

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

Condensed Financial Statements
Unaudited Statements of Financial Position As At 30 September 2017

		The Group		The Bank	
	Note	As at 30/09/2017 RM'000	As at 30/06/2017 RM'000	As at 30/09/2017 RM'000	As at 30/06/2017 RM'000
<u>ASSETS</u>					
Cash and short-term funds		6,556,768	10,823,310	6,571,149	10,199,194
Deposits and placements with banks and other financial institutions		2,677,630	826,743	2,476,446	393,664
Securities purchased under resale agreements		137,261	300,880	137,261	300,880
Financial assets held-for-trading	A8	5,993,264	5,688,165	4,630,775	5,405,310
Financial investments available-for-sale	A9	32,047,091	27,654,217	29,338,393	24,886,280
Financial investments held-to-maturity	A10	12,931,823	13,060,604	10,193,842	10,408,793
Loans, advances and financing	A11	123,679,685	123,990,941	102,154,185	102,538,550
Other assets	A12	1,026,313	1,407,731	844,792	1,309,339
Derivative financial instruments		813,141	953,042	817,254	947,583
Amount due from subsidiaries		-	-	29,097	13,484
Statutory deposits with Central Banks		3,897,119	3,738,230	3,139,521	2,986,547
Subsidiary companies		-	-	1,662,409	1,662,409
Investment in associated company		3,607,268	3,466,891	946,525	946,525
Investment in joint venture	A13	169,823	169,185	76,711	76,711
Property and equipment		1,426,032	1,423,097	779,304	774,999
Intangible assets		195,675	213,323	178,365	194,870
Goodwill		1,831,312	1,831,312	1,771,547	1,771,547
Deferred tax assets		4,777	4,851	-	-
TOTAL ASSETS		196,994,982	195,552,522	165,747,576	164,816,685
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>					
Deposits from customers	A14	152,674,864	155,233,205	127,217,103	129,859,403
Deposits and placements of banks and other financial institutions	A15	7,533,230	5,486,692	7,378,508	5,460,076
Obligations on securities sold under repurchase agreements		3,528,147	2,829,617	3,500,021	2,801,366
Bills and acceptances payable		471,762	364,675	451,765	348,841
Other liabilities	A16	4,479,705	4,052,667	3,798,334	3,475,689
Derivative financial instruments		1,458,120	1,405,652	1,428,362	1,363,654
Recourse obligation on loans sold to Cagamas Berhad		201,054	202,926	201,054	202,926
Tier 2 subordinated bonds	A17	2,430,187	2,402,145	2,024,821	2,001,642
Innovative Tier 1 capital securities	A18	504,155	515,623	504,155	515,623
Provision for taxation		223,630	201,713	190,815	173,953
Deferred tax liabilities		174,300	172,194	173,640	171,131
TOTAL LIABILITIES		173,679,154	172,867,109	146,868,578	146,374,304
Share capital		7,739,063	7,739,063	7,739,063	7,739,063
Reserves		16,310,726	15,680,311	11,873,896	11,437,279
Less: Treasury shares		(733,961)	(733,961)	(733,961)	(733,961)
TOTAL SHAREHOLDERS' EQUITY		23,315,828	22,685,413	18,878,998	18,442,381
TOTAL LIABILITIES AND EQUITY		196,994,982	195,552,522	165,747,576	164,816,685
<u>COMMITMENTS AND CONTINGENCIES</u>	A29	148,856,153	163,004,495	143,921,854	156,405,399

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

11.40 11.09 9.23 9.02

* 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 2017.

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

Condensed Financial Statements
Unaudited Statements of Income
For The Financial Period Ended 30 September 2017

	Note	The Group			
		Current Quarter Ended 30/09/2017 RM'000	Corresponding Quarter Ended 30/09/2016 RM'000	Current Period Ended 30/09/2017 RM'000	Corresponding Period Ended 30/09/2016 RM'000
Interest income	A19	1,572,204	1,543,991	1,572,204	1,543,991
Interest expense	A20	(831,678)	(853,548)	(831,678)	(853,548)
Net interest income		740,526	690,443	740,526	690,443
Net income from Islamic Banking business	A21	159,810	129,601	159,810	129,601
Other operating income	A22	278,294	276,198	278,294	276,198
Net income		1,178,630	1,096,242	1,178,630	1,096,242
Other operating expenses	A23	(507,145)	(490,685)	(507,145)	(490,685)
Operating profit before allowances		671,485	605,557	671,485	605,557
Allowance for impairment losses on loans, advances and financing	A24	(43,413)	(23,054)	(43,413)	(23,054)
Write back of/(allowance for) impairment losses on financial investments		1	(3,360)	1	(3,360)
Share of profit after tax of equity accounted associated company		628,073	579,143	628,073	579,143
Share of profit after tax of equity accounted joint venture		147,752	89,248	147,752	89,248
Share of profit after tax of equity accounted joint venture		4,567	6,228	4,567	6,228
Profit before taxation		780,392	674,619	780,392	674,619
Taxation	B5	(141,424)	(131,992)	(141,424)	(131,992)
Net profit for the financial period		638,968	542,627	638,968	542,627
Attributable to:					
Owners of the parent		638,968	542,627	638,968	542,627
Earnings per share - basic (sen)	B13(a)	31.2	26.5	31.2	26.5
Earnings per share - fully diluted (sen)	B13(b)	31.2	26.5	31.2	26.5

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2017.

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

Condensed Financial Statements
Unaudited Statements of Comprehensive Income
For The Financial Period Ended 30 September 2017

	The Group		Current Period Ended 30/09/2017 RM'000	Corresponding Period Ended 30/09/2016 RM'000
	Current Quarter Ended 30/09/2017 RM'000	Corresponding Quarter Ended 30/09/2016 RM'000		
Net profit for the financial period	638,968	542,627	638,968	542,627
Other comprehensive (loss)/income:				
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive income of associated company	525	708	525	708
Currency translation differences	(27,457)	108,116	(27,457)	108,116
Net fair value changes on financial investments available-for-sale	19,867	88,772	19,867	88,772
Net fair value changes in cash flow hedge	(136)	(984)	(136)	(984)
Income tax relating to components of other comprehensive income	(4,178)	(20,809)	(4,178)	(20,809)
Other comprehensive (loss)/income for the financial period, net of tax	(11,379)	175,803	(11,379)	175,803
Total comprehensive income for the financial period	<u>627,589</u>	<u>718,430</u>	<u>627,589</u>	<u>718,430</u>
Attributable to:				
- Owners of the parent	<u>627,589</u>	<u>718,430</u>	<u>627,589</u>	<u>718,430</u>

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2017.

HONG LEONG BANK BERHAD
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Condensed Financial Statements
Unaudited Statements of Income
For The Financial Period Ended 30 September 2017

	Note	The Bank			
		Current Quarter Ended 30/09/2017 RM'000	Corresponding Quarter Ended 30/09/2016 RM'000	Current Period Ended 30/09/2017 RM'000	Corresponding Period Ended 30/09/2016 RM'000
Interest income	A19	1,550,297	1,525,318	1,550,297	1,525,318
Interest expense	A20	(822,465)	(846,530)	(822,465)	(846,530)
Net interest income		727,832	678,788	727,832	678,788
Other operating income	A22	280,553	400,805	280,553	400,805
Net income		1,008,385	1,079,593	1,008,385	1,079,593
Other operating expenses	A23	(446,001)	(429,246)	(446,001)	(429,246)
Operating profit before allowances		562,384	650,347	562,384	650,347
Allowance for impairment losses					
on loans, advances and financing	A24	(18,263)	(14,052)	(18,263)	(14,052)
Write back of/(allowance for) impairment					
losses on financial investments		1	(3,360)	1	(3,360)
Profit before taxation		544,122	632,935	544,122	632,935
Taxation	B5	(121,689)	(148,904)	(121,689)	(148,904)
Net profit for the financial period		422,433	484,031	422,433	484,031
Attributable to:					
Owners of the parent		422,433	484,031	422,433	484,031
Earnings per share - basic (sen)	B13(a)	20.7	23.7	20.7	23.7
Earnings per share - fully diluted (sen)	B13(b)	20.6	23.7	20.6	23.7

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2017.

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

Condensed Financial Statements
Unaudited Statements of Comprehensive Income
For The Financial Period Ended 30 September 2017

	The Bank			
	Current Quarter Ended 30/09/2017 RM'000	Corresponding Quarter Ended 30/09/2016 RM'000	Current Period Ended 30/09/2017 RM'000	Corresponding Period Ended 30/09/2016 RM'000
Net profit for the financial period	422,433	484,031	422,433	484,031
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Currency translation differences	(5,635)	16,438	(5,635)	16,438
Net fair value changes on financial investments available-for-sale	21,710	76,852	21,710	76,852
Net fair value changes in cash flow hedge	(136)	(984)	(136)	(984)
Income tax relating to components of other comprehensive income	(4,581)	(18,233)	(4,581)	(18,233)
Other comprehensive income for the financial period, net of tax	11,358	74,073	11,358	74,073
Total comprehensive income for the financial period	433,791	558,104	433,791	558,104

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2017.

HONG LEONG BANK BERHAD
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Condensed Financial Statements

Unaudited Statements of Changes in Equity For The Financial Period Ended 30 September 2017

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 RM'000
At 1 July 2017	7,739,063	-	-	342,429	(1,068)	18,543	678,483	1,081,342	13,560,582	(733,961)	22,685,413
<u>Comprehensive income</u>											
Net profit for the financial period	-	-	-	-	-	-	-	-	638,968	-	638,968
- Share of other comprehensive income of associated company	-	-	-	525	-	-	-	-	-	-	525
- Net fair value changes in financial investments available-for-sale	-	-	-	15,656	-	-	-	-	-	-	15,656
- Net fair value changes in cash flow hedge	-	-	-	-	(103)	-	-	-	-	-	(103)
- Currency translation differences	-	-	-	-	-	-	-	(27,457)	-	-	(27,457)
Total comprehensive (loss)/income	-	-	-	16,181	(103)	-	-	(27,457)	638,968	-	627,589
<u>Transactions with owners</u>											
Transfer from regulatory reserve	-	-	-	-	-	-	(27,489)	-	27,489	-	-
Option charge arising from ESS granted	-	-	-	-	-	2,826	-	-	-	-	2,826
Total transactions with owners	-	-	-	-	-	2,826	(27,489)	-	27,489	-	2,826
At 30 September 2017	7,739,063	-	-	358,610	(1,171)	21,369	650,994	1,053,885	14,227,039	(733,961)	23,315,828
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 ESS 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

* Comprise regulatory reserves maintained by the Group's banking subsidiaries of RM639,749,000 (30 September 2016: RM601,207,000) 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 2016: 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 2017.

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Condensed Financial Statements
Unaudited Statements of Changes in Equity For The Financial Period Ended 30 September 2017

	Attributable to owners of the parent										
<u>The Bank</u>	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
At 1 July 2017	7,739,063	-	-	360,928	(1,068)	18,543	571,678	241,993	10,245,205	(733,961)	18,442,381
<u>Comprehensive income</u>											
Net profit for the financial period	-	-	-	-	-	-	-	-	422,433	-	422,433
- Net fair value changes in financial investments available-for-sale	-	-	-	17,096	-	-	-	-	-	-	17,096
- Net fair value changes in cash flow hedge	-	-	-	-	(103)	-	-	-	-	-	(103)
- Currency translation differences	-	-	-	-	-	-	-	(5,635)	-	-	(5,635)
Total comprehensive (loss)/income	-	-	-	17,096	(103)	-	-	(5,635)	422,433	-	433,791
<u>Transactions with owners</u>											
Transfer from regulatory reserve	-	-	-	-	-	-	(14,504)	-	14,504	-	-
Option charge arising from ESS granted	-	-	-	-	-	2,826	-	-	-	-	2,826
Total transactions with owners	-	-	-	-	-	2,826	(14,504)	-	14,504	-	2,826
At 30 September 2017	7,739,063	-	-	378,024	(1,171)	21,369	557,174	236,358	10,682,142	(733,961)	18,878,998
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
<u>Comprehensive income</u>											
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
<u>Transactions with owners</u>											
Transfer to regulatory reserve	-	-	-	-	-	-	8,437	-	(8,437)	-	-
Option charge arising from ESS 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

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2017.

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

Condensed Financial Statements
Unaudited Condensed Statements of Cash Flows
For The Financial Period Ended 30 September 2017

	The Group		The Bank	
	Financial Period Ended 30/09/2017 RM'000	Financial Period Ended 30/09/2016 RM'000	Financial Period Ended 30/09/2017 RM'000	Financial Period Ended 30/09/2016 RM'000
Profit before taxation	780,392	674,619	544,122	632,935
Adjustments for non-cash items	<u>(359,179)</u>	<u>(229,504)</u>	<u>(243,074)</u>	<u>(285,457)</u>
Operating profit before working capital changes	421,213	445,115	301,048	347,478
Changes in working capital:				
Net changes in operating assets	(1,230,274)	(749,057)	(63,224)	(42,649)
Net changes in operating liabilities	887,058	(1,863,381)	536,140	(2,321,937)
Income taxes and zakat paid	<u>(121,844)</u>	<u>(114,378)</u>	<u>(106,065)</u>	<u>(102,708)</u>
Net cash (used in)/generated from operating activities	<u>(43,847)</u>	<u>(2,281,701)</u>	<u>667,899</u>	<u>(2,119,816)</u>
Cash flows from investing activities				
Net purchases of financial investments available-for-sale	(4,158,044)	(2,132,657)	(4,216,750)	(1,813,923)
Net proceeds of financial investments held-to-maturity	224,587	498,134	309,496	977,156
Purchase of property and equipment	(31,576)	(49,721)	(30,687)	(46,316)
Net proceeds from sale of property and equipment	708	3,275	582	3,217
Purchase of intangible assets	(1,525)	(3,442)	(1,392)	(3,442)
Dividends received on financial investments available-for-sale	66,060	65,141	66,060	65,141
Dividend from associated company	-	88,634	-	88,634
Dividend from joint venture	3,563	3,428	3,563	3,428
Net cash used in investing activities	<u>(3,896,227)</u>	<u>(1,527,208)</u>	<u>(3,869,128)</u>	<u>(726,105)</u>
Cash flows from financing activities				
Interest paid on innovative Tier 1 capital securities	(19,447)	(21,609)	(19,447)	(19,476)
Interest paid on recourse obligation on loans sold to Cagamas	(3,788)	-	(3,788)	-
Drawdown of borrowings	-	7,913	-	-
Net cash used in financing activities	<u>(23,235)</u>	<u>(13,696)</u>	<u>(23,235)</u>	<u>(19,476)</u>
Net decrease in cash and cash equivalents	(3,963,309)	(3,822,605)	(3,224,464)	(2,865,397)
Currency translation differences	(18,552)	35,004	(5,551)	16,135
Cash and cash equivalents at the beginning of financial period	10,388,873	8,524,566	9,578,350	6,690,848
Cash and cash equivalents at the end of financial period	<u>6,407,012</u>	<u>4,736,965</u>	<u>6,348,335</u>	<u>3,841,586</u>

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

Condensed Financial Statements
Unaudited Condensed Statements of Cash Flows
For The Financial Period Ended 30 September 2017

	The Group		The Bank	
	Financial Period Ended 30/09/2017 RM'000	Financial Period Ended 30/09/2016 RM'000	Financial Period Ended 30/09/2017 RM'000	Financial Period Ended 30/09/2016 RM'000
Cash and short-term funds	6,556,768	5,657,363	6,571,149	4,633,085
Deposits and placements with banks and other financial institutions	2,677,630	815,100	2,476,446	835,908
	<u>9,234,398</u>	<u>6,472,463</u>	<u>9,047,595</u>	<u>5,468,993</u>
Less:				
Cash and short-term funds and deposits and placements with banks and other financial institutions with original maturity of more than three months	<u>(2,827,386)</u>	<u>(1,735,498)</u>	<u>(2,699,260)</u>	<u>(1,627,407)</u>
	<u><u>6,407,012</u></u>	<u><u>4,736,965</u></u>	<u><u>6,348,335</u></u>	<u><u>3,841,586</u></u>

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2017.

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(97141-X)
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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 2017**

A1 Basis of preparation

The unaudited condensed financial statements for the financial period ended 30 September 2017 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 2017. 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 2017.

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 2017, and modified for the adoption of the following Amendments to MFRSs applicable for financial period beginning on or after 1 July 2017:

- (i) Amendments to MFRS 107 'Statement of Cash Flows - Disclosure Initiative'
Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses'

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

A2 Status of matters giving rise to the auditor's qualified report in the preceding annual financial statements for the year ended 30 June 2017

There was no qualified report issued by the auditors in the preceding annual financial statements for the year ended 30 June 2017.

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.

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.

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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 2017:

a) Share Buy-back

The total number of shares bought back, all of which were held as treasury shares as at 30 September 2017 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 Executive Share Scheme ("ESS")

A trust has been set up for the ESS 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 ESS 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 2017, the trust did not purchase any new shares. As at 30 September 2017, the total number of Treasury Shares for ESS was 41,016,542 pursuant to the Bank's ESS. The Treasury Shares have an average carrying value of RM7.37 per share.

The Bank has granted the following conditional incentive share options to eligible executives of the Bank and its subsidiary pursuant to the Bank's 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.

On 23 November 2016, the Bank has granted 696,946 ordinary shares in HLB to an eligible executive of the Bank pursuant to the Bank's ESS. The vesting of the 696,946 free ordinary shares in HLB will be done in tranches over a period of 4 years from the date of the grant.

During the financial period ended 30 September 2017, no share options lapsed arising from the resignation of some option holders.

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>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Money market instruments:				
Government treasury bills	329,206	-	329,206	-
Malaysian Government securities	175,050	433,166	175,050	433,166
Malaysian Government investment certificates	1,420,367	684,572	1,054,988	511,679
Negotiable instruments of deposit	3,690,737	3,946,521	2,693,627	4,027,953
Cagamas bonds	25,995	1,013	25,995	1,013
Other Government securities	31,983	47,996	31,983	47,996
	<u>5,673,338</u>	<u>5,113,268</u>	<u>4,310,849</u>	<u>5,021,807</u>
Quoted securities:				
Foreign currency bonds in Malaysia	221,250	195,592	221,250	195,592
Foreign currency bonds outside Malaysia	68,466	62,860	68,466	62,860
Unquoted securities:				
Malaysian Government sukuk	-	191,394	-	-
Corporate bonds and sukuk	30,210	96,525	30,210	96,525
Foreign currency bonds outside Malaysia	-	28,526	-	28,526
Total financial assets held-for-trading	<u><u>5,993,264</u></u>	<u><u>5,688,165</u></u>	<u><u>4,630,775</u></u>	<u><u>5,405,310</u></u>

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A9 Financial investments available-for-sale

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Money market instruments:				
Malaysian Government securities	121,847	130,659	121,847	130,659
Malaysian Government investment certificates	4,734,379	4,385,118	3,598,388	3,086,177
Other Government securities	611,902	329,592	541,638	239,189
Cagamas bonds	1,363,062	1,388,060	1,209,340	1,247,119
Khazanah bonds	488,435	406,904	488,435	406,904
	<u>7,319,625</u>	<u>6,640,333</u>	<u>5,959,648</u>	<u>5,110,048</u>
Quoted securities:				
Shares outside Malaysia	27	27	27	27
Wholesale fund/unit trust	7,111,680	5,203,264	7,111,680	5,203,264
Foreign currency bonds in Malaysia	3,018,722	3,056,104	3,006,763	3,043,838
Foreign currency bonds outside Malaysia	1,525,266	1,818,131	1,525,266	1,818,131
Unquoted securities:				
Malaysian Government sukuk	2,136,729	2,040,793	1,831,087	1,849,179
Corporate bonds and sukuk	8,473,209	7,508,144	7,442,089	6,474,372
Shares in Malaysia	454,740	454,740	454,740	454,740
Shares outside Malaysia	164,664	149,361	164,664	149,361
Foreign currency bonds in Malaysia	1,250,030	294,300	1,250,030	294,300
Foreign currency bonds outside Malaysia	592,399	489,020	592,399	489,020
Total financial investments available-for-sale	<u><u>32,047,091</u></u>	<u><u>27,654,217</u></u>	<u><u>29,338,393</u></u>	<u><u>24,886,280</u></u>

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A10 Financial investments held-to-maturity

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2017</u> <u>RM'000</u>	<u>30/06/2017</u> <u>RM'000</u>	<u>30/09/2017</u> <u>RM'000</u>	<u>30/06/2017</u> <u>RM'000</u>
Money market instruments:				
Government treasury bills	56,608	57,367	56,608	57,367
Malaysian Government securities	1,748,912	2,553,716	1,748,912	2,553,716
Malaysian Government investment certificates	9,202,453	8,964,061	7,015,379	6,661,173
Other Government securities	483,293	484,230	389,486	390,232
	<u>11,491,266</u>	<u>12,059,374</u>	<u>9,210,385</u>	<u>9,662,488</u>
Unquoted securities:				
Loan stocks	48	48	48	48
Malaysian Government sukuk	1,254,433	814,591	797,333	559,666
Corporate bonds and sukuk	486	486	486	486
Redeemable preference shares	32,066	32,066	32,066	32,066
Foreign currency bonds outside Malaysia	153,524	154,039	153,524	154,039
	<u>1,440,557</u>	<u>1,001,230</u>	<u>983,457</u>	<u>746,305</u>
Total financial investments held-to-maturity	<u>12,931,823</u>	<u>13,060,604</u>	<u>10,193,842</u>	<u>10,408,793</u>

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A11 Loans, advances and financing

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2017</u> <u>RM'000</u>	<u>30/06/2017</u> <u>RM'000</u>	<u>30/09/2017</u> <u>RM'000</u>	<u>30/06/2017</u> <u>RM'000</u>
Overdrafts	3,722,752	3,776,243	3,289,267	3,346,825
Term loans/financing:				
- Housing and shop loans/financing	67,100,337	65,998,057	54,734,626	54,037,251
- Syndicated/term loans or financing	9,444,010	9,225,253	7,867,237	7,773,693
- Hire purchase receivables	17,874,647	18,159,364	14,368,385	14,588,595
- Other term loans/financing	7,250,237	7,898,856	5,372,246	5,739,809
Credit/charge card receivables	3,807,785	3,997,701	3,807,785	3,997,701
Bills receivable	1,068,857	1,081,635	996,078	1,000,654
Trust receipts	277,596	314,042	243,081	265,020
Claims on customers under acceptance credits	7,259,325	7,451,325	6,775,343	6,967,783
Revolving credit	6,421,949	6,611,688	5,054,288	5,171,465
Staff loans/financing	145,945	146,672	141,207	141,834
Other loans/financing	483,392	485,668	483,388	485,664
Gross loans, advances and financing	<u>124,856,832</u>	<u>125,146,504</u>	<u>103,132,931</u>	<u>103,516,294</u>
Fair value changes arising from fair value hedges	52	(34)	52	(34)
Unamortised fair value changes arising from terminated fair value hedges	(26)	(36)	-	-
Allowance for impaired loans, advances and financing:				
- Collective assessment allowance	(854,248)	(830,067)	(676,798)	(666,787)
- Individual assessment allowance	(322,925)	(325,426)	(302,000)	(310,923)
Total net loans, advances and financing	<u><u>123,679,685</u></u>	<u><u>123,990,941</u></u>	<u><u>102,154,185</u></u>	<u><u>102,538,550</u></u>

Included in loans, advances and financing are housing loans sold to Cagamas with recourse to the Group and the Bank amounting to RM184,906,000 (2017: RM184,571,000) and RM184,906,000 (2017: RM184,571,000) respectively.

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A11 Loans, advances and financing (continued)

A11a By type of customer

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Domestic non-bank financial institutions	594,162	651,907	221,793	226,859
Domestic business enterprises:				
- small and medium enterprises	20,570,014	20,377,235	18,021,652	17,888,565
- others	14,534,671	15,370,541	11,904,149	12,440,268
Government and statutory bodies	28,862	29,072	17,330	17,492
Individuals	81,873,908	81,370,008	65,977,675	65,852,784
Other domestic entities	80,535	79,052	20,842	21,655
Foreign entities	7,174,680	7,268,689	6,969,490	7,068,671
Gross loans, advances and financing	<u>124,856,832</u>	<u>125,146,504</u>	<u>103,132,931</u>	<u>103,516,294</u>

A11b By interest/profit rate sensitivity

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Fixed rate:				
- Housing and shop loans/financing	5,260,080	4,753,906	3,755,474	3,371,016
- Hire purchase receivables	17,484,173	17,747,828	13,977,911	14,177,059
- Other fixed rate loan/financing	6,586,296	6,928,471	5,440,039	5,818,422
Variable rate:				
- Base rate/base lending rate plus	78,834,217	78,636,505	66,232,831	66,091,018
- Cost plus	16,320,940	16,681,983	13,726,676	14,058,779
- Other variables rates	371,126	397,811	-	-
Gross loans, advances and financing	<u>124,856,832</u>	<u>125,146,504</u>	<u>103,132,931</u>	<u>103,516,294</u>

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A11 Loans, advances and financing (continued)

A11c By economic purpose

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Purchase of securities	457,426	490,252	454,850	486,882
Purchase of transport vehicles	17,252,263	17,583,583	13,688,042	13,949,451
Purchase of landed properties				
- residential	57,989,840	56,860,638	46,718,827	46,001,510
- non-residential	15,761,883	15,774,407	14,391,712	14,427,100
Purchase of fixed assets (excluding landed properties)	375,708	379,050	321,232	326,595
Personal use	3,397,858	3,563,125	2,409,643	2,611,693
Credit card	3,807,785	3,997,701	3,807,785	3,997,701
Purchase of consumer durables	2	-	2	-
Construction	1,235,376	1,238,539	878,610	894,464
Mergers and acquisition	201,207	201,182	201,207	201,182
Working capital	22,460,446	23,190,404	18,757,534	19,087,337
Other purpose	1,917,038	1,867,623	1,503,487	1,532,379
Gross loans, advances and financing	<u>124,856,832</u>	<u>125,146,504</u>	<u>103,132,931</u>	<u>103,516,294</u>

A11d By geographical distribution

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Malaysia	118,272,901	118,561,256	97,756,587	98,137,161
Singapore	5,376,344	5,379,133	5,376,344	5,379,133
Vietnam	371,126	397,813	-	-
Cambodia	836,461	808,302	-	-
Gross loans, advances and financing	<u>124,856,832</u>	<u>125,146,504</u>	<u>103,132,931</u>	<u>103,516,294</u>

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A11 Loans, advances and financing (continued)

A11e By residual contractual maturity

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Within one year	25,494,348	26,570,075	22,950,919	23,576,443
One year to less than three years	5,434,793	5,481,213	4,572,971	4,617,290
Three years to less than five years	9,929,300	10,265,641	8,021,681	8,396,767
Five years and more	83,998,391	82,829,575	67,587,360	66,925,794
Gross loans, advances and financing	<u>124,856,832</u>	<u>125,146,504</u>	<u>103,132,931</u>	<u>103,516,294</u>

A11f Impaired loans, advances and financing by economic purpose

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Purchase of securities	1,883	2,196	1,883	2,196
Purchase of transport vehicles	151,227	142,643	117,306	108,758
Purchase of landed properties				
- residential	336,372	306,758	245,507	225,075
- non-residential	132,456	133,296	128,326	131,408
Purchase of fixed assets (excluding landed properties)	2,907	3,332	1,676	2,101
Personal use	50,674	44,066	36,244	34,086
Credit card	43,899	48,005	43,899	48,005
Construction	4,966	7,209	3,158	5,399
Working capital	489,346	499,734	434,435	444,903
Other purpose	12,609	16,201	12,215	16,051
Gross impaired loans, advances and financing	<u>1,226,339</u>	<u>1,203,440</u>	<u>1,024,649</u>	<u>1,017,982</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>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Malaysia	1,220,207	1,197,355	1,024,083	1,017,511
Singapore	566	471	566	471
Vietnam	4,881	5,098	-	-
Cambodia	685	516	-	-
Gross impaired loans, advances and financing	<u>1,226,339</u>	<u>1,203,440</u>	<u>1,024,649</u>	<u>1,017,982</u>

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

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
At 1 July	1,203,440	956,579	1,017,982	836,568
Classified as impaired during the financial year	408,492	1,813,591	317,507	1,466,120
Reclassified as non-impaired during the financial year	(219,827)	(821,519)	(165,726)	(639,505)
Amount written back in respect of recoveries	(93,048)	(336,403)	(81,647)	(285,379)
Amount written off	(71,823)	(407,656)	(62,481)	(358,292)
Exchange difference	(895)	(1,152)	(986)	(1,530)
At 30 September	<u>1,226,339</u>	<u>1,203,440</u>	<u>1,024,649</u>	<u>1,017,982</u>
Gross impaired loans as a % of gross loans, advances and financing	<u>1.0%</u>	<u>1.0%</u>	<u>1.0%</u>	<u>1.0%</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>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>Collective Assessment Allowance</u>				
At 1 July	830,067	856,057	666,787	714,272
Net allowances made during the financial period/year	92,949	283,057	69,321	217,958
Amount transferred to individual assessment	-	(729)	-	(744)
Amount written off	(65,200)	(298,120)	(56,489)	(256,059)
Unwinding income	(3,474)	(10,732)	(2,808)	(8,911)
Exchange difference	(94)	534	(13)	271
At 30 September	<u>854,248</u>	<u>830,067</u>	<u>676,798</u>	<u>666,787</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	325,426	289,744	310,923	280,216
Allowances made during the financial period/year	16,139	162,669	9,549	149,891
Amount transferred from collective assessment	-	729	-	744
Amount written back in respect of recoveries	(14,618)	(46,433)	(14,520)	(42,003)
Amount written off	(425)	(72,260)	(380)	(68,890)
Unwinding income	(2,583)	(8,741)	(2,576)	(8,712)
Exchange difference	(1,014)	(282)	(996)	(323)
At 30 September	<u>322,925</u>	<u>325,426</u>	<u>302,000</u>	<u>310,923</u>

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A12 Other assets

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2017 RM'000	30/06/2017 RM'000	30/09/2017 RM'000	30/06/2017 RM'000
Foreclosed properties	46	46	46	46
Sundry debtors and other prepayments	154,962	154,350	141,805	144,081
Treasury related receivables	64,084	457,935	24,122	393,525
Cash collateral pledged for derivative transactions	669,820	653,625	669,820	653,625
Other receivables	137,401	141,775	8,999	118,062
	<u>1,026,313</u>	<u>1,407,731</u>	<u>844,792</u>	<u>1,309,339</u>

A13 Investment in joint venture

	<u>The Group</u>		<u>The Bank</u>	
	30/09/2017 RM'000	30/06/2017 RM'000	30/09/2017 RM'000	30/06/2017 RM'000
<u>Retained portion</u>				
Unquoted shares outside Malaysia, at cost	24,657	24,657	24,657	24,657
Cumulative share of results, net of dividends received	21,205	20,882	-	-
Exchange fluctuation reserve	8,724	8,842	-	-
	<u>54,586</u>	<u>54,381</u>	<u>24,657</u>	<u>24,657</u>
Equity interest held for sale	115,237	114,804	52,054	52,054
	<u>169,823</u>	<u>169,185</u>	<u>76,711</u>	<u>76,711</u>

On 1 March 2010, HLB together with Bank of Chengdu Co., Ltd. ("BOCD"), obtained operation approval from China Banking Regulatory Commission ("CBRC") for Sichuan Jincheng Consumer Finance Limited Company ("JV Co"), a joint venture company that is part of the first batch of approved companies, to start consumer finance operations in Central and Western China. This JV Co focuses primarily in the consumer financing business with HLB having a 49% equity interest and BOCD having a 51% equity interest in the JV Co. This strategic alliance between HLB and BOCD to tap into the promising and growing financial services sector in China further cements the Bank's strategic partnership in BOCD and affirms the Bank's vision and belief in the huge potential of China.

In March 2017, the Board of Directors has approved the divestment of 37% of the Bank's stake through non-subscription of the issuance of new share capital by JV Co and selling down the original share capital held by the Bank to new strategic investors through an exercise via Southwest United Equity Exchange. The sale is expected to be completed by the first half of the financial year ending 30 June 2018. Upon the divestment exercise, the retained interest of 12% of the expanded capital will be recognised as financial asset in accordance with MFRS 139 'Financial Instruments: Recognition and Measurement'.

Investment in joint venture classified as held for sale as at the reporting period was measured at the lower of its carrying amount and fair value less costs to sell at the time of the reclassification. The investment classified as held for sale amounted to RM115,237,000 for the financial period ended 30 September 2017 (30 June 2017: RM114,804,000). The foreign currency translation differences accumulated in equity relating to joint venture classified as held for sale amounted to RM18,417,000 for the financial period ended 30 September 2017 (30 June 2017: RM18,665,000).

JV Co is a private company and there is no quoted market price available for its shares.

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A14 Deposits from customers

A14a By type of deposit

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Amortised cost				
Fixed deposits	85,236,640	87,976,350	69,215,796	71,583,689
Negotiable instruments of deposits	6,683,329	5,713,184	5,833,980	4,913,965
Short-term placements	16,096,006	19,281,420	14,399,879	17,987,726
	<u>108,015,975</u>	<u>112,970,954</u>	<u>89,449,655</u>	<u>94,485,380</u>
Demand deposits	23,417,782	21,232,553	20,350,072	18,142,847
Saving deposits	17,535,207	17,531,603	14,709,303	14,701,048
Others	1,030,029	1,017,170	907,575	901,445
	<u>149,998,993</u>	<u>152,752,280</u>	<u>125,416,605</u>	<u>128,230,720</u>
At fair value through profit and loss				
Callable range accrual notes, at cost	2,562,401	2,442,012	1,653,113	1,552,901
Callable inverse floater, at cost	216,702	155,851	216,702	155,851
Fair value changes arising from designation at fair value through profit or loss *	(103,232)	(116,938)	(69,317)	(80,069)
	<u>2,675,871</u>	<u>2,480,925</u>	<u>1,800,498</u>	<u>1,628,683</u>
	<u>152,674,864</u>	<u>155,233,205</u>	<u>127,217,103</u>	<u>129,859,403</u>

* The Group and the Bank have issued structured deposits (callable range accrual notes and callable inverse floater) 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 structured deposits that are attributable to the changes in own credit risk are not significant.

A14b By type of customer

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Government and statutory bodies	3,621,778	2,939,005	2,319,092	1,872,815
Business enterprises	61,697,753	63,339,512	48,006,074	49,509,606
Individuals	84,702,735	86,175,897	74,587,565	76,006,815
Others	2,652,598	2,778,791	2,304,372	2,470,167
	<u>152,674,864</u>	<u>155,233,205</u>	<u>127,217,103</u>	<u>129,859,403</u>

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A14 Deposits from customers (continued)

A14c 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>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Due within six months	85,610,566	93,770,712	70,912,488	78,802,850
More than six months to one year	20,379,883	17,376,145	16,591,799	13,904,358
More than one year to five years	2,025,526	1,824,097	1,945,368	1,778,172
	<u>108,015,975</u>	<u>112,970,954</u>	<u>89,449,655</u>	<u>94,485,380</u>

A15 Deposits and placements of banks and other financial institutions

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Licensed banks	7,354,421	5,484,605	7,328,361	5,460,076
Licensed investment banks	50,147	-	50,147	-
Other financial institutions	128,662	2,087	-	-
	<u>7,533,230</u>	<u>5,486,692</u>	<u>7,378,508</u>	<u>5,460,076</u>
The maturity structure of deposits and placements of banks and other financial institutions:				
- One year or less (short-term)	<u>7,533,230</u>	<u>5,486,692</u>	<u>7,378,508</u>	<u>5,460,076</u>

A16 Other liabilities

	<u>The Group</u>		<u>The Bank</u>	
	<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Zakat	437	350	-	-
Post employment benefits obligation				
- defined contribution plan	295	294	295	294
Loan advance payment	3,091,310	2,987,067	2,479,010	2,415,873
Amount due to subsidiary companies	-	-	-	57,820
Treasury and cheque clearing	173,613	129,556	173,613	129,556
Treasury related payables	209,177	235,295	209,177	235,295
Sundry creditors and accruals	418,369	310,745	410,847	283,492
Provision for bonus and staff related expenses	203,019	157,091	194,084	150,118
Others	383,485	232,269	331,308	203,241
	<u>4,479,705</u>	<u>4,052,667</u>	<u>3,798,334</u>	<u>3,475,689</u>

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A17 Tier 2 subordinated bonds

	Note	<u>The Group</u>		<u>The Bank</u>	
		<u>30/09/2017</u>	<u>30/06/2017</u>	<u>30/09/2017</u>	<u>30/06/2017</u>
		<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
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		18,678	1,664	18,678	1,664
		<u>1,518,678</u>	<u>1,501,664</u>	<u>1,518,678</u>	<u>1,501,664</u>
Less: Unamortised discounts		(218)	(277)	(218)	(277)
		<u>1,518,460</u>	<u>1,501,387</u>	<u>1,518,460</u>	<u>1,501,387</u>
RM400 million Tier 2 subordinated Sukuk Ijarah, at par	(b)	400,000	400,000	-	-
Add: Profit payable		5,471	631	-	-
		<u>405,471</u>	<u>400,631</u>	<u>-</u>	<u>-</u>
Less: Unamortised discounts		(105)	(128)	-	-
		<u>405,366</u>	<u>400,503</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		(214)	(271)	(214)	(271)
		<u>506,361</u>	<u>500,255</u>	<u>506,361</u>	<u>500,255</u>
		<u>2,430,187</u>	<u>2,402,145</u>	<u>2,024,821</u>	<u>2,001,642</u>

(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.

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A17 Tier 2 subordinated bonds (continued)

(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.

A18 Innovative Tier 1 capital securities

	<u>The Group and The Bank</u>	
	<u>30/09/2017</u>	<u>30/06/2017</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	2,262	12,771
	<u>502,262</u>	<u>512,771</u>
Less: Unamortised discounts	(3,722)	(4,223)
Fair value adjustments on completion of business combination accounting	5,615	7,075
	<u><u>504,155</u></u>	<u><u>515,623</u></u>

On 10 September 2009, Promino Sdn Bhd ("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.

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A19 Interest income

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Group				
Loan, advances and financing	1,160,469	1,159,895	1,160,469	1,159,895
Money at call and deposit placements with financial institutions	45,010	28,790	45,010	28,790
Securities purchased under resale agreements	948	24,371	948	24,371
Financial assets held-for-trading	94,750	95,928	94,750	95,928
Financial investments available-for-sale	174,291	145,959	174,291	145,959
Financial investments held-to-maturity	95,805	88,901	95,805	88,901
Others	931	147	931	147
	<u>1,572,204</u>	<u>1,543,991</u>	<u>1,572,204</u>	<u>1,543,991</u>
Of which:				
Interest income earned on impaired loans, advances and financing	<u>14,058</u>	<u>6,537</u>	<u>14,058</u>	<u>6,537</u>

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Bank				
Loan, advances and financing	1,141,001	1,141,163	1,141,001	1,141,163
Money at call and deposit placements with financial institutions	44,918	28,005	44,918	28,005
Securities purchased under resale agreements	948	24,371	948	24,371
Financial assets held-for-trading	94,832	96,501	94,832	96,501
Financial investments available-for-sale	173,200	144,739	173,200	144,739
Financial investments held-to-maturity	94,544	90,414	94,544	90,414
Others	854	125	854	125
	<u>1,550,297</u>	<u>1,525,318</u>	<u>1,550,297</u>	<u>1,525,318</u>
Of which:				
Interest income earned on impaired loans, advances and financing	<u>14,058</u>	<u>6,537</u>	<u>14,058</u>	<u>6,537</u>

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A20 Interest expense

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
	RM'000	RM'000	RM'000	RM'000
<u>Group</u>				
Deposits and placements of banks and other financial institutions	32,120	18,290	32,120	18,290
Deposits from customers	676,467	707,496	676,467	707,496
Short-term placements	88,557	83,006	88,557	83,006
Senior bonds	-	10,122	-	10,122
Tier 2 subordinated bonds	23,179	23,246	23,179	23,246
Innovative Tier 1 capital securities	9,439	8,739	9,439	8,739
Recourse obligation on loans sold to Cagamas	1,916	1,041	1,916	1,041
Borrowings	-	1,608	-	1,608
	<u>831,678</u>	<u>853,548</u>	<u>831,678</u>	<u>853,548</u>

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
	RM'000	RM'000	RM'000	RM'000
<u>Bank</u>				
Deposits and placements of banks and other financial institutions	34,639	18,836	34,639	18,836
Deposits from customers	664,735	701,544	664,735	701,544
Short-term placements	88,557	83,006	88,557	83,006
Senior bonds	-	10,122	-	10,122
Tier 2 subordinated bonds	23,179	23,242	23,179	23,242
Innovative Tier 1 capital securities	9,439	8,739	9,439	8,739
Recourse obligation on loans sold to Cagamas	1,916	1,041	1,916	1,041
	<u>822,465</u>	<u>846,530</u>	<u>822,465</u>	<u>846,530</u>

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A21 Net income from Islamic Banking business

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
	RM'000	RM'000	RM'000	RM'000
Group				
Income derived from investment of depositors' funds and others	306,150	265,140	306,150	265,140
of which Finance income	300,563	259,626	300,563	259,626
of which other operating income	5,587	5,514	5,587	5,514
Income derived from investment of shareholders' funds	35,171	35,705	35,171	35,705
of which Finance income	26,136	22,575	26,136	22,575
of which other operating income	9,035	13,130	9,035	13,130
Income attributable to depositors	(181,511)	(171,244)	(181,511)	(171,244)
	159,810	129,601	159,810	129,601

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A22 Other operating income

Group	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
	RM'000	RM'000	RM'000	RM'000
(a) <u>Fee income:</u>				
Commissions	44,399	39,746	44,399	39,746
Service charges and fees	12,597	11,996	12,597	11,996
Guarantee fees	2,818	2,890	2,818	2,890
Credit card related fees	55,429	58,697	55,429	58,697
Corporate advisory fees	267	-	267	-
Commitment fees	8,588	8,870	8,588	8,870
Fee on loans, advances and financing	8,982	12,826	8,982	12,826
Other fee income	6,933	6,524	6,933	6,524
	<u>140,013</u>	<u>141,549</u>	<u>140,013</u>	<u>141,549</u>
(b) <u>Gain arising from sale of financial assets:</u>				
Net gain from sale of financial assets held-for-trading	11,045	15,968	11,045	15,968
Net loss from sale of derivative financial instruments	(5,077)	(12,895)	(5,077)	(12,895)
Net gain from sale of financial investments available-for-sale	40,672	24,647	40,672	24,647
Net gain from redemption of financial investments held-to-maturity	-	4	-	4
	<u>46,640</u>	<u>27,724</u>	<u>46,640</u>	<u>27,724</u>
(c) <u>Gross dividend income from:</u>				
Financial investments available-for-sale	<u>66,060</u>	<u>65,141</u>	<u>66,060</u>	<u>65,141</u>

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A22 Other operating income (continued)

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2017 RM'000	30/09/2016 RM'000	30/09/2017 RM'000	30/09/2016 RM'000
(d) <u>Net unrealised gain on revaluation of:</u>				
- Financial assets held-for-trading	(2,215)	5,051	(2,215)	5,051
- Derivatives financial instruments	10,115	9,719	10,115	9,719
	<u>7,900</u>	<u>14,770</u>	<u>7,900</u>	<u>14,770</u>
(e) <u>Amortisation of fair value changes arising from terminated fair value hedges</u>	<u>(174)</u>	<u>(21)</u>	<u>(174)</u>	<u>(21)</u>
(f) <u>Net loss on fair value changes arising from fair value hedges</u>	<u>(1)</u>	<u>-</u>	<u>(1)</u>	<u>-</u>
(g) <u>Other income:</u>				
Foreign exchange gain	11,898	21,817	11,898	21,817
Rental income	1,665	851	1,665	851
Gain on disposal of property and equipment	455	1,007	455	1,007
Other non-operating income	3,838	3,360	3,838	3,360
	<u>17,856</u>	<u>27,035</u>	<u>17,856</u>	<u>27,035</u>
Total other operating income	<u><u>278,294</u></u>	<u><u>276,198</u></u>	<u><u>278,294</u></u>	<u><u>276,198</u></u>

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A22 Other operating income (continued)

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2017 RM'000	30/09/2016 RM'000	30/09/2017 RM'000	30/09/2016 RM'000
<u>Bank</u>				
(a) <u>Fee income:</u>				
Commissions	43,609	39,245	43,609	39,245
Service charges and fees	12,473	11,863	12,473	11,863
Guarantee fees	2,790	2,880	2,790	2,880
Credit card related fees	55,429	58,697	55,429	58,697
Corporate advisory fees	267	-	267	-
Commitment fees	8,420	8,779	8,420	8,779
Fee on loans, advances and financing	8,045	12,229	8,045	12,229
Other fee income	6,891	6,509	6,891	6,509
	<u>137,924</u>	<u>140,202</u>	<u>137,924</u>	<u>140,202</u>
(b) <u>Gain arising from sale of financial assets:</u>				
Net gain from sale of financial assets held-for-trading	11,045	15,968	11,045	15,968
Net loss from sale of derivative financial instruments	(5,077)	(12,895)	(5,077)	(12,895)
Net gain from sale of financial investments available-for-sale	40,453	24,647	40,453	24,647
Net gain from redemption of financial investments held-to-maturity	-	4	-	4
	<u>46,421</u>	<u>27,724</u>	<u>46,421</u>	<u>27,724</u>
(c) <u>Gross dividend income from:</u>				
Associated company	-	121,461	-	121,461
Investment in joint venture	4,882	4,698	4,882	4,698
Financial investments available-for-sale	66,060	65,141	66,060	65,141
	<u>70,942</u>	<u>191,300</u>	<u>70,942</u>	<u>191,300</u>

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A22 Other operating income (continued)

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2017 RM'000	30/09/2016 RM'000	30/09/2017 RM'000	30/09/2016 RM'000
(d) <u>Net unrealised gain on revaluation of:</u>				
- Financial assets held-for-trading	(2,215)	5,051	(2,215)	5,051
- Derivatives financial instruments	10,115	9,719	10,115	9,719
	<u>7,900</u>	<u>14,770</u>	<u>7,900</u>	<u>14,770</u>
(e) <u>Amortisation of fair value changes arising from terminated fair value hedges</u>	<u>(174)</u>	<u>(21)</u>	<u>(174)</u>	<u>(21)</u>
(f) <u>Net loss on fair value changes arising from fair value hedges</u>	<u>(1)</u>	<u>-</u>	<u>(1)</u>	<u>-</u>
(g) <u>Other income:</u>				
Foreign exchange gain	11,702	21,622	11,702	21,622
Rental income	1,665	851	1,665	851
Gain on disposal of property and equipment	455	1,007	455	1,007
Other non-operating income	3,719	3,350	3,719	3,350
	<u>17,541</u>	<u>26,830</u>	<u>17,541</u>	<u>26,830</u>
Total other operating income	<u>280,553</u>	<u>400,805</u>	<u>280,553</u>	<u>400,805</u>

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A23 Other operating expenses

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2017 RM'000	30/09/2016 RM'000	30/09/2017 RM'000	30/09/2016 RM'000
Group				
<u>Personnel costs</u>				
- Salaries, allowances and bonuses	251,816	249,890	251,816	249,890
- Medical expenses	7,440	5,557	7,440	5,557
- Training and convention expenses	5,714	8,786	5,714	8,786
- Staff welfare	1,713	3,500	1,713	3,500
- Others	6,287	8,184	6,287	8,184
	<u>272,970</u>	<u>275,917</u>	<u>272,970</u>	<u>275,917</u>
<u>Establishment costs</u>				
- Depreciation of property and equipment	26,108	21,947	26,108	21,947
- Amortisation of intangible assets	18,939	18,435	18,939	18,435
- Rental of premises	19,876	20,547	19,876	20,547
- Information technology expenses	39,941	37,988	39,941	37,988
- Security services	8,023	6,543	8,023	6,543
- Electricity, water and sewerage	6,806	6,138	6,806	6,138
- Hire of plant and machinery	3,204	3,392	3,204	3,392
- Others	8,554	4,834	8,554	4,834
	<u>131,451</u>	<u>119,824</u>	<u>131,451</u>	<u>119,824</u>
<u>Marketing expenses</u>				
- Advertisement and publicity	9,184	4,697	9,184	4,697
- Credit card related fees	25,317	28,293	25,317	28,293
- Others	3,540	3,422	3,540	3,422
	<u>38,041</u>	<u>36,412</u>	<u>38,041</u>	<u>36,412</u>
<u>Administration and general expenses</u>				
- Teletransmission expenses	4,049	4,477	4,049	4,477
- Stationery and printing expenses	3,241	3,378	3,241	3,378
- Professional fees	23,487	15,843	23,487	15,843
- Insurance fees	10,034	9,518	10,034	9,518
- Stamp, postage and courier	4,129	4,478	4,129	4,478
- Travelling and transport expenses	917	1,066	917	1,066
- Registration and license fees	2,288	2,299	2,288	2,299
- Brokerage and commission	1,457	1,615	1,457	1,615
- Credit card fees	9,565	9,067	9,565	9,067
- Others	5,516	6,791	5,516	6,791
	<u>64,683</u>	<u>58,532</u>	<u>64,683</u>	<u>58,532</u>
	<u>507,145</u>	<u>490,685</u>	<u>507,145</u>	<u>490,685</u>

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A23 Other operating expenses (continued)

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2017 RM'000	30/09/2016 RM'000	30/09/2017 RM'000	30/09/2016 RM'000
<u>Bank</u>				
<u>Personnel costs</u>				
- Salaries, allowances and bonuses	209,551	208,695	209,551	208,695
- Medical expenses	6,476	4,574	6,476	4,574
- Training and convention expenses	4,852	7,846	4,852	7,846
- Staff welfare	1,431	3,235	1,431	3,235
- Others	4,903	6,619	4,903	6,619
	<u>227,213</u>	<u>230,969</u>	<u>227,213</u>	<u>230,969</u>
<u>Establishment costs</u>				
- Depreciation of property and equipment	24,397	20,403	24,397	20,403
- Amortisation of intangible assets	17,897	17,530	17,897	17,530
- Rental of premises	21,331	16,534	21,331	16,534
- Information technology expenses	37,042	34,425	37,042	34,425
- Security services	6,461	5,258	6,461	5,258
- Electricity, water and sewerage	5,426	5,303	5,426	5,303
- Hire of plant and machinery	3,041	3,242	3,041	3,242
- Others	5,852	1,353	5,852	1,353
	<u>121,447</u>	<u>104,048</u>	<u>121,447</u>	<u>104,048</u>
<u>Marketing expenses</u>				
- Advertisement and publicity	8,594	4,076	8,594	4,076
- Credit card related fees	25,317	28,293	25,317	28,293
- Others	2,974	2,961	2,974	2,961
	<u>36,885</u>	<u>35,330</u>	<u>36,885</u>	<u>35,330</u>
<u>Administration and general expenses</u>				
- Teletransmission expenses	3,963	4,404	3,963	4,404
- Stationery and printing expenses	2,971	3,246	2,971	3,246
- Professional fees	22,747	15,473	22,747	15,473
- Insurance fees	8,787	8,505	8,787	8,505
- Stamp, postage and courier	4,052	4,418	4,052	4,418
- Travelling and transport expenses	679	806	679	806
- Registration and license fees	2,037	2,067	2,037	2,067
- Brokerage and commission	711	856	711	856
- Credit card fees	9,565	9,067	9,565	9,067
- Others	4,944	10,057	4,944	10,057
	<u>60,456</u>	<u>58,899</u>	<u>60,456</u>	<u>58,899</u>
	<u>446,001</u>	<u>429,246</u>	<u>446,001</u>	<u>429,246</u>

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A24 Allowance for impairment losses on loans, advances and financing

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
	RM'000	RM'000	RM'000	RM'000
<u>Group</u>				
Allowance for impairment losses on loans, advances and financing:				
- collective assessment allowance	92,949	70,270	92,949	70,270
- individual assessment allowance	1,521	7,392	1,521	7,392
Impaired loans and financing:				
- written off	5,291	5,251	5,291	5,251
- recovered from bad debt written off	(56,348)	(59,859)	(56,348)	(59,859)
	<u>43,413</u>	<u>23,054</u>	<u>43,413</u>	<u>23,054</u>

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
	RM'000	RM'000	RM'000	RM'000
<u>Bank</u>				
Allowance for/(write back of) impairment losses on loans, advances and financing:				
- collective assessment allowance	69,321	58,842	69,321	58,842
- individual assessment allowance	(4,971)	3,489	(4,971)	3,489
Impaired loans and financing:				
- written off	4,436	4,587	4,436	4,587
- recovered from bad debt written off	(50,523)	(52,866)	(50,523)	(52,866)
	<u>18,263</u>	<u>14,052</u>	<u>18,263</u>	<u>14,052</u>

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A25 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) reissued on 4 August 2017. 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 30/09/2017	Financial Year Ended 30/06/2017	Financial Period Ended 30/09/2017	Financial Year Ended 30/06/2017
Before deducting proposed dividends				
CET I capital ratio	13.383%	13.788%	12.780%	13.078%
Tier I capital ratio	13.778%	14.193%	13.246%	13.556%
Total capital ratio	<u>15.784%</u>	<u>16.280%</u>	<u>15.622%</u>	<u>15.997%</u>
After deducting proposed dividends				
CET I capital ratio	12.894%	13.286%	12.203%	12.486%
Tier I capital ratio	13.289%	13.691%	12.669%	12.964%
Total capital ratio	<u>15.295%</u>	<u>15.779%</u>	<u>15.045%</u>	<u>15.405%</u>

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A25 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 30/09/2017 RM'000	Financial Year Ended 30/06/2017 RM'000	Financial Period Ended 30/09/2017 RM'000	Financial Year Ended 30/06/2017 RM'000
CET I capital				
Paid-up share capital	7,739,063	7,739,063	7,739,063	7,739,063
Retained profits	13,588,071	13,560,582	10,259,709	10,245,205
Other reserves	1,247,874	1,265,223	427,838	422,954
Less: Treasury shares	(733,961)	(733,961)	(733,961)	(733,961)
Less: Deferred tax assets	(4,777)	(4,851)	-	-
Less: Other intangible assets	(195,675)	(213,323)	(178,365)	(194,870)
Less: Goodwill	(1,831,312)	(1,831,312)	(1,771,547)	(1,771,547)
Less : Investment in subsidiary companies/ associated company/joint venture	(3,021,673)	(2,908,861)	(2,148,516)	(2,148,516)
Total CET I capital	16,787,610	16,872,560	13,594,221	13,558,328
Additional Tier I capital				
Innovative Tier I capital securities	496,279	495,778	496,279	495,778
Total Tier I capital	17,283,889	17,368,338	14,090,500	14,054,106
Tier II capital				
Collective assessment allowance ^ and regulatory reserves #	1,271,691	1,281,686	1,064,483	1,067,705
Subordinated bonds	1,999,782	1,999,723	1,999,782	1,999,723
Tier II capital before regulatory adjustments	3,271,473	3,281,409	3,064,265	3,067,428
Less : Investment in subsidiary companies/ associated company/joint venture	(755,419)	(727,215)	(537,129)	(537,129)
Total Tier II capital	2,516,054	2,554,194	2,527,136	2,530,299
Total capital	19,799,943	19,922,532	16,617,636	16,584,405

^ 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 RM639,749,000 (2017: RM667,238,000) and RM557,174,000 (2017: RM571,678,000) respectively.

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A25 Capital adequacy (continued)

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

	The Group		The Bank	
	Financial Period Ended 30/09/2017 RM'000	Financial Year Ended 30/06/2017 RM'000	Financial Period Ended 30/09/2017 RM'000	Financial Year Ended 30/06/2017 RM'000
Credit risk	113,926,263	111,299,987	95,697,087	93,397,418
Market risk	3,466,948	3,115,525	3,685,333	3,340,119
Operational risk	8,048,862	7,958,340	6,990,704	6,934,552
Total RWA	125,442,073	122,373,852	106,373,124	103,672,089

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

	Hong Leong Islamic Bank Berhad	
	Financial Period Ended 30/09/2017	Financial Year Ended 30/06/2017
Before deducting proposed dividends		
CET I capital ratio	10.540%	10.622%
Tier I capital ratio	10.540%	10.622%
Total capital ratio	13.780%	13.946%
After deducting proposed dividends		
CET I capital ratio	10.540%	10.622%
Tier I capital ratio	10.540%	10.622%
Total capital ratio	13.780%	13.946%

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A26 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 30/09/2017

	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	651,834	163,715	323,673	64,873	(15,243)	(10,222)	1,178,630
Inter-segment revenue	(12,016)	114,809	(192,680)	-	89,887	-	-
Segment revenue	<u>639,818</u>	<u>278,524</u>	<u>130,993</u>	<u>64,873</u>	<u>74,644</u>	<u>(10,222)</u>	<u>1,178,630</u>
Segment profit before taxation	282,783	200,138	106,169	15,568	33,555	(10,140)	628,073
Share of profit after tax of equity accounted associated company				147,752			147,752
Share of profit after tax of equity accounted joint venture				4,567			4,567
Profit before taxation							<u>780,392</u>
Taxation							(141,424)
Profit after taxation							<u><u>638,968</u></u>

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A26 Group segmental reporting on revenue, profit and assets (continued)

Financial period ended 30/09/2017

	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	651,834	163,715	323,673	64,873	(15,243)	(10,222)	1,178,630
Inter-segment revenue	(12,016)	114,809	(192,680)	-	89,887	-	-
Segment revenue	<u>639,818</u>	<u>278,524</u>	<u>130,993</u>	<u>64,873</u>	<u>74,644</u>	<u>(10,222)</u>	<u>1,178,630</u>
Segment profit before taxation	282,783	200,138	106,169	15,568	33,555	(10,140)	628,073
Share of profit after tax of equity accounted associated company				147,752			147,752
Share of profit after tax of equity accounted joint venture				4,567			4,567
Profit before taxation							<u>780,392</u>
Taxation							(141,424)
Profit after taxation							<u>638,968</u>
Segment assets	88,160,630	29,272,207	56,678,545	12,601,800	-	-	186,713,182
Unallocated assets							10,281,800
Total assets							<u>196,994,982</u>

Corresponding 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	<u>595,350</u>	<u>256,856</u>	<u>150,189</u>	<u>58,652</u>	<u>162,814</u>	<u>(127,619)</u>	<u>1,096,242</u>
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							<u>674,619</u>
Taxation							(131,992)
Profit after taxation							<u>542,627</u>

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A26 Group segmental reporting on revenue, profit and assets (continued)

Corresponding 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	<u>595,350</u>	<u>256,856</u>	<u>150,189</u>	<u>58,652</u>	<u>162,814</u>	<u>(127,619)</u>	<u>1,096,242</u>
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							<u>674,619</u>
Taxation							(131,992)
Profit after taxation							<u>542,627</u>
Segment assets	84,552,494	29,703,186	53,988,618	11,836,723	-	-	180,081,021
Unallocated assets							8,656,844
Total assets							<u>188,737,865</u>

A27 Property and equipment

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

A28(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 2017 except for the following:-

- (a) On 2 November 2017, Hong Leong Investment Bank Berhad, on behalf of the Bank, lodged with Securities Commission Malaysia a multi-currency Additional Tier 1 capital securities programme for the issuance of Additional Tier 1 capital securities ("Capital Securities") of up to RM10.0 billion (or its equivalent in other currencies) in nominal value ("AT1 Programme").

Proceeds from issuances under the AT1 Programme shall be utilised, without limitation, for on-lending to the Bank's subsidiaries, for investment into the Bank's subsidiaries, for working capital, general banking and other corporate purposes and/or if required, the refinancing of any existing financing obligations of the Bank and/or any existing Capital Securities issued under the AT1 Programme.

The AT1 Programme has been assigned an A1 rating by RAM Rating Services Berhad.

The Capital Securities are intended to qualify as Additional Tier 1 capital for the Bank pursuant to the Capital Adequacy Framework (Capital Components) issued by BNM on 4 August 2017 and as updated from time to time ("New CA Framework"), and to qualify as the consolidated Additional Tier 1 capital of Hong Leong Financial Group Berhad under the New CA Framework. Approval from BNM for the establishment of the AT1 Programme was obtained on 15 September 2017 (upon terms and conditions therein contained).

A28(b) Changes in the composition of the Group

There were no changes in the composition of the Group for the current financial period ended 30 September 2017.

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A29 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	
	30/09/2017 RM'000	30/06/2017 RM'000	30/09/2017 RM'000	30/06/2017 RM'000
Principal amount				
Direct credit substitutes	82,678	81,785	29,143	28,387
Certain transaction related contingent items	1,271,500	1,391,110	1,154,082	1,285,746
Short-term self liquidating trade related contingencies	919,476	769,864	889,566	733,985
Irrevocable commitments to extend credit:				
- maturity more than one year	12,734,831	13,257,147	9,180,637	9,601,053
- maturity less than one year	16,310,160	16,097,927	14,586,010	14,562,467
Foreign exchange related contracts:				
- less than one year	41,203,056	35,909,765	40,592,964	35,531,864
- one year to less than five years	2,885,552	3,646,999	2,885,552	3,646,999
- five years and above	1,008,837	1,153,405	1,008,837	1,153,405
Interest rate related contracts:				
- less than one year	25,429,957	43,388,997	25,179,957	43,138,997
- one year to less than five years	35,116,417	34,308,796	35,821,417	34,423,796
- five years and above	4,240,984	5,562,786	4,940,984	4,862,786
Equity related contracts:				
- less than one year	284,193	155,471	284,193	155,471
- one year to less than five years	233,655	279,187	233,655	279,187
Commodity related contracts:				
Unutilised credit card lines	7,134,857	7,001,256	7,134,857	7,001,256
Total	148,856,153	163,004,495	143,921,854	156,405,399

A30 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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A31 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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A31 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 30/09/2017			
	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	-	5,673,338	-	5,673,338
- Quoted securities	289,716	-	-	289,716
- Unquoted securities	-	30,210	-	30,210
Financial investments available-for-sale				
- Money market instrument	-	7,319,625	-	7,319,625
- Quoted securities	11,655,695	-	-	11,655,695
- Unquoted securities	-	12,617,031	454,740	13,071,771
Derivative financial instruments	2,221	799,744	11,176	813,141
	<u>11,947,632</u>	<u>26,439,948</u>	<u>465,916</u>	<u>38,853,496</u>
<u>Financial Liabilities</u>				
Derivative financial instruments	70	1,446,874	11,176	1,458,120
Financial liabilities designated at fair value				
- Callable range accrual notes and Callable inverse floater	-	2,675,871	-	2,675,871
	<u>70</u>	<u>4,122,745</u>	<u>11,176</u>	<u>4,133,991</u>

	The Group			
	Financial Year Ended 30/06/2017			
	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	-	5,113,268	-	5,113,268
- Quoted securities	258,452	-	-	258,452
- Unquoted securities	-	316,445	-	316,445
Financial investments available-for-sale				
- Money market instrument	-	6,640,333	-	6,640,333
- Quoted securities	10,077,526	-	-	10,077,526
- Unquoted securities	-	10,481,598	454,760	10,936,358
Derivative financial instruments	18	944,456	8,568	953,042
	<u>10,335,996</u>	<u>23,496,100</u>	<u>463,328</u>	<u>34,295,424</u>
<u>Financial Liabilities</u>				
Derivative financial instruments	1,228	1,395,856	8,568	1,405,652
Financial liabilities designated at fair value				
- Callable range accrual notes and Callable inverse floater	-	2,480,925	-	2,480,925
	<u>1,228</u>	<u>3,876,781</u>	<u>8,568</u>	<u>3,886,577</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 (2017: RM Nil).

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A31 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 30/09/2017			
	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	-	4,310,849	-	4,310,849
- Quoted securities	289,716	-	-	289,716
- Unquoted securities	-	30,210	-	30,210
Financial investments available-for-sale				
- Money market instrument	-	5,959,648	-	5,959,648
- Quoted securities	11,643,736	-	-	11,643,736
- Unquoted securities	-	11,280,269	454,740	11,735,009
Derivative financial instruments	2,221	803,857	11,176	817,254
	<u>11,935,673</u>	<u>22,384,833</u>	<u>465,916</u>	<u>34,786,422</u>
<u>Financial Liabilities</u>				
Derivative financial instruments	70	1,417,116	11,176	1,428,362
Financial liabilities designated at fair value				
- Callable range accrual notes and Callable inverse floater	-	1,800,498	-	1,800,498
	<u>70</u>	<u>3,217,614</u>	<u>11,176</u>	<u>3,228,860</u>

	The Bank			
	Financial Year Ended 30/06/2017			
	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	-	5,021,807	-	5,021,807
- Quoted securities	258,452	-	-	258,452
- Unquoted securities	-	125,051	-	125,051
Financial investments available-for-sale				
- Money market instrument	-	5,110,048	-	5,110,048
- Quoted securities	10,065,260	-	-	10,065,260
- Unquoted securities	-	9,256,212	454,760	9,710,972
Derivative financial instruments	18	938,997	8,568	947,583
	<u>10,323,730</u>	<u>20,452,115</u>	<u>463,328</u>	<u>31,239,173</u>
<u>Financial Liabilities</u>				
Derivative financial instruments	1,228	1,353,858	8,568	1,363,654
Financial liabilities designated at fair value				
- Callable range accrual notes and Callable inverse floater	-	1,628,683	-	1,628,683
	<u>1,228</u>	<u>2,982,541</u>	<u>8,568</u>	<u>2,992,337</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 (2017: RM Nil).

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A31 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 2018	Financial Assets		Financial
	Financial	Derivative	Liability
	investments	financial	Derivative
	available-for-sale	instruments	financial
	RM'000	RM'000	instruments
			RM'000
At 1 July	454,760	8,568	8,568
Fair value changes recognised in statements of income	-	227	227
Net fair value changes recognised in other comprehensive income	-	-	-
Purchases	-	2,325	2,325
Settlements	-	56	56
Disposal	(20)	-	-
At 30 September	<u>454,740</u>	<u>11,176</u>	<u>11,176</u>
Fair value changes recognised in statements of income relating to assets/liability held on 30 September 2017	<u>-</u>	<u>227</u>	<u>227</u>

The Bank 2018	Financial Assets		Financial
	Financial	Derivative	Liability
	investments	financial	Derivative
	available-for-sale	instruments	financial
	RM'000	RM'000	instruments
			RM'000
At 1 July	454,760	8,568	8,568
Fair value changes recognised in statements of income	-	227	227
Net fair value changes recognised in other comprehensive income	-	-	-
Purchases	-	2,325	2,325
Settlements	-	56	56
Disposal	(20)	-	-
At 30 September	<u>454,740</u>	<u>11,176</u>	<u>11,176</u>
Fair value changes recognised in statements of income relating to assets/liability held on 30 September 2017	<u>-</u>	<u>227</u>	<u>227</u>

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A31 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 2017	Financial Assets		Financial
	Financial investments available-for-sale	Derivative financial instruments	Liability Derivative financial instruments
	RM'000	RM'000	RM'000
At 1 July	427,328	7,995	7,995
Fair value changes recognised in statements of income	-	7,297	7,297
Net fair value changes recognised in other comprehensive income	31,814	-	-
Purchases	-	7,582	7,582
Settlements	-	(14,306)	(14,306)
Disposal	(53)	-	-
Transfer out from Level 3	(4,329)	-	-
At 30 June	<u>454,760</u>	<u>8,568</u>	<u>8,568</u>
Fair value changes recognised in statements of income relating to assets/liability held on 30 June 2017	-	7,297	7,297
Total gain recognised in other comprehensive income relating to assets held on 30 June 2017	<u>31,814</u>	<u>-</u>	<u>-</u>
The Bank 2017			
	Financial investments available-for-sale	Derivative financial instruments	Financial Liability Derivative financial instruments
	RM'000	RM'000	RM'000
At 1 July	427,328	7,995	7,995
Fair value changes recognised in statements of income	-	7,297	7,297
Net fair value changes recognised in other comprehensive income	31,814	-	-
Purchases	-	7,582	7,582
Settlements	-	(14,306)	(14,306)
Disposal	(53)	-	-
Transfer out from Level 3	(4,329)	-	-
At 30 June	<u>454,760</u>	<u>8,568</u>	<u>8,568</u>
Fair value changes recognised in statements of income relating to assets/liability held on 30 June 2017	-	7,297	7,297
Total gain recognised in other comprehensive income relating to assets held on 30 June 2017	<u>31,814</u>	<u>-</u>	<u>-</u>

During the financial year ended 30 June 2017, the Group and the Bank transferred certain financial instruments (mainly shares outside Malaysia) from Level 3 to Level 2 of the fair value hierarchy. The reason for the transfer was due to upliftment of conversion restriction whereby certain shares are now convertible to Class A shares which are currently listed on the New York Stock Exchange. Thus, these shares can now be reliably measured based on observable inputs under Level 2.

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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 RM780.4 million for the current financial quarter ended 30 September 2017, an increase of RM105.8 million or 15.7% as compared to previous year corresponding quarter. The increase in pre-tax profit was mainly due to higher net income of RM82.4 million, higher share of profit from associated company of RM58.5 million and lower allowance of impairment losses on financial investments of RM3.4 million. However, this is mitigated by higher operating expenses of RM16.5 million, higher allowance for impairment losses on loans, advances and financing of RM20.3 million and lower share of profit from joint venture of RM1.7 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 RM282.8 million for the first quarter ended 30 September 2017 as compared to previous corresponding quarter of RM256.1 million. The increase in pre-tax profit was mainly contributed by higher total income, partially offset by higher operating expenses and higher allowance for impairment losses on loans, advances and financing.

Business and Corporate Banking

The Business and Corporate Banking's segment recorded a pre-tax profit of RM200.1 million for the first quarter ended 30 September 2017 as compared to previous corresponding quarter of RM176.9 million. The increase in pre-tax profit was mainly contributed by higher total income and lower allowance for impairment losses on loans, advances and financing, partially offset by higher total operating expenses.

Global Markets

The Global Markets's segment recorded a pre-tax profit of RM106.2 million for the first quarter ended 30 September 2017 as compared to previous corresponding quarter of RM119.4 million. The decrease in pre-tax profit was mainly contributed by lower total income, partially offset by lower operating expenses and lower allowance for impairment losses on loans, advances and financing.

International Banking

The International Banking's segment recorded a pre-tax profit of RM167.9 million for the first quarter ended 30 September 2017 as compared to previous corresponding quarter of RM108.4 million. The increase in performance was mainly contributed by higher share of profit from associated company in China, higher total income from other overseas operations, partially offset by higher operating expenses and higher allowance for impairment losses on loans, advances and financing from other overseas operations.

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B2 Current Quarter vs. Preceding Quarter

For the current financial quarter, the Group recorded a pre-tax profit of RM780.4 million as compared to RM680.0 million in the preceding quarter, an increase of RM100.4 million mainly contributed by higher net income of RM26.7 million, higher share of profit from associated company of RM46.7 million, lower operating expenses of RM8.1 million and lower allowance for impairment losses on loans, advances and financing of RM20.3 million.

B3 Current year prospects

The Malaysian economy is expected to continue to expand underpinned by continued moderate global economic growth going into 2018 which would provide the backdrop for improving private consumption growth as well as consumer sentiment which would consequently lead to a steady labour market, continuous wage growth and sustained domestic demand. This improving outlook will provide the Bank with the impetus to continue pursuing growth in both our domestic and regional business by embedding ourselves in the communities that we serve and strengthening our digital banking offerings. In line with our commitment towards delivering sustainable growth and long-term shareholder value, the Bank remains committed towards pursuing operational excellence through strategic cost management whilst channeling some of these savings into investment in digital initiatives to provide a seamless and personalized banking experience to our customers.

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	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
	RM'000	RM'000	RM'000	RM'000
The Group				
Income tax	143,496	134,063	143,496	134,063
Transfer to deferred taxation	(2,072)	(2,071)	(2,072)	(2,071)
	<u>141,424</u>	<u>131,992</u>	<u>141,424</u>	<u>131,992</u>

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
	RM'000	RM'000	RM'000	RM'000
The Bank				
Income tax	123,761	150,975	123,761	150,975
Transfer to deferred taxation	(2,072)	(2,071)	(2,072)	(2,071)
	<u>121,689</u>	<u>148,904</u>	<u>121,689</u>	<u>148,904</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 2017:

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	28,385,853	131,058	(425,639)
(ii) 1 year to 3 years	104,432	-	(1,208)
Swaps			
(i) Less than 1 year	9,170,957	273,445	(348,727)
(ii) 1 year to 3 years	1,858,321	17,747	(229,309)
(iii) More than 3 years	1,931,636	133,361	(53,342)
Options			
(i) Less than 1 year	3,646,246	18,272	(18,465)
Interest rate related contracts			
Futures			
(i) Less than 1 year	11,402,787	2,221	(70)
Swaps			
(i) Less than 1 year	14,027,170	9,345	(16,123)
(ii) 1 year to 3 years	21,123,099	142,009	(164,519)
(iii) More than 3 years	18,234,302	74,509	(189,542)
Equity related contracts			
(i) Less than 1 year	284,193	2,552	(2,553)
(ii) 1 year to 3 years	205,058	5,934	(5,935)
(iii) More than 3 years	28,597	2,688	(2,688)
Total	110,402,651	813,141	(1,458,120)

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B9 Off-balance sheet financial instruments (continued)

Details of financial instruments with off-balance sheet risk as at 30 June 2017:

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	25,670,538	239,391	(270,386)
(ii) 1 year to 3 years	23,617	85	-
Swaps			
(i) Less than 1 year	7,024,369	207,264	(326,371)
(ii) 1 year to 3 years	2,823,719	120,831	(334,551)
(iii) More than 3 years	1,953,068	136,419	(56,466)
Options			
(i) Less than 1 year	3,214,858	19,761	(17,009)
Interest rate related contracts			
Futures			
(i) Less than 1 year	28,935,109	18	(1,228)
Swaps			
(i) Less than 1 year	14,453,888	12,448	(12,729)
(ii) 1 year to 3 years	19,462,048	101,114	(146,479)
(iii) More than 3 years	20,409,534	107,143	(231,865)
Equity related contracts			
(i) Less than 1 year	155,471	410	(410)
(ii) 1 year to 3 years	250,143	4,238	(4,238)
(iii) More than 3 years	29,044	3,920	(3,920)
Total	124,405,406	953,042	(1,405,652)

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B9 Off-balance sheet financial instruments (continued)

Details of financial instruments with off-balance sheet risk as at 30 September 2017:

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	27,805,730	117,267	(412,762)
(ii) 1 year to 3 years	104,432	-	(1,208)
Swaps			
(i) Less than 1 year	9,140,988	273,445	(348,727)
(ii) 1 year to 3 years	1,858,321	17,747	(229,309)
(iii) More than 3 years	1,931,636	133,361	(53,342)
Options			
(i) Less than 1 year	3,646,246	18,272	(18,465)
Interest rate related contracts			
Futures			
(i) Less than 1 year	11,402,787	2,221	(70)
Swaps			
(i) Less than 1 year	13,777,170	9,117	(15,751)
(ii) 1 year to 3 years	21,423,099	141,951	(164,290)
(iii) More than 3 years	19,339,302	92,699	(173,262)
Equity related contracts			
(i) Less than 1 year	284,193	2,552	(2,553)
(ii) 1 year to 3 years	205,058	5,934	(5,935)
(iii) More than 3 years	28,597	2,688	(2,688)
Total	110,947,559	817,254	(1,428,362)

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B9 Off-balance sheet financial instruments (continued)

Details of financial instruments with off-balance sheet risk as at 30 June 2017:

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	25,293,133	236,271	(268,574)
(ii) 1 year to 3 years	23,617	85	-
Swaps			
(i) Less than 1 year	7,023,873	207,264	(326,371)
(ii) 1 year to 3 years	2,823,719	120,831	(334,551)
(iii) More than 3 years	1,953,068	136,419	(56,466)
Options			
(i) Less than 1 year	3,214,858	19,761	(17,009)
Interest rate related contracts			
Futures			
(i) Less than 1 year	28,935,109	18	(1,228)
Swaps			
(i) Less than 1 year	14,203,888	12,042	(12,241)
(ii) 1 year to 3 years	19,462,049	100,943	(146,479)
(iii) More than 3 years	19,824,533	105,381	(192,167)
Equity related contracts			
(i) Less than 1 year	155,471	410	(410)
(ii) 1 year to 3 years	250,143	4,238	(4,238)
(iii) More than 3 years	29,044	3,920	(3,920)
Total	123,192,505	947,583	(1,363,654)

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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 RM966,718,000 (FYE June 2017: RM115,444,000) and RM69,028,238,000 (FYE June 2017: RM85,460,579,000) 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 RM880,733,000 (FYE June 2017: RM1,014,653,000). 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 30/09/2017 RM'000	Financial Year Ended 30/06/2017 RM'000
Total retained profits of Hong Leong Bank Berhad and subsidiaries		
- Realised	11,278,271	10,622,103
- Unrealised	819,500	958,758
	12,097,771	11,580,861
Total share of retained profits from associated company		
- Realised	2,507,601	2,359,849
Total share of retained profits from joint venture		
- Realised	76,717	72,150
	14,682,089	14,012,860
Less: Consolidation adjustment	(455,050)	(452,278)
Total Group's retained profits	14,227,039	13,560,582

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	
	30/09/2017 RM'000	30/09/2016 RM'000	30/09/2017 RM'000	30/09/2016 RM'000
<u>The Group</u>				
Net profit attributable to equity holders	638,968	542,627	638,968	542,627
Weighted average number of ordinary shares in issue ('000)	2,167,718	2,167,718	2,167,718	2,167,718
Less: Treasury shares held	(122,118)	(122,264)	(122,118)	(122,264)
	2,045,600	2,045,454	2,045,600	2,045,454
Basic earnings per share (sen)	31.2	26.5	31.2	26.5
<u>The Bank</u>				
Net profit attributable to equity holders	422,433	484,031	422,433	484,031
Weighted average number of ordinary shares in issue ('000)	2,167,718	2,167,718	2,167,718	2,167,718
Less: Treasury shares held	(122,118)	(122,264)	(122,118)	(122,264)
	2,045,600	2,045,454	2,045,600	2,045,454
Basic earnings per share (sen)	20.7	23.7	20.7	23.7

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B13 Earnings per share (continued)

(b) Fully diluted earnings per share

The Bank has two categories of dilutive potential ordinary shares, which are the share options and ordinary shares granted under the ESS. 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	
	30/09/2017 RM'000	30/09/2016 RM'000	30/09/2017 RM'000	30/09/2016 RM'000
<u>The Group</u>				
Net profit attributable to equity holders	638,968	542,627	638,968	542,627
Weighted average number of ordinary shares in issue (diluted) ('000):				
- during the period	2,045,600	2,045,454	2,045,600	2,045,454
- adjustment for ESS	551	-	551	-
	2,046,151	2,045,454	2,046,151	2,045,454
Fully diluted earnings per share (sen)	31.2	26.5	31.2	26.5
<u>The Bank</u>				
Net profit attributable to equity holders	422,433	484,031	422,433	484,031
Weighted average number of ordinary shares in issue (diluted) ('000):				
- during the period	2,045,600	2,045,454	2,045,600	2,045,454
- adjustment for ESS	551	-	551	-
	2,046,151	2,045,454	2,046,151	2,045,454
Fully diluted earnings per share (sen)	20.6	23.7	20.6	23.7