

HONG LEONG BANK BERHAD
(97141-X)
(Incorporated in Malaysia)

Condensed Financial Statements
Unaudited Statements of Financial Position As At 30 September 2016

		The Group		The Bank	
	Note	As at 30/09/2016 RM'000	As at 30/06/2016 RM'000	As at 30/09/2016 RM'000	As at 30/06/2016 RM'000
<u>ASSETS</u>					
Cash and short-term funds		5,657,363	7,473,964	4,633,085	5,657,847
Deposits and placements with banks and other financial institutions		815,100	2,057,351	835,908	2,151,449
Securities purchased under resale agreements		3,130,591	4,056,670	3,130,591	4,056,670
Financial assets held-for-trading	A8	6,609,139	5,310,241	6,110,754	5,115,288
Financial investments available-for-sale	A9	28,275,356	25,883,318	25,916,376	23,856,212
Financial investments held-to-maturity	A10	11,359,242	11,771,834	9,115,683	10,005,784
Loans, advances and financing	A11	119,835,176	119,458,051	100,067,041	100,059,119
Other assets	A12	1,407,779	1,703,163	1,349,581	1,433,531
Derivative financial instruments		1,025,581	1,012,367	1,007,139	999,038
Amount due from subsidiaries		-	-	68,414	14,476
Statutory deposits with Central Banks		3,729,731	4,296,119	3,003,000	3,602,936
Subsidiary companies		-	-	1,531,289	1,529,760
Investment in associated company		3,247,618	3,177,768	946,525	946,525
Investment in joint venture		150,861	144,875	76,711	76,711
Property and equipment		1,408,665	1,382,459	738,758	714,784
Intangible assets		250,155	264,766	232,696	246,784
Goodwill		1,831,312	1,831,312	1,771,547	1,771,547
Deferred tax assets		4,196	3,957	-	-
TOTAL ASSETS		188,737,865	189,828,215	160,535,098	162,238,461
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>					
Deposits from customers	A13	149,273,178	148,523,914	126,939,577	126,240,777
Deposits and placements of banks and other financial institutions	A14	4,648,661	6,201,230	4,309,235	5,813,633
Obligations on securities sold under repurchase agreements		2,451,136	3,494,903	2,423,550	3,494,903
Bills and acceptances payable		261,492	350,455	243,233	333,952
Other liabilities	A15	3,844,097	3,915,929	3,084,077	3,535,225
Derivative financial instruments		1,439,496	1,549,882	1,402,355	1,532,129
Recourse obligation on loans sold to Cagamas Berhad ('Cagamas')		201,091	-	201,091	-
Senior bonds	A16	1,257,030	1,215,643	1,257,030	1,215,643
Tier 2 subordinated bonds	A17	2,429,440	2,401,322	2,024,082	2,000,840
Innovative Tier 1 capital securities	A18	509,117	521,512	509,117	521,512
Borrowings	A19	394,251	384,730	-	-
Taxation		51,230	31,447	18,995	4,587
Deferred tax liabilities		138,839	120,101	130,689	114,527
TOTAL LIABILITIES		166,899,058	168,711,068	142,543,031	144,807,728
Share capital		2,167,718	2,167,718	2,167,718	2,167,718
Reserves		20,406,129	19,684,469	16,559,389	15,998,055
Less: Treasury shares		(735,040)	(735,040)	(735,040)	(735,040)
TOTAL SHAREHOLDERS' EQUITY		21,838,807	21,117,147	17,992,067	17,430,733
TOTAL LIABILITIES AND EQUITY		188,737,865	189,828,215	160,535,098	162,238,461
<u>COMMITMENTS AND CONTINGENCIES</u>	A30	149,311,015	150,080,124	142,235,263	143,994,304

Net asset per share attributable to ordinary
equity holders of the parent (RM) *

10.68 10.32 8.80 8.52

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

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016.

HONG LEONG BANK BERHAD
(97141-X)
(Incorporated in Malaysia)

Condensed Financial Statements
Unaudited Statements of Income
For The Financial Period Ended 30 September 2016

		The Group			
	Note	Current Quarter Ended 30/09/2016 RM'000	Corresponding Quarter Ended 30/09/2015 RM'000	Current Period Ended 30/09/2016 RM'000	Corresponding Period Ended 30/09/2015 RM'000
Interest income	A20	1,543,991	1,549,855	1,543,991	1,549,855
Interest expense	A21	(853,548)	(889,898)	(853,548)	(889,898)
Net interest income		690,443	659,957	690,443	659,957
Net income from Islamic Banking business	A22	129,601	114,532	129,601	114,532
Other operating income	A23	276,198	248,747	276,198	248,747
Net Income		1,096,242	1,023,236	1,096,242	1,023,236
Other operating expenses	A24	(490,685)	(462,741)	(490,685)	(462,741)
Operating profit before allowances		605,557	560,495	605,557	560,495
Allowance for impairment losses on loans, advances and financing	A25	(23,054)	(23,977)	(23,054)	(23,977)
(Allowance for)/write back of impairment losses on financial investments		(3,360)	2,849	(3,360)	2,849
		579,143	539,367	579,143	539,367
Share of profit after tax of equity accounted associated company		89,248	80,406	89,248	80,406
Share of profit after tax of equity accounted joint venture		6,228	5,061	6,228	5,061
Profit before taxation		674,619	624,834	674,619	624,834
Taxation	B5	(131,992)	(121,873)	(131,992)	(121,873)
Net profit for the financial period		542,627	502,961	542,627	502,961
Attributable to:					
Owners of the parent		542,627	502,961	542,627	502,961
Earnings per share - basic (sen)	B13(a)	26.5	28.5	26.5	28.5
Earnings per share - fully diluted (sen)	B13(b)	26.5	28.5	26.5	28.5

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016.

HONG LEONG BANK BERHAD
(97141-X)
(Incorporated in Malaysia)

Condensed Financial Statements
Unaudited Statements of Comprehensive Income
For The Financial Period Ended 30 September 2016

	The Group			
	Current Quarter Ended 30/09/2016 RM'000	Corresponding Quarter Ended 30/09/2015 RM'000	Current Period Ended 30/09/2016 RM'000	Corresponding Period Ended 30/09/2015 RM'000
Net profit for the financial period	542,627	502,961	542,627	502,961
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive income of associated company	708	5,201	708	5,201
Currency translation differences	108,116	519,774	108,116	519,774
Net fair value changes on financial investments available-for-sale	88,772	(81,420)	88,772	(81,420)
Net fair value changes in cash flow hedge	(984)	2,625	(984)	2,625
Income tax relating to components of other comprehensive (income)/loss	(20,809)	21,519	(20,809)	21,519
Other comprehensive income for the financial period, net of tax	175,803	467,699	175,803	467,699
Total comprehensive income for the financial period	<u>718,430</u>	<u>970,660</u>	<u>718,430</u>	<u>970,660</u>
Attributable to:				
- Owners of the parent	<u>718,430</u>	<u>970,660</u>	<u>718,430</u>	<u>970,660</u>

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016.

HONG LEONG BANK BERHAD
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Condensed Financial Statements
Unaudited Statements of Income
For The Financial Period Ended 30 September 2016

		The Bank			
	Note	Current Quarter Ended 30/09/2016 RM'000	Corresponding Quarter Ended 30/09/2015 RM'000	Current Period Ended 30/09/2016 RM'000	Corresponding Period Ended 30/09/2015 RM'000
Interest income	A20	1,525,318	1,543,917	1,525,318	1,543,917
Interest expense	A21	(846,530)	(898,510)	(846,530)	(898,510)
Net interest income		678,788	645,407	678,788	645,407
Other operating income	A23	400,805	252,161	400,805	252,161
Net Income		1,079,593	897,568	1,079,593	897,568
Other operating expenses	A24	(429,246)	(403,180)	(429,246)	(403,180)
Operating profit before allowances		650,347	494,388	650,347	494,388
Allowance for impairment losses					
on loans, advances and financing	A25	(14,052)	(13,435)	(14,052)	(13,435)
(Allowance for)/write back of impairment					
losses on financial investments		(3,360)	2,849	(3,360)	2,849
Profit before taxation		632,935	483,802	632,935	483,802
Taxation	B5	(148,904)	(108,573)	(148,904)	(108,573)
Net profit for the financial period		484,031	375,229	484,031	375,229
Attributable to:					
Owners of the parent		484,031	375,229	484,031	375,229
Earnings per share - basic (sen)	B13(a)	23.7	21.3	23.7	21.3
Earnings per share - fully diluted (sen)	B13(b)	23.7	21.3	23.7	21.3

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016.

HONG LEONG BANK BERHAD
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Condensed Financial Statements
Unaudited Statements of Comprehensive Income
For The Financial Period Ended 30 September 2016

	The Bank			
	Current Quarter Ended 30/09/2016 RM'000	Corresponding Quarter Ended 30/09/2015 RM'000	Current Period Ended 30/09/2016 RM'000	Corresponding Period Ended 30/09/2015 RM'000
Net profit for the financial period	<u>484,031</u>	<u>375,229</u>	<u>484,031</u>	<u>375,229</u>
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Currency translation differences	16,438	2,230	16,438	2,230
Net fair value changes on financial investments available-for-sale	76,852	(65,290)	76,852	(65,290)
Net fair value changes in cash flow hedge	(984)	2,625	(984)	2,625
Income tax relating to components of other comprehensive (income)/loss	<u>(18,233)</u>	<u>17,615</u>	<u>(18,233)</u>	<u>17,615</u>
Other comprehensive income/(loss) for the financial period, net of tax	<u>74,073</u>	<u>(42,820)</u>	<u>74,073</u>	<u>(42,820)</u>
Total comprehensive income for the financial period	<u><u>558,104</u></u>	<u><u>332,409</u></u>	<u><u>558,104</u></u>	<u><u>332,409</u></u>

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016.

HONG LEONG BANK BERHAD
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Condensed Financial Statements
Unaudited Statements of Changes in Equity For The Financial Period Ended 30 September 2016

	Attributable to owners of the parent										
The Group	Share Capital RM'000	Share Premium RM'000	Statutory Reserve RM'000	Fair Value Reserve RM'000	Cash Flow Hedge Reserve RM'000	Share Options Reserve RM'000	Regulatory Reserves * RM'000	Exchange Fluctuation Reserve RM'000	Retained Profits RM'000	Treasury Shares RM'000	Total Shareholders' Equity RM'000
At 1 July 2016	2,167,718	5,571,345	3,920,716	318,319	(1,718)	10,205	598,772	854,465	8,412,365	(735,040)	21,117,147
<u>Comprehensive income</u>											
Net profit for the financial period	-	-	-	-	-	-	-	-	542,627	-	542,627
- Share of other comprehensive income of associated company	-	-	-	708	-	-	-	-	-	-	708
- Net fair value changes in financial investments available-for-sale	-	-	-	67,727	-	-	-	-	-	-	67,727
- Net fair value changes in cash flow hedge	-	-	-	-	(748)	-	-	-	-	-	(748)
- Currency translation differences	-	-	-	-	-	-	-	108,116	-	-	108,116
Total comprehensive income/(loss)	-	-	-	68,435	(748)	-	-	108,116	542,627	-	718,430
<u>Transactions with owners</u>											
Transfer to statutory reserve	-	-	13,309	-	-	-	-	-	(13,309)	-	-
Transfer to regulatory reserve	-	-	-	-	-	-	13,680	-	(13,680)	-	-
Option charge arising from ESOS granted	-	-	-	-	-	3,230	-	-	-	-	3,230
Total transactions with owners	-	-	13,309	-	-	3,230	13,680	-	(26,989)	-	3,230
At 30 September 2016	2,167,718	5,571,345	3,934,025	386,754	(2,466)	13,435	612,452	962,581	8,928,003	(735,040)	21,838,807
At 1 July 2015	1,879,909	2,872,183	3,575,114	207,975	162	-	399,357	683,966	7,819,514	(648,588)	16,789,592
<u>Comprehensive income</u>											
Net profit for the financial period	-	-	-	-	-	-	-	-	502,961	-	502,961
- Share of other comprehensive income of associated company	-	-	-	5,201	-	-	-	-	-	-	5,201
- Net fair value changes in financial investments available-for-sale	-	-	-	(59,273)	-	-	-	-	-	-	(59,273)
- Net fair value changes in cash flow hedge	-	-	-	-	1,997	-	-	-	-	-	1,997
- Currency translation differences	-	-	-	-	-	-	-	519,774	-	-	519,774
Total comprehensive (loss)/income	-	-	-	(54,072)	1,997	-	-	519,774	502,961	-	970,660
<u>Transactions with owners</u>											
Transfer to statutory reserve	-	-	105,059	-	-	-	-	-	(105,059)	-	-
Transfer to regulatory reserve	-	-	-	-	-	-	52,711	-	(52,711)	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(14,157)	(14,157)
Option charge arising from ESOS granted	-	-	-	-	-	5,177	-	-	-	-	5,177
Total transactions with owners	-	-	105,059	-	-	5,177	52,711	-	(157,770)	(14,157)	(8,980)
At 30 September 2015	1,879,909	2,872,183	3,680,173	153,903	2,159	5,177	452,068	1,203,740	8,164,705	(662,745)	17,751,272

* Comprise regulatory reserves maintained by the Group's banking subsidiaries of RM601,207,000 (30 September 2015: RM440,823,000) in accordance with BNM's Policy Document on Classification and Impairment Provisions for Loans/Financing and the banking subsidiary in Vietnam with the State Bank of Vietnam of RM11,245,000 (30 September 2015: RM11,245,000)

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016.

HONG LEONG BANK BERHAD
(97141-X)
(Incorporated in Malaysia)

Condensed Financial Statements
Unaudited Statements of Changes in Equity For The Financial Period Ended 30 September 2016

	Non-distributable								Distributable		
	Share Capital RM'000	Share Premium RM'000	Statutory Reserve RM'000	Fair Value Reserve RM'000	Cash Flow Hedge Reserve RM'000	Share Options Reserve RM'000	Regulatory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Retained Profits RM'000	Treasury Shares RM'000	Total RM'000
The Bank											
At 1 July 2016	2,167,718	5,571,345	3,380,604	310,050	(1,718)	10,205	495,008	197,537	6,035,024	(735,040)	17,430,733
Comprehensive income											
Net profit for the financial period	-	-	-	-	-	-	-	-	484,031	-	484,031
- Net fair value changes in financial investments available-for-sale	-	-	-	58,383	-	-	-	-	-	-	58,383
- Net fair value changes in cash flow hedge	-	-	-	-	(748)	-	-	-	-	-	(748)
- Currency translation differences	-	-	-	-	-	-	-	16,438	-	-	16,438
Total comprehensive income/(loss)	-	-	-	58,383	(748)	-	-	16,438	484,031	-	558,104
Transactions with owners											
Transfer to regulatory reserve	-	-	-	-	-	-	8,437	-	(8,437)	-	-
Option charge arising from ESOS granted	-	-	-	-	-	3,230	-	-	-	-	3,230
Total transactions with owners	-	-	-	-	-	3,230	8,437	-	(8,437)	-	3,230
At 30 September 2016	2,167,718	5,571,345	3,380,604	368,433	(2,466)	13,435	503,445	213,975	6,510,618	(735,040)	17,992,067
At 1 July 2015	1,879,909	2,872,183	3,084,249	214,109	162	-	334,138	38,798	5,653,204	(648,588)	13,428,164
Comprehensive income											
Net profit for the financial period	-	-	-	-	-	-	-	-	375,229	-	375,229
- Net fair value changes in financial investments available-for-sale	-	-	-	(47,047)	-	-	-	-	-	-	(47,047)
- Net fair value changes in cash flow hedge	-	-	-	-	1,997	-	-	-	-	-	1,997
- Currency translation differences	-	-	-	-	-	-	-	2,230	-	-	2,230
Total comprehensive (loss)/income	-	-	-	(47,047)	1,997	-	-	2,230	375,229	-	332,409
Transactions with owners											
Transfer to statutory reserve	-	-	93,807	-	-	-	-	-	(93,807)	-	-
Transfer to regulatory reserve	-	-	-	-	-	-	52,551	-	(52,551)	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(14,157)	(14,157)
Option charge arising from ESOS granted	-	-	-	-	-	5,177	-	-	-	-	5,177
Total transactions with owners	-	-	93,807	-	-	5,177	52,551	-	(146,358)	(14,157)	(8,980)
At 30 September 2015	1,879,909	2,872,183	3,178,056	167,062	2,159	5,177	386,689	41,028	5,882,075	(662,745)	13,751,593

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016.

HONG LEONG BANK BERHAD
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Condensed Financial Statements
Unaudited Condensed Statements of Cash Flows
For The Financial Period Ended 30 September 2016

	The Group		The Bank	
	Financial Period Ended 30/09/2016 RM'000	Financial Period Ended 30/09/2015 RM'000	Financial Period Ended 30/09/2016 RM'000	Financial Period Ended 30/09/2015 RM'000
Profit before taxation	674,619	624,834	632,935	483,802
Adjustments for non-cash items	(229,504)	239,127	(285,457)	302,105
Operating profit before working capital changes	445,115	863,961	347,478	785,907
Changes in working capital:				
Net changes in operating assets	1,221,943	(467,709)	1,781,851	955,796
Net changes in operating liabilities	(1,863,381)	2,629,158	(2,321,937)	2,461,412
Income taxes and zakat paid	(114,378)	(124,237)	(102,708)	(112,500)
Net cash (used in)/generated from operating activities	(310,701)	2,901,173	(295,316)	4,090,615
Cash flows from investing activities				
Net purchases of financial investments available-for-sale	(2,132,657)	(2,962,266)	(1,813,923)	(3,645,719)
Net proceeds/(purchases) of financial investments held-to-maturity	498,134	(153,980)	977,156	(18,523)
Purchase of property and equipment	(49,721)	(18,879)	(46,316)	(16,640)
Net proceeds from sale of property and equipment	3,275	256	3,217	256
Purchase of intangible assets	(3,442)	(7,609)	(3,442)	(7,047)
Dividends received on financial investments available-for-sale	65,141	32,358	65,141	32,358
Dividend from associated company	88,634	-	88,634	-
Dividend from joint venture	3,428	3,755	3,428	3,755
Net cash used in investing activities	(1,527,208)	(3,106,365)	(726,105)	(3,651,560)
Cash flows from financing activities				
Repayment of Tier 2 subordinated loan	-	(700,000)	-	(700,000)
Purchase of treasury shares	-	(14,157)	-	(14,157)
Interest paid on subordinated obligations	-	(32,367)	-	(37,249)
Interest paid on innovative Tier 1 capital securities	(21,609)	(17,988)	(19,476)	(17,988)
Drawdown from borrowings	7,913	-	-	-
Net cash used in financing activities	(13,696)	(764,512)	(19,476)	(769,394)
Net decrease in cash and cash equivalents	(1,851,605)	(969,704)	(1,040,897)	(330,339)
Currency translation differences	35,004	92,308	16,135	1,250
Cash and cash equivalents at the beginning of financial period	7,473,964	6,230,283	5,657,847	4,972,372
Cash and cash equivalents at the end of financial period	5,657,363	5,352,887	4,633,085	4,643,283

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016.

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Part A - Explanatory Notes Pursuant to Malaysian Financial Reporting Standard ("MFRS") 134 and Policy Document on Financial Reporting Issued by Bank Negara Malaysia ("BNM") on 28 January 2015

**NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR FINANCIAL PERIOD ENDED 30 SEPTEMBER 2016**

A1 Basis of preparation

The unaudited condensed financial statements for the financial period ended 30 September 2016 have been prepared under the historical cost convention, except for the following assets and liabilities which are stated at fair values: financial assets held-for-trading, financial investments available-for-sale and derivative financial instruments.

The unaudited condensed financial statements have been prepared in accordance with MFRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standard Board ("MASB") and paragraph 9.22 of the Bursa Malaysia Securities Berhad's ("Bursa Securities") Listing Requirements and should be read in conjunction with the audited annual financial statements for the Group and Hong Leong Bank Berhad ("HLB" or "the Bank") for the financial year ended 30 June 2016. The explanatory notes attached to the unaudited condensed financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group and the Bank since the year ended 30 June 2016.

The unaudited condensed financial statements incorporate the activities relating to Islamic Banking which have been undertaken by the Group in compliance with Shariah principles. Islamic Banking business refers generally to the acceptance of deposits and granting of financing under the Shariah principles.

The significant accounting policies and methods of computation applied in the unaudited condensed financial statements are consistent with those adopted in the annual audited financial statements for the financial year ended 30 June 2016, and modified for the adoption of the following Amendments to MFRSs applicable for financial period beginning on or after 1 July 2016:

- | | | |
|-----|-----------------------|---------------------------------|
| (i) | Amendment to MFRS 11 | "Joint Arrangements" |
| | Amendment to MFRS 116 | "Property, Plant and Equipment" |
| | Amendment to MFRS 138 | "Intangible Assets" |

The adoption of the above amendments to MFRSs are not expected to have impact on the financial results of the Group and the Bank.

The preparation of unaudited condensed financial statements in conformity with the MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed financial statements, and the reported amounts of income and expenses during the reported financial period. It also requires Directors to exercise their judgement in the process of applying the Group and the Bank's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

A2 Status of matters giving rise to the auditor's qualified report in the preceding annual financial statements for the year ended 30 June 2016

There was no qualified report issued by the auditors in the preceding annual financial statements for the year ended 30 June 2016.

A3 Seasonality or cyclicity of operations

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

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A4 Exceptional items or unusual events affecting financial statements

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

A5 Variation from financial estimates reported in preceding financial period

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

A6 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 30 September 2016:

a) Share Buy-back

There were no purchase of ordinary shares of RM1.00 each ("Shares") from the open market during the financial period ended 30 September 2016.

The total number of shares bought back, all of which were held as treasury shares as at 30 September 2016 amounted to 81,101,700 shares, at an average price per share of RM5.32. None of the treasury shares were resold or cancelled to date.

b) Purchase of shares pursuant to ESOS

A trust has been set up for the ESOS of the Bank and it 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 with MFRS 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' Equity on the Statements of Financial Position.

During the financial period ended 30 September 2016, the trust did not purchase any new shares. As at 30 September 2016, the total number of Treasury Shares for ESOS was 41,162,900 at an average carrying value of RM7.37 per share.

The Bank has granted the following conditional new incentive share options to eligible executives of the Bank and its subsidiary pursuant to the Bank's Executive Share Scheme (ESS):

- (i) Up to 37,550,000 share options at an exercise price of RM14.24 (the exercise price was adjusted to RM13.77 following the Rights Issue in December 2015); and
- (ii) 782,657 share options arising from the Rights Issue.

The options granted are subject to the achievement of certain performance criteria by the option holders over a performance period concluding at the end of the financial year ending 30 June 2018 ("FY 2018"). The achievement of the performance targets and the number of shares (if any) to be vested shall be determined at the end of FY 2018.

A7 Dividends paid

There were no dividends paid during the financial period under review.

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A8 Financial assets held-for-trading

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016	30/06/2016	30/09/2016	30/06/2016
	RM'000	RM'000	RM'000	RM'000
Money market instruments:				
Government treasury bills	294,548	119,332	294,548	119,332
Malaysian Government securities	392,470	103,737	392,470	103,737
Malaysian Government investment certificates	1,050,112	320,952	1,038,952	175,880
Negotiable instruments of deposit	4,201,891	3,836,858	3,754,685	3,786,977
Cagamas bonds	120,425	55,474	80,406	55,474
Khazanah bonds	14,915	-	14,915	-
	<u>6,074,361</u>	<u>4,436,353</u>	<u>5,575,976</u>	<u>4,241,400</u>
Quoted securities:				
Shares outside Malaysia	-	1,804	-	1,804
Foreign currency bonds in Malaysia	89,893	488,718	89,893	488,718
Unquoted securities:				
Malaysian Government sukuk	141,534	-	141,534	-
Corporate bonds and sukuk	278,760	330,365	278,760	330,365
Foreign currency bonds in Malaysia	24,591	53,001	24,591	53,001
Total financial assets held-for-trading	<u><u>6,609,139</u></u>	<u><u>5,310,241</u></u>	<u><u>6,110,754</u></u>	<u><u>5,115,288</u></u>

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A9 Financial investments available-for-sale

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016	30/06/2016	30/09/2016	30/06/2016
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Money market instruments:				
Government treasury bills	196,760	69,206	196,760	69,206
Malaysian Government securities	525,603	359,838	525,603	359,838
Malaysian Government investment certificates	3,697,699	3,516,462	2,867,638	2,589,817
Other Government securities	131,292	74,297	-	-
Cagamas bonds	1,150,312	1,004,303	1,017,373	792,060
Khazanah bonds	342,424	334,686	342,424	334,686
	<u>6,044,090</u>	<u>5,358,792</u>	<u>4,949,798</u>	<u>4,145,607</u>
Quoted Securities:				
Shares outside Malaysia	27	26	27	26
Wholesale fund	6,985,562	6,532,411	6,985,562	6,532,411
Foreign currency bonds in Malaysia	3,679,726	3,606,238	3,633,993	3,513,465
Foreign currency bonds outside Malaysia	1,781,761	1,954,369	1,781,761	1,954,369
Unquoted securities:				
Malaysian Government sukuk	1,378,710	820,552	1,135,631	789,745
Corporate bonds and sukuk	7,249,854	6,058,446	6,273,978	5,368,105
Shares in Malaysia	422,926	422,926	422,926	422,926
Shares outside Malaysia	4,514	4,402	4,514	4,402
Foreign currency bonds in Malaysia	728,186	1,125,156	728,186	1,125,156
Total financial investments available-for-sale	<u>28,275,356</u>	<u>25,883,318</u>	<u>25,916,376</u>	<u>23,856,212</u>

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A10 Financial investments held-to-maturity

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016	30/06/2016	30/09/2016	30/06/2016
	RM'000	RM'000	RM'000	RM'000
Money market instruments:				
Government treasury bills	56,521	54,922	56,521	54,922
Malaysian Government securities	1,924,685	3,322,664	1,924,685	3,322,664
Malaysian Government investment certificates	8,473,211	7,465,559	6,323,971	5,315,317
Cagamas bonds	20,312	30,356	20,312	20,128
Negotiable instruments of deposit	-	-	-	501,951
Other Government securities	386,458	395,513	302,215	298,163
	<u>10,861,187</u>	<u>11,269,014</u>	<u>8,627,704</u>	<u>9,513,145</u>
Unquoted securities in Malaysia:				
Loan stocks	48	48	48	48
Malaysian Government sukuk	465,455	470,220	455,379	460,039
Corporate bonds and sukuk	486	486	486	486
Redeemable preference shares	32,066	32,066	32,066	32,066
	<u>498,055</u>	<u>502,820</u>	<u>487,979</u>	<u>492,639</u>
Total financial investments held-to-maturity	<u>11,359,242</u>	<u>11,771,834</u>	<u>9,115,683</u>	<u>10,005,784</u>

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A11 Loans, advances and financing

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016	30/06/2016	30/09/2016	30/06/2016
	RM'000	RM'000	RM'000	RM'000
Overdrafts	3,840,803	3,857,485	3,522,631	3,550,226
Term loans/financing:				
- Housing and shop loans/financing	61,814,730	60,462,347	51,036,881	50,023,207
- Syndicated/term loans or financing	9,392,139	9,339,212	7,813,819	7,814,485
- Hire purchase receivables	18,574,458	18,682,098	15,052,088	15,163,055
- Other term loans/financing	8,204,095	8,232,653	6,296,114	6,406,492
Credit/charge card receivables	3,960,668	3,755,348	3,960,668	3,755,348
Bills receivable	1,123,312	1,107,690	1,090,400	1,083,449
Trust receipts	344,020	381,531	271,014	308,869
Claims on customers under acceptance credits	6,874,141	7,439,144	6,432,384	6,962,934
Revolving credit	6,256,351	6,757,003	4,995,456	5,406,314
Staff loans/financing	152,819	164,843	143,261	153,926
Other loans/financing	440,082	425,282	440,076	425,276
Gross loans, advances and financing	120,977,618	120,604,636	101,054,792	101,053,581
Unamortised fair value changes arising from terminated fair value hedges	(495)	(784)	5	26
Allowance for impaired loans, advances and financing:				
- Collective assessment allowance	(846,624)	(856,057)	(705,830)	(714,272)
- Individual assessment allowance	(295,323)	(289,744)	(281,926)	(280,216)
Total net loans, advances and financing	119,835,176	119,458,051	100,067,041	100,059,119

Included in loans, advances and financing are housing loans sold to Cagamas with recourse to the Group and the Bank amounting to RM200.0 million (2016: RM Nil) and RM200.0 million (2016: RM Nil) respectively.

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A11 Loans, advances and financing (continued)

A11a By type of customer

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016 RM'000	30/06/2016 RM'000	30/09/2016 RM'000	30/06/2016 RM'000
Domestic financial institutions	-	47	-	47
Domestic non-bank financial institutions	500,930	600,249	98,726	85,824
Domestic business enterprises:				
- small and medium enterprises	19,311,064	19,226,349	16,848,941	16,898,660
- others	15,902,503	16,882,388	13,272,254	14,205,786
Government and statutory bodies	24,563	24,804	12,836	13,029
Individuals	78,150,357	76,927,972	64,053,578	63,228,460
Other domestic entities	60,408	75,714	23,557	37,900
Foreign entities	7,027,793	6,867,113	6,744,900	6,583,875
Gross loans, advances and financing	<u>120,977,618</u>	<u>120,604,636</u>	<u>101,054,792</u>	<u>101,053,581</u>

A11b By interest/profit rate sensitivity

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016 RM'000	30/06/2016 RM'000	30/09/2016 RM'000	30/06/2016 RM'000
Fixed rate:				
- Housing and shop loans/financing	2,408,612	2,604,333	1,557,614	1,534,310
- Hire purchase receivables	18,105,379	18,200,640	14,583,009	14,681,597
- Other fixed rate loan/financing	7,339,072	7,468,585	6,386,965	6,247,122
Variable rate:				
- Base rate/base lending rate plus	77,179,674	75,993,221	65,202,781	64,400,280
- Cost plus	15,553,851	15,950,281	13,324,423	14,190,272
- Other variables rates	391,030	387,576	-	-
Gross loans, advances and financing	<u>120,977,618</u>	<u>120,604,636</u>	<u>101,054,792</u>	<u>101,053,581</u>

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A11 Loans, advances and financing (continued)

A11c By economic purpose

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016 RM'000	30/06/2016 RM'000	30/09/2016 RM'000	30/06/2016 RM'000
Purchase of securities	527,674	517,518	522,127	511,065
Purchase of transport vehicles	18,298,015	18,445,557	14,718,446	14,875,758
Purchase of landed properties				
- residential	52,753,799	51,509,733	43,036,992	42,100,556
- non-residential	15,186,662	14,986,782	13,609,840	13,479,691
Purchase of fixed assets (excluding landed properties)	430,597	434,041	382,145	387,990
Personal use	3,732,422	3,766,429	2,946,856	3,031,505
Credit card	3,960,668	3,755,348	3,960,668	3,755,348
Purchase of consumer durables	380	387	380	387
Construction	1,414,119	1,386,003	1,148,239	1,157,355
Mergers and acquisition	233,318	233,364	233,318	233,364
Working capital	22,372,021	23,495,814	18,712,747	19,718,753
Other purpose	2,067,943	2,073,660	1,783,034	1,801,809
Gross loans, advances and financing	<u>120,977,618</u>	<u>120,604,636</u>	<u>101,054,792</u>	<u>101,053,581</u>

A11d By geographical distribution

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016 RM'000	30/06/2016 RM'000	30/09/2016 RM'000	30/06/2016 RM'000
Malaysia	115,041,390	114,977,964	96,101,978	96,340,452
Singapore	4,929,814	4,678,961	4,929,814	4,678,961
Hong Kong	23,000	34,168	23,000	34,168
Vietnam	391,030	387,576	-	-
Cambodia	592,384	525,967	-	-
Gross loans, advances and financing	<u>120,977,618</u>	<u>120,604,636</u>	<u>101,054,792</u>	<u>101,053,581</u>

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A11 Loans, advances and financing (continued)

A11e By residual contractual maturity

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016 RM'000	30/06/2016 RM'000	30/09/2016 RM'000	30/06/2016 RM'000
Within one year	26,405,697	26,924,890	23,757,309	24,539,703
One year to less than three years	4,910,220	5,370,116	4,263,093	4,373,344
Three years to less than five years	10,960,935	10,710,736	8,975,860	8,859,782
Five years and more	78,700,766	77,598,894	64,058,530	63,280,752
Gross loans, advances and financing	<u>120,977,618</u>	<u>120,604,636</u>	<u>101,054,792</u>	<u>101,053,581</u>

A11f Impaired loans, advances and financing by economic purpose

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016 RM'000	30/06/2016 RM'000	30/09/2016 RM'000	30/06/2016 RM'000
Purchase of securities	328	225	328	225
Purchase of transport vehicles	150,841	145,428	118,226	112,704
Purchase of landed properties				
- residential	221,672	233,092	158,728	164,739
- non-residential	89,601	99,145	87,100	96,437
Purchase of fixed assets (excluding landed properties)	19,611	22,872	18,396	21,623
Personal use	43,750	36,909	37,082	31,877
Credit card	43,676	44,308	43,676	44,308
Construction	8,740	9,138	6,660	7,131
Working capital	410,374	346,555	353,172	338,767
Other purpose	25,305	18,907	25,146	18,757
Gross impaired loans, advances and financing	<u>1,013,898</u>	<u>956,579</u>	<u>848,514</u>	<u>836,568</u>

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A11 Loans, advances and financing (continued)

A11g Impaired loans, advances and financing by geographical distribution

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016 RM'000	30/06/2016 RM'000	30/09/2016 RM'000	30/06/2016 RM'000
Malaysia	998,544	942,633	842,770	830,967
Singapore	5,744	5,601	5,744	5,601
Vietnam	9,610	8,345	-	-
Gross impaired loans, advances and financing	<u>1,013,898</u>	<u>956,579</u>	<u>848,514</u>	<u>836,568</u>

A11h Movements in impaired loans, advances and financing are as follows:

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016 RM'000	30/06/2016 RM'000	30/09/2016 RM'000	30/06/2016 RM'000
At 1 July	956,579	947,960	836,568	822,800
Impaired during the financial period/year	436,615	1,572,186	321,629	1,322,139
Performing during the financial period/year	(206,631)	(798,443)	(168,827)	(638,653)
Amount written back in respect of recoveries	(84,146)	(338,843)	(66,234)	(289,007)
Amount written off	(88,883)	(426,479)	(74,765)	(380,388)
Exchange difference	364	198	143	(323)
At 30 September	<u>1,013,898</u>	<u>956,579</u>	<u>848,514</u>	<u>836,568</u>
Gross impaired loans as a % of gross loans, advances and financing	<u>0.8%</u>	<u>0.8%</u>	<u>0.8%</u>	<u>0.8%</u>

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A11 Loans, advances and financing (continued)

A11i Movements in allowance for impaired loans, advances and financing are as follows:

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016	30/06/2016	30/09/2016	30/06/2016
	RM'000	RM'000	RM'000	RM'000
<u>Collective Assessment Allowance</u>				
At 1 July	856,057	969,033	714,272	822,488
Net allowances made during the financial period/year	70,270	263,656	58,842	227,755
Amount transferred to individual assessment	(744)	(109)	(744)	(109)
Amount written off	(77,071)	(365,615)	(64,851)	(326,899)
Unwinding income	(2,103)	(11,465)	(1,781)	(9,389)
Exchange difference	215	557	92	426
At 30 September	<u>846,624</u>	<u>856,057</u>	<u>705,830</u>	<u>714,272</u>
Collective assessment allowance (inclusive of regulatory reserve) as % of gross loans, advances and financing less individual impairment allowance	<u>1.20%</u>	<u>1.20%</u>	<u>1.20%</u>	<u>1.20%</u>
<u>Individual Assessment Allowance</u>				
At 1 July	289,744	322,960	280,216	305,924
Allowances made during the financial period/year	17,201	57,180	12,717	55,552
Amount transferred from collective assessment	744	109	744	109
Amount transferred to allowance for impairment losses on securities	-	(2,566)	-	(1,450)
Amount written back in respect of recoveries	(9,809)	(61,626)	(9,228)	(56,638)
Amount written off	(807)	(22,004)	(729)	(19,037)
Unwinding income	(1,946)	(4,404)	(1,938)	(4,203)
Exchange difference	196	95	144	(41)
At 30 September	<u>295,323</u>	<u>289,744</u>	<u>281,926</u>	<u>280,216</u>

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A12 Other assets

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016	30/06/2016	30/09/2016	30/06/2016
	RM'000	RM'000	RM'000	RM'000
Foreclosed properties	46	46	46	46
Sundry debtors and other prepayments	165,453	280,940	136,538	272,313
Treasury related receivables	475,463	629,659	475,463	459,522
Cash collateral pledged for derivative transactions	610,143	657,620	610,143	657,620
Other receivables	156,674	134,898	127,391	44,030
	<u>1,407,779</u>	<u>1,703,163</u>	<u>1,349,581</u>	<u>1,433,531</u>

A13 Deposits from customers

A13a By type of deposit

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016	30/06/2016	30/09/2016	30/06/2016
	RM'000	RM'000	RM'000	RM'000
Amortised cost				
Fixed deposits	86,694,300	84,718,710	73,443,857	72,777,468
Negotiable instruments of deposits	6,863,450	7,816,740	5,716,815	6,438,947
Short-term placements	16,550,709	16,438,300	14,535,772	13,452,725
	<u>110,108,459</u>	<u>108,973,750</u>	<u>93,696,444</u>	<u>92,669,140</u>
Demand deposits	20,118,886	20,603,371	17,513,179	17,673,888
Saving deposits	16,618,035	16,581,413	14,081,711	13,976,887
Others	1,001,017	943,461	918,421	910,078
	<u>147,846,397</u>	<u>147,101,995</u>	<u>126,209,755</u>	<u>125,229,993</u>
At fair value through profit and loss				
Callable range accrual notes, at cost	1,461,175	1,442,912	747,965	1,025,580
Fair value changes arising from designation at fair value through profit or loss *	(34,394)	(20,993)	(18,143)	(14,796)
	<u>1,426,781</u>	<u>1,421,919</u>	<u>729,822</u>	<u>1,010,784</u>
	<u>149,273,178</u>	<u>148,523,914</u>	<u>126,939,577</u>	<u>126,240,777</u>

* The Group and the Bank have issued structured deposits (callable range accrual notes) and designated them at fair value through profit or loss. This designation is permitted under MFRS 139 "Financial Instruments: Recognition and Measurement" as it significantly reduces accounting mismatch. These instruments are managed by the Group on the basis of fair value and includes terms that have substantive derivative characteristics.

The fair value changes of the callable range accrual notes that are attributable to the changes in own credit risk are not significant.

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A13 Deposits from customers (continued)

A13b By type of customer

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2016</u>	<u>30/06/2016</u>	<u>30/09/2016</u>	<u>30/06/2016</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Government and statutory bodies	4,015,158	2,017,632	3,284,380	1,301,940
Business enterprises	60,270,538	62,697,264	47,597,171	48,886,621
Individuals	82,497,297	81,353,056	73,819,316	73,853,739
Others	2,490,185	2,455,962	2,238,710	2,198,477
	<u>149,273,178</u>	<u>148,523,914</u>	<u>126,939,577</u>	<u>126,240,777</u>

A13c The maturity structure of fixed deposits, negotiable instruments of deposits and short-term placements are as follows:

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2016</u>	<u>30/06/2016</u>	<u>30/09/2016</u>	<u>30/06/2016</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Due within six months	88,129,939	89,121,480	73,948,599	74,496,461
More than six months to one year	18,253,921	16,791,342	16,097,753	15,132,505
More than one year to five years	3,724,599	3,043,015	3,650,092	3,022,261
More than five years	-	17,913	-	17,913
	<u>110,108,459</u>	<u>108,973,750</u>	<u>93,696,444</u>	<u>92,669,140</u>

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A14 Deposits and placements of banks and other financial institutions

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016	30/06/2016	30/09/2016	30/06/2016
	RM'000	RM'000	RM'000	RM'000
Licensed banks	4,387,945	6,201,230	4,309,235	5,813,633
Licensed investment banks	36,153	-	-	-
Licensed Islamic banks	173,014	-	-	-
Other financial institutions	51,549	-	-	-
	<u>4,648,661</u>	<u>6,201,230</u>	<u>4,309,235</u>	<u>5,813,633</u>
The maturity structure of deposits and placements of banks and other financial institutions:				
- One year or less (short-term)	<u>4,648,661</u>	<u>6,201,230</u>	<u>4,309,235</u>	<u>5,813,633</u>

A15 Other liabilities

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2016	30/06/2016	30/09/2016	30/06/2016
	RM'000	RM'000	RM'000	RM'000
Zakat	437	350	-	-
Post employment benefits obligation				
- defined contribution plan	292	291	292	291
Loan advance payment	2,715,627	2,641,139	2,193,717	2,140,340
Amount due to subsidiary companies	-	-	12,755	300,862
Treasury and cheque clearing	110,081	163,202	20,075	163,202
Treasury related payables	181,038	189,958	179,895	188,815
Sundry creditors and accruals	387,364	521,090	294,232	429,544
Provision for bonus and staff related expenses	153,659	109,074	147,082	104,106
Others	295,599	290,825	236,029	208,065
	<u>3,844,097</u>	<u>3,915,929</u>	<u>3,084,077</u>	<u>3,535,225</u>

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A16 Senior bonds

		<u>The Group and The Bank</u>	
	Note	30/09/2016	30/06/2016
		RM'000	RM'000
USD 300 million senior bonds, at par	(a)	919,200	919,200
Foreign exchange translations		321,450	290,550
		<u>1,240,650</u>	<u>1,209,750</u>
Add: Interest payable		17,447	7,561
		<u>1,258,097</u>	<u>1,217,311</u>
Less: Unamortised discounts		(1,067)	(1,668)
		<u>1,257,030</u>	<u>1,215,643</u>

(a) On 20 April 2012, the Bank completed its inaugural US dollar senior unsecured notes issuance of USD300.0 million (the “Senior Notes”) under its Euro Medium Term Note Programme of up to USD1.5 billion (or its equivalent in other currencies) in nominal value (the “Programme”) which was established on 9 April 2012.

The Senior Notes will have a tenor of five years, maturing on 19 April 2017. The Senior Notes will pay a coupon of 3.125% per annum which is equivalent to a yield to investors of 3.269%.

A17 Tier 2 subordinated bonds

		<u>The Group</u>		<u>The Bank</u>	
	Note	30/09/2016	30/06/2016	30/09/2016	30/06/2016
		RM'000	RM'000	RM'000	RM'000
RM1.5 billion Tier 2 subordinated debt, at par	(a)	1,500,000	1,500,000	1,500,000	1,500,000
Add: Interest payable		18,494	1,480	18,494	1,480
		<u>1,518,494</u>	<u>1,501,480</u>	<u>1,518,494</u>	<u>1,501,480</u>
Less: Unamortised discounts		(498)	(589)	(498)	(589)
		<u>1,517,996</u>	<u>1,500,891</u>	<u>1,517,996</u>	<u>1,500,891</u>
RM400 million Tier 2 subordinated Sukuk Ijarah, at par	(b)	400,000	400,000	-	-
Add: Profit payable		5,576	736	-	-
		<u>405,576</u>	<u>400,736</u>	<u>-</u>	<u>-</u>
Less: Unamortised discounts		(218)	(254)	-	-
		<u>405,358</u>	<u>400,482</u>	<u>-</u>	<u>-</u>
RM500 million Tier 2 subordinated notes, at par	(c)	500,000	500,000	500,000	500,000
Add: Interest payable		6,575	526	6,575	526
		<u>506,575</u>	<u>500,526</u>	<u>506,575</u>	<u>500,526</u>
Less: Unamortised discounts		(489)	(577)	(489)	(577)
		<u>506,086</u>	<u>499,949</u>	<u>506,086</u>	<u>499,949</u>
		<u>2,429,440</u>	<u>2,401,322</u>	<u>2,024,082</u>	<u>2,000,840</u>

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A17 Tier 2 subordinated bonds (continued)

- (a) On 22 June 2012, the Bank had completed the issuance of RM1.5 billion nominal value of Tier 2 Subordinated Notes ("Sub Notes"). The RM1.5 billion Sub Notes will mature in 2024 and are callable on any interest payment date falling on or after the 7th anniversary of the issue date subject to approval of BNM. The Sub Notes which bears interest of 4.50% per annum is payable semi-annually in arrears.

The Sub Notes 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.

- (b) On 17 June 2014, Hong Leong Islamic Bank Berhad ("HLISB"), a wholly owned subsidiary of the Bank, had completed the first issuance of RM400.0 million nominal value of Tier 2 Subordinated Sukuk Ijarah ("Subordinated Sukuk Ijarah") out of its RM1.0 billion Tier 2 Subordinated Sukuk Ijarah Programme. The RM400.0 million Subordinated Sukuk Ijarah will mature in 2024 and is callable at end of year 5 and on each subsequent coupon payment dates thereafter subject to approval of BNM. The Subordinated Sukuk Ijarah which bears profit rate of 4.80% per annum is payable semi-annually in arrears.

The Subordinated Sukuk Ijarah constitute direct, unconditional, subordinated and unsecured obligations of HLISB and subordinated in right and priority of payment, to the extent and in the manner provided in the Subordinated Sukuk Ijarah, ranking *pari passu* among themselves. The Subordinated Sukuk Ijarah is subordinated in right of payment to all deposit liabilities and other liabilities of HLISB, except to those liabilities, which by their terms, rank equally in right of payment with or are subordinated to the Subordinated Sukuk Ijarah. The Subordinated Sukuk Ijarah qualifies as Tier 2 capital for the purpose of determining the capital adequacy ratio of HLISB.

- (c) On 23 June 2014, HLB had completed the first issuance of RM500.0 million nominal value of Tier 2 Subordinated Notes ("Sub Notes") out of its RM10.0 billion Multi-Currency Sub Notes Programme. The RM500.0 million Sub Notes will mature in 2024 and is callable on any coupon payment date falling on or after the 5th anniversary of the issue date. The Sub Notes which bears interest rate of 4.80% per annum is payable semi-annually in arrears. The exercise of the call option on the Sub Notes shall be subject to the approval of BNM.

The Sub Notes 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, except to those liabilities, which by their terms, rank equally in right of payment with or are subordinated to the Sub Notes. The Sub Notes may be written off, either fully or partially, at the discretion of BNM at the point of non-viability as determined by BNM or Perbadanan Insurans Deposit Malaysia. The Sub Notes qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Group and the Bank.

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A18 Innovative Tier 1 capital securities

	<u>The Group and The Bank</u>	
	<u>30/09/2016</u>	<u>30/06/2016</u>
	<u>RM'000</u>	<u>RM'000</u>
RM500 million Innovative Tier 1 capital securities, at par	500,000	500,000
Add: Interest payable	2,034	12,771
	<u>502,034</u>	<u>512,771</u>
Less: Unamortised discounts	(5,383)	(5,858)
Fair value adjustments on completion of business combination accounting	12,466	14,599
	<u>509,117</u>	<u>521,512</u>

On 10 September 2009, Promino issued the first tranche of Innovative Tier 1 Capital Securities ("IT-1 Capital Securities") amounting to RM500.0 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 RM500.0 million IT-1 Capital Securities has a tenor of 30 years and Promino has the option to redeem the RM500.0 million IT-1 Capital Securities at the 10th anniversary, subject to BNM approval. The RM500.0 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-1 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 the Bank.

A19 Borrowings

	<u>The Group</u>	
	<u>30/09/2016</u>	<u>30/06/2016</u>
	<u>RM'000</u>	<u>RM'000</u>
Secured		
Bridging loan	294,251	284,730
Term loan	100,000	100,000
	<u>394,251</u>	<u>384,730</u>

Bridging loan and term loan are secured by a deed of assignment assigning all the rights and titles, interests and benefits under the sale and purchase agreements which incorporates the assignment of development rights, including ownership over the property work-in-progress and a third party legal charge on a parcel of freehold land of its related company.

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A20 Interest income

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
<u>Group</u>				
Loan, advances and financing	1,159,895	1,149,920	1,159,895	1,149,920
Money at call and deposit placements with financial institutions	28,790	34,055	28,790	34,055
Securities purchased under resale agreements	24,371	54,055	24,371	54,055
Financial assets held-for-trading	95,928	116,763	95,928	116,763
Financial investments available-for-sale	145,959	121,186	145,959	121,186
Financial investments held-to-maturity	88,901	73,821	88,901	73,821
Others	147	55	147	55
	<u>1,543,991</u>	<u>1,549,855</u>	<u>1,543,991</u>	<u>1,549,855</u>
Of which:				
Interest income earned on impaired loans, advances and financing	<u>6,537</u>	<u>13,325</u>	<u>6,537</u>	<u>13,325</u>

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
<u>Bank</u>				
Loan, advances and financing	1,141,163	1,136,991	1,141,163	1,136,991
Money at call and deposit placements with financial institutions	28,005	34,448	28,005	34,448
Securities purchased under resale agreements	24,371	54,055	24,371	54,055
Financial assets held-for-trading	96,501	123,996	96,501	123,996
Financial investments available-for-sale	144,739	118,786	144,739	118,786
Financial investments held-to-maturity	90,414	75,589	90,414	75,589
Others	125	52	125	52
	<u>1,525,318</u>	<u>1,543,917</u>	<u>1,525,318</u>	<u>1,543,917</u>
Of which:				
Interest income earned on impaired loans, advances and financing	<u>6,537</u>	<u>13,325</u>	<u>6,537</u>	<u>13,325</u>

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A21 Interest expense

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
<u>Group</u>				
Deposits and placements of banks and other financial institutions	18,290	11,683	18,290	11,683
Deposits from customers	707,189	714,175	707,189	714,175
Short-term placements	83,006	71,711	83,006	71,711
Senior bonds	10,122	21,883	10,122	21,883
Tier 2 subordinated bonds	23,246	44,235	23,246	44,235
Non-innovative Tier 1 stapled securities	-	17,904	-	17,904
Innovative Tier 1 capital securities	8,739	8,019	8,739	8,019
Recourse obligation on loans sold to Cagamas	1,041	-	1,041	-
Borrowings	1,608	-	1,608	-
Others	307	288	307	288
	<u>853,548</u>	<u>889,898</u>	<u>853,548</u>	<u>889,898</u>

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
<u>Bank</u>				
Deposits and placements of banks and other financial institutions	18,836	14,617	18,836	14,617
Deposits from customers	701,237	719,860	701,237	719,860
Short-term placements	83,006	71,711	83,006	71,711
Senior bonds	10,122	21,883	10,122	21,883
Tier 2 subordinated bonds	23,242	44,228	23,242	44,228
Non-innovative Tier 1 stapled securities	-	17,904	-	17,904
Innovative Tier 1 capital securities	8,739	8,019	8,739	8,019
Recourse obligation on loans sold to Cagamas	1,041	-	1,041	-
Others	307	288	307	288
	<u>846,530</u>	<u>898,510</u>	<u>846,530</u>	<u>898,510</u>

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A22 Net income from Islamic Banking business

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
Group				
Income derived from investment of depositors' funds and others	265,140	232,960	265,140	232,960
of which Finance income	259,626	233,734	259,626	233,734
of which other operating income	5,514	(774)	5,514	(774)
Income derived from investment of shareholders' funds	35,705	32,414	35,705	32,414
of which Finance income	22,575	17,593	22,575	17,593
of which other operating income	13,130	14,821	13,130	14,821
Income attributable to depositors	(171,244)	(150,842)	(171,244)	(150,842)
	<u>129,601</u>	<u>114,532</u>	<u>129,601</u>	<u>114,532</u>

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A23 Other operating income

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
<u>Group</u>				
(a) <u>Fee income:</u>				
Commissions	39,728	36,868	39,728	36,868
Service charges and fees	9,647	9,988	9,647	9,988
Guarantee fees	2,890	3,535	2,890	3,535
Credit card related fees	58,697	58,775	58,697	58,775
Corporate advisory fees	-	428	-	428
Commitment fees	8,870	8,773	8,870	8,773
Fee on loans, advances and financing	12,415	12,915	12,415	12,915
Other fee income	9,302	9,575	9,302	9,575
	<u>141,549</u>	<u>140,857</u>	<u>141,549</u>	<u>140,857</u>
(b) <u>Gain/(loss) arising from sale of financial assets:</u>				
Net gain/(loss) from sale of financial assets held-for-trading	15,968	(6,430)	15,968	(6,430)
Net loss from sale of derivative financial instruments	(12,895)	(14,730)	(12,895)	(14,730)
Net gain from sale of financial investments available-for-sale	24,647	3,082	24,647	3,082
Net gain from redemption of financial investments held-to-maturity	4	17	4	17
	<u>27,724</u>	<u>(18,061)</u>	<u>27,724</u>	<u>(18,061)</u>
(c) <u>Gross dividend income from:</u>				
Financial investments available-for-sale	<u>65,141</u>	<u>32,358</u>	<u>65,141</u>	<u>32,358</u>

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A23 Other operating income (continued)

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
(d) <u>Net unrealised gain on revaluation of:</u>				
- Financial assets held-for-trading	5,051	(1,774)	5,051	(1,774)
- Derivatives financial instruments	9,719	39,489	9,719	39,489
	<u>14,770</u>	<u>37,715</u>	<u>14,770</u>	<u>37,715</u>
(e) <u>Amortisation of fair value changes arising from terminated fair value hedges</u>	<u>(21)</u>	<u>(251)</u>	<u>(21)</u>	<u>(251)</u>
(f) <u>Other income:</u>				
Foreign exchange gain	21,817	50,285	21,817	50,285
Rental income	851	954	851	954
Gain on disposal of property and equipment	1,007	12	1,007	12
Other non-operating income	3,360	4,878	3,360	4,878
	<u>27,035</u>	<u>56,129</u>	<u>27,035</u>	<u>56,129</u>
Total other operating income	<u>276,198</u>	<u>248,747</u>	<u>276,198</u>	<u>248,747</u>

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A23 Other operating income (continued)

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
<u>Bank</u>				
(a) <u>Fee income:</u>				
Commissions	39,227	36,513	39,227	36,513
Service charges and fees	9,514	9,884	9,514	9,884
Guarantee fees	2,880	3,518	2,880	3,518
Credit card related fees	58,697	58,775	58,697	58,775
Corporate advisory fees	-	428	-	428
Commitment fees	8,779	8,711	8,779	8,711
Fee on loans, advances and financing	11,818	12,231	11,818	12,231
Other fee income	9,287	9,541	9,287	9,541
	<u>140,202</u>	<u>139,601</u>	<u>140,202</u>	<u>139,601</u>
(b) <u>Gain/(loss) arising from sale of financial assets:</u>				
Net gain/(loss) from sale of financial assets held-for-trading	15,968	(6,430)	15,968	(6,430)
Net loss from sale of derivative financial instruments	(12,895)	(14,730)	(12,895)	(14,730)
Net gain from sale of financial investments available-for-sale	24,647	3,082	24,647	3,082
Net gain from redemption of financial investments held-to-maturity	4	17	4	17
	<u>27,724</u>	<u>(18,061)</u>	<u>27,724</u>	<u>(18,061)</u>
(c) <u>Gross dividend income from:</u>				
Associated company	121,461	-	121,461	-
Investment in joint venture	4,698	5,145	4,698	5,145
Financial investments available-for-sale	65,141	32,358	65,141	32,358
	<u>191,300</u>	<u>37,503</u>	<u>191,300</u>	<u>37,503</u>

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A23 Other operating income (continued)

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
(d) <u>Net unrealised gain on revaluation of:</u>				
- Financial assets held-for-trading	5,051	(1,774)	5,051	(1,774)
- Derivatives financial instruments	9,719	39,489	9,719	39,489
	<u>14,770</u>	<u>37,715</u>	<u>14,770</u>	<u>37,715</u>
(e) <u>Amortisation of fair value changes arising from terminated fair value hedges</u>	<u>(21)</u>	<u>(251)</u>	<u>(21)</u>	<u>(251)</u>
(f) <u>Other income:</u>				
Foreign exchange gain	21,622	49,875	21,622	49,875
Rental income	851	954	851	954
Gain on disposal of property and equipment	1,007	12	1,007	12
Other non-operating income	3,350	4,813	3,350	4,813
	<u>26,830</u>	<u>55,654</u>	<u>26,830</u>	<u>55,654</u>
Total other operating income	<u>400,805</u>	<u>252,161</u>	<u>400,805</u>	<u>252,161</u>

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A24 Other operating expenses

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
<u>Group</u>				
<u>Personnel costs</u>				
- Salaries, allowances and bonuses	249,890	233,405	249,890	233,405
- Medical expenses	5,557	7,123	5,557	7,123
- Training and convention expenses	8,786	7,535	8,786	7,535
- Staff welfare	3,500	1,870	3,500	1,870
- Others	8,184	8,670	8,184	8,670
	<u>275,917</u>	<u>258,603</u>	<u>275,917</u>	<u>258,603</u>
<u>Establishment costs</u>				
- Depreciation of property and equipment	21,947	18,794	21,947	18,794
- Amortisation of intangible assets	18,435	17,820	18,435	17,820
- Rental of premises	20,547	21,837	20,547	21,837
- Information technology expenses	37,988	27,966	37,988	27,966
- Security services	6,543	6,809	6,543	6,809
- Electricity, water and sewerage	6,138	5,840	6,138	5,840
- Hire of plant and machinery	3,392	3,684	3,392	3,684
- Others	4,834	4,710	4,834	4,710
	<u>119,824</u>	<u>107,460</u>	<u>119,824</u>	<u>107,460</u>
<u>Marketing expenses</u>				
- Advertisement and publicity	4,697	5,374	4,697	5,374
- Credit card related fees	28,293	28,996	28,293	28,996
- Others	3,422	4,009	3,422	4,009
	<u>36,412</u>	<u>38,379</u>	<u>36,412</u>	<u>38,379</u>
<u>Administration and general expenses</u>				
- Teletransmission expenses	4,477	3,182	4,477	3,182
- Stationery and printing expenses	3,378	3,709	3,378	3,709
- Professional fees	15,843	16,237	15,843	16,237
- Insurance fees	9,518	8,730	9,518	8,730
- Stamp, postage and courier	4,478	5,828	4,478	5,828
- Travelling and transport expenses	1,066	996	1,066	996
- Registration and license fees	2,299	2,287	2,299	2,287
- Brokerage and commission	1,615	1,486	1,615	1,486
- Credit card fees	9,067	9,096	9,067	9,096
- Others	6,791	6,748	6,791	6,748
	<u>58,532</u>	<u>58,299</u>	<u>58,532</u>	<u>58,299</u>
	<u>490,685</u>	<u>462,741</u>	<u>490,685</u>	<u>462,741</u>

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A24 Other operating expenses (continued)

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
<u>Bank</u>				
<u>Personnel costs</u>				
- Salaries, allowances and bonuses	208,695	195,747	208,695	195,747
- Medical expenses	4,574	6,086	4,574	6,086
- Training and convention expenses	7,846	6,915	7,846	6,915
- Staff welfare	3,235	1,515	3,235	1,515
- Others	6,619	7,190	6,619	7,190
	<u>230,969</u>	<u>217,453</u>	<u>230,969</u>	<u>217,453</u>
<u>Establishment costs</u>				
- Depreciation of property and equipment	20,403	17,294	20,403	17,294
- Amortisation of intangible assets	17,530	17,092	17,530	17,092
- Rental of premises	16,534	18,145	16,534	18,145
- Information technology expenses	34,425	25,258	34,425	25,258
- Security services	5,258	5,465	5,258	5,465
- Electricity, water and sewerage	5,303	5,062	5,303	5,062
- Hire of plant and machinery	3,242	3,532	3,242	3,532
- Others	1,353	1,538	1,353	1,538
	<u>104,048</u>	<u>93,386</u>	<u>104,048</u>	<u>93,386</u>
<u>Marketing expenses</u>				
- Advertisement and publicity	4,076	4,355	4,076	4,355
- Credit card related fees	28,293	28,996	28,293	28,996
- Others	2,961	3,347	2,961	3,347
	<u>35,330</u>	<u>36,698</u>	<u>35,330</u>	<u>36,698</u>
<u>Administration and general expenses</u>				
- Teletransmission expenses	4,404	3,088	4,404	3,088
- Stationery and printing expenses	3,246	3,572	3,246	3,572
- Professional fees	15,473	15,869	15,473	15,869
- Insurance fees	8,505	7,848	8,505	7,848
- Stamp, postage and courier	4,418	5,776	4,418	5,776
- Travelling and transport expenses	806	743	806	743
- Registration and license fees	2,067	1,869	2,067	1,869
- Brokerage and commission	856	933	856	933
- Credit card fees	9,067	9,096	9,067	9,096
- Others	10,057	6,849	10,057	6,849
	<u>58,899</u>	<u>55,643</u>	<u>58,899</u>	<u>55,643</u>
	<u>429,246</u>	<u>403,180</u>	<u>429,246</u>	<u>403,180</u>

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A25 Allowance for impairment losses on loans, advances and financing

	1st Quarter Ended		Cumulative Three Months Ended	
<u>Group</u>	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
Allowance for impairment losses on loans, advances and financing:				
- collective assessment allowance	70,270	75,224	70,270	75,224
- individual assessment allowance	7,392	(5,419)	7,392	(5,419)
Impaired loans and financing:				
- written off	5,251	3,269	5,251	3,269
- recovered from bad debt written off	(59,859)	(49,097)	(59,859)	(49,097)
	<u>23,054</u>	<u>23,977</u>	<u>23,054</u>	<u>23,977</u>

	1st Quarter Ended		Cumulative Three Months Ended	
<u>Bank</u>	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
Allowance for impairment losses on loans, advances and financing:				
- collective assessment allowance	58,842	60,609	58,842	60,609
- individual assessment allowance	3,489	(6,096)	3,489	(6,096)
Impaired loans and financing:				
- written off	4,587	2,865	4,587	2,865
- recovered from bad debt written off	(52,866)	(43,943)	(52,866)	(43,943)
	<u>14,052</u>	<u>13,435</u>	<u>14,052</u>	<u>13,435</u>

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A26 Capital adequacy

The Group's and the Bank's regulatory capital is governed by BNM Capital Adequacy Framework guidelines. The capital adequacy ratios of the Group and the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components) issued on 28 November 2012 and its revised version on 13 October 2015 (the "Framework"). The Framework sets out the approach for computing the regulatory capital adequacy ratios, the minimum levels of the ratios at which banking institutions are required to operate as well as requirement on Capital Conservation Buffer ("CCB") and Counter Cyclical Buffer ("CCyB"). The minimum capital adequacy requirements for Common Equity Tier I (CET I) capital ratio, Tier I capital ratio and Total capital ratio are 4.50%, 6.00% and 8.00% respectively. The Group and the Bank are also required to maintain CCB of up to 2.500% of total risk weighted assets ("RWA"), which is phased in starting with 0.625% in year 2016, 1.250% in year 2017, 1.875% in year 2018 and 2.500% in year 2019. The CCyB which ranges from 0% up to 2.500% is determined as the weighted average of prevailing CCyB rates applied in the jurisdictions in which a financial institution has credit exposures. There is no BNM announcement on the CCyB rates yet.

The Group and the Bank have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk computation in deriving the RWA.

Individual entities within the Group comply with all externally imposed capital requirements to which they are subject to.

- (a) The capital adequacy ratios of the Group and the Bank are as follows:

	The Group		The Bank	
	Financial Period Ended 30/09/2016	Financial Year Ended 30/06/2016	Financial Period Ended 30/09/2016	Financial Year Ended 30/06/2016
Before deducting proposed dividends				
CET I capital ratio	13.314%	13.176%	12.551%	12.493%
Tier I capital ratio	13.716%	13.577%	13.018%	12.961%
Total capital ratio	<u>15.231%</u>	<u>15.104%</u>	<u>14.915%</u>	<u>14.858%</u>
After deducting proposed dividends				
CET I capital ratio	12.881%	12.745%	12.047%	11.991%
Tier I capital ratio	13.284%	13.146%	12.515%	12.458%
Total capital ratio	<u>14.798%</u>	<u>14.673%</u>	<u>14.412%</u>	<u>14.355%</u>

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A26 Capital adequacy (continued)

(b) The components of CET 1, Tier I and Tier II capital under the revised Capital Components Framework are as follows:

	The Group		The Bank	
	Financial Period Ended 30/09/2016 RM'000	Financial Year Ended 30/06/2016 RM'000	Financial Period Ended 30/09/2016 RM'000	Financial Year Ended 30/06/2016 RM'000
CET I capital				
Paid-up share capital	2,167,718	2,167,718	2,167,718	2,167,718
Share premium	5,571,345	5,571,345	5,571,345	5,571,345
Retained profits	8,385,376	8,412,365	6,026,587	6,035,024
Other reserves	5,095,325	4,939,875	3,773,809	3,727,869
Less: Treasury shares	(735,040)	(735,040)	(735,040)	(735,040)
Less: Deferred tax assets	(4,196)	(3,957)	-	-
Less: Other intangible assets	(250,155)	(264,766)	(232,696)	(246,784)
Less: Goodwill	(1,831,312)	(1,831,312)	(1,771,547)	(1,771,547)
Less : Investment in subsidiary companies/ associated company/joint venture	(2,039,087)	(1,993,586)	(1,532,715)	(1,531,798)
Total CET I capital	16,359,974	16,262,642	13,267,461	13,216,787
Additional Tier I capital				
Innovative Tier I capital securities	494,617	494,142	494,617	494,142
Total Tier I capital	16,854,591	16,756,784	13,762,078	13,710,929
Tier II capital				
Collective assessment allowance [^] and regulatory reserves #	1,220,905	1,214,681	1,026,863	1,029,079
Subordinated bonds	1,999,502	1,999,411	1,999,502	1,999,411
Tier II capital before regulatory adjustments	3,220,407	3,214,092	3,026,365	3,028,490
Less : Investment in subsidiary companies/ associated company/joint venture	(1,359,391)	(1,329,057)	(1,021,810)	(1,021,198)
Total Tier II capital	1,861,016	1,885,035	2,004,555	2,007,292
Total capital	18,715,607	18,641,819	15,766,633	15,718,221

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

Includes the qualifying regulatory reserves for non-impaired loans of the Group and the Bank of RM601,207,000 (2016: RM587,527,000) and RM503,445,000 (2016: RM495,008,000) respectively.

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A26 Capital adequacy (continued)

(c) The breakdown of RWA by each major risk category is as follows:

	The Group		The Bank	
	Financial Period Ended 30/09/2016 RM'000	Financial Year Ended 30/06/2016 RM'000	Financial Period Ended 30/09/2016 RM'000	Financial Year Ended 30/06/2016 RM'000
Credit risk	110,762,600	111,838,090	94,242,400	95,233,431
Market risk	4,449,906	3,951,986	4,750,631	3,857,577
Operational risk	7,666,776	7,633,295	6,719,302	6,698,869
Total RWA	122,879,282	123,423,371	105,712,333	105,789,877

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

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	Financial Period Ended 30/09/2016	Financial Year Ended 30/06/2016
Before deducting proposed dividends		
CET I capital ratio	10.567%	10.383%
Tier I capital ratio	10.567%	10.383%
Total capital ratio	14.149%	13.855%
After deducting proposed dividends		
CET I capital ratio	10.567%	10.383%
Tier I capital ratio	10.567%	10.383%
Total capital ratio	14.149%	13.855%

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A27 Group segmental reporting on revenue, profit and assets

The business segment results are prepared based on the Group's internal management reporting reflective of the organisation's management reporting structure.

The various business segments are described below:

Personal Financial Services focuses mainly on servicing individual customers and small businesses. Products and services that are extended to customers include mortgages, credit cards, hire purchase and others.

Business & Corporate Banking focuses mainly on corporate and small medium enterprises. Products and services offered include trade financing, working capital facilities, other term financing and corporate advisory services.

Global Markets refers to the Group's domestic treasury and capital market operations and includes foreign exchange, money market operations as well as capital market securities trading and investments.

Overseas/International Operations refers to Hong Leong Bank Berhad Overseas Branches, Subsidiaries, Associate, Joint Venture and Representative Office. The overseas operations are mainly in commercial banking and treasury business.

Other operations refers to head office and other business segments.

Financial quarter ended 30/09/2016

	Personal Financial Services RM'000	Business & Corporate Banking RM'000	Global Markets RM'000	Overseas/ International Operations RM'000	Other Operations RM'000	Inter- Segment Elimination RM'000	Total RM'000
<u>By business segment</u>							
External revenue	621,948	150,216	339,072	58,652	53,973	(127,619)	1,096,242
Inter-segment revenue	(26,598)	106,640	(188,883)	-	108,841	-	-
Segment revenue	595,350	256,856	150,189	58,652	162,814	(127,619)	1,096,242
Segment profit before taxation	256,076	176,935	119,350	12,958	140,202	(126,378)	579,143
Share of profit after tax of equity accounted associated company				89,248			89,248
Share of profit after tax of equity accounted joint venture				6,228			6,228
Profit before taxation							674,619
Taxation							(131,992)
Profit after taxation							542,627

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A27 Group segmental reporting on revenue, profit and assets (continued)

Financial period ended 30/09/2016

	Personal Financial Services RM'000	Business & Corporate Banking RM'000	Global Markets RM'000	Overseas/ International Operations RM'000	Other Operations RM'000	Inter- Segment Elimination RM'000	Total RM'000
<u>By business segment</u>							
External revenue	621,948	150,216	339,072	58,652	53,973	(127,619)	1,096,242
Inter-segment revenue	(26,598)	106,640	(188,883)	-	108,841	-	-
Segment revenue	595,350	256,856	150,189	58,652	162,814	(127,619)	1,096,242
Segment profit before taxation	256,076	176,935	119,350	12,958	140,202	(126,378)	579,143
Share of profit after tax of equity accounted associated company				89,248			89,248
Share of profit after tax of equity accounted joint venture				6,228			6,228
Profit before taxation							674,619
Taxation							(131,992)
Profit after taxation							542,627
Segment assets	84,552,494	29,703,186	53,988,618	11,836,723	-	-	180,081,021
Unallocated assets							8,656,844
Total assets							188,737,865

Corresponding quarter ended 30/09/2015

	Personal Financial Services RM'000	Business & Corporate Banking RM'000	Global Markets RM'000	Overseas/ International Operations RM'000	Other Operations RM'000	Inter- Segment Elimination RM'000	Total RM'000
<u>By business segment</u>							
External revenue	656,827	111,014	316,070	52,477	(108,173)	(4,979)	1,023,236
Inter-segment revenue	(63,645)	127,484	(189,383)	-	125,544	-	-
Segment revenue	593,182	238,498	126,687	52,477	17,371	(4,979)	1,023,236
Segment profit before taxation	248,643	184,363	101,410	3,774	6,044	(4,867)	539,367
Share of profit after tax of equity accounted associated company				80,406			80,406
Share of profit after tax of equity accounted joint venture				5,061			5,061
Profit before taxation							624,834
Taxation							(121,873)
Profit after taxation							502,961

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A27 Group segmental reporting on revenue, profit and assets (continued)

Corresponding financial period ended 30/09/2015

	Personal Financial Services RM'000	Business & Corporate Banking RM'000	Global Markets RM'000	Overseas/ International Operations RM'000	Other Operations RM'000	Inter- Segment Elimination RM'000	Total RM'000
<u>By business segment</u>							
External revenue	656,827	111,014	316,070	52,477	(108,173)	(4,979)	1,023,236
Inter-segment revenue	(63,645)	127,484	(189,383)	-	125,544	-	-
Segment revenue	593,182	238,498	126,687	52,477	17,371	(4,979)	1,023,236
Segment profit before taxation	248,643	184,363	101,410	3,774	6,044	(4,867)	539,367
Share of profit after tax of equity accounted associated company				80,406			80,406
Share of profit after tax of equity accounted joint venture				5,061			5,061
Profit before taxation							624,834
Taxation							(121,873)
Profit after taxation							502,961
Segment assets	78,976,174	31,588,245	55,326,926	10,933,368	-	-	176,824,713
Unallocated assets							10,326,344
Total assets							187,151,057

A28 Property and equipment

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

A29(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 30 September 2016.

A29(b) Changes in the composition of the Group

There were no changes in the composition of the Group for the current financial period and up to the date of this report except for the following:

- (i) On 15 July 2016, the Bank announced that the liquidators of Wah Tat Nominees (Tempatan) Sdn Bhd ("Wah Tat Nominees (Tempatan)") had convened the final meeting for Wah Tat Nominees (Tempatan) to conclude the member's voluntary winding-up of Wah Tat Nominees (Tempatan). The Return by Liquidator Relating to Final Meeting of Wah Tat Nominees (Tempatan) was lodged on 15 July 2016 with the Companies Commission of Malaysia and the Official Receiver, and on the expiration of 3 months after the said lodgement date, Wah Tat Nominees (Tempatan) will be dissolved.

Wah Tat Nominees (Tempatan) is a wholly-owned subsidiary of WTB Corporation Sdn Bhd which in turn is a wholly-owned subsidiary of HLF Credit (Perak) Bhd. HLF Credit (Perak) Bhd is a wholly-owned subsidiary of the Bank.

- (ii) On 5 October 2016, the Bank announced that it had placed Prominic Berhad ("Prominic"), a wholly-owned subsidiary of the Bank, under member's voluntary winding-up pursuant to Section 254 (1)(b) of the Companies Act, 1965. Prominic is dormant.

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A30 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. These commitments and contingencies are also not secured over the assets of the Group.

The notional amounts of the commitments and contingencies constitute the following:

	The Group		The Bank	
	30/09/2016	30/06/2016	30/09/2016	30/06/2016
	RM'000	RM'000	RM'000	RM'000
Principal Amount				
Direct credit substitutes	127,755	120,678	123,575	116,441
Certain transaction related contingent items	1,586,262	1,621,014	1,480,032	1,519,689
Short-term self liquidating trade related contingencies	936,614	766,350	910,418	737,179
Irrevocable commitments to extend credit:				
- maturity more than one year	14,247,114	16,125,180	11,040,610	12,612,922
- maturity less than one year	18,413,227	17,512,946	16,441,217	15,734,240
Foreign exchange related contracts:				
- less than one year	29,760,735	27,999,735	28,880,104	27,144,612
- one year to less than five years	4,936,975	4,950,940	4,936,974	4,950,940
- five years and above	875,560	846,826	875,560	846,826
Interest rate related contracts:				
- less than one year	28,563,345	33,951,130	28,393,345	33,981,130
- one year to less than five years	38,351,533	36,296,189	38,041,533	36,461,189
- five years and above	3,627,424	1,877,411	3,227,424	1,877,411
Equity related contracts:				
- less than one year	386,341	291,457	386,341	291,457
- one year to less than five years	216,444	212,299	216,444	212,299
Commodity related contracts:				
- less than one year	3,084	4,949	3,084	4,949
Unutilised credit card lines	7,278,602	7,503,020	7,278,602	7,503,020
Total	149,311,015	150,080,124	142,235,263	143,994,304

A31 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.

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A32 Fair value of financial instruments

Financial instruments comprise financial assets and financial liabilities. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the statements of financial position date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

(a) Determination of fair value and fair value hierarchy

The Group and the Bank measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2.

In cases where quoted prices are generally not available, the Group then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

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A32 Fair value of financial instruments (continued)

(a) Determination of fair value and fair value hierarchy (continued)

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy:

The Group				
Financial Period Ended 30/09/2016				
Fair value				
	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
<i>Recurring fair value measurements</i>				
<u>Financial Assets</u>				
Financial assets held-for-trading				
- Money market instrument	-	6,074,361	-	6,074,361
- Quoted Securities	89,893	-	-	89,893
- Unquoted Securities	-	444,885	-	444,885
Financial investments available-for-sale				
- Money market instrument	-	6,044,090	-	6,044,090
- Quoted Securities	12,447,076	-	-	12,447,076
- Unquoted Securities	-	9,356,750	427,440	9,784,190
Derivative financial instruments	765	1,021,604	3,212	1,025,581
	<u>12,537,734</u>	<u>22,941,690</u>	<u>430,652</u>	<u>35,910,076</u>
<u>Financial Liability</u>				
Derivative financial instruments	791	1,435,493	3,212	1,439,496
Financial liabilities designated at fair value				
- Callable range accrual notes	-	1,426,781	-	1,426,781
	<u>791</u>	<u>2,862,274</u>	<u>3,212</u>	<u>2,866,277</u>

The Group				
Financial Year Ended 30/06/2016				
Fair value				
	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
<i>Recurring fair value measurements</i>				
<u>Financial Assets</u>				
Financial assets held-for-trading				
- Money market instrument	-	4,436,353	-	4,436,353
- Quoted Securities	490,522	-	-	490,522
- Unquoted Securities	-	383,366	-	383,366
Financial investments available-for-sale				
- Money market instrument	-	5,358,792	-	5,358,792
- Quoted Securities	12,093,044	-	-	12,093,044
- Unquoted Securities	-	8,004,154	427,328	8,431,482
Derivative financial instruments	11	1,004,361	7,995	1,012,367
	<u>12,583,577</u>	<u>19,187,026</u>	<u>435,323</u>	<u>32,205,926</u>
<u>Financial Liability</u>				
Derivative financial instruments	1,564	1,540,323	7,995	1,549,882
Financial liabilities designated at fair value				
- Callable range accrual notes	-	1,421,919	-	1,421,919
	<u>1,564</u>	<u>2,962,242</u>	<u>7,995</u>	<u>2,971,801</u>

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial period (2016: RM Nil).

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A32 Fair value of financial instruments (continued)

(a) Determination of fair value and fair value hierarchy (continued)

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy:
(continued)

The Bank				
Financial Period Ended 30/09/2016				
Fair value				
	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
<i>Recurring fair value measurements</i>				
<u>Financial Assets</u>				
Financial assets held-for-trading				
- Money market instrument	-	5,575,976	-	5,575,976
- Quoted Securities	89,893	-	-	89,893
- Unquoted Securities	-	444,885	-	444,885
Financial investments available-for-sale				
- Money market instrument	-	4,949,798	-	4,949,798
- Quoted Securities	12,401,343	-	-	12,401,343
- Unquoted Securities	-	8,137,795	427,440	8,565,235
Derivative financial instruments	765	1,003,162	3,212	1,007,139
	<u>12,492,001</u>	<u>20,111,616</u>	<u>430,652</u>	<u>33,034,269</u>

Financial Liability

Derivative financial instruments	791	1,398,352	3,212	1,402,355
Financial liabilities designated at fair value				
- Callable range accrual notes	-	729,822	-	729,822
	<u>791</u>	<u>2,128,174</u>	<u>3,212</u>	<u>2,132,177</u>

The Bank				
Financial Year Ended 30/06/2016				
Fair value				
	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
<i>Recurring fair value measurements</i>				
<u>Financial Assets</u>				
Financial assets held-for-trading				
- Money market instrument	-	4,241,400	-	4,241,400
- Quoted Securities	490,522	-	-	490,522
- Unquoted Securities	-	383,366	-	383,366
Financial investments available-for-sale				
- Money market instrument	-	4,145,607	-	4,145,607
- Quoted Securities	12,000,271	-	-	12,000,271
- Unquoted Securities	-	7,283,006	427,328	7,710,334
Derivative financial instruments	11	991,032	7,995	999,038
	<u>12,490,804</u>	<u>17,044,411</u>	<u>435,323</u>	<u>29,970,538</u>

Financial Liability

Derivative financial instruments	1,564	1,522,570	7,995	1,532,129
Financial liabilities designated at fair value				
- Callable range accrual notes	-	1,010,784	-	1,010,784
	<u>1,564</u>	<u>2,533,354</u>	<u>7,995</u>	<u>2,542,913</u>

The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial period (2016: RM Nil).

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A32 Fair value of financial instruments (continued)

(a) Determination of fair value and fair value hierarchy (continued)

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy, is as below:

The Group	Financial Assets		Financial
2017	Financial	Derivative	Liability
	investments	financial	Derivative
	available-for-sale	instruments	financial
	RM'000	RM'000	instruments
			RM'000
At 1 July	427,328	7,995	7,995
Fair value changes recognised in statements of income	-	(360)	(360)
Net fair value changes recognised in other comprehensive income	112	-	-
Settlements	-	(4,423)	(4,423)
At 30 September	<u>427,440</u>	<u>3,212</u>	<u>3,212</u>
Fair value changes recognised in statements of income relating to assets/liability held on 30 September 2016	<u>-</u>	<u>(360)</u>	<u>(360)</u>
Total gain recognised in other comprehensive income relating to assets held on 30 September 2016	<u>112</u>	<u>-</u>	<u>-</u>
The Bank	Financial Assets		Financial
2017	Financial	Derivative	Liability
	investments	financial	Derivative
	available-for-sale	instruments	financial
	RM'000	RM'000	instruments
			RM'000
At 1 July	427,328	7,995	7,995
Fair value changes recognised in statements of income	-	(360)	(360)
Net fair value changes recognised in other comprehensive income	112	-	-
Settlements	-	(4,423)	(4,423)
At 30 September	<u>427,440</u>	<u>3,212</u>	<u>3,212</u>
Fair value changes recognised in statements of income relating to assets/liability held on 30 September 2016	<u>-</u>	<u>(360)</u>	<u>(360)</u>
Total gain recognised in other comprehensive income relating to assets held on 30 September 2016	<u>112</u>	<u>-</u>	<u>-</u>

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A32 Fair value of financial instruments (continued)

(a) Determination of fair value and fair value hierarchy (continued)

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy, is as below:

The Group 2016	Financial Assets Financial investments available-for-sale RM'000	Derivative financial instruments RM'000	Financial Liability Derivative financial instruments RM'000
At 1 July	394,887	6,952	6,952
Fair value changes recognised in statements of income	-	(3,023)	(3,023)
Net fair value changes recognised in other comprehensive income	32,441	-	-
Purchases	-	4,171	4,171
Disposal	-	(105)	(105)
At 30 June	<u>427,328</u>	<u>7,995</u>	<u>7,995</u>
Fair value changes recognised in statements of income relating to assets/liability held on 30 June 2016	<u>-</u>	<u>(3,023)</u>	<u>(3,023)</u>
Total gain recognised in other comprehensive income relating to assets held on 30 June 2016	<u>32,441</u>	<u>-</u>	<u>-</u>

The Bank 2016	Financial Assets Financial investments available-for-sale RM'000	Derivative financial instruments RM'000	Financial Liability Derivative financial instruments RM'000
At 1 July	394,887	6,952	6,952
Fair value changes recognised in statements of income	-	(3,023)	(3,023)
Net fair value changes recognised in other comprehensive income	32,441	-	-
Purchases	-	4,171	4,171
Disposal	-	(105)	(105)
At 30 June	<u>427,328</u>	<u>7,995</u>	<u>7,995</u>
Fair value changes recognised in statements of income relating to assets/liability held on 30 June 2016	<u>-</u>	<u>(3,023)</u>	<u>(3,023)</u>
Total gain recognised in other comprehensive income relating to assets held on 30 June 2016	<u>32,441</u>	<u>-</u>	<u>-</u>

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Part B - Explanatory Notes Pursuant to Appendix 9B of the Listing Requirements of Bursa Securities

B1 Review of performance

Current Quarter vs. Previous Year Corresponding Quarter

The Group recorded a pre-tax profit of RM674.6 million for the current financial quarter ended 30 September 2016, an increase of RM49.8 million or 8.0% as compared to previous year corresponding quarter. The increase in pre-tax profit was mainly due to higher net income of RM73.0 million and higher share of profit from associated company and joint venture totaling RM10.0 million. However, this is partly mitigated by higher operating expenses of RM27.9 million and higher allowance for impairment losses from securities of RM6.2 million.

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

Personal Financial Services

The Personal Financial Services's segment recorded a pre-tax profit of RM256.1 million for the first quarter ended 30 September 2016 as compared to previous corresponding quarter of RM248.6 million. The increase in pre-tax profit was mainly contributed by higher total income and lower allowance for impairment on loans, advances and financing written back, offset by higher operating expenses.

Business and Corporate Banking

The Business and Corporate Banking's segment recorded a pre-tax profit of RM176.9 million for the first quarter ended 30 September 2016 as compared to previous corresponding quarter of RM184.4 million. Lower pre-tax profit was mainly due to higher operating expenses and higher allowance for net impairment on loans, advances and financing.

Global Markets

The Global Markets's segment recorded a pre-tax profit of RM119.4 million for the first quarter ended 30 September 2016 as compared to previous corresponding quarter of RM101.4 million. The increase in pre-tax profit was due to higher net interest income, on the back of lower interest expenses particularly from NIDs.

International Banking

The International Banking's segment recorded a pre-tax profit of RM108.4 million for the first quarter ended 30 September 2016 as compared to previous corresponding quarter of RM89.2 million. The increase in performance was mainly contributed by higher share of profit from associated company in China, and higher total income and lower allowance for impairment on loans, advances and financing, offset by higher operating expenses from other overseas operation.

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B2 Current Quarter vs. Preceding Quarter

For the current financial quarter, the Group recorded a pre-tax profit of RM674.6 million as compared to RM724.4 million in the preceding quarter, a decrease of RM49.8 million mainly contributed by higher allowance for impairment losses on loans, advances and financing of RM74.4 million and higher allowance for impairment losses from securities of RM6.1 million. However, this is offsetted by higher net income of RM17.4 million, lower operating expenses of RM3.2 million and higher share of profit from associated company of RM10.1 million.

B3 Current year prospects

The moderate growth prospects are expected to extend into 2017. While the world economy is expected to improve, overall macro conditions remain uncertain. Anticipation of further recovery from post-GST implementation shocks and dissipating domestic issues will be the overall catalysts supportive of growth. An improving external environment will also lend further support to Malaysia exports.

The Group remains focused on executing our strategy in building a high performance business and strengthening the foundation for sustainable profitability.

Given a challenging operating environment, the Group will continue to strengthen digital offerings and customer analytics capabilities to add value and differentiate our multi-channel banking services. At the same time, we will also place strong emphasis on improving operations efficiency and scaling productivity through strategic cost and portfolio management for superior return and sustainable growth.

B4 Variance in profit forecast and shortfall in profit guarantee

This note is not applicable to the Group.

B5 Taxation

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
The Group				
Income tax	134,063	165,958	134,063	165,958
Transfer to deferred taxation	(2,071)	(44,085)	(2,071)	(44,085)
	<u>131,992</u>	<u>121,873</u>	<u>131,992</u>	<u>121,873</u>

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
The Bank				
Income tax	150,975	152,658	150,975	152,658
Transfer to deferred taxation	(2,071)	(44,085)	(2,071)	(44,085)
	<u>148,904</u>	<u>108,573</u>	<u>148,904</u>	<u>108,573</u>

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B6 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.

B7 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.

B8 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.

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B9 Off-balance sheet financial instruments

Details of financial instruments with off-balance sheet risk as at 30 September 2016:

The Group

Items	Principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000
Foreign exchange related contracts			
Forwards			
(i) Less than 1 year	22,138,473	170,128	(223,784)
(ii) 1 year to 3 years	55,830	420	(81)
Swaps			
(i) Less than 1 year	5,012,547	130,107	(133,261)
(ii) 1 year to 3 years	4,474,581	235,171	(508,566)
(iii) More than 3 years	1,129,720	112,583	(36,678)
Options			
(i) Less than 1 year	2,609,715	16,430	(14,510)
(ii) 1 year to 3 years	152,404	1,193	(1,193)
Interest rate related contracts			
Futures			
(i) Less than 1 year	13,772,392	765	(691)
(ii) 1 year to 3 years	1,240,649	-	(101)
Swaps			
(i) Less than 1 year	14,790,953	11,432	(14,456)
(ii) 1 year to 3 years	21,470,139	112,505	(170,235)
(iii) More than 3 years	19,268,169	231,130	(332,237)
Equity related contracts			
(i) Less than 1 year	386,341	2,588	(2,588)
(ii) 1 year to 3 years	216,444	624	(624)
Commodity related contracts			
(i) Less than 1 year	3,084	505	(491)
Total	106,721,441	1,025,581	(1,439,496)

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B9 Off-balance sheet financial instruments (continued)

Details of financial instruments with off-balance sheet risk as at 30 June 2016:

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	20,195,540	180,469	(444,831)
(ii) 1 year to 3 years	18,146	461	(101)
Swaps			
(i) Less than 1 year	5,362,232	140,154	(102,945)
(ii) 1 year to 3 years	4,565,055	271,552	(492,519)
(iii) More than 3 years	1,045,237	98,987	(31,804)
Options			
(i) Less than 1 year	2,441,963	21,343	(15,929)
(ii) 1 year to 3 years	169,328	1,747	(1,747)
Interest rate related contracts			
Futures			
(i) Less than 1 year	10,082,057	11	(1,564)
Swaps			
(i) Less than 1 year	23,869,073	12,983	(23,264)
(ii) 1 year to 3 years	18,590,299	53,773	(95,535)
(iii) More than 3 years	19,583,301	222,017	(330,796)
Equity related contracts			
(i) Less than 1 year	291,457	7,011	(7,011)
(ii) 1 year to 3 years	212,299	984	(984)
Commodity related contracts			
(i) Less than 1 year	4,949	875	(852)
Total	106,430,936	1,012,367	(1,549,882)

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B9 Off-balance sheet financial instruments (continued)

Details of financial instruments with off-balance sheet risk as at 30 September 2016:

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	21,271,483	167,217	(220,145)
(ii) 1 year to 3 years	55,829	420	(81)
Swaps			
(i) Less than 1 year	4,998,905	124,235	(127,455)
(ii) 1 year to 3 years	4,474,581	235,171	(508,566)
(iii) More than 3 years	1,129,720	112,583	(36,678)
Options			
(i) Less than 1 year	2,609,716	16,430	(14,510)
(ii) 1 year to 3 years	152,404	1,193	(1,193)
Interest rate related contracts			
Futures			
(i) Less than 1 year	13,772,392	765	(691)
(ii) 1 year to 3 years	1,240,650	-	(101)
Swaps			
(i) Less than 1 year	14,620,953	11,260	(14,130)
(ii) 1 year to 3 years	21,195,139	112,453	(168,836)
(iii) More than 3 years	18,833,168	221,695	(306,266)
Equity related contracts			
(i) Less than 1 year	386,341	2,588	(2,588)
(ii) 1 year to 3 years	216,444	624	(624)
Commodity related contracts			
(i) Less than 1 year	3,084	505	(491)
Total	104,960,809	1,007,139	(1,402,355)

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B9 Off-balance sheet financial instruments (continued)

Details of financial instruments with off-balance sheet risk as at 30 June 2016:

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	19,562,747	167,982	(434,227)
(ii) 1 year to 3 years	18,146	461	(101)
Swaps			
(i) Less than 1 year	5,139,902	134,111	(97,229)
(ii) 1 year to 3 years	4,565,055	271,552	(492,519)
(iii) More than 3 years	1,045,237	98,987	(31,804)
Options			
(i) Less than 1 year	2,441,963	21,343	(15,929)
(ii) 1 year to 3 years	169,328	1,747	(1,747)
Interest rate related contracts			
Futures			
(i) Less than 1 year	10,082,057	11	(1,564)
Swaps			
(i) Less than 1 year	23,899,073	12,585	(22,930)
(ii) 1 year to 3 years	18,365,299	53,213	(94,619)
(iii) More than 3 years	19,973,301	228,176	(330,613)
Equity related contracts			
(i) Less than 1 year	291,457	7,011	(7,011)
(ii) 1 year to 3 years	212,299	984	(984)
Commodity related contracts			
(i) Less than 1 year	4,949	875	(852)
Total	105,770,813	999,038	(1,532,129)

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B9 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 RM40,473,741 (FYE June 2016: RM20,017,001) and RM73,850,643,698 (FYE June 2016: RM76,308,873,177) 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 RM1,044,393,687 (FYE June 2016: RM1,031,399,571). 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 (i.e. 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 (i.e. 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.

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B9 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 statements of financial position 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

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 statements of income 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 statements of income. 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 statements of income.

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 statements of income. The deferred gains and losses are then released to the statements of income in the periods when the hedged items affects the statements of income.

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B10 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.

B11 Dividend

No interim dividend has been proposed for the current quarter.

B12 Realised and unrealised profits

	The Group	
	Financial Period Ended 30/09/2016	Financial Year Ended 30/06/2016
	RM'000	RM'000
Total retained profits of Hong Leong Bank Berhad and subsidiaries		
- Realised	6,389,465	5,858,481
- Unrealised	725,441	743,693
	<u>7,114,906</u>	<u>6,602,174</u>
Total share of retained profits from associated company		
- Realised	2,106,187	2,016,939
Total share of retained profits from joint venture		
- Realised	57,225	50,997
	<u>9,278,318</u>	<u>8,670,110</u>
Less: Consolidation adjustment	(350,315)	(257,745)
Total Group's retained profits	<u><u>8,928,003</u></u>	<u><u>8,412,365</u></u>

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.

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B13 Earnings per share

(a) Basic earnings per share

Basic earnings per share from operations is calculated by dividing the net profit attributable to ordinary equity holders of the Bank after taxation by the weighted average number of ordinary shares in issue during the financial period, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
<u>The Group</u>				
Net profit attributable to equity holders	542,627	502,961	542,627	502,961
Weighted average number of ordinary shares in issue ('000)	2,167,718	1,879,909	2,167,718	1,879,909
Less: Treasury shares held	(122,264)	(114,670)	(122,264)	(114,670)
	<u>2,045,454</u>	<u>1,765,239</u>	<u>2,045,454</u>	<u>1,765,239</u>
Basic earnings per share (sen)	26.5	28.5	26.5	28.5
<u>The Bank</u>				
Net profit attributable to equity holders	484,031	375,229	484,031	375,229
Weighted average number of ordinary shares in issue ('000)	2,167,718	1,879,909	2,167,718	1,879,909
Less: Treasury shares held	(122,264)	(114,670)	(122,264)	(114,670)
	<u>2,045,454</u>	<u>1,765,239</u>	<u>2,045,454</u>	<u>1,765,239</u>
Basic earnings per share (sen)	23.7	21.3	23.7	21.3

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B13 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 below is compared with the number of shares that would have been issued assuming the exercise of the share options.

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
<u>The Group</u>				
Net profit attributable to equity holders	542,627	502,961	542,627	502,961
Weighted average number of ordinary shares in issue (diluted) ('000):				
- during the period	2,045,454	1,765,239	2,045,454	1,765,239
- adjustment for ESOS	-	-	-	-
	<u>2,045,454</u>	<u>1,765,239</u>	<u>2,045,454</u>	<u>1,765,239</u>
Fully diluted earnings per share (sen)	26.5	28.5	26.5	28.5
<u>The Bank</u>				
Net profit attributable to equity holders	484,031	375,229	484,031	375,229
Weighted average number of ordinary shares in issue (diluted) ('000):				
- during the period	2,045,454	1,765,239	2,045,454	1,765,239
- adjustment for ESOS	-	-	-	-
	<u>2,045,454</u>	<u>1,765,239</u>	<u>2,045,454</u>	<u>1,765,239</u>
Fully diluted earnings per share (sen)	23.7	21.3	23.7	21.3