

**Hong Leong Bank Berhad**  
**Condensed Financial Statements**  
**Unaudited Statements of Financial Position As At 31 December 2011**

	The Group		The Bank	
	Financial Period Ended 31/12/2011	Financial Year Ended 30/06/2011	Financial Period Ended 31/12/2011	Financial Year Ended 30/06/2011
Note	RM'000	RM'000	RM'000	RM'000
<b><u>ASSETS</u></b>				
Cash and short-term funds	25,698,294	30,476,610	23,358,568	17,349,793
Deposits and placements with financial institutions	2,814,724	5,415,383	2,230,175	6,131,473
Securities purchased under resale agreements	581,028	86	581,028	86
Financial assets held for trading	8 15,914,738	6,023,147	12,957,871	4,471,896
Financial investments available-for-sale	9 8,485,882	5,954,139	7,278,812	2,536,925
Financial investments held-to-maturity	10 5,936,868	7,820,548	6,753,961	7,922,570
Loans, advances and financing	11 84,474,135	81,950,757	72,651,277	38,548,822
Other assets	12 1,747,746	951,929	1,355,312	428,826
Derivative financial instruments	1,051,035	790,162	1,078,917	802,776
Amount due from subsidiaries	-	-	738,733	844,671
Statutory deposits with Bank Negara Malaysia	3,055,030	2,201,874	2,614,150	988,900
Investment in subsidiary companies	-	-	2,325,544	6,088,873
Investment in associated company	1,420,084	1,325,707	946,505	946,505
Investment in jointly controlled entity	75,383	75,252	76,711	76,711
Property and equipment	761,633	646,605	731,284	349,445
Intangible assets	112,018	106,365	107,109	59,536
Goodwill	1,360,174	1,360,174	1,050,759	-
Deferred tax assets	313,245	325,935	245,310	102,281
<b>Total Assets</b>	<b>153,802,017</b>	<b>145,424,673</b>	<b>137,082,026</b>	<b>87,650,089</b>
<b><u>LIABILITIES AND SHAREHOLDERS' FUNDS</u></b>				
Deposits from customers	13 119,232,879	114,856,543	105,616,229	65,924,094
Deposits and placements of banks and other financial institutions	14 11,489,923	10,697,661	9,963,259	5,820,144
Obligations on securities sold under repurchase agreements	1,480,060	-	1,480,060	-
Bills and acceptances payable	496,992	683,996	439,873	350,474
Other liabilities	15 3,440,864	2,865,019	3,024,321	1,912,498
Derivative financial instruments	982,264	666,706	968,142	672,967
Senior bonds	956,303	910,810	956,303	910,810
Tier 2 subordinated bonds	2,905,606	2,858,493	2,904,883	1,713,260
Tier 2 capital cumulative subordinated loan	-	2,314,080	-	2,314,080
Non-innovative Tier 1 stapled securities	1,406,163	1,405,706	1,406,163	1,405,706
Innovative Tier 1 capital securities	610,097	503,069	608,531	-
Provision for taxation	221,407	197,343	201,673	58,930
<b>Total Liabilities</b>	<b>143,222,558</b>	<b>137,959,426</b>	<b>127,569,437</b>	<b>81,082,963</b>
Share Capital	1,879,909	1,580,107	1,879,909	1,580,107
Reserves	9,432,236	6,556,884	8,365,366	5,658,763
Less: Treasury Shares	(732,686)	(671,744)	(732,686)	(671,744)
<b>Total Shareholders' Equity</b>	<b>10,579,459</b>	<b>7,465,247</b>	<b>9,512,589</b>	<b>6,567,126</b>
<b>Total Liabilities and Equity</b>	<b>153,802,017</b>	<b>145,424,673</b>	<b>137,082,026</b>	<b>87,650,089</b>
<b><u>COMMITMENTS AND CONTINGENCIES</u></b>	25 <b>137,305,328</b>	<b>138,279,839</b>	<b>136,961,561</b>	<b>115,912,569</b>
<b><u>CAPITAL ADEQUACY</u></b>				
<b><u>Before deducting proposed dividends</u></b>				
Core capital ratio	21 11.64%	8.43%	12.17%	11.56%
Risk-weighted capital ratio	21 14.61%	14.05%	13.00%	11.56%
<b><u>After deducting proposed dividends</u></b>				
Core capital ratio	21 11.48%	8.25%	12.00%	11.19%
Risk-weighted capital ratio	21 14.45%	13.86%	12.83%	11.19%
Net asset per share attributable to ordinary equity holders of the parent (RM) *	6.05	5.13	5.44	4.52

\* 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 2011**

**The Group**

	Note	Current Quarter Ended 31/12/2011 RM'000	Corresponding Quarter Ended 31/12/2010 RM'000	Current Period Ended 31/12/2011 RM'000	Corresponding Period Ended 31/12/2010 RM'000
Interest income	16	1,334,393	729,114	2,663,020	1,438,615
Interest expense	17	(664,847)	(355,739)	(1,349,217)	(689,904)
Net interest income		669,546	373,375	1,313,803	748,711
Net income from Islamic Banking business		114,159	49,366	210,193	96,212
Other operating income	18	219,651	181,223	396,090	298,828
Net Income		1,003,356	603,964	1,920,086	1,143,751
Other operating expenses	19	(564,733)	(248,582)	(1,000,354)	(466,581)
Operating profit before allowances		438,623	355,382	919,732	677,170
Allowance for impairment losses on loans, advances and financing	20	3,153	(39,866)	(19,929)	(80,863)
Write back of impairment losses		6,506	-	10,311	-
		448,282	315,516	910,114	596,307
Share of profit after tax of equity accounted associated company		34,915	44,635	96,756	81,486
Share of profit after tax of equity accounted jointly controlled entity		(37)	(466)	131	(727)
Profit before taxation (and zakat)		483,160	359,685	1,007,001	677,066
Taxation		(101,771)	(68,236)	(218,479)	(128,403)
Zakat		(18)	(17)	(41)	(31)
Net profit for the period		381,371	291,432	788,481	548,632
<b>Attributable to:</b>					
Owners of the parent		381,371	291,432	788,481	548,632
Net profit for the period		381,371	291,432	788,481	548,632
Earnings per share - basic (sen)		24.2	20.1	50.1	37.8
Earnings per share - fully diluted (sen)		24.1	20.1	49.8	37.8

**Hong Leong Bank Berhad**  
**Condensed Financial Statements**  
**Unaudited Statements of Comprehensive Income**  
**For The Financial Quarter Ended 31 December 2011**

	<b>The Group</b>			
	<b>Current Quarter Ended 31/12/2011 RM'000</b>	<b>Corresponding Quarter Ended 31/12/2010 RM'000</b>	<b>Current Period Ended 31/12/2011 RM'000</b>	<b>Corresponding Period Ended 31/12/2010 RM'000</b>
Net profit for the financial period/year	<u>381,371</u>	<u>291,432</u>	<u>788,481</u>	<u>548,632</u>
Other comprehensive income/(loss):				
Share of other comprehensive income of associate company and jointly controlled entity	-	-	(24)	-
Currency translation difference	(12,310)	9,682	(3,856)	(4,749)
Net fair value changes on financial investments available-for-sale	7,061	(8,352)	(20,648)	5,175
Income tax relating to components of other comprehensive income/(loss)	<u>(1,765)</u>	<u>2,088</u>	<u>5,162</u>	<u>(1,294)</u>
Other comprehensive income/(loss) for the financial period/year	<u>(7,014)</u>	<u>3,418</u>	<u>(19,366)</u>	<u>(868)</u>
Total comprehensive income for the financial period/year, net of tax	<u><u>374,357</u></u>	<u><u>294,850</u></u>	<u><u>769,115</u></u>	<u><u>547,764</u></u>
Attributable to:				
- Owners of the parent	<u>374,357</u>	<u>294,850</u>	<u>769,115</u>	<u>547,764</u>
	<u><u>374,357</u></u>	<u><u>294,850</u></u>	<u><u>769,115</u></u>	<u><u>547,764</u></u>

**Hong Leong Bank Berhad**  
**Condensed Financial Statements**  
**Unaudited Income Statements**  
**For The Financial Quarter Ended 31 December 2011**

**The Bank**

	Note	Current Quarter Ended 31/12/2011 RM'000	Corresponding Quarter Ended 31/12/2010 RM'000	Current Period Ended 31/12/2011 RM'000	Corresponding Period Ended 31/12/2010 RM'000
Interest income	16	1,348,227	735,497	2,684,958	1,459,553
Interest expense	17	(693,891)	(371,760)	(1,402,701)	(723,944)
Net interest income		654,336	363,737	1,282,257	735,609
Other operating income	18	263,008	215,268	436,608	334,610
Net Income		917,344	579,005	1,718,865	1,070,219
Other operating expenses	19	(496,142)	(225,406)	(878,793)	(423,141)
Operating profit before allowances		421,202	353,599	840,072	647,078
Allowance for impairment losses on loans, advances and financing	20	15,004	(32,675)	3,690	(65,630)
Write back of impairment losses		6,506	-	7,820	-
Profit before taxation		442,712	320,924	851,582	581,448
Taxation		(112,974)	(75,677)	(215,906)	(137,060)
Profit after taxation		329,738	245,247	635,676	444,388
Profit attributable to shareholders		329,738	245,247	635,676	444,388
Earnings per share - basic (sen)		20.9	16.9	40.4	30.6
Earnings per share - fully diluted (sen)		20.8	16.9	40.1	30.6

**Hong Leong Bank Berhad**  
**Condensed Financial Statements**  
**Unaudited Statements of Comprehensive Income**  
**For The Financial Quarter Ended 31 December 2011**

	<b>The Bank</b>			
	<b>Current Quarter Ended 31/12/2011 RM'000</b>	<b>Corresponding Quarter Ended 31/12/2010 RM'000</b>	<b>Current Period Ended 31/12/2011 RM'000</b>	<b>Corresponding Period Ended 31/12/2010 RM'000</b>
Net profit for the financial period/year	<u>329,738</u>	<u>245,247</u>	<u>635,676</u>	<u>444,388</u>
Other comprehensive income/(loss):				
Currency translation difference	-	377	(11,038)	377
Net fair value changes on financial investments available-for-sale	4,288	(3,020)	(25,195)	7,309
Income tax relating to components of other comprehensive income	<u>(1,072)</u>	<u>755</u>	<u>6,299</u>	<u>(1,827)</u>
Other comprehensive gain/(loss) for the financial period/year	<u>3,216</u>	<u>(1,888)</u>	<u>(29,934)</u>	<u>5,859</u>
Total comprehensive income for the financial period/year, net of tax	<u><u>332,954</u></u>	<u><u>243,359</u></u>	<u><u>605,742</u></u>	<u><u>450,247</u></u>

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

**Unaudited Statement of Changes in Equity For The Financial Period Ended 31 December 2011**

<u>The Group</u>	Attributable to owners of the parent									
	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
<b>Balance as at 1 July 2011</b>	1,580,107	539,664	1,936,654	102,211	21,121	726	(26,848)	3,983,356	(671,744)	7,465,247
<u>Comprehensive income</u>										
Net profit for the period/year	-	-	-	-	-	-	-	788,481	-	788,481
Share of other comprehensive income of associates	-	-	-	(24)	-	-	-	-	-	(24)
- Net fair value changes in financial investments available-for-sale	-	-	-	(15,486)	-	-	-	-	-	(15,486)
- Currency translation difference	-	-	-	-	-	-	(3,856)	-	-	(3,856)
Total comprehensive income/(loss)	-	-	-	(15,510)	-	-	(3,856)	788,481	-	769,115
<u>Transactions with owners</u>										
Transfer to statutory reserve/regulatory reserve	-	-	158,647	-	-	5,376	-	(158,647)	-	5,376
Purchase of treasury shares	-	-	-	-	-	-	-	-	(10)	(10)
Issuance of Rights Issue	299,802	2,292,987	-	-	-	-	-	-	(73,612)	2,519,177
Dividend paid	-	-	-	-	-	-	-	(196,625)	-	(196,625)
ESOS exercised	-	-	-	-	(1,858)	-	-	3,036	12,680	13,858
Option charge arising from ESOS granted	-	-	-	-	3,321	-	-	-	-	3,321
Total transactions with owners	299,802	2,292,987	158,647	-	1,463	5,376	-	(352,236)	(60,942)	2,345,097
<b>Closing Balance @ 31 December 2011</b>	<b>1,879,909</b>	<b>2,832,651</b>	<b>2,095,301</b>	<b>86,701</b>	<b>22,584</b>	<b>6,102</b>	<b>(30,704)</b>	<b>4,419,601</b>	<b>(732,686)</b>	<b>10,579,459</b>
Balance as at 1 July 2010	1,580,107	539,664	1,902,915	17,060	15,829	-	12,313	3,044,043	(687,908)	6,424,023
- Prior year adjustments	-	-	-	79,090	-	-	-	24,655	-	103,745
Balance as at 1 July 2010, as restated	1,580,107	539,664	1,902,915	96,150	15,829	-	12,313	3,068,698	(687,908)	6,527,768
<u>Comprehensive income</u>										
Net profit for the period	-	-	-	-	-	-	-	548,632	-	548,632
- Net fair value changes in financial investments available-for-sale	-	-	-	3,881	-	-	-	-	-	3,881
- Currency translation difference	-	-	-	-	-	-	(4,749)	-	-	(4,749)
Total comprehensive income/(loss)	-	-	-	3,881	-	-	(4,749)	548,632	-	547,764
<u>Transactions with owners</u>										
Transfer to statutory reserve	-	-	16,929	-	-	768	-	(16,929)	-	768
Dividend paid	-	-	-	-	-	-	-	(163,441)	-	(163,441)
ESOS exercised	-	-	-	-	(1,342)	-	-	2,314	9,283	10,255
Option charge arising from ESOS granted	-	-	-	-	4,163	-	-	-	-	4,163
Total transactions with owners	-	-	16,929	-	2,821	768	-	(178,056)	9,283	(148,255)
<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>

\* 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 2011**

	← 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 2011</b>	1,580,107	539,664	1,741,612	107,652	21,121	36,152	3,212,562	(671,744)	6,567,126
- Effect of adopting FRS 139	-	-	-	-	-	-	-	-	-
- Prior year adjustments	-	-	-	-	-	-	-	-	-
<b>Balance as at 1 July 2011, as restated</b>	<u>1,580,107</u>	<u>539,664</u>	<u>1,741,612</u>	<u>107,652</u>	<u>21,121</u>	<u>36,152</u>	<u>3,212,562</u>	<u>(671,744)</u>	<u>6,567,126</u>
<u>Comprehensive income</u>									
Net profit for the period	-	-	-	-	-	-	635,676	-	635,676
- Net fair value changes in financial investments available-for-sale	-	-	-	(18,896)	-	-	-	-	(18,896)
- Currency translation difference	-	-	-	-	-	(11,038)	-	-	(11,038)
Total comprehensive income/(loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,896)</u>	<u>-</u>	<u>(11,038)</u>	<u>635,676</u>	<u>-</u>	<u>605,742</u>
<u>Transactions with owners</u>									
Transfer to statutory reserve	-	-	138,297	-	-	-	(138,297)	-	-
Dividend paid	-	-	-	-	-	-	(196,625)	-	(196,625)
Purchase of treasury shares	-	-	-	-	-	-	-	(10)	(10)
Issuance of Rights Issue	299,802	2,292,987	-	-	-	-	-	(73,612)	2,519,177
ESOS exercised	-	-	-	-	(1,858)	-	3,036	12,680	13,858
Options charge arising from ESOS granted	-	-	-	-	3,321	-	-	-	3,321
Total transactions with owners	<u>299,802</u>	<u>2,292,987</u>	<u>138,297</u>	<u>-</u>	<u>1,463</u>	<u>-</u>	<u>(331,886)</u>	<u>(60,942)</u>	<u>2,339,721</u>
<b>Closing Balance @ 31 December 2011</b>	<u><b>1,879,909</b></u>	<u><b>2,832,651</b></u>	<u><b>1,879,909</b></u>	<u><b>88,756</b></u>	<u><b>22,584</b></u>	<u><b>25,114</b></u>	<u><b>3,516,352</b></u>	<u><b>(732,686)</b></u>	<u><b>9,512,589</b></u>
Balance as at 1 July 2010	1,580,107	539,664	1,741,612	17,189	15,829	35,529	2,573,041	(687,908)	5,815,063
- Prior year adjustments	-	-	-	79,468	-	-	16,585	-	96,053
Balance as at 1 July 2010, as restated	<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>
<u>Comprehensive income</u>									
Net profit for the period	-	-	-	-	-	-	444,388	-	444,388
- Net fair value changes in financial investments available-for-sale	-	-	-	5,482	-	-	-	-	5,482
- Currency translation difference	-	-	-	-	-	377	-	-	377
Total comprehensive income/(loss)	<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>
<u>Transactions with owners</u>									
Dividend paid	-	-	-	-	-	-	(163,441)	-	(163,441)
ESOS exercised	-	-	-	-	(1,342)	-	2,318	9,283	10,259
Options charge arising from ESOS granted	-	-	-	-	4,163	-	-	-	4,163
Total transactions with owners	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,821</u>	<u>-</u>	<u>(161,123)</u>	<u>9,283</u>	<u>(149,019)</u>
<b>Closing Balance @ 31 December 2010</b>	<u><b>1,580,107</b></u>	<u><b>539,664</b></u>	<u><b>1,741,612</b></u>	<u><b>102,139</b></u>	<u><b>18,650</b></u>	<u><b>35,906</b></u>	<u><b>2,872,891</b></u>	<u><b>(678,625)</b></u>	<u><b>6,212,344</b></u>

**Hong Leong Bank Berhad**  
**Condensed Financial Statements**  
**Unaudited Condensed Statements of Cash Flows**  
**For The Financial Period Ended 31 December 2011**

	The Group		The Bank	
	Financial Period Ended 31/12/2011 RM'000	Financial Period Ended 31/12/2010 RM'000	Financial Period Ended 31/12/2011 RM'000	Financial Period Ended 31/12/2010 RM'000
Profit before taxation and zakat	1,007,001	677,066	851,582	581,448
Adjustments for non-cash items	(68,078)	(351,010)	(63,568)	(373,552)
Operating profit before working capital changes	938,923	326,056	788,014	207,896
Changes in working capital:				
Net changes in operating assets	(12,538,848)	(4,261,533)	(43,646,737)	(2,398,631)
Net changes in operating liabilities	7,507,394	4,034,152	48,612,058	2,230,099
Income taxes and zakat paid	(231,339)	(89,064)	(122,880)	(77,208)
Net cash (used in)/generated from operating activities	<u>(4,323,870)</u>	<u>9,611</u>	<u>5,630,455</u>	<u>(37,844)</u>
<b>Cash flows from investing activities</b>				
Net (purchases)/proceeds of financial investments available-for-sale	(2,433,729)	(915,488)	(4,659,109)	(291,358)
Net proceeds/(purchases) of financial investments held-to-maturity	2,158,475	(569,411)	1,458,920	(320,038)
Purchase of property and equipment	(140,197)	(23,395)	(132,635)	(20,967)
Proceeds from sale of property and equipment	12,494	-	2,145	-
Purchase of intangible assets	(23,197)	(8,088)	(64,416)	(5,352)
Dividend received on financial investments available-for-sale and held-to-maturity	14,376	16,039	14,376	16,039
Investment in subsidiary company	-	-	-	(309,025)
Investment in jointly controlled entity	-	(75,296)	-	(75,296)
Dividend from associated company	2,379	-	2,379	-
Dividend from subsidiary company	-	-	46,000	-
Proceeds from sale of subsidiary companies	-	-	3,763,329	-
Net cash (used in)/generated from investing activities	<u>(409,399)</u>	<u>(1,575,639)</u>	<u>430,989</u>	<u>(1,005,997)</u>
<b>Cash flows from financing activities</b>				
Dividend paid	(196,625)	(163,441)	(196,625)	(163,441)
Repayment of Tier 2 capital cumulative subordinated loan	(2,314,080)	-	(2,314,080)	-
Issuance of Rights Shares	2,519,177	-	2,519,177	-
Purchase of treasury shares	(10)	-	(10)	-
Cash received from ESOS exercised	13,858	9,486	13,858	10,259
Interest paid on subordinated obligations	(97,931)	(17,585)	(98,144)	(17,585)
Net cash generated from/(used in) financing activities	<u>(75,611)</u>	<u>(171,540)</u>	<u>(75,824)</u>	<u>(170,767)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(4,808,880)</b>	<b>(1,737,568)</b>	<b>5,985,620</b>	<b>(1,214,608)</b>
<b>Currency translation differences</b>	<b>30,564</b>	<b>(23,040)</b>	<b>23,155</b>	<b>(3,015)</b>
<b>Cash and cash equivalents at the beginning of financial period</b>	<b>30,476,610</b>	<b>15,682,086</b>	<b>17,349,793</b>	<b>13,928,247</b>
<b>Cash and cash equivalents at the end of financial period</b>	<b><u>25,698,294</u></b>	<b><u>13,921,478</u></b>	<b><u>23,358,568</u></b>	<b><u>12,710,624</u></b>



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

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS FOR FINANCIAL QUARTER ENDED 31 DECEMBER 2011

### 1 Basis of preparation

The unaudited condensed financial statements of the Group and of the Bank have been prepared in accordance with Financial Reporting Standard ("FRS") 134 "Interim Financial Reporting" issued by the Malaysian Accounting Standard Board ("MASB") and paragraph 9.22 of the Bursa Malaysia Securities Berhad's Listing Requirements and should be read in conjunction with the Group's audited financial statements for the financial year ended 30 June 2011.

The accounting policies and presentation adopted by the Group and the Bank for the unaudited condensed financial statements are consistent with those adopted in the audited financial statements for the financial year ended 30 June 2011, except for the adoption of the following accounting standards, amendments to published accounting standards and interpretations to existing standards which are effective on or after 1 July 2011:

Amendments to FRS 2	"Share-based payment: Group Cash-settled Share-based Payment Transactions"
Amendments to FRS 7	"Financial Instruments: Improving Disclosures about Financial Instruments"
IC Interpretation 4	"Determining Whether an Arrangement contains a lease"
IC Interpretation 19	"Extinguishing Financial Liabilities with Equity Instruments"
IC Interpretation 14	"FRS 119- The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction"

The adoption of the above accounting standards, amendments to published standards and interpretations do not give rise to any material financial effects to the Group and Bank.

### 2 Status of matters giving rise to the auditor's qualified report in the preceding annual financial statements for the year ended 30 June 2011

There was no qualified report issued by the auditors in the preceding annual financial statements for the year ended 30 June 2011

### 3 Seasonality or cyclical 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

Save as detailed below, there were no other new shares issuance, repayment of debt and equity securities, share buy back and share cancellations, or resale of shares held as treasury shares during the financial period ended 31 December 2011:-

#### a) Share issuance

During the period ended 31 December 2011, the Bank increased its issued and paid-up capital from 1,580,107,034 to 1,879,909,100 via issuance of 299,802,066 new ordinary shares of RM1.00 each on the basis of 1 Rights Share for every 5 existing shares held by HLBB's entitled shareholders on 21 September 2011 at an issue price of RM8.65 per rights share.

#### b) Share Buy-back

During the financial period ended 31 December 2011, the Bank purchased a total of 1,000 ordinary shares of RM1.00 each ('Shares') from the open market. The Shares purchased were being held as treasury shares in accordance with the provision of Section 67A subsection 3(A)(b) of the Companies Act, 1965.

Details of the Shares bought back for the financial period ended 31 December 2011 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-11	-	-	-	-	-
Aug-11	-	-	-	-	-
Sep-11	1,000	9.71	9.71	9.71	9,763
Oct-11	-	-	-	-	-
Nov-11	-	-	-	-	-
Dec-11	-	-	-	-	-
<b>For the period</b>	1,000	9.71	9.71	9.71	9,763

The total number of Shares bought back, all of which were held as treasury shares as at 31 December 2011 amounted to 81,097,700 Shares, at an average price per share of RM5.32. None of the treasury shares were resold or cancelled to date.

## **6 Issuance and repayment of debt and equity securities (continued)**

### c) 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 2011, the trust had subscribed the rights entitlement of 8,510,088 shares at the issue price of RM8.65. As at 31 December 2011, the total number of Treasury Shares for ESOS was 51,033,528 at an average carrying value of RM5.90 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 share options at an exercise price of RM7.49;
- (e) 3,095,000 share options at an exercise price of RM9.14; and
- (f) 1,000,000 share options at an exercise price of RM10.55

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.

Arising from the completion of the Bank's Right issue on 18 October 2011, there was an adjustment to the exercise price and number of option shares. The unexercised share options and the exercise price adjusted for the rights issue are listed below :-

- (a) 75,063 share options at an exercise price of RM5.44;
- (b) 13,165,125 share options at an exercise price of RM5.75;
- (c) 6,294,724 share options at an exercise price of RM5.69;
- (d) 154,884 share options at an exercise price of RM7.12;
- (e) 2,804,113 share options at an exercise price of RM8.69; and
- (f) 1,000,000 share options at an exercise price of RM10.55

During the financial period ended 31 December 2011, a total of 2,368,760 ordinary shares of RM1 each for cash were exercised pursuant to the Company's ESOS at exercise price above per ordinary share.

## **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 2011 amounting to RM196.6 million was paid on 16 November 2011.

## 8 Financial assets held-for-trading

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Money market instruments:				
Bank Negara Malaysia bills	5,501,366	767,821	4,041,661	99,624
Malaysian Government treasury bills	394,008	49,185	286,654	49,185
Malaysian Government securities	636,559	116,718	636,559	116,718
Malaysian Government investment certificates	631,134	388,068	479,180	326,987
Bankers' acceptances and Islamic accepted bills	4,240,568	3,732,445	3,869,123	3,140,894
Negotiable instruments of deposit	3,996,002	458,928	3,180,028	357,876
Commercial papers	-	93,847	-	-
Cagamas bonds	96,596	-	96,596	-
	<u>15,496,233</u>	<u>5,607,012</u>	<u>12,589,801</u>	<u>4,091,284</u>
Quoted securities:				
Foreign currency bonds	25,067	380,612	25,067	380,612
Shares outside Malaysia	1,839	-	1,839	-
Unquoted securities:				
Private and Islamic debt securities	391,599	35,523	341,164	-
Total financial assets held-for-trading	<u>15,914,738</u>	<u>6,023,147</u>	<u>12,957,871</u>	<u>4,471,896</u>

## 9 Financial investments available-for-sale

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Money market instruments:				
Government treasury bills	450,529	364,156	450,529	344,180
Malaysian Government securities	-	632,968	-	394,444
Malaysian Government investment certificates	3,097,229	1,911,745	1,966,786	730,269
Bank Negara Malaysia sukuk	-	114,695	-	-
Bank Negara Malaysia monetary notes	-	57,117	-	-
Bank Negara Malaysia bills	-	76,353	-	-
Negotiable instruments of deposit	-	522,051	703,307	-
Islamic negotiable instrument debt securities	-	28,833	-	-
Commercial papers	9,989	-	-	-
Bankers acceptances	10,300	44,853	-	-
Other Government securities	29,454	-	-	-
Cagamas bonds	426,155	137,259	298,735	20,375
	<u>4,023,656</u>	<u>3,890,030</u>	<u>3,419,357</u>	<u>1,489,268</u>
Quoted Securities:				
Shares and convertible loan stocks	93,738	111,486	87,848	110,374
Shares outside Malaysia	65,103	53,993	65,103	53,993
Foreign currency bonds in Malaysia	1,353,157	172,603	1,353,157	172,603
Foreign currency bonds outside Malaysia	423,288	335,930	423,288	335,930
Private debt securities in Malaysia	-	19,404	-	-
Unquoted securities:				
Private debt securities in Malaysia	2,294,139	1,196,700	1,697,426	224,356
Shares in Malaysia	229,332	170,695	229,164	150,401
Shares outside Malaysia	3,469	3,298	3,469	-
Total financial investments available-for-sale	<u>8,485,882</u>	<u>5,954,139</u>	<u>7,278,812</u>	<u>2,536,925</u>

## 10 Financial investments held-to-maturity

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Money market instruments:				
Malaysian Government securities	3,067,463	3,577,909	3,067,463	3,577,909
Malaysian Government investment certificates	1,414,075	1,123,311	877,761	903,689
Cagamas bonds	248,267	170,942	206,811	170,942
Negotiable instruments of deposit	875,681	2,677,278	2,392,739	3,194,188
Other Government securities	22,980	14,043	-	-
Investment in CPRS-JPM	51,000	-	51,000	-
	<u>5,679,466</u>	<u>7,563,483</u>	<u>6,595,774</u>	<u>7,846,728</u>
Unquoted securities in Malaysia:				
Loan stocks	275	268	275	268
Private and Islamic debt securities	210,376	256,797	111,161	75,574
Unquoted bonds	46,751	-	46,751	-
	<u>257,402</u>	<u>257,065</u>	<u>158,187</u>	<u>75,842</u>
Total financial investments held-to-maturity	<u>5,936,868</u>	<u>7,820,548</u>	<u>6,753,961</u>	<u>7,922,570</u>

## 11 Loans, advances and financing

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Overdrafts	4,101,456	4,185,914	3,880,369	2,097,307
Term loans:				
- Housing and shop loans/financing	34,250,417	31,796,741	29,520,494	20,010,166
- Syndicated term loan/financing	4,575,507	4,654,683	4,096,302	2,571,439
- Hire purchase receivables	17,616,333	17,315,908	13,487,434	3,015,843
- Lease receivables	50	4,486	-	-
- Other term loans/financing	11,024,724	10,478,950	9,271,132	2,514,792
Credit/charge card receivables	4,337,633	4,262,859	4,337,633	2,497,855
Bills receivables	310,669	354,250	308,326	344,927
Trust receipts	321,952	302,959	318,249	140,659
Claims on customers under acceptance credits	6,364,780	6,621,138	5,843,127	3,919,301
Block discounting	6,995	8,391	6,995	8,391
Revolving credits	3,602,279	3,749,153	3,375,722	2,165,632
Staff loans:				
Directors	-	-	-	-
Staffs other than directors	283,130	305,901	259,984	88,858
Other loans/financing	117,606	133,658	49,286	40,811
Gross loans, advances and financing	<u>86,913,531</u>	<u>84,174,991</u>	<u>74,755,053</u>	<u>39,415,981</u>
Fair value changes arising from fair value hedges	35,725	-	27,749	-
Unamortised fair value changes arising from terminated fair value hedges	12,972	17,177	3,462	14,438
Allowance for impaired loans, advances and financing:				
- Collective assessment allowance	(1,871,774)	(1,575,097)	(1,594,601)	(726,970)
- Individual assessment allowance	(616,319)	(666,314)	(540,386)	(154,627)
Total net loans, advances and financing	<u><u>84,474,135</u></u>	<u><u>81,950,757</u></u>	<u><u>72,651,277</u></u>	<u><u>38,548,822</u></u>

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

11a By type of customer

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Domestic non-bank financial institutions	709,160	718,374	531,537	118,720
Domestic business enterprises:				
- small and medium enterprises	13,278,307	12,199,078	12,219,626	3,717,642
- others	15,165,029	15,827,270	13,487,209	9,014,645
Government and statutory bodies	19,401	28,900	16,910	-
Individuals	54,853,933	52,623,181	45,846,104	24,481,830
Other domestic entities	25,405	30,675	22,497	9,816
Foreign entities	2,862,296	2,747,513	2,631,170	2,073,328
Gross loans, advances and financing	<u>86,913,531</u>	<u>84,174,991</u>	<u>74,755,053</u>	<u>39,415,981</u>

11b By interest/profit rate sensitivity

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Fixed rate				
- Housing and shop loans/financing	3,943,451	3,545,531	2,548,763	756,353
- Hire purchase receivables	17,556,620	17,263,403	13,430,714	2,963,250
- Other fixed rate loan/financing	7,832,521	7,748,261	6,748,734	3,958,910
Variable rate				
- Base lending rate plus	45,945,623	43,520,900	41,456,970	26,569,853
- Cost plus	11,257,828	11,597,328	10,298,089	5,055,260
- Other variables rates	377,488	499,568	271,783	112,355
Gross loans, advances and financing	<u>86,913,531</u>	<u>84,174,991</u>	<u>74,755,053</u>	<u>39,415,981</u>



11 Loans, advances and financing (continued)

11c By economic purpose

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Purchase of securities	1,139,890	1,150,991	1,080,437	543,518
Purchase of transport vehicles	17,439,147	17,373,379	13,318,076	3,098,694
Purchase of landed properties				
- residential	29,349,713	27,698,836	25,051,410	16,244,598
- non-residential	9,619,878	9,050,882	8,863,023	5,125,385
Purchase of fixed assets (excluding landed properties)	651,940	-	601,297	-
Personal use	3,875,551	3,572,467	2,937,817	1,929,546
Credit card	4,337,633	4,262,859	4,337,633	2,497,855
Purchase of consumer durables	175	199	166	70
Construction	865,269	835,551	828,811	299,515
Mergers and acquisition	381,555	-	381,555	-
Working capital	17,450,475	17,831,471	15,748,486	9,525,206
Others	1,802,305	2,398,356	1,606,342	151,594
Gross loans, advances and financing	<u>86,913,531</u>	<u>84,174,991</u>	<u>74,755,053</u>	<u>39,415,981</u>

11d By geographical distribution

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Malaysia	84,931,203	82,352,675	72,852,605	37,608,008
Singapore	1,902,448	1,807,973	1,902,448	1,807,973
Vietnam	79,880	14,343	-	-
Gross loans, advances and financing	<u>86,913,531</u>	<u>84,174,991</u>	<u>74,755,053</u>	<u>39,415,981</u>

11 Loans, advances and financing (continued)

11e By residual contractual maturity

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Within one year	23,151,001	23,003,752	21,546,214	13,219,190
One year to less than three years	5,799,963	5,768,612	4,747,044	2,420,188
Three years to less than five years	8,694,432	8,754,965	7,177,864	2,688,947
Five years and more	49,268,135	46,647,662	41,283,931	21,087,656
Gross loans, advances and financing	<u>86,913,531</u>	<u>84,174,991</u>	<u>74,755,053</u>	<u>39,415,981</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 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Purchase of securities	10,039	8,828	10,039	4,737
Purchase of transport vehicles	232,312	185,001	181,762	20,992
Purchase of landed properties				
- residential	427,958	458,242	352,910	181,876
- non-residential	81,209	79,403	75,784	15,846
Purchase of fixed assets (excluding landed properties)	21,087	21,067	20,790	-
Personal use	97,659	93,742	82,582	66,998
Credit card	67,973	58,100	67,973	24,770
Purchase of consumer durables	17	17	17	-
Construction	32,536	31,075	30,751	6,412
Working capital	730,374	916,295	633,158	278,885
Others	52,246	31,160	51,863	284
	<u>1,753,410</u>	<u>1,882,930</u>	<u>1,507,629</u>	<u>600,800</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 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Malaysia	1,709,206	1,837,905	1,463,425	555,775
Singapore	44,204	45,025	44,204	45,025
	<u>1,753,410</u>	<u>1,882,930</u>	<u>1,507,629</u>	<u>600,800</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 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
As at beginning of the financial period/year				
- As previously reported	1,882,930	726,735	600,800	690,411
- Effect of adopting FRS 139	-	203,467	-	197,035
As restated	<u>1,882,930</u>	<u>930,202</u>	<u>600,800</u>	<u>887,446</u>
Acquisition of assets and liabilities of EON Capital Berhad ("ECB")	-	1,294,351	-	-
Amount transferred from a subsidiary	-	-	972,334	-
Arising from harmonisation of provisioning policy *	30,797	-	30,797	-
Impaired during the financial period/year	1,045,586	883,652	882,821	592,997
Performing during the financial period/ year	(584,416)	(493,248)	(472,600)	(321,635)
Amount written back in respect of recoveries	(424,563)	(459,440)	(367,748)	(336,457)
Amount written off	(196,502)	(277,596)	(138,353)	(224,157)
Exchange difference	(422)	5,009	(422)	2,606
As at end of the financial period/year	<u>1,753,410</u>	<u>1,882,930</u>	<u>1,507,629</u>	<u>600,800</u>
Gross impaired /non-performing loan as a % of gross loans advances and financing	<u>2.0%</u>	<u>2.2%</u>	<u>2.0%</u>	<u>1.5%</u>

\* Allowance from harmonisation of provisioning policy is subject to change at external auditor's verification.

**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 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
<u>Collective Assessment Allowance</u>				
At 1 July				
- as previously stated	1,575,097	-	726,970	-
- prior year adjustments	-	-	-	-
- effect of adopting FRS 139	-	769,545	-	684,670
At 1 July, as restated	1,575,097	769,545	726,970	684,670
Acquisition of assets and liabilities of ECB	-	742,983	-	-
Amount transferred from a subsidiary	-	-	641,078	-
Arising from harmonisation of provisioning policy *	141,326	-	110,594	-
Allowance made during the period/year	367,589	390,984	309,744	292,817
Amount transfer from individual assessment	47,896	-	38,591	-
Amount written back in respect of recoveries	(141,873)	(101,190)	(114,564)	(70,874)
Amount written off	(113,709)	(217,424)	(113,676)	(170,822)
Unwinding income	(4,257)	(11,018)	(3,867)	(10,064)
Exchange differences	(295)	1,217	(269)	1,243
Closing balance	1,871,774	1,575,097	1,594,601	726,970
As a % of gross loans, advances and financing less loans exempted from individual assessment allowance	2.2%	1.9%	2.1%	1.9%
<u>Individual Assessment Allowance</u>				
As at beginning of the financial year				
- as previously stated	666,314	-	154,627	-
- prior year adjustments	-	-	-	-
- effect of adopting FRS 139	-	228,018	-	226,724
As restated	666,314	228,018	154,627	226,724
Acquisition of assets and liabilities of ECB	-	505,525	-	-
Amount transferred from a subsidiary	-	-	385,612	-
Arising from harmonisation of provisioning policy *	115,414	-	101,752	-
Allowance made during the period/year	23,843	72,277	22,454	27,370
Amount transfer to collective assessment	(47,896)	-	(38,591)	-
Amount written back in respect of recoveries	(67,086)	(83,129)	(65,157)	(48,159)
Amount written off	(76,367)	(44,200)	(17,397)	(37,891)
Unwinding income	(2,738)	(14,974)	(2,642)	(14,836)
Exchange difference	4,835	2,797	(272)	1,419
As at end of the financial period/year	616,319	666,314	540,386	154,627

\* Allowance from harmonisation of provisioning policy is subject to change at external auditor's verification.

## 12 Other assets

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Foreclosed properties	1,323	1,458	1,323	475
Other debtors, deposits and prepayments	1,746,423	950,471	1,353,989	428,351
	<u>1,747,746</u>	<u>951,929</u>	<u>1,355,312</u>	<u>428,826</u>

## 13 Deposits from customers

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
<u>By type of customer</u>				
Government and statutory bodies	5,005,000	5,571,964	3,748,785	998,891
Business enterprises	55,224,760	49,165,910	46,312,523	28,760,256
Individuals	56,645,375	51,478,647	53,676,021	34,896,549
Others	2,357,744	8,640,022	1,878,900	1,268,398
	<u>119,232,879</u>	<u>114,856,543</u>	<u>105,616,229</u>	<u>65,924,094</u>

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

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Licensed banks	10,079,797	8,043,594	8,553,133	5,820,144
Bank Negara Malaysia	1,410,126	1,897,375	1,410,126	-
Other financial institutions	-	756,692	-	-
	<u>11,489,923</u>	<u>10,697,661</u>	<u>9,963,259</u>	<u>5,820,144</u>

#### 15 Other liabilities

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Zakat	80	66	-	-
Post employment benefits obligation				
- defined contribution plan	3,075	3,102	3,075	3,102
Loan advance payment	1,184,703	1,122,560	1,045,803	1,014,815
Amount due to cagamas	183,422	187,217	183,422	-
Amount due to subsidiary companies	-	-	27,981	28,626
Others	2,069,584	1,552,074	1,764,040	865,955
	<u>3,440,864</u>	<u>2,865,019</u>	<u>3,024,321</u>	<u>1,912,498</u>

## 16 Interest income

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
	RM'000	RM'000	RM'000	RM'000
<b>Group</b>				
Loan, advances and financing	990,411	450,926	1,983,779	891,842
Money at call and deposit placements with financial institutions	127,230	104,431	280,680	212,500
Securities purchased under resale agreements	598	1,086	939	1,339
Financial assets held-for-trading	23,504	18,128	37,368	39,347
Financial investments available-for-sale	54,526	25,008	89,406	51,797
Financial investments held-to-maturity	138,059	119,219	270,506	227,191
Others	65	10,316	342	14,599
	<u>1,334,393</u>	<u>729,114</u>	<u>2,663,020</u>	<u>1,438,615</u>
Of which:				
Interest income earned on impaired loans, advances and financing	<u>2,761</u>	<u>9,170</u>	<u>6,509</u>	<u>15,417</u>

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
	RM'000	RM'000	RM'000	RM'000
<b>Bank</b>				
Loan, advances and financing	987,136	450,466	1,976,495	891,103
Money at call and deposit placements with financial institutions	117,212	104,411	264,221	213,185
Securities purchased under resale agreements	598	1,086	939	1,339
Financial assets held-for-trading	23,504	18,128	37,368	39,347
Financial investments available-for-sale	59,139	25,008	96,072	51,797
Financial investments held-to-maturity	148,771	124,268	286,023	238,540
Others	11,867	12,130	23,840	24,242
	<u>1,348,227</u>	<u>735,497</u>	<u>2,684,958</u>	<u>1,459,553</u>
Of which:				
Interest income earned on impaired loans, advances and financing	<u>2,761</u>	<u>8,846</u>	<u>6,509</u>	<u>14,818</u>

## 17 Interest expense

<b>Group</b>	<b>2nd Quarter Ended</b>		<b>Cumulative Six Months Ended</b>	
	<b>31/12/2011</b>	<b>31/12/2010</b>	<b>31/12/2011</b>	<b>31/12/2010</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Deposits and placements of banks and other financial institutions	18,598	16,775	36,281	31,024
Deposits from customers	513,844	263,232	1,033,400	495,066
Short term corporate placements	62,339	66,660	122,014	145,850
Senior bonds	9,319	-	18,554	-
Tier-2 subordinated bonds	30,266	8,947	59,744	17,665
Tier-2 capital cumulative subordinated loan	5,100	-	28,503	-
Non-innovative Tier-1 stapled securites	18,326	-	36,679	-
Innovative Tier-1 capital securities	3,833	-	7,583	-
Others	3,222	125	6,459	299
	<u>664,847</u>	<u>355,739</u>	<u>1,349,217</u>	<u>689,904</u>

<b>Bank</b>	<b>2nd Quarter Ended</b>		<b>Cumulative Six Months Ended</b>	
	<b>31/12/2011</b>	<b>31/12/2010</b>	<b>31/12/2011</b>	<b>31/12/2010</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Deposits and placements of banks and other financial institutions	26,499	16,601	52,526	31,575
Deposits from customers	535,197	279,427	1,071,006	528,555
Short term corporate placements	62,339	66,660	122,014	145,850
Senior bonds	9,319	-	18,554	-
Tier-2 subordinated bonds	30,323	8,947	59,857	17,665
Tier-2 capital cumulative subordinated loan	5,100	-	28,503	-
Non-innovative Tier-1 stapled securites	18,326	-	36,679	-
Innovative Tier-1 capital securities	3,883	-	7,683	-
Others	2,905	125	5,879	299
	<u>693,891</u>	<u>371,760</u>	<u>1,402,701</u>	<u>723,944</u>



## 18 Other operating income

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2011 RM'000	31/12/2010 RM'000	31/12/2011 RM'000	31/12/2010 RM'000
<b>Group</b>				
(a) <u>Fee income:</u>				
Commissions	29,286	18,284	57,693	35,341
Service charges and fees	22,038	4,939	34,213	9,210
Guarantee fees	4,394	1,684	9,610	3,079
Other fee income	97,130	72,125	198,726	131,412
	<u>152,848</u>	<u>97,032</u>	<u>300,242</u>	<u>179,042</u>
(b) <u>Gain/loss arising from sale of financial assets:</u>				
Net gain/(loss) from sale of financial assets held-for-trading and derivatives	41,587	27,751	76,334	54,067
Net gain from sale of financial investments available-for-sale	6,424	1,190	7,979	5,120
Net gain from redemption of financial investments held-to-maturity	1,231	71	2,051	91
	<u>49,242</u>	<u>29,012</u>	<u>86,364</u>	<u>59,278</u>
(c) <u>Gross dividend income from:</u>				
Financial investments available-for-sale	13,051	8,418	14,376	15,796
Financial investments held-to-maturity	-	243	-	243
	<u>13,051</u>	<u>8,661</u>	<u>14,376</u>	<u>16,039</u>

18 Other operating income (continued)

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2011 RM'000	31/12/2010 RM'000	31/12/2011 RM'000	31/12/2010 RM'000
(d) <u>Net unrealised gain/(loss) on revaluation of financial assets held-for-trading and derivatives</u>	<u>(31,911)</u>	<u>15,054</u>	<u>(89,050)</u>	<u>9,584</u>
(e) <u>Net realised gain/(loss) on fair value changes arising from fair value hedges and amortisation of fair value changes arising from terminated fair value hedges</u>	<u>(6,314)</u>	<u>(15,051)</u>	<u>(11,001)</u>	<u>(19,953)</u>
(f) <u>Net unrealised gain/(loss) on fair value changes arising from fair value hedges</u>	<u>(1,973)</u>	<u>18,378</u>	<u>(4,306)</u>	<u>13,761</u>
(g) <u>Other income:</u>				
Foreign exchange gain	35,537	23,648	80,145	31,368
Rental income	565	138	1,273	290
Gain on disposal of property and equipment (net)	507	11	681	7
Others	8,099	4,340	17,366	9,412
	<u>44,708</u>	<u>28,137</u>	<u>99,465</u>	<u>41,077</u>
Total other operating income	<u>219,651</u>	<u>181,223</u>	<u>396,090</u>	<u>298,828</u>

## 18 Other operating income

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
	RM'000	RM'000	RM'000	RM'000
<b>Bank</b>				
(a) <u>Fee income:</u>				
Commissions	29,195	18,284	57,468	35,340
Service charges and fees	22,674	4,950	35,480	9,222
Guarantee fees	4,363	1,684	9,579	3,079
Other fee income	95,099	72,133	192,340	131,427
	<u>151,331</u>	<u>97,051</u>	<u>294,867</u>	<u>179,068</u>
(b) <u>Gain/loss arising from sale of financial assets:</u>				
Net gain/(loss) from sale of financial assets held-for-trading and derivatives	41,587	27,751	76,301	54,067
Net gain from sale of financial investments available-for-sale	4,969	1,190	6,318	5,120
Net gain from redemption of financial investments held-to-maturity	1,231	71	2,051	91
	<u>47,787</u>	<u>29,012</u>	<u>84,670</u>	<u>59,278</u>
(c) <u>Gross dividend income from:</u>				
Subsidiary companies	46,000	32,000	46,000	32,000
Associated company	-	-	2,379	-
Financial investments available-for-sale	13,051	8,418	14,376	15,796
Financial investments held-to-maturity	-	243	-	243
	<u>59,051</u>	<u>40,661</u>	<u>62,755</u>	<u>48,039</u>

18 Other operating income (continued)

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2011 RM'000	31/12/2010 RM'000	31/12/2011 RM'000	31/12/2010 RM'000
(d) <u>Net unrealised gain/(loss) on revaluation of financial assets held-for-trading and derivatives</u>	<u>(31,911)</u>	<u>15,054</u>	<u>(89,050)</u>	<u>9,584</u>
(e) <u>Net realised gain/(loss) on fair value changes arising from fair value hedges and amortisation of fair value changes arising from terminated fair value hedges</u>	<u>(3,664)</u>	<u>(12,597)</u>	<u>(6,665)</u>	<u>(14,714)</u>
(f) <u>Net unrealised gain/(loss) on fair value changes arising from fair value hedges</u>	<u>(1,973)</u>	<u>18,378</u>	<u>(4,306)</u>	<u>13,761</u>
(g) <u>Other income:</u>				
Foreign exchange gain	32,686	23,220	74,237	30,372
Rental income	1,060	138	2,264	290
Gain on disposal of property and equipment (net)	507	7	680	7
Others	8,134	4,344	17,156	8,925
	<u>42,387</u>	<u>27,709</u>	<u>94,337</u>	<u>39,594</u>
Total other operating income	<u>263,008</u>	<u>215,268</u>	<u>436,608</u>	<u>334,610</u>

## 19 Other operating expenses

<b>Group</b>	<b>2nd Quarter Ended</b>		<b>Cumulative Six Months Ended</b>	
	<b>31/12/2011</b>	<b>31/12/2010</b>	<b>31/12/2011</b>	<b>31/12/2010</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	232,826	120,511	476,514	229,749
- Voluntary Separation Scheme (VSS) *	114,689	-	114,689	-
- Others	25,970	14,761	43,401	23,559
<b><u>Establishment costs</u></b>				
- Depreciation of property and equipment	21,205	13,192	49,374	25,989
- Amortisation of intangible assets	12,559	3,865	17,544	8,203
- Rental	18,132	11,563	35,974	22,853
- Information technology expenses	22,201	17,548	43,146	25,853
- Others	23,308	12,718	43,439	23,823
<b><u>Marketing expenses</u></b>				
- Advertisement and publicity	3,033	4,046	3,925	10,197
- Others	18,955	14,677	42,479	28,783
<b><u>Administration and general expenses</u></b>				
- Teletransmission expenses	3,044	2,015	7,724	2,923
- Stationery & printing	4,979	2,851	9,928	5,112
- Others	63,832	30,835	112,217	59,537
	<u>564,733</u>	<u>248,582</u>	<u>1,000,354</u>	<u>466,581</u>

\* Hong Leong Bank has implemented a Voluntary Separation Scheme (VSS). This scheme was being introduced as part of the Bank's effort to enhance productivity and efficiency within the organization, as well as an opportunity and option for staff who have expressed their desire for a change such as starting up own business, further studies, early retirement, change of work environment and pursue personal interest.

**19 Other operating expenses (continued)**

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
	RM'000	RM'000	RM'000	RM'000
<b><u>Bank</u></b>				
<u>Personnel costs</u>				
- Salaries, allowances and bonuses	206,453	105,060	425,708	199,426
- Voluntary Separation Scheme (VSS) *	99,442	-	99,442	-
- Others	23,064	13,304	38,427	21,152
<u>Establishment costs</u>				
- Depreciation of property and equipment	20,011	12,469	46,612	24,958
- Amortisation of intangible assets	12,056	3,865	16,843	7,868
- Rental	16,902	10,007	32,733	20,008
- Information technology expenses	21,619	17,164	42,192	25,245
- Others	19,942	10,324	37,441	19,639
<u>Marketing expenses</u>				
- Advertisement and publicity	1,689	3,964	2,121	9,985
- Others	18,239	14,586	41,325	28,646
<u>Administration and general expenses</u>				
- Teletransmission expenses	2,965	1,953	7,552	2,819
- Stationery & printing	4,809	2,756	9,607	4,977
- Others	48,951	29,954	78,790	58,418
	<u>496,142</u>	<u>225,406</u>	<u>878,793</u>	<u>423,141</u>

\* Hong Leong Bank has implemented a Voluntary Separation Scheme (VSS). This scheme was being introduced as part of the Bank's effort to enhance productivity and efficiency within the organization, as well as an opportunity and option for staff who have expressed their desire for a change such as starting up own business, further studies, early retirement, change of work environment and pursue personal interest.

20 Allowance for impairment losses on loans, advances and financing

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
	RM'000	RM'000	RM'000	RM'000
<b>Group</b>				
Allowance for impairment losses on loans, advances and financing:				
- collective assessment allowance	117,669	53,349	225,716	113,962
- individual assessment allowance	(34,116)	7,359	(43,243)	9,132
Impaired loans and financing written off	2,030	2,318	4,149	4,384
Impaired loans and financing recovered	(88,736)	(23,160)	(166,693)	(46,615)
	<u>(3,153)</u>	<u>39,866</u>	<u>19,929</u>	<u>80,863</u>

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
	RM'000	RM'000	RM'000	RM'000
<b>Bank</b>				
Allowance for impairment losses on loans, advances and financing:				
- collective assessment allowance	102,486	48,627	195,180	99,629
- individual assessment allowance	(34,059)	4,389	(42,703)	6,465
Impaired loans and financing written off	1,881	2,150	3,902	4,095
Impaired loans and financing recovered	(85,312)	(22,491)	(160,069)	(44,559)
	<u>(15,004)</u>	<u>32,675</u>	<u>(3,690)</u>	<u>65,630</u>

## 21 Capital adequacy

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
<b><u>Components of Tier-1 and Tier-2 Capital</u></b>				
<b>Tier-1 capital</b>				
Paid-up share capital	1,879,909	1,580,107	1,879,909	1,580,107
Share premium	2,832,651	539,664	2,832,651	539,664
Retained profit	4,419,601	3,983,356	3,516,352	3,212,562
Other reserves	2,093,283	1,931,653	1,927,607	1,798,885
Non-innovative Tier-1 stapled securities	1,395,703	1,394,665	1,395,703	1,394,665
Innovative Tier-1 capital securities	489,848	490,273	488,282	-
Less: Treasury shares	(732,686)	(671,744)	(732,686)	(671,744)
Less: Deferred tax assets	(313,245)	(325,935)	(245,310)	(102,281)
Less: Goodwill	(1,360,174)	(1,360,174)	(1,050,759)	-
<b>Total Tier-1 capital</b>	<b>10,704,890</b>	<b>7,561,865</b>	<b>10,011,749</b>	<b>7,751,858</b>
<b>Tier-2 capital</b>				
Collective assessment allowance ^	1,388,575	1,298,856	1,193,106	587,106
Subordinated bonds	2,836,934	2,833,327	2,836,211	1,693,352
Capital cumulative subordinated loan	-	2,300,000	-	2,300,000
<b>Total Tier-2 capital</b>	<b>4,225,509</b>	<b>6,432,183</b>	<b>4,029,317</b>	<b>4,580,458</b>
<b>Total capital</b>	<b>14,930,399</b>	<b>13,994,048</b>	<b>14,041,066</b>	<b>12,332,316</b>
Less: Investment in subsidiary companies	-	-	(2,325,544)	(6,088,873)
Less: Investment in associated company	(1,420,084)	(1,325,707)	(946,505)	(946,505)
Less: Investment in jointly controlled entity	(75,383)	(75,252)	(76,711)	(76,711)
<b>Total capital base</b>	<b>13,434,932</b>	<b>12,593,089</b>	<b>10,692,306</b>	<b>5,220,227</b>
<b><u>Before deducting proposed dividends</u></b>				
Core capital ratio	11.64%	8.43%	12.17%	11.56% *
Risk-weighted capital ratio	14.61%	14.05%	13.00%	11.56% *
<b><u>After deducting proposed dividends</u></b>				
Core capital ratio	11.48%	8.25%	12.00%	11.19% *
Risk-weighted capital ratio	14.45%	13.86%	12.83%	11.19% *

^ Excludes collective assessment allowance attributable to loans, advances and financing classified as impaired but not individually assessed for impairment.

\* 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.



## 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 (1)	MIMB Investment Bank Berhad (2)
<b>As at 31 December 2011</b>		
<u>Before deducting proposed dividends:</u>		
Core capital ratio	7.27%	85.42%
Risk-weighted capital ratio	<u>11.34%</u>	<u>85.92%</u>
<u>After deducting proposed dividends:</u>		
Core capital ratio	7.27%	85.42%
Risk-weighted capital ratio	<u>11.34%</u>	<u>85.92%</u>
<b>As at 30 June 2011</b>		
<u>Before deducting proposed dividends:</u>		
Core capital ratio	16.06%	62.20%
Risk-weighted capital ratio	<u>17.65%</u>	<u>62.79%</u>
<u>After deducting proposed dividends:</u>		
Core capital ratio	15.41%	62.20%
Risk-weighted capital ratio	<u>16.99%</u>	<u>62.79%</u>

- 1 The capital adequacy ratios of Hong Leong Islamic Bank Berhad (HLISB) are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks ("CAFIB"), which is based on the Basel II capital accord. HLISB has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk computation.
- 2 The capital adequacy ratios of MIMB Investment Bank Berhad (MIMB) are computed in accordance with BNM's revised RWCAF- Basel II. MIMB has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk computation.

## 21 Capital adequacy (continued)

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

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
Risk-weighted assets for credit risk	81,348,002	79,593,636	72,535,026	39,331,761
Risk-weighted assets for market risk	3,398,231	2,925,259	3,325,037	2,120,012
Risk-weighted assets for operational risk	7,220,805	7,136,364	6,372,171	3,707,107
Total risk-weighted assets	<u>91,967,038</u>	<u>89,655,259</u>	<u>82,232,234</u>	<u>45,158,880</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.

The profit after tax of the Group and the Bank for the half year ended 31 December 2011, 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 2011 have been included in the capital base used in the computation of the Group's and the Bank's Capital Adequacy Ratios respectively.

22 Group segmental reporting on revenue, profit and assets

Financial quarter ended 31/12/2011

	Group Consumer Banking RM'000	Group Business Banking RM'000	Global Markets RM'000	Investment Banking Division RM'000	Overseas Associate and Jointly Controlled Entity RM'000	Total RM'000
<b><u>By business segment</u></b>						
External revenue	614,751	89,094	295,556	3,955	-	1,003,356
Inter-segment revenue	4,391	113,758	(118,149)	-	-	-
Segment revenue	619,142	202,852	177,407	3,955	-	1,003,356
Segment profit before taxation	211,866	152,760	94,710	(11,054)	-	448,282
Share of profit after tax of equity accounted associated company					34,915	34,915
Share of profit after tax of equity accounted jointly controlled entity					(37)	(37)
Profit before taxation and zakat						483,160
Taxation and zakat						(101,789)
Profit after taxation						381,371

Financial period ended 31/12/2011

	Group Consumer Banking RM'000	Group Business Banking RM'000	Global Markets RM'000	Investment Banking Division RM'000	Overseas Associate and Jointly Controlled Entity RM'000	Total RM'000
<b><u>By business segment</u></b>						
External revenue	1,263,656	146,242	497,380	12,808	-	1,920,086
Inter-segment revenue	(11,714)	243,340	(231,626)	-	-	-
Segment revenue	1,251,942	389,582	265,754	12,808	-	1,920,086
Segment profit before taxation	482,714	298,247	146,746	(17,593)	-	910,114
Share of profit after tax of equity accounted associated company					96,756	96,756
Share of profit after tax of equity accounted jointly controlled entity					131	131
Profit before taxation and zakat						1,007,001
Taxation and zakat						(218,520)
Profit after taxation						788,481
Segment assets	61,321,380	23,680,448	59,199,540	359,435	-	144,560,803
Unallocated assets						9,241,214
Total assets						153,802,017

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

**Corresponding quarter ended 31/12/2010**

	<b>Group Consumer Banking RM'000</b>	<b>Group Business Banking RM'000</b>	<b>Global Markets RM'000</b>	<b>Overseas Associate and Jointly Controlled Entity RM'000</b>	<b>Total RM'000</b>
<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>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 and zakat					<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**

	<b>Group Consumer Banking RM'000</b>	<b>Group Business Banking RM'000</b>	<b>Global Markets RM'000</b>	<b>Overseas Associate and Jointly Controlled Entity RM'000</b>	<b>Total RM'000</b>
<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>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 and zakat					<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					2,698,163
Total assets					<u><u>88,284,839</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 material events subsequent to the end of the financial period ended 31 December 2011.

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

- (a) On 1 July 2011, HLB had announced that the whole of the business including all assets and liabilities of EON Bank Berhad ("EBB") have been vested to HLB effective 1 July 2011 ("Vesting").

Following the Vesting, EBB has surrendered its banking licence to Bank Negara Malaysia ("BNM") on 1 July 2011 and has ceased operations.

On 1 July 2011, all of the direct subsidiaries of EBB including EONCAP Islamic Bank Bhd ("EIBB") and MIMB Investment Bank Bhd ("MIMB") became direct subsidiaries of HLB.

- (b) Pursuant to an internal reorganisation exercise, HLB had, on 1 July 2011, entered into a share sale agreement ("SSA") with HLB Principal Investments (L) Limited ("HLBPIL"), a wholly-owned subsidiary of HLB, for the transfer by HLB of its entire equity interest in EBB to HLBPIL ("Transfer").

The SSA was completed on 1 July 2011 immediately following the vesting of business from EBB to HLB and the surrender of EBB's banking licence to BNM.

Upon completion of the internal reorganisation exercise, EBB became a wholly owned subsidiary of HLBPIL, which is in turn a wholly owned subsidiary of HLB.

## 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 31/12/2011			Financial Year Ended 30/06/2011		
	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	497,635	497,635	487,323	559,290	559,291	548,786
Certain transaction related contingent items	1,395,550	697,775	686,318	1,394,682	697,342	686,108
Short term self liquidating trade related contingencies	700,239	140,047	136,843	616,404	123,281	118,414
Underwriting obligations	7,000	-	-	72,000	-	-
Irrevocable commitments to extend credit:						
- maturity more than one year	4,753,027	2,376,514	2,164,429	12,488,631	2,702,438	2,410,023
- maturity less than one year	26,118,772	5,223,754	4,424,405	17,617,166	4,940,184	4,143,111
Foreign exchange related contracts:						
- less than one year	33,718,893	663,112	402,410	35,896,628	820,583	506,072
- one year to less than five years	1,507,014	126,789	73,413	1,736,341	207,815	115,775
- five years and above	294,189	60,031	23,906	250,376	61,039	30,519
Interest rate related contracts:						
- less than one year	10,617,119	45,000	20,143	12,791,226	36,534	13,876
- one year to less than five years	38,451,996	1,302,569	603,713	35,757,281	1,125,592	489,354
- five years and above	10,101,875	964,898	490,512	9,632,500	897,586	447,893
Equity related contracts:						
- less than one year	97,571	6,448	3,502	163,946	11,268	7,889
- one year to less than five years	6,600	528	264	6,600	528	106
Unutilised credit card lines	9,037,848	1,807,570	1,355,986	9,296,768	1,859,353	1,395,772
<b>Total</b>	<b>137,305,328</b>	<b>13,912,670</b>	<b>10,873,167</b>	<b>138,279,839</b>	<b>14,042,834</b>	<b>10,913,698</b>

## 25 Commitments and contingencies (continued)

	Financial Period Ended 31/12/2011			Financial Year Ended 30/06/2011		
	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	488,190	488,190	477,878	195,694	195,695	185,190
Certain transaction related contingent items	1,299,035	649,518	638,061	268,190	134,095	122,861
Short term self liquidating trade related contingencies	677,363	135,472	132,268	469,521	93,904	89,038
Irrevocable commitments to extend credit:						
- maturity more than one year	4,196,353	2,098,177	1,913,332	5,109,037	-	-
- maturity less than one year	22,589,895	4,517,979	3,814,777	9,707,861	2,963,380	2,344,882
Foreign exchange related contracts:						
- less than one year	33,508,432	661,464	402,080	33,894,516	792,569	497,029
- one year to less than five years	5,115,095	372,500	319,124	5,360,137	569,576	479,296
- five years and above	294,189	60,031	23,906	250,376	61,039	30,519
Interest rate related contracts:						
- less than one year	10,617,119	45,000	20,143	11,566,226	33,774	13,324
- one year to less than five years	39,391,996	1,283,169	597,411	32,737,281	973,091	475,861
- five years and above	9,641,875	952,298	480,812	9,582,500	894,586	447,293
Equity related contracts:						
- less than one year	97,571	6,448	3,502	163,946	11,268	7,889
- one year to less than five years	6,600	528	264	6,600	528	106
Unutilised credit card lines	9,037,848	1,807,570	1,355,986	6,600,684	1,320,137	991,360
<b>Total</b>	<b>136,961,561</b>	<b>13,078,344</b>	<b>10,179,544</b>	<b>115,912,569</b>	<b>8,043,642</b>	<b>5,684,648</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 2011

	The Group RM 000	The Bank RM 000
Aggregate Value of Outstanding Credit Exposures with Connected Parties	5,477,452	5,469,168
Outstanding Credit Exposures to Connected Parties as a Proportion of Total Credit Exposures (%)	5.4%	6.2%
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.

**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 RM483.1 million for the current financial quarter ended 31 December 2011, an increase of RM123.5 million or 34.3% as compared to previous corresponding quarter. Overall the increase was due to enlarge entity arising from the acquisition of assets and liabilities of ECB on 6 May 2011. Increase in pre-tax was due to higher net income by RM399.4 million, write-back of impairment losses of RM6.5 million and lower allowance for impaired loans of RM43.0 million but offset by higher other operating expenses of RM316.2 million coupled with lower share of profit from Bank of Chengdu of RM9.7 million.

A detailed analysis of the performance of major operating segments of the group are as follows:-

Group Consumer Banking

The Group Consumer Banking's segment recorded a pre-tax profit of RM211.9 million for the 2nd quarter ended December 2011 as compared to previous corresponding quarter of RM188.5 million due to the acquisition of assets and liabilities of ECB. The 141 branches from Ex-EBG have contributed additional revenue to the group.

Group Consumer Banking's loan base has almost doubled from RM32.1 billion in December 2010 (before acquisition) to RM62.3 billion in December 2011 (after acquisition). The increased in loan growth has boost up the interest income and non interest income in particular the service charges following the alignment of fee income and on an enlarged customer base coupled with credit card related fee income earned in the current period.

However, overall pre-tax profit was negated by merger cost and higher operating expenses due to the increase in headcount and additional branches.

Group Business Banking

Similarly, the Group Business Banking's segment recorded a pre-tax profit of RM152.8 million for the 2nd quarter ended December 2011 as compared to previous corresponding quarter of RM33.1 million due to the acquisition of assets and liabilities of ECB.

Group Business Banking's loan base has increased from RM9.7 billion in December 2010 (before acquisition) to RM 24.5 billion (after acquisition) and deposits base has increased from RM16.3 billion in December 2010 (before acquisition) to RM35.2 billion December 2011 (after acquisition). As a result, total income has increased from RM81 million (before acquisition) to RM202.8 million (after acquisition).

Additionally, the higher recoveries and writeback of impairment provision as a result of the improvement in asset quality has contributed to the higher pre-tax profit in the current period.

However, overall pre-tax profit was negated by merger cost and higher operating expenses due to the increase in headcount.



## 1 **Review of performance** (continued)

### Global Markets

The Global Market's segment recorded a pre-tax profit of RM94.7 million for the 2nd quarter ended December 2011 as compared to previous corresponding quarter of RM93.9 million. Global Market's pre-tax profit did not improve much albeit the acquisition of assets and liabilities of ECB. Treasury assets has grown from RM43.2 billion in December 2010 (before acquisition) to RM57.8 billion in December 2011 (after acquisition). As a result, total income has increased from RM120.4 million (before acquisition) to RM177.4 million (after acquisition).

However, the incremental net interest income has offset by the mark-to-market losses under the non interest income line due to market volatility in the current period.

Similarly, overall pre-tax profit was negated by merger cost and higher operating expenses due to the increase in headcount.

### Investment Banking Division

As a result of the legal vesting of the entire assets and liabilities of ECB into Hong Leong Bank Berhad (HLB) on 1 July 2011, MIMB Investment Bank Berhad (MIMB) has thereafter become the wholly-owned subsidiary of HLB and its results were consolidated into HLB Group. For the 2nd quarter ended December 2011, MIMB posted a loss before tax ("LBT") of RM11.1 million and net loss after tax of RM8.3 million. The LBT mainly contributed by the increase in provision for commitments and contingencies amounting to RM9.0 million.

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

The Group pre-tax profit for the six months ended 31 December 2011 stood at RM1,007.0 million, an increase of RM329.9 million or 48.7% as compared to RM677.1 million in the previous corresponding period. The increase was due to higher net income by RM776.3 million, lower allowance for impaired loans of RM60.9 million, write back of impairment losses by RM10.3 million and higher share of profit from Bank of Chengdu of RM15.3 million. This is however mitigated by higher other operating expenses of RM533.8 million.

A detailed analysis of the performance of major operating segments of the group are as follows:-

### Group Consumer Banking

The Group Consumer Banking segment recorded a pre-tax profit of RM482.7 million for the financial period ended December 2011 compared to previous year corresponding period of RM374.7 million. Besides the acquisition of assets and liabilities of ECB, loan base has almost double up, OPR hike of 25bps in May 2011 also contributed to the higher revenue. However, overall pre-tax profit was negated by merger cost and higher operating expenses due to increase in headcount and additional branches.

## **1 Review of performance (continued)**

### Group Business Banking

The Group Business Banking segment recorded a pre-tax profit of RM298.2 million for the financial period ended December 2011 compared to previous year corresponding period of RM74.1 million. The huge increase in pre-tax profit arising from the improvement in allowance for impaired loans.

### Global Markets

The Global Market segment recorded a pre-tax profit of RM146.7 million for the financial period ended December 2011 compared to previous year corresponding period of RM147.5 million. The dropped in pre-tax profit is mainly due to the lower non interest income caused by the loss making in interest rate derivatives and merger cost.

### Investment Banking Division

For the six month period from July to December 2011, MIMB posted a LBT of RM17.6 million and net loss after tax of RM13.2 million. The LBT mainly contributed by RM8.8 million costs incurred on voluntary separation scheme for staff and the increase in provision for commitments and contingencies amounting to RM9.0 million.

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

For the current financial quarter, the Group recorded a pre-tax profit of RM483.1 million as compared to RM523.8 million in the preceding quarter, a decrease of RM40.7 million mainly from higher other operating expenses of RM129.1 million coupled with lower share of profit from Bank of Chengdu of RM26.9 million. This is however offset by higher net income of RM86.6 million, lower allowance for impaired loans of RM26.2 million and write back of impairment losses of RM2.7 million.

## **3 Current year prospects**

The Group continues to be cautiously optimistic about the economic outlook for the rest of the year. Arising from the merger with EON, we continue to be on track for the full intergration. The intergration brings opportunities for the combined Group to reassert our market positioning, expand our business reach, serve our customers and community, achieve greater economies of scale and efficiency, and increase our talent capacity for our domestic and regional aspirations. We will leverage our collective strengths for value creation, growth and profitability.

## **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	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
	RM'000	RM'000	RM'000	RM'000
<b>The Group</b>				
Malaysian income tax	92,835	72,075	213,854	138,993
Oversea tax	-	-	-	-
	<u>92,835</u>	<u>72,075</u>	<u>213,854</u>	<u>138,993</u>
Transfer from/(to) deferred taxation	8,936	(3,839)	4,625	(10,590)
	<u>101,771</u>	<u>68,236</u>	<u>218,479</u>	<u>128,403</u>

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
	RM'000	RM'000	RM'000	RM'000
<b>The Bank</b>				
Malaysian income tax	118,547	79,747	224,074	146,028
Oversea tax	-	-	-	-
	<u>118,547</u>	<u>79,747</u>	<u>224,074</u>	<u>146,028</u>
Transfer from/(to) deferred taxation	(5,573)	(4,070)	(8,168)	(8,968)
	<u>112,974</u>	<u>75,677</u>	<u>215,906</u>	<u>137,060</u>

The Group'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.

## 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 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
<b>Deposits from customers</b>				
Fixed deposits	72,144,855	68,489,506	62,710,187	38,749,415
Negotiable instruments of deposit	6,061,033	5,584,465	6,202,169	4,535,391
Demand deposits	15,645,591	14,944,455	13,174,035	8,576,091
Saving deposits	12,870,303	12,515,496	11,026,693	7,665,531
Short term corporate placement	12,073,137	12,916,173	12,073,137	5,991,218
Other	437,960	406,448	430,008	406,448
	<u>119,232,879</u>	<u>114,856,543</u>	<u>105,616,229</u>	<u>65,924,094</u>

The maturity structure of fixed deposits and negotiable instruments:

One year or less (short term)	71,340,648	69,851,834	63,755,808	40,520,878
More than one year (medium/long term)	6,865,240	4,222,137	5,156,548	2,763,928
	<u>78,205,888</u>	<u>74,073,971</u>	<u>68,912,356</u>	<u>43,284,806</u>

	<u>The Group</u>		<u>The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
<b>Deposits and placements of banks and other financial institutions</b>				
Licensed banks	9,149,322	7,461,626	8,553,133	5,820,144
Licensed Islamic banks	930,475	581,968	-	-
Bank Negara Malaysia	1,410,126	1,897,375	1,410,126	-
Other financial institutions	-	756,692	-	-
	<u>11,489,923</u>	<u>10,697,661</u>	<u>9,963,259</u>	<u>5,820,144</u>

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

One year or less (short term)	11,489,923	10,697,661	9,963,259	5,820,144
More than one year (medium/long term)	-	-	-	-
	<u>11,489,923</u>	<u>10,697,661</u>	<u>9,963,259</u>	<u>5,820,144</u>

## 11 Senior bonds

	<u>The Group and The Bank</u>	
	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
USD 300 million senior bonds, at par	916,350	916,350
Foreign exchange translations	34,170	(9,750)
	<u>950,520</u>	<u>906,600</u>
Add: Interest payable	10,297	9,822
	<u>960,817</u>	<u>916,422</u>
Less: Unamortised discounts	(4,514)	(5,612)
	<u><u>956,303</u></u>	<u><u>910,810</u></u>

On 17 March 2011, the Bank issued USD300 million in aggregate principal amount of Senior Bonds ("the Bonds"), which will mature in 2016. The Bonds bear interest at the rate of 3.75% is payable semi-annually. The Bonds were issued at a price of 99.761 per cent of the principal amount of the Bonds.

The Bonds will constitute direct, general, unsubordinated and (subject to the provisions of Negative Pledge Condition) unsecured obligations of the Bank which will at all times rank parri passu among themselves and at least parri passu with all other present and future unsecured obligations of the Bank.

## 12 Subordinated bonds

		<u>The Group</u>		<u>The Bank</u>	
		<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>	<b>Financial Period Ended 31/12/2011 RM'000</b>	<b>Financial Year Ended 30/06/2011 RM'000</b>
RM700 million Tier 2 subordinated debt, at par	(a)	700,000	700,000	700,000	700,000
Add: Interest payable		13,394	13,115	13,394	13,115
		<u>713,394</u>	<u>713,115</u>	<u>713,394</u>	<u>713,115</u>
Less: Unamortised discounts		(2,156)	(2,792)	(2,156)	(2,792)
		<u>711,238</u>	<u>710,323</u>	<u>711,238</u>	<u>710,323</u>
RM1.0 billion Tier 2 subordinated debt, at par	(b)	1,000,000	1,000,000	1,000,000	1,000,000
Add: Interest payable		6,436	6,793	6,436	6,793
		<u>1,006,436</u>	<u>1,006,793</u>	<u>1,006,436</u>	<u>1,006,793</u>
Less: Unamortised discounts		(3,105)	(3,856)	(3,105)	(3,856)
		<u>1,003,331</u>	<u>1,002,937</u>	<u>1,003,331</u>	<u>1,002,937</u>

## 12 Subordinated bonds (continued)

		<u>The Group</u>		<u>The Bank</u>	
		<u>Financial Period Ended 31/12/2011 RM'000</u>	<u>Financial Year Ended 30/06/2011 RM'000</u>	<u>Financial Period Ended 31/12/2011 RM'000</u>	<u>Financial Year Ended 30/06/2011 RM'000</u>
Subordinated medium term notes, at par	(c)	1,160,000	1,160,000	1,160,000	-
Interest payable		9,385	8,983	9,385	-
		<u>1,169,385</u>	<u>1,168,983</u>	<u>1,169,385</u>	<u>-</u>
Less: Unamortised discounts		(17,804)	(23,750)	(18,527)	-
Add: Fair value on subordinated medium term notes		39,456	-	39,456	-
		<u>1,191,037</u>	<u>1,145,233</u>	<u>1,190,314</u>	<u>-</u>
		<u>2,905,606</u>	<u>2,858,493</u>	<u>2,904,883</u>	<u>1,713,260</u>

- (a) On 10 August 2010, HLB had completed the first issuance of RM700 million nominal value of Tier 2 Subordinated Debt ("Sub Debt") out of its RM1.7 billion Tier 2 Subordinated Notes Programme. The RM700 million Sub Debt will mature in 2020 and is callable at the end of year 5 and on each subsequent coupon payment dates thereafter subject to approval of BNM. The Sub Debt which bears interest of 4.85% per annum is payable semi-annually in arrears.
- (b) On 5 May 2011, HLB issued the remaining RM1.0 billion nominal value of Sub Debt which will mature in 2021 and is callable at the end of year 5 and on each subsequent coupon payment dates thereafter subject to approval of BNM. The second issuance of Sub Debt bears interest at the rate of 4.35% per annum and is payable semi-annually in arrears.

The above Sub Debt constitute unsecured liabilities of the Bank, and is 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.

- (c) On 27 February 2009, EBB, a wholly owned subsidiary of the Bank, has successfully issued the first tranche of RM410.0 million nominal value of the 10 non-callable 5 years Subordinated Medium Term Notes ("MTN") callable on 27 February 2014 (and thereafter) and due on 27 February 2019 under the RM2.0 billion Subordinated MTN Programme. The coupon rate of the Subordinated MTN is 5.75% per annum, which is payable semi-annually in arrears from the date of the issue. Should EBB decide not to exercise its call option on the fifth (5) year from the issue date, the coupon rate will be revised to be equivalent to 7.75% or the then prevailing 5 years RM swap rate plus 3.70% per annum, whichever is higher, from the beginning of the sixth (6) year to the final maturity date.

Subsequently, on 2 December 2009, EBB issued a second tranche of RM250.0 million nominal value of the 10 non-callable 5 years Subordinated MTN callable on 2 December 2014 (and thereafter) and due on 2 December 2019 under the RM2.0 billion Subordinated MTN Programme. The coupon rate of this second tranche of the Subordinated MTN is 5.75% per annum, which is payable semi-annually in arrears from the date of the issue. Should EBB decide not to exercise its call option on the fifth (5) year from the issue date, the coupon rate of this second tranche will be revised to be equivalent to 7.75% or the then prevailing 5 years RM swap rate plus 3.70% per annum, whichever is higher, from the beginning of the sixth (6) year to the final maturity date; similar to the step-up rates in the first tranche.

## 12 Subordinated bonds (continued)

- (c) Subsequently, on 30 December 2010, EBB issued a third tranche of RM500.0 million nominal value of the 10 non-callable 5 years Subordinated MTN callable on 30 December 2015 (and at each anniversary date thereafter) and due on 30 December 2020 under the RM2.0 billion Subordinated MTN Programme. The coupon rate of this third tranche of the Subordinated MTN is 4.75% per annum, which is payable semi-annually in arrears from the date of the issue. Should EBB decide not to exercise its call option on the fifth (5) year from the issue date, or at each anniversary date thereafter, the coupon rate of this third tranche will be remain at 4.75% per annum, from the beginning of the sixth (6) year to the final maturity date.

On 1 July 2011, the above Subordinated MTN was vested to HLB. The above tranches of Subordinated MTNs constitute unsecured liabilities of HLB and are subordinated to all deposit liabilities and all other liabilities except those liabilities, which by their terms, rank equally in rights of payment with the Subordinated MTNs. The Subordinated MTNs qualify as Tier II capital for the purpose of determining the capital adequacy ratio of the Group and HLBB.

## 13 Tier 2 capital cumulative subordinated loan

	<b><u>The Group and The Bank</u></b>	
	<b>Financial</b>	<b>Financial</b>
	<b>Period</b>	<b>Year</b>
	<b>Ended</b>	<b>Ended</b>
	<b>31/12/2011</b>	<b>30/06/2011</b>
	<b>RM'000</b>	<b>RM'000</b>
RM2.3 billion Tier 2 capital cumulative subordinated loan	-	2,300,000
Add: Interest payable	-	14,080
	<u>-</u>	<u>2,314,080</u>

On 6 May 2011, Hong Leong Financial Group Berhad (“HLFG”), the holding company of HLB provided a Tier 2 Capital Cumulative Subordinated Loan Facility for the amount of up to RM2.3 billion (the “Facility”) to HLB.

The facility provided by HLFG is a bridging loan to assist HLB with its Risk Weighted Capital Adequacy Ratio pending the completion of a proposed rights issue exercise to be undertaken by HLB (“Proposed HLB Rights Issue”).

On 18 October 2011, HLB had also fully repaid the RM2.3 billion Tier 2 capital cumulative subordinated loan extended by HLFG following the completion of HLB Rights Issue.

## 14 Non-innovative Tier 1 stapled securities

	<b><u>The Group and The Bank</u></b>	
	<b>Financial</b>	<b>Financial</b>
	<b>Period</b>	<b>Year</b>
	<b>Ended</b>	<b>Ended</b>
	<b>31/12/2011</b>	<b>30/06/2011</b>
	<b>RM'000</b>	<b>RM'000</b>
RM1.4 billion Non-Innovative Tier 1 stapled securities, at par	1,400,000	1,400,000
Add: Interest payable	10,460	11,041
	<u>1,410,460</u>	<u>1,411,041</u>
Less: Unamortised discounts	(4,297)	(5,335)
	<u>1,406,163</u>	<u>1,405,706</u>

#### 14 Non-innovative Tier 1 stapled securities (continued)

On 5 May 2011, HLB had completed its issuance of Non-Innovative Tier 1 Stapled Securities ("NIT-1 Stapled Securities") of RM1.4 billion. The NIT-1 Stapled Securities which is perpetual in nature and callable at the end of year 5 and on each coupon payment date, pays a semi annual coupon of 5.05% per annum. The call option shall be subject to the approval of BNM.

The NIT-1 Stapled Securities constitute unsecured liabilities of the Bank, and is 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 1 capital for the purpose of determining the capital adequacy ratio of the Group and the Bank.

#### 15 Innovative Tier 1 capital securities

	<u>The Group</u>		<u>The Bank</u>	
	<u>Financial Period Ended 31/12/2011 RM'000</u>	<u>Financial Year Ended 30/06/2011 RM'000</u>	<u>Financial Period Ended 31/12/2011 RM'000</u>	<u>Financial Year Ended 30/06/2011 RM'000</u>
RM500 million Innovative Tier 1 capital securities at par	500,000	500,000	500,000	-
Add: Interest payable	12,545	12,658	12,545	-
	<u>512,545</u>	<u>512,658</u>	<u>512,545</u>	<u>-</u>
Less: Unamortised discounts	(10,152)	(9,589)	(11,718)	-
Add: Fair value on Innovative Tier 1 capital securities	107,704	-	107,704	-
	<u>610,097</u>	<u>503,069</u>	<u>608,531</u>	<u>-</u>

On 10 September 2009, EBB issued the first tranche of Innovative Tier 1 Capital Securities ("IT-1 Capital Securities") amounting to RM500 million in nominal value, from its RM1.0 billion IT-1 Capital Securities Programme. The IT-1 Capital Securities is structured in accordance with the Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components) issued by BNM.

The RM500 million IT-1 Capital Securities has a tenor of 30 years and EBB has the option to redeem the RM500 million IT-1 Capital Securities at the 10th anniversary, subject to BNM approval. The RM500 million IT-1 Capital Securities has a coupon rate of 8.25% per annum, payable semi-annually. In the event the IT-1 Capital Securities is not redeemed at the 10th anniversary (the First Optional Redemption Date), the coupon rate will be revised to 9.25% per annum from the 11th year to the final maturity.

On 1 July 2011, the above IT-Capital Securities was vested to HLB. The IT-1 Capital Securities constitute unsecured and subordinated obligations of HLB and are subordinated to all deposit liabilities and all other liabilities except those liabilities which rank equally in, and/or junior to, the rights of payment of the IT-1 Capital Securities. The IT-1 Capital Securities qualify as Tier 1 capital for the purpose of computing the capital adequacy ratio of the Group and HLBB.



## 16 Off-balance sheet financial instruments

Details of financial instruments with off-balance sheet risk as at 31 December 2011

### 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	20,974,606	189,317	(77,891)
(ii) 1 year to 3 years	3,168	44	-
(iii) More than 3 years	-	-	-
Swaps			
(i) Less than 1 year	9,706,704	204,057	(133,257)
(ii) 1 year to 3 years	1,139,838	17,350	(15,652)
(iii) More than 3 years	526,581	25,358	(34,293)
Options			
(i) Less than 1 year	3,068,585	16,171	(15,274)
(ii) 1 year to 3 years	100,614	2,332	(2,332)
(iii) More than 3 years	-	-	-
Interest rate related contracts			
Futures			
(i) Less than 1 year	928,505	186	(1,035)
(ii) 1 year to 3 years	685,000	229	(1,373)
(iii) More than 3 years	300,000	70	(448)
Swaps			
(i) Less than 1 year	9,688,615	24,038	(31,870)
(ii) 1 year to 3 years	20,265,573	144,117	(180,794)
(iii) More than 3 years	27,303,297	427,174	(487,453)
Equity related contracts			
(i) Less than 1 year	97,571	592	(592)
(ii) 1 year to 3 years	6,600	-	-
(iii) More than 3 years	-	-	-
<b>Total</b>	<b>94,795,257</b>	<b>1,051,035</b>	<b>(982,264)</b>

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

Details of financial instruments with off-balance sheet risk as at 31 December 2011

### 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	20,864,740	189,317	(76,157)
(ii) 1 year to 3 years	3,168	44	-
(iii) More than 3 years	-	-	-
Swaps			
(i) Less than 1 year	9,606,109	202,713	(133,257)
(ii) 1 year to 3 years	4,747,919	46,576	(44,878)
(iii) More than 3 years	526,581	25,358	(34,293)
Options			
(i) Less than 1 year	3,068,585	16,171	(15,274)
(ii) 1 year to 3 years	100,614	2,332	(2,332)
(iii) More than 3 years	-	-	-
Interest rate related contracts			
Futures			
(i) Less than 1 year	928,505	186	(1,035)
(ii) 1 year to 3 years	685,000	229	(1,373)
(iii) More than 3 years	300,000	70	(448)
Swaps			
(i) Less than 1 year	9,688,615	24,038	(31,870)
(ii) 1 year to 3 years	20,205,573	144,117	(176,608)
(iii) More than 3 years	27,843,297	427,174	(450,025)
Equity related contracts			
(i) Less than 1 year	97,571	592	(592)
(ii) 1 year to 3 years	6,600	-	-
(iii) More than 3 years	-	-	-
<b>Total</b>	<b>98,672,877</b>	<b>1,078,917</b>	<b>(968,142)</b>

## 16 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 RM474,605,206 (FYE June 2011: RM607,463,001) and RM56,496,778,923 (FYE June 2011: RM50,272,681,745) 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 RM1,054,288,726 (FYE June 2011: RM760,163,989). 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.

## 16 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.

## 17 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.

## 18 Dividend

An interim dividend of 11.0 sen per share less income tax of 25% has been proposed for the current quarter.

- (i) Amount per share: 11.0 sen (less 25% taxation)
- (ii) Previous corresponding quarter: 9.0 sen per share (less 25% taxation)
- (iii) Entitlement date: 15 March 2012
- (iv) Payment date: 28 March 2012

## 19 Realised and Unrealised Profits

	<b>The Group</b>
	<b>Financial Period Ended 31/12/2011 RM'000</b>
Total retained profits of Hong Leong Bank Berhad and its subsidiaries	
- Realised	4,859,801
- Unrealised	1,437,680
	<hr/>
	6,297,481
Total share of retained profits from associated company	
- Realised	550,785
Total share of retained profits /(accumulated losses) from jointly controlled entity	
- Realised	(1,328)
	<hr/>
	6,846,938
Less Consolidation Adjustment	(2,427,337)
	<hr/>
Total Group's Retained Profit	<hr/> <hr/>
	4,419,601

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.

## 20 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	
	31/12/2011 RM'000	31/12/2010 RM'000	31/12/2011 RM'000	31/12/2010 RM'000
<b><u>The Group</u></b>				
Net profit attributable to shareholders of the company	381,371	291,432	788,481	548,632
Weighted average number of ordinary shares in issue ('000)	1,702,309	1,580,107	1,702,309	1,580,107
Less: Treasury shares held	(127,928)	(127,986)	(127,928)	(127,986)
	<u>1,574,381</u>	<u>1,452,121</u>	<u>1,574,381</u>	<u>1,452,121</u>
<b>Basic earnings per share (sen)</b>	24.2	20.1	50.1	37.8
<b><u>The Bank</u></b>				
Net profit attributable to shareholders of the company	329,738	245,247	635,676	444,388
Weighted average number of ordinary shares in issue ('000)	1,702,309	1,580,107	1,702,309	1,580,107
Less: Treasury shares held	(127,928)	(127,986)	(127,928)	(127,986)
	<u>1,574,381</u>	<u>1,452,121</u>	<u>1,574,381</u>	<u>1,452,121</u>
<b>Basic earnings per share (sen)</b>	20.9	16.9	40.4	30.6

## 20 Earnings per share (continued)

### b) Fully diluted earnings per share

The Bank has only one category of dilutive potential ordinary share, share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Bank's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2nd Quarter Ended		Cumulative Six Months Ended	
	31/12/2011 RM'000	31/12/2010 RM'000	31/12/2011 RM'000	31/12/2010 RM'000
<b><u>The Group</u></b>				
Net profit attributable to shareholders of the company	381,371	291,432	788,481	548,632
Weighted average number of ordinary shares in issue (diluted) ('000):				
- during the period	1,574,381	1,452,121	1,574,381	1,452,121
- adjustment for ESOS	9,553	-	9,553	-
	<u>1,583,934</u>	<u>1,452,121</u>	<u>1,583,934</u>	<u>1,452,121</u>
<b>Fully diluted earnings per share (sen)</b>	24.1	20.1	49.8	37.8
<b><u>The Bank</u></b>				
Net profit attributable to shareholders of the company	329,738	245,247	635,676	444,388
Weighted average number of ordinary shares in issue (diluted) ('000):				
- during the period	1,574,381	1,452,121	1,574,381	1,452,121
- adjustment for ESOS	9,553	-	9,553	-
	<u>1,583,934</u>	<u>1,452,121</u>	<u>1,583,934</u>	<u>1,452,121</u>
<b>Fully diluted earnings per share (sen)</b>	20.8	16.9	40.1	30.6