u>185,075</u>	<u>444,388</u>	<u>364,937</u>
Other comprehensive income/(loss):				
Currency translation difference	377	-	377	-
Net fair value changes on financial investments available-for-sale	(3,020)	(3,902)	7,309	52,295
Income tax relating to components of other comprehensive income	<u>755</u>	<u>976</u>	<u>(1,827)</u>	<u>(13,074)</u>
Other comprehensive gain/(loss) for the financial period	<u>(1,888)</u>	<u>(2,927)</u>	<u>5,859</u>	<u>39,221</u>
Total comprehensive income for the financial period, net of tax	<u><u>243,359</u></u>	<u><u>182,148</u></u>	<u><u>450,247</u></u>	<u><u>404,158</u></u>

**Hong Leong Bank Berhad**  
**Condensed Financial Statements**

**Unaudited Statement of Changes in Equity For The Financial Period Ended 31 December 2010**

<u>The Group</u>	← Non-distributable →						Distributable					
	Share Capital RM'000	Share Premium RM'000	Statutory Reserve RM'000	Fair Value Reserve RM'000	Share options Reserve RM'000	Regulatory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Retained Profit RM'000	Treasury Shares RM'000	Total Shareholders' Equity RM'000	Minority Interest RM'000	Total Equity RM'000
<b>Balance as at 1 July 2010</b>	1,580,107	539,664	1,902,915	17,060	15,829	-	12,313	3,044,043	(687,908)	6,424,023	-	6,424,023
- Effect of adopting FRS 139	-	-	-	79,090	-	-	-	24,655	-	103,745	-	103,745
<b>Balance as at 1 July 2010, as restated</b>	1,580,107	539,664	1,902,915	96,150	15,829	-	12,313	3,068,698	(687,908)	6,527,768	-	6,527,768
Net profit for the period	-	-	-	-	-	-	-	548,632	-	548,632	-	548,632
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
- Net fair value changes in financial investments available-for-sale	-	-	-	3,881	-	-	-	-	-	3,881	-	3,881
- Currency translation difference	-	-	-	-	-	-	(4,749)	-	-	(4,749)	-	(4,749)
Total comprehensive income for the period	-	-	-	3,881	-	-	(4,749)	548,632	-	547,764	-	547,764
Transfer to statutory reserve/Regulatory reserve	-	-	16,929	-	-	768	-	(16,929)	-	768	-	768
Dividend paid	-	-	-	-	-	-	-	(163,441)	-	(163,441)	-	(163,441)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
ESOS exercised	-	-	-	-	(1,342)	-	-	2,314	9,283	10,255	-	10,255
Option charge arising from ESOS granted	-	-	-	-	4,163	-	-	-	-	4,163	-	4,163
<b>Closing Balance @ 31 December 2010</b>	<b>1,580,107</b>	<b>539,664</b>	<b>1,919,844</b>	<b>100,031</b>	<b>18,650</b>	<b>768</b>	<b>7,564</b>	<b>3,439,274</b>	<b>(678,625)</b>	<b>6,927,277</b>	<b>-</b>	<b>6,927,277</b>
Balance as at 1 July 2009	1,580,107	539,664	1,860,821	(26,701)	13,022	-	37,050	2,428,953	(699,052)	5,733,864	42,988	5,776,852
- Prior year adjustments	-	-	-	-	-	-	-	(72,627)	-	(72,627)	-	(72,627)
<b>Balance as at 1 July 2009, as restated</b>	<b>1,580,107</b>	<b>539,664</b>	<b>1,860,821</b>	<b>(26,701)</b>	<b>13,022</b>	<b>-</b>	<b>37,050</b>	<b>2,356,326</b>	<b>(699,052)</b>	<b>5,661,237</b>	<b>42,988</b>	<b>5,704,225</b>
Net profit for the period	-	-	-	-	-	-	-	458,960	-	458,960	(45)	458,915
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
- Net fair value changes in financial investments available-for-sale	-	-	-	38,322	-	-	-	-	-	38,322	-	38,322
- Currency translation difference	-	-	-	-	-	-	(7,864)	-	-	(7,864)	-	(7,864)
Total comprehensive income for the period	-	-	-	38,322	-	-	(7,864)	458,960	-	489,418	(45)	489,373
Transfer to statutory reserve	-	-	23,404	-	-	-	-	(23,404)	-	-	-	-
Disposal of subsidiary	-	-	-	-	-	-	-	-	-	-	(42,943)	(42,943)
Dividend paid	-	-	-	-	-	-	-	(163,060)	-	(163,060)	-	(163,060)
Add: ESOS exercised	-	234	-	-	-	-	-	-	3,417	3,651	-	3,651
Option charge arising from ESOS granted	-	-	-	-	5,149	-	-	-	-	5,149	-	5,149
<b>Closing Balance @ 31 December 2009</b>	<b>1,580,107</b>	<b>539,898</b>	<b>1,884,225</b>	<b>11,621</b>	<b>18,171</b>	<b>-</b>	<b>29,186</b>	<b>2,628,822</b>	<b>(695,635)</b>	<b>5,996,395</b>	<b>-</b>	<b>5,996,395</b>

\* The regulatory reserves are maintained by the Group's banking subsidiary company in Vietnam in line with the requirements of the State Bank of Vietnam.

**Hong Leong Bank Berhad**  
**Condensed Financial Statements**

**Unaudited Statement of Changes in Equity For The Financial Period Ended 31 December 2010**

	← Non-distributable →				Distributable				
	Share Capital RM'000	Share Premium RM'000	Statutory Reserve RM'000	Fair value reserve RM'000	Share options Reserve RM'000	Exchange Fluctuation Reserve RM'000	Retained Profit RM'000	Treasury Shares RM'000	Total RM'000
<b>The Bank</b>									
<b>Balance as at 1 July 2010</b>	1,580,107	539,664	1,741,612	17,189	15,829	35,529	2,573,041	(687,908)	5,815,063
<b>- Effect of adopting FRS 139</b>	-	-	-	79,468	-	-	16,585	-	96,053
<b>Balance as at 1 July 2010, as restated</b>	<u>1,580,107</u>	<u>539,664</u>	<u>1,741,612</u>	<u>96,657</u>	<u>15,829</u>	<u>35,529</u>	<u>2,589,626</u>	<u>(687,908)</u>	<u>5,911,116</u>
Net profit for the period	-	-	-	-	-	-	444,388	-	444,388
Other comprehensive income									
- Net fair value changes in financial investments available-for-sale	-	-	-	5,482	-	-	-	-	5,482
- Currency translation difference	-	-	-	-	-	377	-	-	377
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,482</u>	<u>-</u>	<u>377</u>	<u>444,388</u>	<u>-</u>	<u>450,247</u>
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	(163,441)	-	(163,441)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-
ESOS exercised	-	-	-	-	(1,342)	-	2,318	9,283	10,259
Options charge arising from ESOS granted	-	-	-	-	4,163	-	-	-	4,163
<b>Closing Balance @ 31 December 2010</b>	<b><u>1,580,107</u></b>	<b><u>539,664</u></b>	<b><u>1,741,612</u></b>	<b><u>102,139</u></b>	<b><u>18,650</u></b>	<b><u>35,906</u></b>	<b><u>2,872,891</u></b>	<b><u>(678,625)</u></b>	<b><u>6,212,344</u></b>
Balance as at 1 July 2009	1,580,107	539,664	1,741,612	(27,654)	13,022	35,529	2,136,060	(699,052)	5,319,288
- Prior year adjustments	-	-	-	-	-	-	(72,627)	-	(72,627)
Balance as at 1 July 2009, as restated	<u>1,580,107</u>	<u>539,664</u>	<u>1,741,612</u>	<u>(27,654)</u>	<u>13,022</u>	<u>35,529</u>	<u>2,063,433</u>	<u>(699,052)</u>	<u>5,246,661</u>
Net profit for the period	-	-	-	-	-	-	364,937	-	364,937
Other comprehensive income									
- Net fair value changes in financial investments available-for-sale	-	-	-	39,221	-	-	-	-	39,221
- Currency translation difference	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,221</u>	<u>-</u>	<u>-</u>	<u>364,937</u>	<u>-</u>	<u>404,158</u>
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	(163,060)	-	(163,060)
Add: ESOS exercised	-	234	-	-	-	-	-	3,417	3,651
Options charge arising from ESOS granted	-	-	-	-	5,149	-	-	-	5,149
<b>Closing Balance @ 31 December 2009</b>	<b><u>1,580,107</u></b>	<b><u>539,898</u></b>	<b><u>1,741,612</u></b>	<b><u>11,567</u></b>	<b><u>18,171</u></b>	<b><u>35,529</u></b>	<b><u>2,265,310</u></b>	<b><u>(695,635)</u></b>	<b><u>5,496,559</u></b>

**Hong Leong Bank Berhad**  
**Condensed Financial Statements**  
**Unaudited Condensed Statements of Cash Flows**  
**For The Financial Period Ended 31 December 2010**

	The Group		The Bank	
	Financial Period Ended 31/12/2010 RM'000	Financial Period Ended 31/12/2009 RM'000	Financial Period Ended 31/12/2010 RM'000	Financial Period Ended 31/12/2009 RM'000
<b>Operating activities</b>				
Profit before taxation	677,066	580,112	581,448	472,105
Adjustments for non-cash items	(351,010)	(120,664)	(373,552)	(129,092)
Operating profit before working capital changes	326,056	459,448	207,896	343,013
Income taxes and zakat paid	(89,064)	(62,902)	(77,208)	(50,979)
Net changes in working capital	(227,381)	(291,387)	(168,532)	349,602
Net cash flow from operating activities	9,611	105,159	(37,844)	641,637
Net cash flow from investing activities	(1,575,639)	(3,817,665)	(1,005,997)	(3,680,898)
Net cash flow from financing activities	(171,540)	(177,788)	(170,767)	(177,788)
<b>Changes in cash and cash equivalents</b>	<b>(1,737,568)</b>	<b>(3,890,294)</b>	<b>(1,214,608)</b>	<b>(3,217,049)</b>
Currency translation differences	(23,040)	30,198	(3,015)	55,227
<b>Cash and cash equivalents at the beginning of year</b>	<b>15,682,086</b>	<b>18,343,622</b>	<b>13,928,247</b>	<b>15,820,913</b>
<b>Cash and cash equivalents at the end of period</b>	<b>13,921,478</b>	<b>14,483,526</b>	<b>12,710,624</b>	<b>12,659,091</b>



# HONG LEONG BANK BERHAD ("HLB" or "Bank")

## NOTES TO THE AUDITED CONDENSED FINANCIAL STATEMENTS FOR FINANCIAL QUARTER ENDED 31 DECEMBER 2010

### 1 Basis of preparation

The condensed financial statements of the Group and of the Bank have been prepared in accordance with Financial Reporting Standard ("FRS") 134: Interim Financial Reporting (previously known as MASB 26) issued by the Malaysian Accounting Standard Board ("MASB") and Chapter 9, Part K of the Listing Requirements of the Bursa Malaysia Securities Berhad and Guidelines on Financial Reporting for Banking Institutions (BNM/RH/GL 001-31) issued by Bank Negara Malaysia and should be read in conjunction with the Group's audited annual financial statements for the year ended 30 June 2010.

The accounting policies and presentation adopted by the Group and the Bank for the interim financial statements are consistent with those adopted in the financial statements for the financial year ended 30 June 2010 except for the first time adoption of the following standards, amendments to published standards and interpretations to existing standards:

FRS 101	Presentation of Financial Statements
Amendments to FRS 1	First-time Adoption of Financial Reporting Standards
FRS 7	Financial Instruments: Disclosure
FRS 139	Financial Instruments: Recognition and Measurement
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 13	Customer Loyalty Programmes

The adoption of the above do not give rise to any material effects to the Group and Bank, other than the effects and change in accounting policies arising from adoption of FRS 139.

### 2 Status of matters giving rise to the auditor's qualified report in the preceding annual financial statements financial statements for the year ended 30 June 2010

There was no qualified report issued by the auditors in the preceding annual financial statements for the year ended 30 June 2010

### 3 Seasonality or cyclicity of operations

The business operations of the Group and the Bank have not been affected by any material seasonal and cyclical factors.

### 4 Exceptional items or unusual events affecting financial statements

There were no exceptional items or unusual events that materially affected the financial statements.

### 5 Variation from financial estimates reported in preceding financial period/year

There were no changes in estimates of amounts reported in the prior financial year that may have a material effect in the current period.

## 6 Issuance and repayment of debt and equity securities

### a) Share Buy-back

During the financial period ended 31 December 2010, the Bank purchased a total of 1,000 ordinary shares of RM1.00 each ('Shares') from the open market. The Shares purchased are being held as treasury shares in accordance with the provision of Section 67A of the Companies Act, 1965.

Details of the Shares bought back for the financial period ended 31 December 2010 were as follows:

Month	No of shares bought back	Lowest price paid RM	Highest price paid RM	Average price paid RM	Total consideration (including transaction cost) RM
Jul-10	-	-	-	-	-
Aug-10	-	-	-	-	-
Sep-10	-	-	-	-	-
Oct-10	1,000	9.10	9.10	9.10	9,153
Nov-10	-	-	-	-	-
Dec-10	-	-	-	-	-
<b>For the period</b>	<b>1,000</b>	<b>9.10</b>	<b>9.10</b>	<b>9.10</b>	<b>9,153</b>

The total number of Shares bought back, all of which were held as treasury shares as at 31 December 2010 amounted to 81,095,700 Shares, at an average price per share of RM5.32. None of the treasury shares were resold or cancelled to date.

### b) Purchase of shares pursuant to ESOS

A trust has been set up for the ESOS of the Bank and is administered by an appointed trustee. The trustee will be entitled from time to time to accept financial assistance from the Bank upon such terms and conditions as the Bank and the trustee may agree to purchase the Bank's shares from the open market for the purposes of this trust. In accordance to FRS 132: Financial Statements: Presentation and Disclosure, the shares purchased for the benefit of the ESOS holders are recorded as "Treasury Shares", in addition to the Treasury Shares for share buy-back, in the Shareholders' Funds on the Balance Sheet.

During the financial period ended 31 December 2010, the trust did not purchase any new shares. As at 31 December 2010, the total number of Treasury Shares for ESOS was 46,179,120 at an average carrying value of RM5.35 per share.

The Bank has granted the following conditional incentive share options to eligible executives of the Bank pursuant to the ESOS of HLB:

- (a) 4,500,000 share options at an exercise price of RM5.72;
- (b) 21,800,000 share options at an exercise price of RM6.05;
- (c) 12,835,000 share options at an exercise price of RM5.99;
- (d) 200,000 shares options at an exercise price of RM7.49; and
- (e) 3,095,000 shares options at an exercise price of RM9.14

subject to the achievement of certain performance criteria during the performance period. The said share options, if vested, will be satisfied by the transfer of existing shares purchased by a trust established for the ESOS.

During the financial period ended 31 December 2010, a total of 1,735,880 ordinary shares of RM1 each for cash were exercised pursuant to the Company's ESOS at exercise price above per ordinary share.

c) Subordinated Bonds

On 3 August 2010, the Bank had fully redeemed its US\$200 million Subordinated Callable Bonds Due 2015 ("Bonds"). The Bonds has been delisted from the Official Listing of the Singapore Exchange Securities Trading Limited following the redemption.

d) Subordinated Debt

On 10 August 2010, the Bank had completed its inaugural Ringgit issuance of RM700 million Tier 2 Subordinated Debt ("Sub Debt"). The Sub Debt formed part of the Tier 2 Subordinated Notes Programme of up to RM1.7 billion, as approved by the Securities Commission vide its letter dated 27 July 2010.

The Sub Debt has a maturity of 10 years and matures on 10 August 2020. Subject to BNM's approval, HLB has the option to redeem the Sub Debt early at the end of year 5, which is on 10 August 2015 and on each subsequent coupon payment dates thereafter. The Sub Debt's interest rate is 4.85% per annum payable semi-annually in arrears for the tenor of the notes.

**7 Dividends paid**

A final dividend of 15.0 sen per share less income tax of 25% in respect of financial year ended 30 June 2010 amounting to RM163.4 million was paid on 11 November 2010.

## 8 Financial assets held-for-trading

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Money market instruments:				
Malaysian Government Treasury				
Bills	154,586	251,599	96,136	-
Malaysian Government Securities	579,689	1,107,934	579,689	1,107,934
Malaysian Government Investment				
Certificates	900,626	1,116,703	890,551	803,122
Bank Negara Malaysia (BNM)				
Bills	4,718,247	2,417,684	3,029,268	1,962,500
Cagamas Bonds	-	254,998	-	204,998
Bankers' Acceptance and Islamic				
Accepted bills	3,962,102	2,771,744	3,564,076	2,161,167
Negotiable Instruments of Deposit	498,252	739,705	209,240	287,117
	<u>10,813,502</u>	<u>8,660,367</u>	<u>8,368,960</u>	<u>6,526,838</u>
Quoted securities:				
Foreign Currency Bonds	197,650	115,516	197,650	115,516
Unquoted securities:				
Private Debt Securities	20,650	60,870	20,650	60,870
<b>Total financial assets held-for-trading</b>	<u><u>11,031,802</u></u>	<u><u>8,836,753</u></u>	<u><u>8,587,260</u></u>	<u><u>6,703,224</u></u>

## 9 Financial investments available-for-sale

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Money market instruments:				
Malaysian Government Investment				
Certificates	2,684,050	2,123,648	1,607,740	1,584,588
Other Government Securities	-	8,312	-	8,312
Government Treasury Bills	336,494	533,551	336,494	533,551
Malaysian Government Securities	634,962	1,076,631	634,962	1,076,631
Singapore Government securities	-	-	-	-
Cagamas Bonds	105,282	125,715	20,137	100,377
	<u>3,760,788</u>	<u>3,867,857</u>	<u>2,599,333</u>	<u>3,303,459</u>
Quoted Securities:				
Shares and Convertible Loan				
Stocks	100,413	91,650	100,413	91,650
Foreign Currency Bonds	543,012	335,881	543,012	335,881
Unit Trust Funds	600,150	-	600,150	-
Unquoted securities:				
Private Debt Securities	154,312	133,382	123,907	128,377
Shares	132,547	-	132,475	-
Total financial investments available-for-sale	<u>5,291,222</u>	<u>4,428,770</u>	<u>4,099,290</u>	<u>3,859,367</u>

## 10 Financial investments held-to-maturity

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Money market instruments:				
Malaysian Government Securities	3,794,501	4,144,712	3,794,501	4,144,712
Malaysian Government Investment Certificates	1,256,844	1,312,548	916,417	916,983
Cagamas bonds	169,886	279,872	169,886	279,872
Negotiable Instruments of Deposit	1,479,845	680,588	2,043,768	1,547,309
Other government securities	4,732	3,374	-	-
	<u>6,705,808</u>	<u>6,421,094</u>	<u>6,924,572</u>	<u>6,888,876</u>
Unquoted securities:				
Shares	-	27,578	-	27,003
Private debt securities	140,018	191,562	74,551	125,962
Loan Stocks	749	769	749	769
	<u>140,767</u>	<u>219,909</u>	<u>75,300</u>	<u>153,734</u>
Total financial investments held-to-maturity	<u>6,846,575</u>	<u>6,641,003</u>	<u>6,999,872</u>	<u>7,042,610</u>

## 11 Loans, advances and financing

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Overdrafts	2,063,371	2,036,810	2,062,231	2,033,395
Term loans:				
- Housing and shop loans/financing	25,024,251	22,534,948	19,149,462	18,200,159
- Syndicated term loan/financing	2,886,594	2,242,775	2,079,653	1,828,346
- Hire purchase receivables	5,911,108	5,650,823	3,386,397	3,183,902
- Lease receivables	5,998	11,866	-	-
- Other term loans/financing	2,549,875	2,244,026	2,392,009	2,098,015
Credit/charge card receivables	2,421,663	2,210,438	2,421,663	2,210,438
Bills receivables	472,863	268,725	472,863	268,725
Trust receipts	91,274	98,419	91,274	98,419
Claims on customers under acceptance credits	3,597,845	3,619,054	3,379,070	3,515,919
Block discounting	8,329	8,244	8,329	8,244
Revolving credits	1,990,489	1,365,401	1,987,402	1,365,401
Staff loans:				
Directors	-	-	-	-
Staffs other than Directors	88,112	99,531	88,106	99,528
Other loans/financing	43,781	40,769	43,392	40,302
	<u>47,155,553</u>	<u>42,431,829</u>	<u>37,561,851</u>	<u>34,950,793</u>
Unearned interest and income	(5,316,375)	(3,876,159)	(723,276)	(622,724)
Gross loans, advances and financing	<u>41,839,178</u>	<u>38,555,670</u>	<u>36,838,575</u>	<u>34,328,069</u>
Unamortised fair value changes arising from terminated fair value hedges	35,568	46,725	19,518	25,435
Allowance for impaired loans, advances and financing:				
- Collective assessment	(812,168)	-	(713,481)	-
- Individual assessment	(220,792)	-	(216,908)	-
- General	-	(577,822)	-	(511,615)
- Specific	-	(275,503)	-	(252,796)
Net loans, advances and financing	<u>40,841,786</u>	<u>37,749,070</u>	<u>35,927,704</u>	<u>33,589,093</u>

**11 Loans, advances and financing** (continued)

11a By type of customer

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Domestic non-bank financial institutions	170,456	178,501	161,385	174,251
Domestic business enterprises				
- Small and medium enterprises	3,667,487	3,349,519	3,305,245	3,074,735
- Others	8,942,279	8,271,816	8,007,446	7,683,774
Government and statutory bodies	106	278	106	278
Individuals	27,159,265	25,519,745	23,530,823	22,216,564
Other domestic entities	13,974	14,395	12,992	13,247
Foreign entities	1,885,611	1,221,416	1,820,578	1,165,220
<b>Gross loans, advances and financing</b>	<b>41,839,178</b>	<b>38,555,670</b>	<b>36,838,575</b>	<b>34,328,069</b>

11b By interest/profit rate sensitivity

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Fixed rate				
- Housing and shop loans/financing	542,435	530,012	269,254	238,678
- Hire purchase receivables	5,115,875	4,924,898	2,918,070	2,757,962
- Other fixed rate loan/financing	3,795,473	3,279,953	3,738,753	3,209,150
Variable rate				
- Base lending rate plus	27,175,337	25,141,613	24,921,572	23,546,220
- Cost plus	4,978,495	4,606,547	4,759,720	4,503,412
- Other variables rates	231,563	72,647	231,206	72,647
<b>Gross loans, advances and financing</b>	<b>41,839,178</b>	<b>38,555,670</b>	<b>36,838,575</b>	<b>34,328,069</b>



**11 Loans, advances and financing (continued)**

11c By economic purpose

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Purchase of securities	524,651	414,513	524,651	414,420
Purchase of transport vehicles	5,211,771	4,834,160	3,011,399	2,753,057
Purchase of landed properties				
- residential	17,283,023	14,930,332	15,568,065	13,582,028
- non-residential	5,101,876	4,436,355	4,828,402	4,239,732
Personal use	1,646,311	2,994,401	1,643,207	2,929,720
Credit card	2,421,663	2,210,438	2,421,663	2,210,438
Purchase of consumer durables	63	62	63	62
Construction	250,631	298,512	247,571	273,602
Working capital	9,054,296	8,388,912	8,256,076	7,885,786
Others	344,893	47,985	337,478	39,224
Gross loans, advances and financing	<u>41,839,178</u>	<u>38,555,670</u>	<u>36,838,575</u>	<u>34,328,069</u>

11d By geographical distribution

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Malaysia	40,258,709	37,633,753	35,258,106	33,406,152
Singapore	1,561,690	921,917	1,561,690	921,917
Vietnam	18,779	-	18,779	-
Gross loans, advances and financing	<u>41,839,178</u>	<u>38,555,670</u>	<u>36,838,575</u>	<u>34,328,069</u>

**11 Loans, advances and financing (continued)**

11e By residual contractual maturity

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Within one year	12,485,053	11,078,560	11,988,287	9,057,329
One year to less than three years	2,965,220	2,737,654	2,254,634	2,041,299
Three years to less than five years	3,339,709	3,050,511	2,536,818	2,280,991
Five years and more	23,049,196	21,688,945	20,058,836	20,948,450
Gross loans, advances and financing	<u>41,839,178</u>	<u>38,555,670</u>	<u>36,838,575</u>	<u>34,328,069</u>

11f Impaired loans, advances and financing/non-performing loans by economic purpose

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Purchase of securities	11,953	10,264	11,953	10,264
Purchase of transport vehicles	52,971	40,252	31,591	23,512
Purchase of landed properties				
- residential	236,891	201,359	217,592	185,699
- non-residential	63,789	55,633	62,873	55,028
Personal use	68,709	53,792	68,704	53,407
Credit card	23,657	27,859	23,657	27,859
Construction	20,146	15,907	20,146	15,772
Working capital	393,784	321,662	387,357	318,863
Others	383	7	383	7
	<u>872,283</u>	<u>726,735</u>	<u>824,256</u>	<u>690,411</u>

11 **Loans, advances and financing** (continued)

11g Impaired loans, advances and financing/non-performing loans by geographical distribution

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Malaysia	827,952	685,504	779,925	649,180
Singapore	44,331	41,231	44,331	41,231
Vietnam	-	-	-	-
	<u>872,283</u>	<u>726,735</u>	<u>824,256</u>	<u>690,411</u>

11h Movements in impaired loans, advances and financing/non-performing loans are as follows:

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
At 1 July				
- as previously stated	726,735	800,159	690,411	753,899
- effect of adopting FRS 139	203,467	-	197,035	-
At 1 July, as restated	930,202	800,159	887,446	753,899
Classified as impaired/non-performing during the period/year	334,835	2,910,070	304,700	2,674,909
Reclassified as non-impaired/performing	(183,736)	(2,482,001)	(168,306)	(2,270,796)
Amount written back in respect of recoveries	(131,955)	(287,538)	(122,521)	(263,371)
Amount written off	(77,726)	(211,944)	(77,726)	(202,219)
Exchange differences	663	(2,011)	663	(2,011)
Closing balance	<u>872,283</u>	<u>726,735</u>	<u>824,256</u>	<u>690,411</u>
Gross impaired /non-performing loan as a % of gross loans advances and financing	<u>2.1%</u>	<u>1.9%</u>	<u>2.2%</u>	<u>2.0%</u>

**11 Loans, advances and financing** (continued)

11i Movements in allowance for impaired loans, advances and financing are as follows:

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
<u>Collective Assessment Allowance</u>				
At 1 July				
- as previously stated	-	-	-	-
- effect of adopting FRS 139	769,545	-	684,670	-
At 1 July, as restated	769,545	-	684,670	-
Allowance made during the period/year	160,137	-	138,743	-
Amount written back in respect of recoveries	(46,175)	-	(39,114)	-
Amount written off	(65,542)	-	(65,543)	-
Unwinding income	(6,422)	-	(5,900)	-
Exchange differences	625	-	625	-
Closing balance	<u>812,168</u>	<u>-</u>	<u>713,481</u>	<u>-</u>
As a % of gross loans, advances and financing less loans exempted from individual assessment allowance	<u>2.0%</u>	<u>-</u>	<u>1.9%</u>	<u>-</u>
<u>Individual Assessment Allowance</u>				
At 1 July				
- as previously stated	-	-	-	-
- effect of adopting FRS 139	228,018	-	226,724	-
At 1 July, as restated	228,018	-	226,724	-
Allowance made during the period/year	17,754	-	14,703	-
Amount written back in respect of recoveries	(8,622)	-	(8,238)	-
Amount written off	(8,118)	-	(8,118)	-
Unwinding income	(8,995)	-	(8,918)	-
Exchange differences	755	-	755	-
Closing balance	<u>220,792</u>	<u>-</u>	<u>216,908</u>	<u>-</u>

**11 Loans, advances and financing (continued)**

11i Movements in allowance for impaired loans, advances and financing are as follows (continued):

General Allowance

At 1 July				
- as previously stated	577,822	544,823	511,615	471,305
- effect of adopting FRS 139	(577,822)	-	(511,615)	-
At 1 July, as restated	-	544,823	-	471,305
Net allowance made during the period/year	-	33,593	-	40,905
Exchange differences	-	(594)	-	(595)
Closing balance	-	577,822	-	511,615
As a % of gross loans, advances and financing less specific allowance	-	1.5%	-	1.5%

Specific Allowance

At 1 July				
- as previously stated	275,503	327,834	252,796	306,807
- effect of adopting FRS 139	(275,503)	-	(252,796)	-
At 1 July, as restated	-	327,834	-	306,807
Allowance made during the period/year	-	289,332	-	269,501
Amount written back in respect of recoveries	-	(128,452)	-	(120,026)
Amount written off	-	(211,944)	-	(202,219)
Exchange differences	-	(1,267)	-	(1,267)
Closing balance	-	275,503	-	252,796

## 12 Other assets

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Interest/Income receivable	169,543	173,155	146,550	154,430
Other debtors, deposits and prepayments	1,407,912	1,544,171	1,821,422	1,859,114
Foreclosed properties	496	1,277	496	1,277
	<u>1,577,951</u>	<u>1,718,603</u>	<u>1,968,468</u>	<u>2,014,821</u>

## 13 Deposits from customers

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
<u>By type of customer</u>				
Government and statutory bodies	2,353,192	856,715	676,228	301,097
Business enterprises	32,629,675	34,198,672	28,733,874	30,186,453
Individuals	34,992,279	33,353,132	32,993,177	31,601,960
Others	1,454,961	1,304,173	1,330,511	1,149,540
	<u>71,430,107</u>	<u>69,712,692</u>	<u>63,733,790</u>	<u>63,239,050</u>

#### 14 Deposits and placements of banks and other financial institution

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Licensed banks	5,293,630	3,583,826	5,270,630	3,577,032
Other financial institutions	114,640	292,577	114,143	214,097
	<u>5,408,270</u>	<u>3,876,403</u>	<u>5,384,773</u>	<u>3,791,129</u>

#### 15 Other liabilities

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Interest/Profit payable	224,835	377,061	180,956	339,044
Zakat	66	50	-	-
Post employment benefits obligation				
- defined contribution plan	3,100	3,113	3,100	3,113
Loan advance payment	1,062,081	982,043	976,127	927,380
Amount due to subsidiary companies	-	-	70,568	70,968
Others	1,351,590	2,302,654	1,396,151	2,549,790
	<u>2,641,672</u>	<u>3,664,921</u>	<u>2,626,902</u>	<u>3,890,295</u>

## 16 Interest income

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
	RM'000	RM'000	RM'000	RM'000
<b>Group</b>				
Loan, advances and financing	450,926	401,557	891,842	811,225
Money at call and deposit placements with financial institutions	104,431	79,414	212,500	151,545
Securities purchased under resale agreements	1,086	-	1,339	6
Financial assets held-for-trading	18,128	15,574	39,347	31,462
Financial investments available-for-sale	25,008	34,873	51,797	73,404
Financial investments held-to-maturity	119,219	100,392	227,191	188,958
Others	10,316	114	14,599	192
	<u>729,114</u>	<u>631,924</u>	<u>1,438,615</u>	<u>1,256,792</u>
Of which:				
Interest income earned on impaired loans, advances and financing	<u>9,170</u>	<u>-</u>	<u>15,417</u>	<u>-</u>

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
	RM'000	RM'000	RM'000	RM'000
<b>Bank</b>				
Loan, advances and financing	450,466	405,343	891,103	816,233
Money at call and deposit placements with financial institutions	104,411	75,812	213,185	148,628
Securities purchased under resale agreements	1,086	-	1,339	6
Financial assets held-for-trading	18,128	15,585	39,347	31,698
Financial investments available-for-sale	25,008	34,873	51,797	73,137
Financial investments held-to-maturity	124,268	100,392	238,540	188,958
Others	12,130	9,434	24,242	9,512
	<u>735,497</u>	<u>641,439</u>	<u>1,459,553</u>	<u>1,268,172</u>
Of which:				
Interest income earned on impaired loans, advances and financing	<u>8,846</u>	<u>-</u>	<u>14,818</u>	<u>-</u>



## 17 Interest expense

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
	RM'000	RM'000	RM'000	RM'000
<b>Group</b>				
Deposits and placements of banks and other financial institutions	16,775	5,562	31,024	13,387
Deposits from customers	263,232	216,418	495,066	444,199
Short term corporate placements	66,660	54,977	145,850	100,278
Subordinated bonds	8,947	8,865	17,665	17,969
Others	125	41	299	51
	<u>355,739</u>	<u>285,863</u>	<u>689,904</u>	<u>575,884</u>

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
	RM'000	RM'000	RM'000	RM'000
<b>Bank</b>				
Deposits and placements of banks and other financial institutions	16,601	6,040	31,575	14,550
Deposits from customers	279,427	225,641	528,555	453,804
Short term corporate placements	66,660	54,977	145,850	100,278
Subordinated bonds	8,947	8,865	17,665	17,969
Others	125	41	299	51
	<u>371,760</u>	<u>295,564</u>	<u>723,944</u>	<u>586,652</u>

## 18 Other operating income

<b>Group</b>	<b>2nd Quarter Ended</b>		<b>Cumulative Six Months Ended</b>	
	<b>31/12/2010</b>	<b>31/12/2009</b>	<b>31/12/2010</b>	<b>31/12/2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
(a) <u>Fee income:</u>				
Commissions	18,284	17,878	35,341	35,820
Service charges and fees	4,939	4,706	9,210	9,055
Guarantee fees	1,684	1,528	3,079	2,898
Other fee income	72,125	53,721	131,412	103,721
	<u>97,032</u>	<u>77,833</u>	<u>179,042</u>	<u>151,494</u>
(b) <u>Gain/loss arising from sale of financial assets:</u>				
Net gain from sale of financial assets held-for-trading and derivatives	27,751	31,245	54,067	44,164
Net gain from sale of financial investments available-for-sale	1,190	5,358	5,120	5,612
Net gain from redemption of financial investments held-to-maturity	71	47	91	1,021
	<u>29,012</u>	<u>36,650</u>	<u>59,278</u>	<u>50,797</u>
(c) <u>Gross dividend income from:</u>				
Financial assets held-for-trading	-	-	-	-
Financial investments available-for-sale	8,418	622	15,796	1,915
Financial investments held-to-maturity	243	-	243	3,396
	<u>8,661</u>	<u>622</u>	<u>16,039</u>	<u>5,311</u>

18 Other operating income (continued)

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010 RM'000	31/12/2009 RM'000	31/12/2010 RM'000	31/12/2009 RM'000
(d) <u>Net unrealised gains/(losses) on revaluation of financial assets held-for-trading and derivatives</u>	15,054	(32,676)	9,584	(30,781)
(e) <u>Net realised gains/(losses) on fair value changes arising from fair value hedges and amortisation of fair value changes arising from terminated fair value hedges</u>	(15,051)	(9,947)	(19,953)	(10,140)
(f) <u>Net unrealised gains/(losses) on fair value changes arising from fair value hedges</u>	18,378	16,878	13,761	17,043
(g) <u>Other income:</u>				
Foreign exchange gain	23,648	30,497	31,368	57,616
Rental income	138	88	290	267
Gain on disposal of property and equipment (net)	11	410	7	405
Profit from Takaful investments	-	-	-	1,758
Others	4,340	5,099	9,412	10,434
	<u>28,137</u>	<u>36,094</u>	<u>41,077</u>	<u>70,480</u>
Total other operating income	<u>181,223</u>	<u>125,454</u>	<u>298,828</u>	<u>254,204</u>

## 18 Other operating income

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
	RM'000	RM'000	RM'000	RM'000
<b>Bank</b>				
(a) <u>Fee income:</u>				
Commissions	18,284	17,878	35,340	35,819
Service charges and fees	4,950	4,720	9,222	9,069
Guarantee fees	1,684	1,528	3,079	2,898
Other fee income	72,133	53,727	131,427	103,733
	<u>97,051</u>	<u>77,853</u>	<u>179,068</u>	<u>151,519</u>
(b) <u>Gain/loss arising from sale of financial assets:</u>				
Net gain from sale of financial assets held-for-trading and derivatives	27,751	31,245	54,067	44,164
Net gain from sale of financial investments available-for-sale	1,190	5,358	5,120	5,612
Net gain from redemption of financial investments held-to-maturity	71	47	91	1,021
	<u>29,012</u>	<u>36,650</u>	<u>59,278</u>	<u>50,797</u>
(c) <u>Gross dividend income from:</u>				
Subsidiary companies	32,000	-	32,000	-
Associated company	-	-	-	-
Financial assets held-for-trading	-	-	-	-
Financial investments available-for-sale	8,418	622	15,796	1,915
Financial investments held-to-maturity	243	-	243	3,396
	<u>40,661</u>	<u>622</u>	<u>48,039</u>	<u>5,311</u>

18 Other operating income (continued)

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010 RM'000	31/12/2009 RM'000	31/12/2010 RM'000	31/12/2009 RM'000
(d) <u>Net unrealised gains/(losses) on revaluation of financial assets held-for-trading and derivatives</u>	15,054	(29,925)	9,584	(24,935)
(e) <u>Net realised gains/(losses) on fair value changes arising from fair value hedges and amortisation of fair value changes arising from terminated fair value hedges</u>	(12,597)	(9,947)	(14,714)	(10,140)
(f) <u>Net unrealised gains/(losses) on fair value changes arising from fair value hedges</u>	18,378	14,096	13,761	11,522
(g) <u>Other income:</u>				
Foreign exchange gain	23,220	30,489	30,372	57,595
Rental income	138	88	290	267
Gain on disposal of property and equipment (net)	7	410	7	404
Gain/(Loss) on disposal of subsidiary	-	6,100	-	3,861
Others	4,344	4,762	8,925	9,421
	<u>27,709</u>	<u>41,849</u>	<u>39,594</u>	<u>71,548</u>
Total other operating income	<u>215,268</u>	<u>131,198</u>	<u>334,610</u>	<u>255,622</u>

## 19 Other operating expenses

<b>Group</b>	<b>2nd Quarter Ended</b>		<b>Cumulative Six Months Ended</b>	
	<b>31/12/2010</b>	<b>31/12/2009</b>	<b>31/12/2010</b>	<b>31/12/2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b><u>Personnel costs</u></b>				
- Salaries, allowances and bonuses	120,511	103,114	229,749	204,207
- Others	14,761	13,153	23,559	21,718
<b><u>Establishment costs</u></b>				
- Depreciation equipment	13,051	11,756	25,708	22,780
- Depreciation of Prepaid Lease	141	21	281	42
- Amortisation of intangible assets	3,865	3,014	8,203	6,005
- Rental	11,563	11,091	22,853	22,184
- Information technology expenses	17,548	11,131	25,853	22,329
- Others	12,718	10,619	23,823	20,335
<b><u>Marketing expenses</u></b>				
- Advertisement and publicity	4,046	17,515	10,197	32,175
- Handling fees	-	(733)	-	277
- Others	14,677	12,173	28,783	22,716
<b><u>Administration and general expenses</u></b>				
- Teletransmission expenses	2,015	2,256	2,923	3,756
- Stationery & printing	2,851	2,514	5,112	5,476
- Others	30,835	41,014	59,537	64,794
	<u>248,582</u>	<u>238,638</u>	<u>466,581</u>	<u>448,794</u>

**19 Other operating expenses (continued)**

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010 RM'000	31/12/2009 RM'000	31/12/2010 RM'000	31/12/2009 RM'000
<b><u>Bank</u></b>				
<b><u>Personnel costs</u></b>				
- Salaries, allowances and bonuses	105,060	88,743	199,426	177,458
- Others	13,304	11,772	21,152	19,535
<b><u>Establishment costs</u></b>				
- Depreciation equipment	12,330	10,828	24,681	21,611
- Depreciation of Prepaid Lease	139	19	277	38
- Amortisation of intangible assets	3,865	3,014	7,868	5,925
- Rental	10,007	9,565	20,008	20,046
- Information technology expenses	17,164	10,902	25,245	21,808
- Others	10,324	8,613	19,639	17,048
<b><u>Marketing expenses</u></b>				
- Advertisement and publicity	3,964	16,537	9,985	30,782
- Handling fees	-	(934)	-	(490)
- Others	14,586	11,994	28,646	21,684
<b><u>Administration and general expenses</u></b>				
- Teletransmission expenses	1,953	2,182	2,819	3,666
- Stationery & printing	2,756	2,456	4,977	5,350
- Others	29,954	37,271	58,418	60,059
	<u>225,406</u>	<u>212,962</u>	<u>423,141</u>	<u>404,520</u>

20 Allowance for impairment on loans, advances and financing

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
	RM'000	RM'000	RM'000	RM'000
<b>Group</b>				
Allowance for impaired loans and financing:				
- collective assessment allowance	53,349	-	113,962	-
- individual assessment allowance	7,359	-	9,132	-
- general allowance (net)	-	(2,546)	-	2,114
- specific allowance	-	76,879	-	156,745
- specific allowance written back	-	(28,390)	-	(51,013)
Bad debts and financing written off	2,318	1,814	4,384	3,578
Bad debts and financing recovery	(23,160)	(25,001)	(46,615)	(45,449)
	<u>39,866</u>	<u>22,756</u>	<u>80,863</u>	<u>65,975</u>

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
	RM'000	RM'000	RM'000	RM'000
<b>Bank</b>				
Allowance for impaired loans and financing:				
- collective assessment allowance	48,627	-	99,629	-
- individual assessment allowance	4,389	-	6,465	-
- general allowance (net)	-	2,654	-	7,403
- specific allowance	-	71,697	-	146,380
- specific allowance written back	-	(26,809)	-	(47,261)
Bad debts and financing written off	2,150	1,638	4,095	3,305
Bad debts and financing recovery	(22,491)	(23,725)	(44,559)	(43,229)
	<u>32,675</u>	<u>25,455</u>	<u>65,630</u>	<u>66,598</u>



## 21 Capital adequacy

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
	<b><u>Components of Tier-1 and Tier-2 Capital</u></b>			
<b>Tier-1 capital</b>				
Paid up share capital	1,580,107	1,580,107	1,580,107	1,580,107
Share premium	539,664	539,664	539,664	539,664
Retained profit	3,439,274	3,044,043	2,872,891	2,573,041
Other reserves	1,946,826	1,931,057	1,796,168	1,792,970
Less: Treasury shares	(678,625)	(687,908)	(678,625)	(687,908)
Less: Deferred tax assets	(123,266)	(140,137)	(102,976)	(122,544)
<b>Total tier-1 capital</b>	<b>6,703,980</b>	<b>6,266,826</b>	<b>6,007,229</b>	<b>5,675,330</b>
<b>Tier-2 capital</b>				
Collective assessment <sup>^</sup>	622,796	-	546,721	-
General allowance	-	577,822	-	511,615
Subordinated bonds	700,000	647,500	700,000	647,500
<b>Total tier-2 capital</b>	<b>1,322,796</b>	<b>1,225,322</b>	<b>1,246,721</b>	<b>1,159,115</b>
<b>Total capital</b>	<b>8,026,776</b>	<b>7,492,148</b>	<b>7,253,950</b>	<b>6,834,445</b>
Less: Investment in subsidiary companies	-	-	(1,023,117)	(714,092)
Less: Investment in associated company	(1,253,661)	(1,172,175)	(946,505)	(946,505)
Less: Investment in jointly controlled entity	(75,296)	(76,023)	(76,711)	(76,711)
<b>Total capital base</b>	<b>6,697,819</b>	<b>6,243,950</b>	<b>5,207,617</b>	<b>5,097,137</b>
<b><u>Before deducting proposed dividends</u></b>				
Core Capital Ratio	15.67% *	15.50% *	13.01% *	13.34% *
Risk-weighted Capital Ratio	15.67% *	15.50% *	13.01% *	13.34% *
<b><u>After deducting proposed dividends</u></b>				
Core Capital Ratio	15.43% *	15.08% *	12.75% *	12.90% *
Risk-weighted Capital Ratio	15.43% *	15.08% *	12.75% *	12.90% *

<sup>^</sup> BNM's transitional provision portion

\* As stipulated under BNM Guidelines, the Group's and Bank's core capital ratio equals to the risk-weighted capital ratio, as the deductions of investments in subsidiary companies, associated company and jointly controlled entity from total capital is in excess of Tier-2 capital.

The profit after tax of the Group and the Bank for the half year ended 31 December 2010, had been subjected to a limited review by our external auditors. As such the Group's and the Bank's profit after tax for the half year ended 31 December 2010 have been included in the capital base used in the computation of the Group's and the Bank's Capital Adequacy Ratios respectively.

## 21 Capital adequacy (continued)

a) The capital adequacy ratios of the banking subsidiary company of the Group are as follows:

	Hong Leong Islamic Bank Berhad *
<b>As at 31 December 2010</b>	
<u>Before deducting proposed</u>	
<u>dividends:</u>	
Core capital ratio	17.62%
Risk-weighted capital ratio	<u>19.33%</u>
<u>After deducting proposed</u>	
<u>dividends:</u>	
Core capital ratio	17.62%
Risk-weighted capital ratio	<u>19.33%</u>
<b>As at 30 June 2010</b>	
<u>Before deducting proposed</u>	
<u>dividends:</u>	
Core capital ratio	19.74%
Risk-weighted capital ratio	<u>21.37%</u>
<u>After deducting proposed</u>	
<u>dividends:</u>	
Core capital ratio	19.15%
Risk-weighted capital ratio	<u>20.78%</u>

\* The capital adequacy ratios of Hong Leong Islamic Berhad is computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (CAFIB), which are based on the Basel II capital accord Hong Leong Islamic Bank Berhad has adopted.

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

	<u>The Group</u>		<u>The Bank</u>	
	Financial Period Ended 31/12/2010 RM'000	Financial Year Ended 30/06/2010 RM'000	Financial Period Ended 31/12/2010 RM'000	Financial Year Ended 30/06/2010 RM'000
Risk-weighted assets for credit risk	36,211,950	33,410,804	33,868,060	31,915,225
Risk-weighted assets for market risk	2,530,132	2,959,318	2,521,441	2,720,655
Risk-weighted assets for operational risk	4,006,727	3,912,306	3,651,465	3,566,649
Total risk-weighted assets	<u>42,748,809</u>	<u>40,282,428</u>	<u>40,040,966</u>	<u>38,202,529</u>

The Group and the Bank implemented the Basel II - Risk Weighted Assets Computation under the Bank Negara Malaysia's Risk Weighted Capital Adequacy Framework with effect from 1 January 2008.

The Group and the Bank has adopted the Standardised Approach for credit risk and market risk and Basic Indicator Approach for operational risk computation.

21 Capital adequacy (continued)

c) Disclosure on Capital Adequacy under the Standardised Approach (RM'000)

**The Group**  
**31 December 2010**

Exposure Class	Gross Exposures	Net Exposures	Risk-Weighted Assets	Total Risk-Weighted Assets after Effects of PSIA	Capital Requirements
<b>1 Credit Risk</b>					
<b>On Balance Sheet Exposures</b>					
Sovereigns/Central Banks	19,479,983	19,479,983	-	-	-
Public Sector Entities	39,009	39,009	7,802	7,802	624
Banks, DFI & MDBs	12,022,666	12,022,666	3,611,557	3,611,557	288,925
Insurance Companies, Securities Firms & Fund Managers	131,377	131,377	131,377	131,377	10,510
Corporates	11,560,541	11,033,112	10,739,224	10,739,224	859,138
Regulatory Retail	17,741,997	17,309,824	12,982,365	12,982,365	1,038,589
Residential Mortgages	11,896,210	11,890,996	4,559,070	4,559,070	364,726
Higher Risk Assets	158,459	158,459	237,692	237,692	19,015
Other Assets	2,146,202	2,146,202	1,378,787	1,378,787	110,303
Defaulted Exposures	531,150	529,996	663,811	663,811	53,105
<b>Total for On Balance Sheet Exposures</b>	<b>75,707,594</b>	<b>74,741,624</b>	<b>34,311,685</b>	<b>34,311,685</b>	<b>2,744,935</b>
<b>Off Balance Sheet Exposures</b>					
OTC Derivatives	2,808,812	2,808,812	1,527,696	1,527,696	122,216
Off Balance Sheet Exposures other than OTC derivatives or credit derivatives	413,915	413,915	371,984	371,984	29,759
Defaulted Exposures	390	390	585	585	47
<b>Total for Off Balance Sheet Exposures</b>	<b>3,223,117</b>	<b>3,223,117</b>	<b>1,900,265</b>	<b>1,900,265</b>	<b>152,022</b>
<b>Total for On and Off Balance Sheet Exposures</b>	<b>78,930,711</b>	<b>77,964,741</b>	<b>36,211,950</b>	<b>36,211,950</b>	<b>2,896,957</b>
<b>2 Market Risk</b>					
	<b>Long Position</b>	<b>Short Position</b>			
Interest Rate Risk	49,177,077	40,053,036	9,124,041	1,583,446	132,480
Foreign Currency Risk	106,879	933,101	933,101	941,773	75,332
Option Risk	-	-	-	4,913	393
<b>Total Market Risk</b>				<b>2,530,132</b>	<b>208,205</b>
<b>3 Operational Risk</b>					
Operational Risk				4,006,727	320,538
<b>Total RWA and Capital Requirement</b>				<b>42,748,809</b>	<b>3,425,700</b>

PSIA : Profit sharing investment account

OTC : Over the counter

MDB : Multilateral development bank

DFI : Development financial institution

21 Capital adequacy (continued)

c) Disclosure on Capital Adequacy under the Standardised Approach (RM'000)

The Group  
30 June 2010

Exposure Class	Gross Exposures	Net Exposures	Risk-Weighted Assets	Total Risk-Weighted Assets after Effects of PSIA	Capital Requirements
<b>1 Credit Risk</b>					
<b>On Balance Sheet Exposures</b>					
Sovereigns/Central Banks	21,654,134	21,654,134	-	-	-
Public Sector Entities	38,067	38,067	7,613	7,613	609
Banks, DFI & MDBs	11,827,207	11,827,208	3,881,967	3,881,967	310,557
Insurance Companies, Securities Firms & Fund Managers	141,889	141,889	141,889	141,889	11,351
Corporates	10,322,814	9,913,837	9,548,420	9,548,420	763,874
Regulatory Retail	15,718,446	15,375,450	11,531,588	11,531,588	922,527
Residential Mortgages	11,901,720	11,901,235	4,546,961	4,546,961	363,757
Higher Risk Assets	47,379	47,379	71,071	71,071	5,686
Other Assets	1,698,839	1,698,839	750,169	750,169	60,014
Defaulted Exposures	674,975	674,597	880,199	880,199	70,416
<b>Total for On Balance Sheet Exposures</b>	<b>74,025,470</b>	<b>73,272,635</b>	<b>31,359,877</b>	<b>31,359,877</b>	<b>2,508,791</b>
<b>Off Balance Sheet Exposures</b>					
OTC Derivatives	2,922,770	2,922,770	1,665,302	1,665,302	133,224
Off Balance Sheet Exposures other than OTC derivatives or credit derivatives	406,434	406,434	379,477	379,477	30,358
Defaulted Exposures	4,099	4,099	6,148	6,148	492
<b>Total for Off Balance Sheet Exposures</b>	<b>3,333,303</b>	<b>3,333,303</b>	<b>2,050,927</b>	<b>2,050,927</b>	<b>164,074</b>
<b>Total for On and Off Balance Sheet Exposures</b>	<b>77,358,773</b>	<b>76,605,938</b>	<b>33,410,804</b>	<b>33,410,804</b>	<b>2,672,865</b>
<b>2 Market Risk</b>					
	<b>Long Position</b>	<b>Short Position</b>			
Interest Rate Risk	41,961,110	35,247,397	6,713,713	1,363,329	109,066
Foreign Currency Risk	1,559,603	1,146,741	1,559,603	1,559,476	124,758
Option Risk	-	-	-	36,513	2,921
<b>Total Market Risk</b>				<b>2,959,318</b>	<b>236,745</b>
<b>3 Operational Risk</b>					
Operational Risk				3,912,306	312,984
<b>Total RWA and Capital Requirement</b>				<b>40,282,428</b>	<b>3,222,594</b>

PSIA : Profit sharing investment account

OTC : Over the counter

MDB : Multilateral development bank

DFI : Development financial institution

## 21 Capital adequacy (continued)

Disclosure on Capital Adequacy under the Standardised Approach (RM'000)

### The Bank 31 December 2010

Exposure Class	Gross Exposures	Net Exposures	Weighted Assets	Total Risk-Weighted after Effects of PSIA	Capital Requirements
<b>1 Credit Risk</b>					
<b>On Balance Sheet Exposures</b>					
Sovereigns/Central Banks	16,940,657	16,940,657	-	-	-
Public Sector Entities	39,009	39,009	7,802	7,802	624
Banks, DFI & MDBs	11,623,114	11,623,114	3,573,984	3,573,984	285,919
Insurance Companies, Securities Firms & Fund Managers	124,667	124,667	124,667	124,667	9,973
Corporates	10,433,807	9,907,237	9,682,198	9,682,198	774,576
Regulatory Retail	14,951,077	14,521,268	10,890,950	10,890,950	871,276
Residential Mortgages	10,831,183	10,825,995	4,140,713	4,140,713	331,257
Higher Risk Assets	157,665	157,665	236,499	236,499	18,920
Other Assets	3,089,588	3,089,588	2,318,184	2,318,184	185,455
Defaulted Exposures	469,642	468,558	578,338	578,338	46,267
<b>Total for On Balance Sheet Exposures</b>	<b>68,660,409</b>	<b>67,697,758</b>	<b>31,553,335</b>	<b>31,553,335</b>	<b>2,524,267</b>
<b>Off Balance Sheet Exposures</b>					
OTC Derivatives	3,226,005	3,226,005	1,944,889	1,944,889	155,591
Off Balance Sheet Exposures other than OTC derivatives or credit derivatives	411,182	411,182	369,251	369,251	29,540
Defaulted Exposures	390	390	585	585	47
<b>Total for Off Balance Sheet Exposures</b>	<b>3,637,577</b>	<b>3,637,577</b>	<b>2,314,725</b>	<b>2,314,725</b>	<b>185,178</b>
<b>Total for On and Off Balance Sheet Exposures</b>	<b>72,297,986</b>	<b>71,335,335</b>	<b>33,868,060</b>	<b>33,868,060</b>	<b>2,709,445</b>
<b>2 Market Risk</b>					
	<b>Long Position</b>	<b>Short Position</b>			
Interest Rate Risk	48,283,473	41,603,974	6,679,499	1,583,427	126,674
Foreign Currency Risk	98,207	933,101	933,101	933,101	74,648
Option Risk	-	-	-	4,913	393
<b>Total Market Risk</b>				<b>2,521,441</b>	<b>201,715</b>
<b>3 Operational Risk</b>					
Operational Risk				3,651,465	292,117
<b>Total RWA And Capital Requirement</b>				<b>40,040,966</b>	<b>3,203,277</b>

PSIA : Profit sharing investment account

OTC : Over the counter

MDB : Multilateral development bank

DFI : Development financial institution

21 Capital adequacy (continued)

Disclosure on Capital Adequacy under the Standardised Approach (RM'000)

**The Bank  
30 June 2010**

Exposure Class	Gross Exposures	Net Exposures	Risk-Weighted Assets	Total Risk-Weighted Assets after Effects of PSIA	Capital Requirements
<b>1 Credit Risk</b>					
<b>On Balance Sheet Exposures</b>					
Sovereigns/Central Banks	19,602,556	19,602,556	-	-	-
Public Sector Entities	38,067	38,067	7,613	7,613	609
Banks, DFI & MDBs	11,465,743	11,465,744	3,797,269	3,797,269	303,782
Insurance Companies, Securities Firms & Fund Managers	136,815	136,815	136,815	136,815	10,945
Corporates	9,685,888	9,277,771	8,932,794	8,932,794	714,624
Regulatory Retail	13,210,978	12,870,523	9,652,894	9,652,894	772,232
Residential Mortgages	10,908,047	10,907,594	4,161,320	4,161,320	332,906
Higher Risk Assets	46,184	46,184	69,278	69,278	5,542
Other Assets	2,653,065	2,653,065	1,704,011	1,704,011	136,321
Defaulted Exposures	578,031	577,723	741,447	741,447	59,316
<b>Total for On Balance Sheet Exposures</b>	<b>68,325,374</b>	<b>67,576,042</b>	<b>29,203,441</b>	<b>29,203,441</b>	<b>2,336,277</b>
<b>Off Balance Sheet Exposures</b>					
OTC Derivatives	3,584,542	3,584,542	2,327,074	2,327,074	186,166
Off Balance Sheet Exposures other than OTC derivatives or credit derivatives	405,519	405,519	378,562	378,562	30,285
Defaulted Exposures	4,099	4,099	6,148	6,148	492
<b>Total for Off Balance Sheet Exposures</b>	<b>3,994,160</b>	<b>3,994,160</b>	<b>2,711,784</b>	<b>2,711,784</b>	<b>216,943</b>
<b>Total for On and Off Balance Sheet Exposures</b>	<b>72,319,534</b>	<b>71,570,202</b>	<b>31,915,225</b>	<b>31,915,225</b>	<b>2,553,220</b>
<b>2 Market Risk</b>					
	<b>Long Position</b>	<b>Short Position</b>			
Interest Rate Risk	41,378,519	36,798,335	4,580,184	1,132,207	1,132,207
Foreign Currency Risk	1,551,935	1,145,949	1,551,935	1,551,935	124,155
Option Risk	-	-	-	36,513	36,513
<b>Total Market Risk</b>				<b>2,720,655</b>	<b>2,720,655</b>
<b>3 Operational Risk</b>					
Operational Risk				3,566,649	3,566,649
<b>Total RWA And Capital Requirement</b>				<b>38,202,529</b>	<b>38,202,529</b>
					<b>3,056,205</b>

PSIA : Profit sharing investment account

OTC : Over the counter

MDB : Multilateral development bank

DFI : Development financial institution

21 Capital adequacy (continued)

d) Disclosure on Credit Risk: Disclosures on Risk Weights ( RM'000)

The Group		Exposures after Netting and Credit Risk Mitigation											Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets	
31 December 2010		Sovereigns & Central Banks	PSEs	Banks, MDBs & DFIs	Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing/ Investment	Securitisation Exposures			Equity Exposures
Supervisory Risk Weights %															
0%	19,479,983	-	-	-	-	-	-	-	-	795,786	-	-	-	20,275,769	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	39,009	8,202,441	-	277,402	-	-	-	-	-	-	-	-	8,518,852	1,703,771
35%	-	-	-	-	-	-	9,242,854	-	-	-	-	-	-	9,242,854	3,234,999
50%	-	-	6,234,542	-	173,667	20,866	2,662,000	-	-	-	-	-	-	9,091,075	4,545,538
75%	-	-	-	-	-	17,416,067	-	-	-	-	-	-	-	17,416,067	13,062,050
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	15,268	131,378	11,308,175	23,483	71,908	-	1,378,978	-	-	-	-	12,929,190	12,929,190
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	203,373	128,745	-	158,816	-	-	-	-	-	490,934	736,402
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
938%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	19,479,983	39,009	14,452,251	131,378	11,962,617	17,589,161	11,976,762	158,816	2,174,764	-	-	-	-	77,964,741	36,211,950

PSE : Public Sector Entity

21 Capital adequacy (continued)

d) Disclosure on Credit Risk: Disclosures on Risk Weights ( RM'000)

The Group 30 June 2010		Exposures after Netting and Credit Risk Mitigation											Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
Supervisory Risk Weights %	Sovereigns & Central Banks	PSEs	Banks, MDBs & DFIs	Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing/ Investment	Securitisation Exposures	Equity Exposures		
0%	21,670,392	-	-	-	1,559	-	-	-	823,502	-	-	-	22,495,453	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	38,067	7,015,407	-	408,984	-	-	-	156,458	-	-	-	7,618,916	1,523,783
35%	-	-	-	-	-	-	9,357,713	-	-	-	-	-	9,357,713	3,275,200
50%	-	-	7,145,143	-	96,544	23,688	2,559,489	-	-	-	-	-	9,824,864	4,912,432
75%	-	-	-	-	-	15,483,039	-	-	-	-	-	-	15,483,039	11,612,279
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	391	141,890	10,336,357	30,202	75,921	-	718,878	-	-	-	11,303,639	11,303,639
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	344,151	130,538	-	47,623	-	-	-	-	522,314	783,471
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
938%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	21,670,392	38,067	14,160,941	141,890	11,187,595	15,667,467	11,993,123	47,623	1,698,838	-	-	-	76,605,938	33,410,804

PSE : Public Sector Entity



21 Capital adequacy (continued)

Disclosure on Credit Risk: Disclosures on Risk Weights ( RM'000)

The Bank		Exposures after Netting and Credit Risk Mitigation											Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
Supervisory Risk Weights %	Sovereigns & Central Banks	PSEs	Banks, MDBs & DFIs	Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing/ Investment	Securitisation Exposures	Equity Exposures		
0%	16,940,657	-	-	-	-	-	-	-	799,775	-	-	-	17,740,432	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	39,009	7,661,761	-	191,342	-	-	-	-	-	-	-	7,892,112	1,578,422
35%	-	-	-	-	-	-	8,481,898	-	-	-	-	-	8,481,898	2,968,664
50%	-	-	6,375,669	-	173,667	20,775	2,356,124	-	-	-	-	-	8,926,235	4,463,118
75%	-	-	-	-	-	14,627,511	-	-	-	-	-	-	14,627,511	10,970,634
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	15,268	124,667	10,682,715	21,747	64,221	-	2,318,377	-	-	-	13,226,995	13,226,995
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	200,958	81,353	-	157,841	-	-	-	-	440,152	660,227
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
938%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	16,940,657	39,009	14,052,698	124,667	11,248,682	14,751,386	10,902,243	157,841	3,118,152	-	-	-	71,335,335	33,868,060

PSE : Public Sector Entity

21 Capital adequacy (continued)

Disclosure on Credit Risk: Disclosures on Risk Weights ( RM'000)

The Bank 30 June 2010		Exposures after Netting and Credit Risk Mitigation											Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
Supervisory Risk Weights %	Sovereigns & Central Banks	PSEs	Banks, MDBs & DFIs	Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing/ Investment	Securitisation Exposures	Equity Exposures		
0%	19,618,813	-	-	-	1,559	-	-	-	823,886	-	-	-	20,444,258	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	38,067	6,695,291	-	383,434	-	-	-	156,459	-	-	-	7,273,251	1,454,650
35%	-	-	-	-	-	-	8,616,530	-	-	-	-	-	8,616,530	3,015,786
50%	-	-	7,103,795	-	96,544	23,533	2,305,054	-	-	-	-	-	9,528,926	4,764,463
75%	-	-	-	-	-	12,978,112	-	-	-	-	-	-	12,978,112	9,733,584
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	391	136,815	10,386,697	28,507	68,762	-	1,672,720	-	-	-	12,293,892	12,293,892
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	306,556	82,287	-	46,390	-	-	-	-	435,233	652,850
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
938%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	19,618,813	38,067	13,799,477	136,815	11,174,790	13,112,439	10,990,346	46,390	2,653,065	-	-	-	71,570,202	31,915,225

PSE : Public Sector Entity

## 21 Capital adequacy (continued)

### e) Disclosure on Off Balance Sheet and Counterparty Credit Risk

<b>The Group 31 December 2010</b>	<b>Total Principal Amount RM'000</b>	<b>Total Credit Equivalent Amount RM'000</b>	<b>Positive Fair Value of Derivative Contracts RM'000</b>	<b>Total Risk - Weighted Amount RM'000</b>
<b>Nature of item:</b>				
Direct credit substitutes	178,241	178,239	-	168,168
Certain transaction related contingent items	287,744	143,872	-	130,944
Short-term self liquidating trade-related contingencies	460,965	92,193	-	88,827
Underwriting Obligations	-	-	-	-
Foreign exchange related contracts				
- one years or less	29,395,803	409,898	272,713	203,404
- over one year to five years	6,147,600	565,380	165,976	403,262
- over five years	255,471	67,534	24,104	33,767
Interest/ Profit rate related contracts				
- one years or less	8,430,794	30,181	19,671	11,091
- over one year to five years	24,771,208	741,406	169,563	364,179
- over five years	10,383,125	983,424	96,136	491,712
Commitments that are unconditionally cancellable by the bank at any time without prior notice	24,582,775	-	-	-
Equity related contracts				
- one years or less	133,954	8,472	435	3,813
- over one year to five years	31,445	2,516	-	1,100
<b>Total</b>	<b>105,059,125</b>	<b>3,223,115</b>	<b>748,598</b>	<b>1,900,267</b>

<b>The Group 30 June 2010</b>	<b>Total Principal Amount RM'000</b>	<b>Total Credit Equivalent Amount RM'000</b>	<b>Positive Fair Value of Derivative Contracts RM'000</b>	<b>Total Risk - Weighted Amount RM'000</b>
<b>Nature of item:</b>				
Direct credit substitutes	175,141	175,141	-	164,269
Certain transaction related contingent items	257,429	128,715	-	117,040
Short-term self liquidating trade-related contingencies	533,384	106,677	-	104,316
Foreign exchange related contracts				
- one years or less	32,233,967	676,076	295,343	304,562
- over one year to five years	6,113,446	768,813	356,475	620,242
- over five years	268,230	60,762	15,163	30,381
Interest/ Profit rate related contracts				
- one years or less	10,171,714	48,784	35,183	24,393
- over one year to five years	21,886,133	689,933	203,616	349,214
- over five years	6,183,750	666,243	126,818	333,122
Commitments that are unconditionally cancellable by the bank at any time without prior notice	21,147,806	-	-	-
Equity related contracts				
- one years or less	155,350	9,527	204	2,861
- over one year to five years	32,900	2,632	-	527
<b>Total</b>	<b>99,159,250</b>	<b>3,333,303</b>	<b>1,032,802</b>	<b>2,050,927</b>

## 21 Capital adequacy (continued)

Disclosure on Off Balance Sheet and Counterparty Credit Risk

<b>The Bank</b> <b>31 December 2010</b>	<b>Total Principal Amount RM'000</b>	<b>Total Credit Equivalent Amount RM'000</b>	<b>Positive Fair Value of Derivative Contracts RM'000</b>	<b>Total Risk - Weighted Amount RM'000</b>
<b>Nature of item:</b>				
Direct credit substitutes	178,241	178,241	-	168,168
Certain transaction related contingent items	282,995	141,498	-	128,570
Short-term self liquidating trade-related contingencies	459,172	91,834	-	88,468
Underwriting Obligations	-	-	-	-
Foreign exchange related contracts				
- one years or less	29,367,346	409,898	272,713	203,403
- over one year to five years	9,667,303	982,575	266,396	820,455
- over five years	255,471	67,534	24,104	33,767
Interest/ Profit rate related contracts				
- one years or less	8,430,794	30,181	19,671	11,091
- over one year to five years	24,771,208	741,407	169,563	364,179
- over five years	10,383,125	983,424	96,136	491,712
Commitments that are unconditionally cancellable by the bank at any time without prior notice	22,672,494	-	-	-
Equity related contracts				
- one years or less	133,954	8,472	435	3,813
- over one year to five years	31,445	2,516	-	1,100
<b>Total</b>	<b>106,633,548</b>	<b>3,637,580</b>	<b>849,018</b>	<b>2,314,726</b>

<b>The Bank</b> <b>30 June 2010</b>	<b>Total Principal Amount RM'000</b>	<b>Total Credit Equivalent Amount RM'000</b>	<b>Positive Fair Value of Derivative Contracts RM'000</b>	<b>Total Risk - Weighted Amount RM'000</b>
<b>Nature of item:</b>				
Direct credit substitutes	175,141	175,141	-	164,269
Certain transaction related contingent items	256,300	128,151	-	116,476
Short-term self liquidating trade-related contingencies	531,631	106,326	-	103,965
Foreign exchange related contracts				
- one years or less	32,233,967	676,073	295,343	304,561
- over one year to five years	9,215,323	1,430,587	677,041	1,282,015
- over five years	268,230	60,762	15,163	30,381
Interest/ Profit rate related contracts				
- one years or less	10,171,714	48,784	35,183	24,393
- over one year to five years	21,886,133	689,934	203,616	349,214
- over five years	6,183,750	666,243	126,818	333,122
Commitments that are unconditionally cancellable by the bank at any time without prior notice	19,682,271	-	-	-
Equity related contracts				
- one years or less	155,350	9,527	204	2,861
- over one year to five years	32,900	2,632	-	527
<b>Total</b>	<b>100,792,710</b>	<b>3,994,160</b>	<b>1,353,368</b>	<b>2,711,784</b>

22 Group segmental reporting on revenue, profit and assets

	Financial quarter ended 31/12/2010				
	Personal Financial Services RM'000	Business Banking Division RM'000	Treasury RM'000	Overseas Associate and Jointly Controlled Entity RM'000	Total RM'000
<b><u>By business segment</u></b>					
External revenue	347,213	(9,091)	265,842	-	603,964
Inter-segment revenue	55,357	90,107	(145,464)	-	-
Segment revenue	<u>402,570</u>	<u>81,016</u>	<u>120,378</u>	<u>-</u>	<u>603,964</u>
Segment profit before taxation	188,492	33,120	93,904	-	315,516
Share of profit after tax of equity accounted associated company				44,635	44,635
Share of profit after tax of equity accounted jointly controlled entity				(466)	(466)
Profit before taxation					<u>359,685</u>
Taxation and zakat					<u>(68,253)</u>
Profit after taxation					<u><u>291,432</u></u>

	Financial period ended 31/12/2010				
	Personal Financial Services RM'000	Business Banking Division RM'000	Treasury RM'000	Overseas Associate and Jointly Controlled Entity RM'000	Total RM'000
<b><u>By business segment</u></b>					
External revenue	672,875	4,363	466,513	-	1,143,751
Inter-segment revenue	107,555	158,712	(266,267)	-	-
Segment revenue	<u>780,430</u>	<u>163,075</u>	<u>200,246</u>	<u>-</u>	<u>1,143,751</u>
Segment profit before taxation	374,678	74,142	147,487	-	596,307
Share of profit after tax of equity accounted associated company				81,486	81,486
Share of profit after tax of equity accounted jointly controlled entity				(727)	(727)
Profit before taxation					<u>677,066</u>
Taxation and zakat					<u>(128,434)</u>
Profit after taxation					<u><u>548,632</u></u>
Segment assets	31,744,924	9,437,814	44,403,938	-	85,586,676
Unallocated assets					<u>2,698,163</u>
Total assets					<u><u>88,284,839</u></u>

22 Group segmental reporting on revenue, profit and assets (continued)

	Corresponding quarter ended 31/12/2009				
	Personal Financial Services RM'000	Business Banking Division RM'000	Treasury RM'000	Takaful Business RM'000	Total RM'000
<b><u>By business segment</u></b>					
External revenue	317,235	8,971	193,198	-	519,404
Inter-segment revenue	39,815	46,286	(86,101)	-	-
Segment revenue	<u>357,050</u>	<u>55,257</u>	<u>107,097</u>	-	<u>519,404</u>
Segment profit before taxation	147,497	28,011	88,583	-	264,091
Share of profit after tax of equity accounted associated company					27,194
Profit before taxation					<u>291,285</u>
Taxation and zakat					(66,536)
Profit after taxation					<u><u>224,749</u></u>

	Financial period ended 31/12/2009				
	Personal Financial Services RM'000	Business Banking Division RM'000	Treasury RM'000	Takaful Business RM'000	Total RM'000
<b><u>By business segment</u></b>					
External revenue	622,998	25,000	381,325	1,758	1,031,081
Inter-segment revenue	83,784	87,691	(171,475)	-	-
Segment revenue	<u>706,782</u>	<u>112,691</u>	<u>209,850</u>	<u>1,758</u>	<u>1,031,081</u>
Segment profit before taxation	301,702	50,253	170,630	(192)	522,393
Share of profit after tax of equity accounted associated company					57,719
Profit before taxation					<u>580,112</u>
Taxation and zakat					(121,197)
Profit after taxation					<u><u>458,915</u></u>
Segment assets	28,394,288	7,246,079	41,981,995	-	77,622,362
Unallocated assets					2,450,856
Total assets					<u><u>80,073,218</u></u>

23 Property and equipment

The valuations of land and building had been brought forward without amendment from the previous audited annual financial statements.

#### **24(a) Material events subsequent to the end of the reporting period**

There are no materials events subsequent to the end of the financial period ended 31 December 2010.

#### **24(b) Changes in the composition of the Group**

There were no changes in the composition of the Group for the current financial period ended 31 December 2010 except for the following :-

- (i) On 2 July 2010, HLB announced that it had acquired 2 ordinary shares of RM1.00 each fully paid, representing the entire equity interest in Prominic Sdn Bhd ("Prominic"), for a total cash consideration of RM2.00.

Prominic was incorporated on 25 March 2010 in Malaysia. The authorised capital of Prominic is RM100,000 divided into 100,000 ordinary shares of RM1.00 each, of which 2 ordinary shares of RM1.00 each have been issued and fully paid-up.

Prominic is currently dormant and its intended business activity is to issue Subordinated Notes under a Stapled Securities structure and to on-lend the proceeds from the issuance to HLB, the issuer of the Capital Securities.

Prominic was converted into a public company on 12 July 2010 and is now known as Prominic Berhad.

## 25 Commitments and contingencies

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

The commitments and contingencies constitute the following:

	Financial period Ended 31/12/2010			Financial Year Ended 30/06/2010		
	Principal Amount RM'000	Credit Equivalent RM'000	Risk - Weighted Amount RM'000	Principal Amount RM'000	Credit Equivalent RM'000	Risk - Weighted Amount RM'000
<b>The Group</b>						
Direct credit substitutes	178,241	178,239	168,168	175,141	175,141	164,269
Certain transaction related contingent items	287,744	143,872	130,944	257,429	128,715	117,040
Short-term self liquidating trade-related contingencies	460,965	92,193	88,827	533,384	106,677	104,316
Underwriting Obligations	-	-	-	-	-	-
Commitments that are unconditionally cancellable by the bank at any time without prior notice	24,582,775	-	-	21,147,806	-	-
Foreign exchange related contracts	35,798,874	1,042,812	640,433	38,615,643	1,505,651	955,185
Interest rate related contracts	43,585,127	1,755,011	866,982	38,241,597	1,404,960	706,729
Equity related contracts	165,399	10,988	4,913	188,250	12,159	3,388
<b>Total</b>	<b>105,059,125</b>	<b>3,223,115</b>	<b>1,900,267</b>	<b>99,159,250</b>	<b>3,333,303</b>	<b>2,050,927</b>



## 25 Commitments and contingencies (continued)

	Financial period Ended 31/12/2010			Financial Year Ended 30/06/2010		
	Principal Amount RM'000	Credit Equivalent RM'000	Risk - Weighted Amount RM'000	Principal Amount RM'000	Credit Equivalent RM'000	Risk - Weighted Amount RM'000
<b>The Bank</b>						
Direct credit substitutes	178,241	178,241	168,168	175,141	175,141	164,269
Certain transaction related contingent items	282,995	141,498	128,570	256,300	128,151	116,476
Short-term self liquidating trade-related contingencies	459,172	91,834	88,468	531,631	106,326	103,965
Underwriting obligations	-	-	-	-	-	-
Commitments that are unconditionally cancellable by the bank at any time without prior notice	22,672,494	-	-	19,682,271	-	-
Foreign exchange related contracts	39,290,120	1,460,007	1,057,625	41,717,520	2,167,422	1,616,957
Interest rate related contracts	43,585,127	1,755,012	866,982	38,241,597	1,404,961	706,729
Equity related contracts	165,399	10,988	4,913	188,250	12,159	3,388
<b>Total</b>	<b>106,633,548</b>	<b>3,637,580</b>	<b>2,314,726</b>	<b>100,792,710</b>	<b>3,994,160</b>	<b>2,711,784</b>

## 26 Related party transactions

All related party transactions within the Group had been entered into in the normal course of business and were carried out on normal commercial terms.

### a) Connected Parties (CP) Exposures as at 31 December 2010

	<b>The Group</b> RM 000	<b>The Bank</b> RM 000
Aggregate Value of Outstanding Credit Exposures with Connected Parties	3,780,558	3,776,529
Outstanding Credit Exposures to Connected Parties as a Proportion of Total Credit Exposures (%)	8.4%	9.3%
Outstanding Credit Exposures with Connected Parties Which is Non-Performing or in Default as a Proportion of Total Credit Exposures (%)	0.001%	0.001%

The connected parties exposure are derived based on Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties.

## 27 a) Interest/Profit rate risk

<b>Group</b> <b>As at 31 December 2010</b>	← Non-trading book →						<b>Trading book</b> <b>RM'000</b>	<b>Total</b> <b>RM'000</b>	<b>Effective interest rate</b>
	<b>Up to 1 month</b> <b>RM'000</b>	<b>&gt;1-3 months</b> <b>RM'000</b>	<b>&gt;3-12 months</b> <b>RM'000</b>	<b>1-5 years</b> <b>RM'000</b>	<b>Over 5 years</b> <b>RM'000</b>	<b>Non Interest Sensitive</b> <b>RM'000</b>			
<b>Assets</b>									
Cash and short term funds	315,075	-	-	-	-	13,606,403	-	13,921,478	2.6
Deposits & placement with banks & other financial institution	-	5,259,564	994,588	26,156	-	-	-	6,280,308	2.6
Securities purchased under resale agreement	-	-	-	-	-	184,760	-	184,760	
Securities held at fair value through profit and loss	-	-	-	-	-	-	11,031,802	11,031,802	3.7
Securities available-for-sale	936,644	20,050	1,332,887	2,572,783	195,898	232,960	-	5,291,222	3.7
Securities held-to-maturity	1,035,885	849,487	1,189,116	3,770,852	-	1,235	-	6,846,575	3.4
Loans, advances and financing									
- performing	35,046,306	99,742	266,187	3,155,856	2,050,384	(635,888)	-	39,982,587	5.7
- impaired loans	-	-	-	-	-	859,199	-	859,199	
Other assets	-	-	-	-	-	1,577,951	-	1,577,951	
Statutory deposits with BNM	-	-	-	-	-	440,500	-	440,500	
Investment in associated companies	-	-	-	-	-	1,253,661	-	1,253,661	
Investment in jointly controlled company	-	-	-	-	-	75,296	-	75,296	
Prepaid land lease payments	-	-	-	-	-	13,914	-	13,914	
Property, plant and equipment	-	-	-	-	-	349,974	-	349,974	
Intangible assets	-	-	-	-	-	52,346	-	52,346	
Deferred tax assets	-	-	-	-	-	123,266	-	123,266	
<b>Total assets</b>	<b>37,333,910</b>	<b>6,228,843</b>	<b>3,782,778</b>	<b>9,525,647</b>	<b>2,246,282</b>	<b>18,135,577</b>	<b>11,031,802</b>	<b>88,284,839</b>	
<b>Liabilities</b>									
Deposits from customers	33,919,392	11,738,636	13,875,168	3,142,723	-	8,754,188	-	71,430,107	2.2
Deposits & placement of banks & other financial institutions	4,000,728	1,282,073	123,820	-	-	1,649	-	5,408,270	2.3
Bills and acceptance payable	8,579	53,292	24,308	-	-	953,351	-	1,039,531	2.3
Other liabilities	-	-	-	-	-	2,641,672	-	2,641,672	-
Subordinated Bonds	-	-	-	696,489	-	-	-	696,489	4.9
Provision for taxation	-	-	-	-	-	141,493	-	141,493	
<b>Total liabilities</b>	<b>37,928,699</b>	<b>13,074,001</b>	<b>14,023,296</b>	<b>3,839,212</b>	<b>-</b>	<b>12,492,353</b>	<b>-</b>	<b>81,357,562</b>	
Shareholders funds	-	-	-	-	-	6,927,277	-	6,927,277	
<b>Total liabilities and Shareholders' funds</b>	<b>37,928,699</b>	<b>13,074,001</b>	<b>14,023,296</b>	<b>3,839,212</b>	<b>-</b>	<b>19,419,630</b>	<b>-</b>	<b>88,284,839</b>	
On-balance sheet profit sensitivity gap	(594,789)	(6,845,158)	(10,240,518)	5,686,435	2,246,282				

27 b) Interest/Profit rate risk

<b>Group</b> <b>As at 30 June 2010</b>	← Non-trading book →						-	<b>Trading book</b> <b>RM'000</b>	<b>Total</b> <b>RM'000</b>	<b>Effective interest rate</b> <b>%</b>
	<b>Up to 1 month</b> <b>RM'000</b>	<b>&gt;1-3 months</b> <b>RM'000</b>	<b>&gt;3-12 months</b> <b>RM'000</b>	<b>1-5 years</b> <b>RM'000</b>	<b>Over 5 years</b> <b>RM'000</b>	<b>Non Interest Sensitive</b> <b>RM'000</b>				
<b>Assets</b>										
Cash and short term funds	14,946,188	-	-	-	-	735,898	-	15,682,086	2.3	
Deposits & placement with banks & other financial institution	-	5,756,887	1,687,847	25,825	-	-	-	7,470,559	2.3	
Securities held at fair value through profit and loss	-	-	-	-	-	-	8,836,753	8,836,753	3.6	
Securities available-for-sale	139,216	406,263	146,292	3,192,522	452,827	91,650	-	4,428,770	4.0	
Securities held-to-maturity	584,875	735,699	484,542	4,807,539	-	28,348	-	6,641,003	3.4	
Loans, advances and financing										
- performing	32,125,258	25,085	324,176	3,171,795	2,229,346	(571,054)	-	37,304,606	5.9	
- non-performing	-	-	-	-	-	444,464	-	444,464		
Other assets	-	-	-	-	-	1,718,603	-	1,718,603		
Statutory deposits with BNM	-	-	-	-	-	394,000	-	394,000		
Investment in associated companies	-	-	-	-	-	1,172,175	-	1,172,175		
Investment in jointly controlled company	-	-	-	-	-	76,023	-	76,023		
Prepaid and lease payments	-	-	-	-	-	14,139	-	14,139		
Property, plant and equipment	-	-	-	-	-	332,845	-	332,845		
Intangible assets	-	-	-	-	-	49,410	-	49,410		
Deferred tax assets	-	-	-	-	-	140,137	-	140,137		
General and Family Takaful fund assets	-	-	-	-	-	-	-	-		
<b>Total assets</b>	<b>47,795,537</b>	<b>6,923,934</b>	<b>2,642,857</b>	<b>11,197,681</b>	<b>2,682,173</b>	<b>4,626,638</b>	<b>8,836,753</b>	<b>84,705,573</b>		
<b>Liabilities</b>										
Deposits from customers	35,585,108	8,716,843	15,951,132	1,659,228	-	7,800,381	-	69,712,692	2.0	
Deposits & placement of banks & other financial institutions	2,117,003	1,683,295	69,352	-	-	6,753	-	3,876,403	1.7	
Bills and acceptance payable	2,510	15,592	7,112	-	-	278,926	-	304,140	2.7	
Other liabilities	-	-	-	-	-	3,664,921	-	3,664,921	-	
Subordinated obligations	-	-	-	650,454	-	-	-	650,454	5.3	
Provision for taxation	-	-	-	-	-	72,940	-	72,940		
<b>Total liabilities</b>	<b>37,704,621</b>	<b>10,415,730</b>	<b>16,027,596</b>	<b>2,309,682</b>	<b>-</b>	<b>11,823,921</b>	<b>-</b>	<b>78,281,550</b>		
Shareholders funds	-	-	-	-	-	6,424,023	-	6,424,023		
<b>Total liabilities and Shareholders' funds</b>	<b>37,704,621</b>	<b>10,415,730</b>	<b>16,027,596</b>	<b>2,309,682</b>	<b>-</b>	<b>18,247,944</b>	<b>-</b>	<b>84,705,573</b>		
On-balance sheet profit sensitivity gap	<u>10,090,916</u>	<u>(3,491,796)</u>	<u>(13,384,739)</u>	<u>8,887,999</u>	<u>2,682,173</u>					

## 27 c) Interest/Profit rate risk

<b>Bank</b> <b>As at 31 December 2010</b>	← Non-trading book →						<b>Trading book</b> <b>RM'000</b>	<b>Total</b> <b>RM'000</b>	<b>Effective interest rate</b> <b>%</b>
	<b>Up to 1 month</b> <b>RM'000</b>	<b>&gt;1-3 months</b> <b>RM'000</b>	<b>&gt;3-12 months</b> <b>RM'000</b>	<b>1-5 years</b> <b>RM'000</b>	<b>Over 5 years</b> <b>RM'000</b>	<b>Non Interest Sensitive</b> <b>RM'000</b>			
<b>Assets</b>									
Cash and short term funds	305,939	-	-	-	-	12,404,685	-	12,710,624	2.6
Deposits & placement with banks & other financial instrument	-	4,836,119	749,557	-	-	-	-	5,585,676	2.6
Securities purchased under resale agreement	-	-	-	-	-	184,760	-	184,760	
Securities held at fair value through profit and loss	-	-	-	-	-	-	8,587,260	8,587,260	3.7
Securities available-for-sale	936,642	20,051	141,027	2,572,783	195,899	232,888	-	4,099,290	3.8
Securities held-to-maturity	629,990	849,488	1,184,384	4,334,775	-	1,235	-	6,999,872	3.4
Loans, advances and financing									
- performing	32,341,178	91,033	207,542	1,946,262	1,088,882	(559,085)	-	35,115,812	5.8
- impaired loans	-	-	-	-	-	811,892	-	811,892	
Other assets	-	-	-	-	-	1,968,468	-	1,968,468	
Amount due from subsidiaries	-	-	-	-	-	701,219	-	701,219	
Statutory deposits with BNM	-	-	-	-	-	364,000	-	364,000	
Investment in subsidiary	-	-	-	-	-	1,023,117	-	1,023,117	
Investment in associated companies	-	-	-	-	-	946,505	-	946,505	
Investment in jointly controlled company	-	-	-	-	-	76,711	-	76,711	
Prepaid land lease payments	-	-	-	-	-	13,052	-	13,052	
Property, plant and equipment	-	-	-	-	-	326,754	-	326,754	
Intangible assets	-	-	-	-	-	48,874	-	48,874	
Deferred tax assets	-	-	-	-	-	102,976	-	102,976	
<b>Total assets</b>	<b>34,213,749</b>	<b>5,796,691</b>	<b>2,282,510</b>	<b>8,853,820</b>	<b>1,284,781</b>	<b>18,648,051</b>	<b>8,587,260</b>	<b>79,666,862</b>	
<b>Liabilities</b>									
Deposits from customers	30,733,383	9,799,149	12,375,588	2,610,871	-	8,214,799	-	63,733,790	2.2
Deposits & placement of banks & other financial institutions	3,977,435	1,281,897	123,792	-	-	1,649	-	5,384,773	1.0
Bills and acceptance payable	8,036	49,213	22,186	-	-	811,155	-	890,591	2.6
Other liabilities	-	-	-	-	-	2,626,902	-	2,626,902	
Subordinated Bonds	-	-	-	696,489	-	-	-	696,489	4.9
Provision for taxation	-	-	-	-	-	121,973	-	121,973	
<b>Total liabilities</b>	<b>34,718,854</b>	<b>11,130,259</b>	<b>12,521,566</b>	<b>3,307,360</b>	<b>-</b>	<b>11,776,478</b>	<b>-</b>	<b>73,454,518</b>	
Shareholders funds						6,212,344		6,212,344	
<b>Total liabilities and Shareholders' funds</b>	<b>34,718,854</b>	<b>11,130,259</b>	<b>12,521,566</b>	<b>3,307,360</b>	<b>-</b>	<b>17,988,822</b>	<b>-</b>	<b>79,666,862</b>	
On-balance sheet profit sensitivity gap	(505,105)	(5,333,568)	(10,239,056)	5,546,460	1,284,781				

## 27 d) Interest/Profit rate risk

<b>Bank</b> <b>As at 30 June 2010</b>	← Non-trading book →					<b>Non Interest Sensitive</b> <b>RM'000</b>	<b>Trading book</b> <b>RM'000</b>	<b>Total</b> <b>RM'000</b>	<b>Effective interest rate</b> <b>%</b>
	<b>Up to 1 month</b> <b>RM'000</b>	<b>&gt;1-3 months</b> <b>RM'000</b>	<b>&gt;3-12 months</b> <b>RM'000</b>	<b>1-5 years</b> <b>RM'000</b>	<b>Over 5 years</b> <b>RM'000</b>				
<b>Assets</b>									
Cash and short term funds	13,421,408	-	-	-	-	506,839	-	13,928,247	2.6
Deposits & placement with banks & other financial instrument	-	5,498,202	1,506,462	-	-	-	-	7,004,664	2.6
Securities held at fair value through profit and loss	-	-	-	-	-	-	6,703,224	6,703,224	3.7
Securities available-for-sale	139,216	406,263	136,140	2,891,160	194,938	91,650	-	3,859,367	4.0
Securities held-to-maturity	584,875	735,699	421,100	5,273,163	-	27,773	-	7,042,610	3.3
Loans, advances and financing									
- performing	30,446,436	19,168	246,434	1,877,643	1,073,412	(505,051)	-	33,158,042	5.9
- non-performing	-	-	-	-	-	431,051	-	431,051	
Other assets	-	-	-	-	-	2,014,821	-	2,014,821	
Amount due from subsidiaries	-	-	-	-	-	1,009,958	-	1,009,958	
Statutory deposits with BNM	-	-	-	-	-	347,000	-	347,000	
Investment in subsidiary	-	-	-	-	-	714,092	-	714,092	
Investment in associated companies	-	-	-	-	-	946,505	-	946,505	
Investment in jointly controlled company	-	-	-	-	-	76,711	-	76,711	
Prepaid land lease payments	-	-	-	-	-	13,274	-	13,274	
Property, plant and equipment	-	-	-	-	-	311,163	-	311,163	
Intangible assets	-	-	-	-	-	46,935	-	46,935	
Deferred tax assets	-	-	-	-	-	122,544	-	122,544	
<b>Total assets</b>	<b>44,591,935</b>	<b>6,659,332</b>	<b>2,310,136</b>	<b>10,041,966</b>	<b>1,268,350</b>	<b>6,155,265</b>	<b>6,703,224</b>	<b>77,730,208</b>	
<b>Liabilities</b>									
Deposits from customers	32,447,633	7,302,652	15,048,637	1,075,451	-	7,364,677	-	63,239,050	1.9
Deposits & placement of banks & other financial institutions	2,031,972	1,683,087	69,317	-	-	6,753	-	3,791,129	1.2
Bills and acceptance payable	2,575	15,769	7,109	-	-	259,913	-	285,366	2.7
Other liabilities	-	-	-	-	-	3,890,295	-	3,890,295	
Subordinated obligations	-	-	-	650,454	-	-	-	650,454	5.3
Provision for taxation	-	-	-	-	-	58,851	-	58,851	
<b>Total liabilities</b>	<b>34,482,180</b>	<b>9,001,508</b>	<b>15,125,063</b>	<b>1,725,905</b>	<b>-</b>	<b>11,580,489</b>	<b>-</b>	<b>71,915,145</b>	
Shareholders funds	-	-	-	-	-	5,815,063	-	5,815,063	
<b>Total liabilities and Shareholders' funds</b>	<b>34,482,180</b>	<b>9,001,508</b>	<b>15,125,063</b>	<b>1,725,905</b>	<b>-</b>	<b>17,395,552</b>	<b>-</b>	<b>77,730,208</b>	
On-balance sheet profit sensitivity gap	10,109,755	(2,342,176)	(12,814,927)	8,316,061	1,268,350				

## 28 Operations of Islamic Banking

### 28a Unaudited Statement of Financial Position as at 31 December 2010

	<b><u>The Group</u></b>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
<b>ASSETS</b>		
Cash and short-term funds	867,878	2,096,269
Deposits and placements with bank and other financial institutions	693,946	469,178
Financial assets Securities - Held-for-trading	2,444,542	2,133,529
Securities - Available-for-trading	1,191,932	569,403
Securities - Held-to-maturity	405,894	461,739
Financing, advances and other financing	4,879,589	4,138,867
Other assets	19,693	26,791
Statutory deposits with Bank Negara Malaysia	76,500	47,000
Property, plant and equipment	2,958	1,977
Deferred tax assets	20,196	17,593
<b>Total Assets</b>	<b><u>10,603,128</u></b>	<b><u>9,962,346</u></b>
<b><u>LIABILITIES AND SHAREHOLDERS' FUNDS</u></b>		
Deposits from customers	8,879,182	7,731,615
Deposits and placements of banks and other financial institutions	168,422	865,979
Obligations on securities sold under purchase agreements	-	-
Bills and acceptance payable	148,940	18,774
Other liabilities	562,379	521,766
Provision for taxation	9,481	5,402
<b>Total Liabilities</b>	<b><u>9,768,404</u></b>	<b><u>9,143,536</u></b>
Islamic banking capital fund	500,000	500,000
Reserves	334,724	318,810
<b>Islamic Banking Funds</b>	<b><u>834,724</u></b>	<b><u>818,810</u></b>
<b>Total Liabilities and Islamic Banking Funds</b>	<b><u>10,603,128</u></b>	<b><u>9,962,346</u></b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b><u>1,916,822</u></b>	<b><u>1,468,416</u></b>

28 Operations of Islamic Banking (continued)

28b Unaudited Statement of Comprehensive Income for the 1st Quarter and Cumulative Three Months Ended 30 September

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010 RM'000	31/12/2009 RM'000	31/12/2010 RM'000	31/12/2009 RM'000
<b>Group</b>				
Income derive from investment of deposits' funds and others	96,050	73,494	182,650	146,677
Income derive from investment of shareholders' funds	11,858	10,793	21,202	20,183
Allowance for losses on financing	(7,069)	2,635	(14,941)	491
Profit equalisation reserve	3,734	1,540	2,720	4,642
<b>Total distributable income</b>	<b>104,573</b>	<b>88,462</b>	<b>191,631</b>	<b>171,993</b>
Income attributable to deposits	(62,276)	(37,939)	(110,360)	(75,534)
<b>Total net income</b>	<b>42,297</b>	<b>50,523</b>	<b>81,271</b>	<b>96,459</b>
Other operating expenses	(18,811)	(17,207)	(36,115)	(34,003)
<b>Profit before taxation and zakat</b>	<b>23,486</b>	<b>33,316</b>	<b>45,156</b>	<b>62,456</b>
Zakat	(17)	(12)	(31)	(25)
Taxation	(5,849)	(8,342)	(11,268)	(15,624)
<b>Profit after taxation and zakat</b>	<b>17,620</b>	<b>24,962</b>	<b>33,857</b>	<b>46,807</b>
Profit attributable to shareholders	17,620	24,962	33,857	46,807
Earning per share - basic (sen)	3.52	4.99	6.77	9.36
Earning per share - fully diluted (sen)	3.52	4.99	6.77	9.36

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

28c Unaudited Statement of Comprehensive Income for the 1st Quarter and Cumulative Three Months Ended 30 June 2010

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010 RM'000	31/12/2009 RM'000	31/12/2010 RM'000	31/12/2009 RM'000
Profit after taxation and zakat	17,620	24,962	33,857	46,807
Other comprehensive income/(loss):				
Net fair value changes on available for sale securities	(5,331)	(2,049)	(2,136)	(869)
Income tax relating to components of other comprehensive income	1,333	512	534	217
Other comprehensive gain/(loss) for the financial period	(3,998)	(1,537)	(1,602)	(652)
Total comprehensive income for the financial period, net of tax	13,622	23,425	32,255	46,155



## 28 Operations of Islamic Banking (continued)

### 28d Financing, advances and other financing

#### (i) By type

	<u>The Group</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Cash line	1,244	3,613
Term financing		
- Housing financing	5,874,788	4,334,789
- Hire purchase receivable	2,524,711	2,466,921
- Lease receivable	5,938	11,806
- Other term financing	946,028	560,441
Bills receivable	-	-
Claims on customers under acceptance credit	218,775	103,135
Staff financing	6	3
Revolving credit	3,087	-
Others	388	467
	<u>9,574,965</u>	<u>7,481,175</u>
Less: Unearned income	(4,593,089)	(3,253,426)
	<u>4,981,876</u>	<u>4,227,749</u>
Less: Allowance for bad and doubtful financing		
- Collective assessment	(98,403)	-
- Individual assessment	(3,884)	-
- General	-	(66,175)
- Specific	-	(22,707)
Total net financing, advances and other financing	<u>4,879,589</u>	<u>4,138,867</u>

#### (ii) By contract

	<u>The Group</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Bai' Bithaman Ajil (deferred payment sale)	2,550,900	1,941,026
Ijarah (lease)	5,897	11,687
Ijarah Muntahia Bittamlik/AITAB (lease ended with ownership)	2,203,221	2,171,901
Murabahah (cost-plus)	221,858	103,135
	<u>4,981,876</u>	<u>4,227,749</u>

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

28d Financing, advances and other financing (continued)

**Non-performing financing**

(i) **Movements in impaired loans, advances and financing are as follows:**

	<b><u>The Group</u></b>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
At 1 July		
- as previously stated	36,324	46,260
- effect of adopting FRS 139	6,432	-
At 1 July, as restated	<u>42,756</u>	<u>46,260</u>
Classified as non-performing during the period	30,135	235,161
Reclassified as performing	(15,430)	(211,205)
Amount recovered	(9,434)	(24,167)
Amount written off	-	(9,725)
At end	<u><u>48,027</u></u>	<u><u>36,324</u></u>
Gross impaired /non-performing loan as a % of gross loans advances and financing	<u><u>1.0%</u></u>	<u><u>0.9%</u></u>

## 28 Operations of Islamic Banking (continued)

### 28d Financing, advances and other financing (continued)

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

	<b><u>The Group</u></b>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
<b>Collective assessment allowance</b>		
At 1 July		
- as previously stated	-	-
- effect of adopting FRS 139	84,875	-
At 1 July, as restated	84,875	-
Allowance made / (written back)	14,050	-
Unwinding income	(522)	-
At end	<u>98,403</u>	<u>-</u>
<b>Individual assessment allowance</b>		
At 1 July		
- as previously stated	-	-
- effect of adopting FRS 139	1,294	-
At 1 July, as restated	1,294	-
Allowance made / (written back)	2,667	-
Amount recovered	-	-
Amount written off	-	-
Unwinding income	(77)	-
At end	<u>3,884</u>	<u>-</u>
<b>General allowance</b>		
At 1 July		
- as previously stated	66,175	73,486
- effect of adopting FRS 139	(66,175)	-
At 1 July, as restated	-	73,486
Allowance made / (written back)	-	(7,311)
At end	<u>-</u>	<u>66,175</u>
As % of gross financing, advances and other financing less specific allowance	<u>0.0%</u>	<u>1.9%</u>
<b>Specific allowance</b>		
At 1 July		
- as previously stated	22,707	21,027
- effect of adopting FRS 139	(22,707)	-
At 1 July, as restated	-	21,027
Allowance made / (written back)	-	19,831
Amount recovered	-	(8,426)
Amount written off	-	(9,725)
At end	<u>-</u>	<u>22,707</u>

**28 Operations of Islamic Banking (continued)**28e Deposits from customer**By type of deposit**

	<b><u>The Group</u></b>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
<b>Non-Mudharabah</b>		
Demand deposits	557,365	453,133
Saving deposits	661,044	631,211
Negotiable Islamic Debt Certificate	1,567,456	1,254,754
Others	-	-
	<u>2,785,865</u>	<u>2,339,098</u>
<b>Mudharabah</b>		
Demand deposits	-	-
Saving deposits	685,491	636,172
General investment deposits	3,230,678	2,287,927
Specific investment deposits	2,177,148	2,468,418
Others	-	-
	<u>6,093,317</u>	<u>5,392,517</u>
	<u>8,879,182</u>	<u>7,731,615</u>

## 29 Change in Accounting Policies

### (a) Change in Accounting Policies

During the current reporting period, the Group and the Bank adopted the following significant standards and amendments to standards:

- i) FRS 139 Financial Instruments : Recognition and Measurement
- ii) IC Interpretation 9 Reassessment of Embedded Derivatives
- iii) FRS7 Financial Instruments : Disclosures
- iv) Amendment to FRS 139 "Financial Instruments : Recognition and Measurement", FRS 7 "Financial Instruments : disclosures" and IC Interpretation 9 "Reassessment of Embedded Derivatives"

FRS 139 establishes the principles for recognition, derecognition and measurement of an entity's financial instruments and for hedge accounting. BNM's Revised Guidelines on Financial Reporting for Licensed Institutions ('BNM/GP8') which was effective since 1 January 2005 had addressed a significant portion of the requirements under FRS 139. Therefore, the adoption of FRS 139 on 1 July 2010 has resulted in some additional requirements implemented by the Group and the Bank as follows:

The change in accounting policy has been accounted for prospectively in line with the transitional arrangements under para 103AA of FRS 139.

#### 1) Impairment of Loans, Advances and Financing

Prior to 1 July 2010, the Group and the Bank's loan loss allowances were determined in accordance with BNM/GP3 Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts ("BNM/GP3").

Under FRS 139, the Group and the Bank assess at each reporting date whether there is any objective evidence that a loan or a group of loans is impaired. The loan or group of loans is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the loan (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated.

The Group and the Bank first assess whether objective evidence of impairment exists individually for loans which are individually significant, and individually or collectively for loans which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment.

Loan impairment is calculated as the difference between the carrying amount and the present value of future expected cash flows discounted at the original effective interest rate ('EIR') of loans, advances and financing. The carrying amount of the loans, advances and financing is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

In the Amendments to FRS 139 listed above, MASB has included an additional transitional arrangement for entities in the financial sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment by banking institutions. This transitional arrangement is prescribed in BNM's guidelines on Classification and Impairment Provisions for Loans/Financing issued on 26 January 2010, whereby banking institutions are required to maintain collective assessment impairment allowances of at least 1.5% of total outstanding loans/financing, net of individual impairment allowance. Subject to the written approval by BNM, banking institutions are allowed to maintain a lower collective assessment impairment allowance. The collective assessment impairment allowance of the Group and the Bank as at the reporting date have been arrived at based on this transitional arrangement issued by BNM.

The adoption of FRS 139 and the transitional provision has resulted in the following adjustment against the retained profit of the Group and the Bank as at 1 July 2010:

## 29 Change in Accounting Policies (continued)

### 1) Impairment of Loans, Advances and Financing (continued)

	<b>Group RM'000</b>	<b>Bank RM'000</b>
i) Write back of specific allowance	275,503	252,796
ii) Write back of general allowance	577,822	511,615
iii) Opening adjustment in collective assessment allowance	769,545	684,670
iv) Opening adjustment in individual assessment allowance	228,018	226,724

### 2) Recognition of Interest Income

Prior to 1 July 2010, interest on loans, advances and financing was recognised in the income statement at contracted interest rates. FRS 139 requires interest income to be recognised on an EIR basis. The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the loan or, when appropriate, a shorter period to the net carrying amount of the loan. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not the future credit losses.

The change in accounting policy has resulted in an adjustment of RM57,207,000 and RM54,984,000 (before tax effects) respectively for the Group and the Bank to opening retained profits.

Prior to the adoption of FRS 139, where a loan becomes non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing are reversed out of the income statement and set off against the accrued interest receivable account in the balance sheet. Subsequently, the interest earned on the non-performing loans shall be recognised as income on cash basis.

Upon adoption of FRS 139, once a loan has been written down due to impairment loss, interest income is recognised based on the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. Accordingly, all prior years' interest-in-suspense of RM119,894,000 and RM 114,112,000 (before tax effects) has been written back to the opening retained profits of the Group and the Bank.

### 3) Recognition of Embedded Derivatives

Upon adoption of FRS 139, embedded derivatives are to be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the host contract and the fair value of the resulting derivative can be reliably measured.

There is no effect to the results as the Group and the Bank do not have any material embedded derivatives.

### 4) Fair Valuation of Unquoted Equity Securities

Upon adoption of FRS 139, all unquoted equity securities are now required to be excluded from financial investments held-to-maturity and to be fair valued. These securities have been reclassified to financial investments available-for-sale, with changes in fair value recognised directly to AFS reserves.

The effect of this change has been accounted for as an adjustment to the opening balance of the AFS reserves of RM105,454,000 and RM105,957,000 for the Group and the Bank.

## 29 Change in Accounting Policies (continued)

### (b) Summary of Adjustments due to Change in Accounting Policies

The changes in accounting policies described above have resulted in adjustments to opening reserves of the Group and the Bank as follows:

	Group			Bank		
	Balance as at 1 July, as previously reported RM'000	Effects on adoption of FRS 139 RM'000	As restated RM'000	Balance as at 1 July, as previously reported RM'000	Effects on adoption of FRS 139 RM'000	As restated RM'000
Retained profits	3,044,043	24,655	3,068,698	2,573,041	16,585	2,589,626
Available-for-sale reserve	17,060	79,090	96,150	17,189	79,468	96,657

**HONG LEONG BANK BERHAD ("HLB" or "Bank")**  
**ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING**  
**REQUIREMENTS OF THE BURSA MALAYSIA SECURITIES BERHAD**

**1 Review of performance**

**Current quarter against previous corresponding quarter**

The Group recorded a pre-tax profit of RM359.7 million for the current financial quarter ended 31 December 2010, an increase of RM68.4 million or 23.5% as compared to previous corresponding quarter. The increase was due to higher net income of RM84.6 million coupled with higher share of profit from Bank of Chengdu of RM17.4 million. This is offset by higher allowance for impaired loans of RM17.1 million, higher other operating expenses of RM9.9 million and impairment charge of RM6.1 million.

**Financial year-to-date against previous financial year-to-date**

The Group pre-tax profit for the six months ended 31 December 2010 stood at RM677.1 million, an increase of RM97.0 million or 16.7% as compared to RM580.1 million in the previous corresponding period. The increase was due to higher net income by RM112.7 million and higher share of profit from Bank of Chengdu of RM23.8 million. This is however mitigated by higher allowance for impaired loans of RM14.9 million, higher other operating expenses of RM17.8 million and impairment charge of RM6.1 million.

**2 Review of performance of current quarter against preceding quarter**

For the current financial quarter, the Group recorded a pre-tax profit of RM359.7 million as compared to RM317.4 million in the preceding quarter, an increase of RM42.3 million mainly from higher in other operating income of RM63.6 million, higher share of profit from Bank of Chengdu of RM7.8 million and higher net income from Islamic banking business by RM2.5 million. This is offset by higher operating expenses of RM30.6 million.

**3 Current year prospects**

The Group continues to be optimistic about the economic outlook for the rest of the year. There are opportunities to assert our liquidity franchise to strongly grow our scale. The Group will continue to focus on its core businesses emphasizing efficiency and optimal returns on client relationships as well as capitalising on improving business opportunities in Malaysia and the region.

**4 Variance in profit forecast and shortfall in profit guarantee**

This note is not applicable to the Group.



## 5 Taxation

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
	RM'000	RM'000	RM'000	RM'000
<b>The Group</b>				
Malaysian income tax	72,075	89,457	138,993	120,553
Oversea tax	-	-	-	-
	<u>72,075</u>	<u>89,457</u>	<u>138,993</u>	<u>120,553</u>
Transfer from/(to) deferred taxation	(3,839)	(22,933)	(10,590)	619
	<u>68,236</u>	<u>66,524</u>	<u>128,403</u>	<u>121,172</u>

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
	RM'000	RM'000	RM'000	RM'000
<b>The Bank</b>				
Malaysian income tax	79,747	86,477	146,028	109,032
Oversea tax	-	-	-	-
	<u>79,747</u>	<u>86,477</u>	<u>146,028</u>	<u>109,032</u>
Transfer from/(to) deferred taxation	(4,070)	(26,815)	(8,968)	(1,864)
	<u>75,677</u>	<u>59,662</u>	<u>137,060</u>	<u>107,168</u>

The Group's and Bank's effective tax rate for the financial period is lower than the statutory tax rate as certain income was not subject to tax.

## 6 Profit on sale of unquoted investments/properties

There were no material gains or losses on disposal of unquoted investments (other than in the ordinary course of business) and/or properties for the financial period under review.

## 7 Purchase and disposal of quoted securities

There were no purchase or disposal of quoted securities for the financial period under review other than those purchased or disposed in the ordinary course of business.

## 8 Status of corporate proposals

There were no corporate proposals announced but not completed at the latest practicable date which was not earlier than 7 days from the issue of this report, other than as mentioned below:-

- (i) On 30 March 2010, CIMB Investment Bank Berhad ("CIMB"), on behalf of the Bank, announced that the Bank made a new offer to acquire the entire assets and liabilities of EON Capital Berhad ("EON Cap") at an aggregate purchase consideration of RM4,921,781,997 to be satisfied fully in cash.
- (ii) On 1 April 2010, CIMB, on behalf of the Bank, announced that the Bank had made a revised offer to acquire the entire assets and liabilities of EON Cap at an aggregate purchase consideration of RM5,060,423,744 to be satisfied fully in cash ("Offer").
- (iii) On 2 April 2010, CIMB, on behalf of the Bank, announced that the Bank had received confirmation from EON Cap to, amongst others, table the Offer for consideration and approval by EON Cap's shareholders and submit the applications to the Minister of Finance ("MoF") and other relevant regulatory authority for approval of the Offer, in accordance with the terms of the Offer.
- (iv) On 23 April 2010, CIMB, on behalf of HLB, announced the following:
  - a. details on the proposed acquisition of the entire assets and liabilities of EON Cap at an offer price of RM5,060,423,744 to be satisfied fully in cash ("Proposed Acquisition");
  - b. that HLB proposes to undertake a renounceable rights issue of new ordinary shares of RM1.00 each in HLB ("Rights Shares") to the entitled shareholders of HLB to raise gross proceeds of up to RM1.6 billion ("Proposed Rights Issue"); and
  - c. that HLB had made an application to Bank Negara Malaysia ("BNM") on the Proposed Acquisition and Proposed Rights Issue.
- (v) On 27 May 2010, CIMB, on behalf of the Bank, announced that Bursa Malaysia Securities Berhad had, through its letter dated 26 May 2010, given its approval for the listing of and quotation for the Rights Shares on the Main Market of Bursa Malaysia Securities Berhad.
- (vi) On 21 June 2010, CIMB, on behalf of the Bank, announced that the Bank had, pursuant to various discussions with EON Cap, issued 2 letters dated 18 June 2010 and 19 June 2010 to EON Cap clarifying or modifying the revised offer by the Bank, details as set out in the said announcement.
- (vii) On 16 July 2010, CIMB, on behalf of the Bank, announced that the Bank had received a letter dated 12 July 2010 from EON Cap requesting certain amendments to the terms of the Offer by HLB to acquire the entire assets and liabilities of EON Cap and the timelines as indicated in HLB's letters dated 18 June 2010 and 19 June 2010.

The Bank had, in its letter dated 15 July 2010 to EON Cap, noted the amendments and timelines proposed by EON Cap and advised EON Cap as follows:

- a. The Bank agrees to EON Cap's proposal that EON Cap may only accept the Offer by delivering to the Bank the acceptance as set out in the Bank's letter of Offer dated 1 April 2010, duly signed by EON Cap no later than 5 business days immediately following the date after the last of the approvals for the Offer;

## 8 Status of corporate proposals (continued)

- b. The Bank agrees that the extraordinary general meeting of EON Cap to approve the Proposed Acquisition based on the offer price of RM5,060,423,744 shall be held by 20 August 2010, and all the approvals from BNM/Ministry of Finance (MoF), Securities Commissions (SC) and shareholders of EON Cap and HLB, on terms and conditions acceptable to HLB, are obtained and the acceptance of the Offer by EON Cap is given by 30 November 2010; and
- c. the Offer is subject to all the timelines mentioned in (i) and/or (ii) above being met, unless extended by the Bank.

(viii) On 3 August 2010, CIMB, on behalf of HLB, announced that HLB had received the approval of the Minister of Finance ("MoF") through Bank Negara Malaysia ("BNM") for, inter alia, the following:

- a. Approval under Section 45(1)(a) of the Banking and Financial Institutions Act, 1989 ("BAFIA") for HLB to acquire interest in shares of more than 5% of the shares in EON Bank Berhad ("EON Bank") and MIMB Investment Bank Berhad ("MIMB");
- b. Approval under Section 49(7) of BAFIA for HLB to enter into an agreement or arrangement with EON Cap which would result in a change in control of EON Bank and MIMB to HLB as provided under Section 49(1)(a) of BAFIA;
- c. Approval under Section 22(2) of the Islamic Banking Act, 1993 ("IBA") for HLB to enter into an agreement or arrangement with EON Cap which would result in a disposal of EONCAP Islamic Bank Berhad ("EONCAP Islamic") shares to HLB as provided under Section 22(1)(a)(i) of IBA;
- d. Approval under Section 49(7) of BAFIA for HLB to enter into an agreement or arrangement with EON Bank which would result in the transfer of the banking operations of EON Bank to HLB as provided under Section 49(1)(b) of BAFIA; and
- e. Approval under Section 22(2) of IBA for Hong Leong Islamic Bank Berhad ("HLISB") to enter into an agreement or arrangement with EONCAP Islamic which would result in the transfer of the banking operations of EONCAP Islamic to HLISB as provided under Section 22(1)(a)(i) of IBA.

BNM had also given its approval, amongst others, for HLB to acquire the subsidiaries of EON Cap, including EON Bank, EONCAP Islamic and MIMB pursuant to Section 29 of BAFIA. HLB was also required to finalise the position of MIMB by 31 December 2010 in line with BNM's policy which prohibits a domestic banking group from holding 2 investment bank licenses.

## 8 Status of corporate proposals (continued)

- (ix) On 19 August 2010, CIMB, on behalf of HLB, announced that HLB had received a letter dated 18 August 2010 from EON Cap seeking HLB's concurrence to extend the deadline for the holding of EON Cap's extraordinary general meeting ("EGM") to approve the Proposed Acquisition from 20 August 2010 to 30 September 2010.

In this respect, HLB had, via its letter dated 19 August 2010, agreed to amend the timeline to the following:

- (i) EON Cap may only accept the Offer by HLB by delivering to HLB the acceptance as set out in HLB's letter of Offer dated 1 April 2010, duly signed by EON Cap no later than 5 business days immediately following the date after the last of the following approvals for the Offer have been obtained upon terms and conditions acceptable to HLB:
- (a) approval from BNM/MoF;
  - (b) approval from the shareholders of EON Cap provided that if EON Cap shareholders' approval shall be subject to conditions, the said approval shall be deemed to be obtained or received only when the conditions have been met, or waived by the relevant parties;
  - (c) approval from the shareholders of HLB; and
  - (d) approval from the Securities Commission ("SC").
- (ii) the EGM of EON Cap to approve the Proposed Acquisition based on the offer price of RM5,060,423,743.60 shall be held by 30 September 2010, and all the approvals from BNM/MoF, shareholders of EON Cap and HLB, and SC, on terms and conditions acceptable to HLB, are obtained and the acceptance of the Offer by EON Cap is given by 30 November 2010; and
- (iii) the Offer is subject to the timeline mentioned in paragraphs (i) and (ii) above being met, unless extended by HLB.
- (x) At the adjourned EGM of the Bank held on 4 October 2010, the shareholders had approved the Proposed Acquisition and the Proposed Rights Issue.
- (xi) On 26 November 2010, CIMB, on behalf of HLB, announced that HLB had, via its letter dated 26 November 2010, extended the deadline for EON Cap to accept HLB's offer to acquire the entire assets and liabilities of EON Cap to 30 April 2011.

## 9 Group borrowings

This note is not applicable to the Group because there are no borrowings.

## 10 Deposits and debt securities

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
<b>Deposits from customers</b>				
Fixed deposits	40,375,037	38,508,805	34,978,267	33,762,006
Negotiable instruments of deposit	3,662,940	2,580,634	3,271,304	2,800,837
Demand deposits	8,758,257	8,012,103	8,214,799	7,364,677
Saving deposits	8,677,385	8,392,327	7,312,932	7,092,707
Short term corporate placement	9,699,499	11,963,804	9,699,499	11,963,804
Other	256,989	255,019	256,989	255,019
	<u>71,430,107</u>	<u>69,712,692</u>	<u>63,733,790</u>	<u>63,239,050</u>

The maturity structure of fixed deposits and negotiable instruments:

One year or less (short term)	40,709,466	39,992,231	35,638,700	35,487,392
More than one year (medium/long term)	3,328,511	1,097,208	2,610,871	1,075,451
	<u>44,037,977</u>	<u>41,089,439</u>	<u>38,249,571</u>	<u>36,562,843</u>

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
<b>Deposits and placements of banks and other financial institutions</b>				
Licensed banks	5,293,630	3,583,826	5,270,630	3,577,032
Other financial institutions	114,640	292,577	114,143	214,097
	<u>5,408,270</u>	<u>3,876,403</u>	<u>5,384,773</u>	<u>3,791,129</u>

The maturity structure of deposits and placements of banks and other financial institutions:

One year or less (short term)	5,408,270	3,876,403	5,384,773	3,791,129
More than one year (medium/long term)	-	-	-	-
	<u>5,408,270</u>	<u>3,876,403</u>	<u>5,384,773</u>	<u>3,791,129</u>

## 11 Subordinated bonds

	<b><u>The Group and The Bank</u></b>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Subordinated bonds		
- USD200 million	-	650,454

On 3 August 2005, the Bank issued USD200 million in aggregate principal amount of Subordinated Bonds ("the Bonds") due 2015 callable with step-up in 2010. The Bonds bear interest at the rate of 5.25% per annum from, and including 3 August 2005 to, but excluding 3 August 2010 and, thereafter, at a rate per annum equal to the 5 Year US Treasury Rate plus 2.717%. The interest is payable semi-annually in arrears on 3 February and 3 August in each year, commencing on 3 February 2006. The Bonds were issued at a price of 99.848 per cent of the principal amount of the Bonds. The Bonds will, subject to the prior written approval of Bank Negara Malaysia, if required, be redeemable in whole but not in part, at the option of the Bank on 3 August 2010.

On 3 August 2010, the Bank had fully redeemed its US\$200 million Bonds. The Bonds has been delisted from the Official Listing of the Singapore Exchange Securities Trading Limited following the redemption.

	<b><u>The Group and The Bank</u></b>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Year Ended 30/06/2010 RM'000</b>
Subordinated debt		
- RM700 million, At par	700,000	-
Less: Unamortised Discount	(3,511)	-
	<u>696,489</u>	<u>-</u>

On 10 August 2010, the Bank had completed its inaugural Ringgit issuance of RM700 million Tier 2 Subordinated Debt ("Sub Debt"). The Sub Debt formed part of the Tier 2 Subordinated Notes Programme of up to RM1.7 billion, as approved by the Securities Commission vide its letter dated 27 July 2010.

The Sub Debt has a maturity of 10 years and matures on 10 August 2020. Subject to BNM's approval, the Bank has the option to redeem the Sub Debt early at the end of year 5, which is on 10 August 2015 and on each subsequent coupon payment dates thereafter. The Sub Debt's interest rate is 4.85% per annum payable semi-annually in arrears for the tenor of the notes.

The Sub Debt constitute unsecured liabilities of the Bank, and are subordinated in right of payment to the deposit liabilities and all other liabilities of the Bank in accordance with the terms and conditions of the issue and qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Group and the Bank.

## 12 Off-balance sheet financial instruments

Details of financial instruments with off-balance sheet risk as at 31 December 2010

### The Group

Items	Principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000
Foreign exchange related contracts			
Forwards			
(i) Less than 1 year	22,951,153	167,909	(286,667)
(ii) 1 year to 3 years	12,591	-	(126)
(iii) More than 3 years	-	-	-
Swaps			
(i) Less than 1 year	5,095,334	103,521	(23,373)
(ii) 1 year to 3 years	5,882,295	164,530	(74,424)
(iii) More than 3 years	357,227	25,036	(31,570)
Options			
(i) Less than 1 year	1,349,315	1,283	(1,111)
(ii) 1 year to 3 years	150,959	514	-
(iii) More than 3 years	-	-	-
Interest rate related contracts			
Futures			
(i) Less than 1 year	2,258,531	192	(5,021)
(ii) 1 year to 3 years	1,226,006	29	(905)
(iii) More than 3 years	-	-	-
Swaps			
(i) Less than 1 year	6,160,239	19,479	(32,042)
(ii) 1 year to 3 years	12,655,866	100,870	(139,155)
(iii) More than 3 years	21,284,485	164,800	(127,033)
Equity related contracts			
(i) Less than 1 year	133,954	435	(435)
(ii) 1 year to 3 years	31,445	-	-
(iii) More than 3 years	-	-	-
<b>Total</b>	<b>79,549,400</b>	<b>748,598</b>	<b>(721,862)</b>

## 12 Off-balance sheet financial instruments (continued)

Details of financial instruments with off-balance sheet risk as at 31 December 2010

### The Bank

Items	Principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000
Foreign exchange related contracts			
Forwards			
(i) Less than 1 year	22,942,167	167,909	(286,667)
(ii) 1 year to 3 years	12,591	-	(126)
(iii) More than 3 years	-	-	-
Swaps			
(i) Less than 1 year	5,075,865	103,521	(23,373)
(ii) 1 year to 3 years	9,401,996	264,950	(174,844)
(iii) More than 3 years	357,227	25,036	(31,570)
Options			
(i) Less than 1 year	1,349,315	1,283	(1,111)
(ii) 1 year to 3 years	150,959	514	-
(iii) More than 3 years	-	-	-
Interest rate related contracts			
Futures			
(i) Less than 1 year	2,258,531	192	(5,021)
(ii) 1 year to 3 years	1,226,006	29	(905)
(iii) More than 3 years	-	-	-
Swaps			
(i) Less than 1 year	6,160,239	19,479	(32,042)
(ii) 1 year to 3 years	12,655,866	100,870	(139,155)
(iii) More than 3 years	21,284,485	164,800	(127,033)
Equity related contracts			
(i) Less than 1 year	133,954	435	(435)
(ii) 1 year to 3 years	31,445	-	-
(iii) More than 3 years	-	-	-
<b>Total</b>	<b>83,040,646</b>	<b>849,018</b>	<b>(822,282)</b>



## 12 Off-balance sheet financial instruments (continued)

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

### **Market risk**

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amount subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at the end of the financial period, the amount of contracts which were not hedged effectively and hence, exposed to foreign exchange and interest rate market risk were RM142,309,210 (FYE June 2010: RM569,392,174) and RM39,503,927,053 (FYE June 2010: RM33,587,897,090) respectively.

### Derivatives

Market risk arises from the impact on trading positions of changes in foreign exchange rates and interest rates. It also includes the impact from changes in the correlations and volatilities of other risk factors. The Group manages trading market risk in the course of market-making, structuring and packaging products for investors and other clients, as well as to benefit from market opportunities. The Group's market risk framework identifies the types of the market risk to be covered, the risk metrics and methodologies to be used to capture such risk and the standards governing the management of market risk within the Group including limit setting and independent model validation, monitoring and valuation. Management of derivatives risks is continually reviewed and enhanced to ensure that the complexities of the business are appropriately controlled.

### **Credit risk**

Credit risk arises from the possibility that a counter-party may be unable to meet the terms of a contract in which the Group has a gain position. As at the end of the financial period, the amount of credit risk, measured in terms of the cost to replace the profitable contracts, was RM844,340,916 (FYE June 2010: RM1,339,766,178 ). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

### Derivatives

The amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (ie, assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

The Group uses the following derivative instruments for both hedging and non-hedging purposes:-

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk of futures contracts is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (ie, cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

## 12 Off-balance sheet financial instruments (continued)

### Credit risk (continued)

#### *Derivatives (continued)*

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (OTC). The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instrument provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

### Liquidity risk

#### *Derivatives (continued)*

Liquidity risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

### Related accounting policies

Derivative financial instruments are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from a change in the fair value of the derivatives is recognised in the income statements unless they are part of a hedging relationship which qualifies for hedge accounting where the gain or loss is recognised as follows:

#### Fair value hedge

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in the income statement. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

#### Cash flow hedge

Gains and losses on the hedging instrument, to the extent that the hedge is effective, are deferred in the separate component of equity. The ineffective part of any gain or loss is recognised in the income statement. The deferred gains and losses are then released to the income statement in the periods when the hedged items affects the income statement.

### 13 Material litigation

The Group does not have any material litigation which, in the opinion of the Directors, would have a material adverse impact on the financial results of the Group.

### 14 Dividend

An interim dividend of 9.0 sen per share less income tax of 25% has been proposed for the current quarter.

- (i) Amount per share: 9.0 sen (less 25% taxation)
- (ii) Previous corresponding quarter: 9.0 sen per share (less 25% taxation)
- (iii) Entitlement date: 15 March 2011
- (iv) Payment date: 30 March 2011

### 15 Realised and Unrealised Profits

	<b>The Group</b>	
	<b>Financial Period Ended 31/12/2010 RM'000</b>	<b>Financial Period Ended 30/09/2010 RM'000</b>
Total retained profits of Hong Leong Bank Berhad and it's subsidiaries		
- Realised	2,647,067	2,423,446
- Unrealised	482,128	630,060
	3,129,195	3,053,506
Total share of retained profits from associated company		
- Realised	323,835	279,888
Total share of retained profits /(accumulated losses) from jointly controlled entity		
- Realised	(727)	(949)
	3,452,303	3,332,445
Less Consolidation Adjustment	(13,029)	(13,029)
Total Group's Retained Profit	3,439,274	3,319,416

The breakdown of realised and unrealised profits is derived based on the Guidance on Special Note No. 1 *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

The unrealised retained profits of the Banking Group as disclosed above excludes translation gains and losses on monetary items denominated in a currency other than the functional currency and foreign exchange contracts, as these translation gains and losses are incurred in the ordinary course of business of the Banking Group and are deemed realised.

## 16 Earnings per share

### a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit after taxation and minority interest by the weighted average number of ordinary shares (excluding treasury shares) in issue during the period.

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010 RM'000	31/12/2009 RM'000	31/12/2010 RM'000	31/12/2009 RM'000
<b><u>The Group</u></b>				
Net profit attributable to shareholders of the company	291,432	224,749	548,632	458,960
Weighted average number of ordinary shares in issue ('000)	1,580,107	1,580,107	1,580,107	1,580,107
Less: Treasury shares held	(127,986)	(130,809)	(127,986)	(130,809)
	<u>1,452,121</u>	<u>1,449,298</u>	<u>1,452,121</u>	<u>1,449,298</u>
<b>Basic earnings per share (sen)</b>	20.1	15.5	37.8	31.7
<b><u>The Bank</u></b>				
Net profit attributable to shareholders of the company	245,247	185,075	444,388	364,937
Weighted average number of ordinary shares in issue ('000)	1,580,107	1,580,107	1,580,107	1,580,107
Less: Treasury shares held	(127,986)	(130,809)	(127,986)	(130,809)
	<u>1,452,121</u>	<u>1,449,298</u>	<u>1,452,121</u>	<u>1,449,298</u>
<b>Basic earnings per share (sen)</b>	16.9	12.8	30.6	25.2

## 16 Earnings per share (continued)

### b) Fully diluted earnings per share

For the fully diluted earnings per share, the weighted average number of ordinary shares in issue (excluding treasury shares) is adjusted to assume conversion of all ESOS options into ordinary shares.

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2010 RM'000	31/12/2009 RM'000	31/12/2010 RM'000	31/12/2009 RM'000
<b><u>The Group</u></b>				
Net profit attributable to shareholders of the company	291,432	224,749	548,632	458,960
Weighted average number of ordinary shares in issue (diluted) ('000):				
- during the period	1,452,121	1,449,298	1,452,121	1,449,298
- adjustment for ESOS	-	-	-	-
	<u>1,452,121</u>	<u>1,449,298</u>	<u>1,452,121</u>	<u>1,449,298</u>
<b>Fully diluted earnings per share (sen)</b>	20.1	15.5	37.8	31.7
<b><u>The Bank</u></b>				
Net profit attributable to shareholders of the company	245,247	185,075	444,388	364,937
Weighted average number of ordinary shares in issue (diluted) ('000):				
- during the period	1,452,121	1,449,298	1,452,121	1,449,298
- adjustment for ESOS	-	-	-	-
	<u>1,452,121</u>	<u>1,449,298</u>	<u>1,452,121</u>	<u>1,449,298</u>
<b>Fully diluted earnings per share (sen)</b>	16.9	12.8	30.6	25.2

Dated this 23 February 2011