

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
THE GROUP		
Assets		
Cash and short-term funds	11,701,468	9,890,071
Deposits and placements with banks and other financial institutions	11,779,129	10,196,421
Securities purchased under resale agreements	-	35,126
Financial assets at fair value through profit or loss	23,477,293	-
Financial assets held-for-trading	-	10,536,881
Financial investments at fair value through other comprehensive income	29,103,865	-
Financial investments available-for-sale	-	37,732,539
Financial investments at amortised cost	17,803,905	-
Financial investments held-to-maturity	-	15,895,679
Derivative financial instruments	567,827	971,195
Loans, advances and financing	131,139,087	128,851,234
Clients' and brokers' balances	414,651	525,556
Other receivables	811,336	952,570
Statutory deposits with Central Banks	4,360,107	4,364,982
Tax recoverable	328	367
Investment in associated companies	4,850,367	4,538,326
Investment in joint venture	-	179,426
Property and equipment	1,570,419	1,573,829
Investment properties	494,164	494,164
Goodwill	2,410,644	2,410,644
Intangible assets	145,864	168,541
Total Assets	240,630,454	229,317,551
Liabilities		
Deposits from customers	162,176,421	156,882,912
Deposits and placements of banks and other financial institutions	12,712,809	9,296,395
Obligations on securities sold under repurchase agreements	4,814,834	3,931,523
Bills and acceptances payable	494,037	544,450
Derivative financial instruments	685,561	1,082,140
Clients' and brokers' balances	237,085	350,730
Payables and other liabilities	12,764,761	11,708,191
Recourse obligations on loans sold to Cagamas Berhad	202,994	202,952
Provision for claims	157,833	150,478
Provision for taxation	217,923	244,162
Deferred tax liabilities	99,120	78,309
Borrowings	1,086,391	1,300,371
Subordinated obligations	2,800,843	2,800,447
Innovative Tier 1 capital securities	463,914	474,612
Multi-currency Additional Tier 1 capital securities	401,419	401,369
Insurance funds	13,663,295	13,188,787
Total Liabilities	212,979,240	202,637,828
Equity		
Share capital	2,267,008	2,267,008
Capital reserves	1,646,888	1,540,421
Retained profits	14,698,868	13,910,419
Fair value reserve	(25,935)	109,284
Treasury shares for ESOS	(41,115)	(22,686)
Total Shareholders' Equity	18,545,714	17,804,446
Non-controlling interests	9,105,500	8,875,277
Total Equity	27,651,214	26,679,723
Total Liabilities and Equity	240,630,454	229,317,551
Commitment and Contingencies	166,973,264	177,098,055
Net assets per share (net of treasury shares) attributable to ordinary equity holders of the parent (RM)	16.21	15.55

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2018.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF INCOME
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018

	Individual Quarter		Cumulative Quarter	
	Current quarter ended 31/12/2018 RM '000	Last year quarter ended 31/12/2017 RM '000	Current year to date 31/12/2018 RM '000	Last year to date 31/12/2017 RM '000
THE GROUP				
Interest income	1,742,267	1,628,249	3,454,619	3,237,391
Interest expense	(1,043,273)	(881,594)	(2,064,728)	(1,762,193)
Net interest income	698,994	746,655	1,389,891	1,475,198
Net income from Islamic banking business	172,744	156,833	343,820	316,643
Non-interest income	373,554	462,527	894,746	852,926
Net income	1,245,292	1,366,015	2,628,457	2,644,767
Overhead expenses	(573,354)	(572,337)	(1,164,867)	(1,130,583)
Operating profit before allowances	671,938	793,678	1,463,590	1,514,184
Writeback of/(allowance for) impairment losses on loans, advances and financing and other losses	58,588	(10,423)	39,500	(54,106)
(Allowance for)/writeback of impairment losses on financial investments	(248)	271	(1,079)	91
	730,278	783,526	1,502,011	1,460,169
Share of results of associated companies	147,246	136,274	304,619	295,525
Share of results of joint venture	-	4,928	-	9,495
Profit before taxation	877,524	924,728	1,806,630	1,765,189
Taxation	(145,581)	(174,941)	(305,080)	(325,315)
Net profit for the financial period	<u>731,943</u>	<u>749,787</u>	<u>1,501,550</u>	<u>1,439,874</u>
Attributable to:				
Owners of the parent	481,547	495,343	987,242	950,595
Non-controlling interests	250,396	254,444	514,308	489,279
Net profit for the financial period	<u>731,943</u>	<u>749,787</u>	<u>1,501,550</u>	<u>1,439,874</u>
Earnings per share - basic (sen)	<u>42.1</u>	<u>43.3</u>	<u>86.2</u>	<u>83.1</u>

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2018.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018

	Individual Quarter		Cumulative Quarter	
	Current quarter ended 31/12/2018 RM '000	Last year quarter ended 31/12/2017 RM '000	Current year to date 31/12/2018 RM '000	Last year to date 31/12/2017 RM '000
THE GROUP				
Net profit for the financial period	731,943	749,787	1,501,550	1,439,874
Other comprehensive income/(loss):				
<u>Items that may be reclassified subsequently to profit or loss:</u>				
Share of other comprehensive gain of associated companies	2,331	1,102	7,728	1,218
Net fair value changes in financial investments investments at fair value through other comprehensive income	66,120	-	99,942	-
Net fair value changes in financial investments available-for-sale	-	(82,342)	-	(64,173)
Net fair value changes in cash flow hedge	(346)	1,506	(1,075)	1,371
Currency translation differences	5,517	(134,252)	(34,910)	(164,076)
Income tax relating to components of other comprehensive income	(12,654)	16,502	(25,228)	12,745
Other comprehensive income/(loss) for the financial period, net of tax	60,968	(197,484)	46,457	(212,915)
Total comprehensive income for the financial period, net of tax	792,911	552,303	1,548,007	1,226,959
Attributable to:				
Owners of the parent	521,260	362,314	1,020,778	806,665
Non-controlling interests	271,651	189,989	527,229	420,294
	792,911	552,303	1,548,007	1,226,959

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2018.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
THE COMPANY		
<u>Assets</u>		
Cash and short-term funds	11,839	25,466
Deposits and placements with banks and other financial institutions	3,360	3,360
Financial assets at fair value through profit or loss	30,570	-
Other receivables	8,636	4,547
Deferred tax assets	102	75
Investment in subsidiary companies	17,996,078	17,996,078
Property and equipment	4,778	5,332
Intangible assets	1	1
Total Assets	18,055,364	18,034,859
<u>Liabilities</u>		
Derivative financial instruments	221	327
Payables and other liabilities	18,858	13,612
Provision for taxation	1,415	1,972
Subordinated obligations	499,708	499,599
Multi-currency Additional Tier 1 capital securities	400,873	400,751
Borrowings	1,141,958	1,385,934
Total Liabilities	2,063,033	2,302,195
<u>Financed by:</u>		
Share capital	2,267,008	2,267,008
Capital reserves	265,414	259,160
Retained profits	13,478,341	13,206,499
Treasury shares for ESOS	(18,432)	(3)
Total Equity	15,992,331	15,732,664
Total Liabilities and Equity	18,055,364	18,034,859
Commitment and Contingencies	100,000	100,000

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2018.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF INCOME
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018

	Individual Quarter		Cumulative Quarter	
	Current	Last year	Current year	Last year
	quarter ended 31/12/2018	quarter ended 31/12/2017	to date 31/12/2018	to date 31/12/2017
THE COMPANY	RM '000	RM '000	RM '000	RM '000
Interest income	11,784	2,798	23,430	3,330
Interest expense	(25,676)	(16,310)	(52,577)	(32,083)
Net interest expense	(13,892)	(13,512)	(29,147)	(28,753)
Non-interest income	470,929	438,901	473,010	441,700
Net expense	457,037	425,389	443,863	412,947
Overhead expenses	(10,879)	(5,658)	(21,171)	(11,326)
Profit before taxation	446,158	419,731	422,692	401,621
Taxation	(1,823)	(1,713)	(1,803)	(1,914)
Net profit for the financial period	444,335	418,018	420,889	399,707
Earnings per share - basic (sen)	38.7	36.4	36.7	34.8

UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018

	Individual Quarter		Cumulative Quarter	
	Current	Last year	Current year	Last year
	quarter ended 31/12/2018	quarter ended 31/12/2017	to date 31/12/2018	to date 31/12/2017
THE COMPANY	RM '000	RM '000	RM '000	RM '000
Net profit for the financial period	444,335	418,018	420,889	399,707
Other comprehensive income for the financial period	-	-	-	-
Total comprehensive income for the financial period, net of tax	444,335	418,018	420,889	399,707

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2018.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018

	Share capital	Regulatory reserves#	Fair value reserve	Cash flow hedge reserve	Other reserves	Share options reserve	Exchange fluctuation reserve	Retained profits	Treasury shares for ESOS	Total shareholders' equity	Non-controlling interests	Total equity
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
THE GROUP												
At 1 July 2018	2,267,008	755,010	109,284	544	213,314	50,254	521,299	13,910,419	(22,686)	17,804,446	8,875,277	26,679,723
Effect of adopting MFRS 9	-	6,391	(190,495)	-	-	-	-	43,157	-	(140,947)	(75,015)	(215,962)
As restated	2,267,008	761,401	(81,211)	544	213,314	50,254	521,299	13,953,576	(22,686)	17,663,499	8,800,262	26,463,761
<u>Comprehensive income</u>												
Net profit for the financial period	-	-	-	-	-	-	-	987,242	-	987,242	514,308	1,501,550
Currency translation differences	-	-	-	-	-	-	(21,151)	-	-	(21,151)	(13,759)	(34,910)
Share of other comprehensive income of associated companies	-	-	5,753	-	-	-	-	-	-	5,753	1,975	7,728
Net fair value changes in financial investments at fair value through other comprehensive income, net of tax	-	-	49,523	-	-	-	-	-	-	49,523	25,013	74,536
Net fair value changes in cash flow hedge, net of tax	-	-	-	(589)	-	-	-	-	-	(589)	(308)	(897)
Total comprehensive income/(loss)	-	-	55,276	(589)	-	-	(21,151)	987,242	-	1,020,778	527,229	1,548,007
<u>Transaction with owners</u>												
Transfer to regulatory reserve	-	86,710	-	-	-	-	-	(86,710)	-	-	-	-
Allocation of other reserves to non-controlling interests	-	-	-	-	-	-	-	(6,520)	-	(6,520)	6,520	-
Dividends paid	-	-	-	-	-	-	-	(149,047)	-	(149,047)	-	(149,047)
Non-controlling interests subscription of shares	-	-	-	-	-	-	-	-	-	-	35,000	35,000
Non-controlling interests share of dividend	-	-	-	-	-	-	-	-	-	-	(263,511)	(263,511)
Option charge arising from ESS granted	-	-	-	-	-	35,106	-	327	-	35,433	-	35,433
Purchase of treasury shares	-	-	-	-	-	-	-	-	(18,429)	(18,429)	-	(18,429)
At 31 December 2018	2,267,008	848,111	(25,935)	(45)	213,314	85,360	500,148	14,698,868	(41,115)	18,545,714	9,105,500	27,651,214
At 1 July 2017	2,267,008	680,987	259,635	(703)	134,957	29,429	745,858	12,527,478	(35,712)	16,608,937	8,423,576	25,032,513
<u>Comprehensive income</u>												
Net profit for the financial period	-	-	-	-	-	-	-	950,595	-	950,595	489,279	1,439,874
Currency translation differences	-	-	-	-	-	-	(110,849)	-	-	(110,849)	(53,227)	(164,076)
Share of other comprehensive income of associated companies	-	-	1,037	-	-	-	-	-	-	1,037	181	1,218
Net fair value changes in financial investments available-for-sale, net of tax	-	-	(34,801)	-	-	-	-	-	-	(34,801)	(16,297)	(51,098)
Net fair value changes in cash flow hedge, net of tax	-	-	-	683	-	-	-	-	-	683	358	1,041
Total comprehensive (loss)/income	-	-	(33,764)	683	-	-	(110,849)	950,595	-	806,665	420,294	1,226,959
<u>Transaction with owners</u>												
Transfer to retained profits	-	(2,213)	-	-	-	-	-	2,213	-	-	-	-
Allocation of other reserves to non-controlling interests	-	-	-	-	-	-	-	(2,597)	-	(2,597)	2,597	-
Dividends paid	-	-	-	-	-	-	-	(149,177)	-	(149,177)	-	(149,177)
Non-controlling interests share of dividend	-	-	-	-	-	-	-	-	-	-	(243,330)	(243,330)
Option charge arising from ESS granted	-	-	-	-	-	5,652	-	-	-	5,652	-	5,652
Transfer to other reserves	-	-	-	-	4	-	-	(4)	-	-	-	-
At 31 December 2017	2,267,008	678,774	225,871	(20)	134,961	35,081	635,009	13,328,508	(35,712)	17,269,480	8,603,137	25,872,617

Comprise regulatory reserves maintained by the Group's banking subsidiary companies in Malaysia of RM836,866,000 (31 December 2017: RM667,529,000) in accordance with BNM's Policy Document on Classification and Impairment Provisions for Loans/Financing and the banking subsidiary company in Vietnam with the State Bank of Vietnam of RM11,245,000 (31 December 2017: 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 2018.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018

<u>THE COMPANY</u>	Share capital RM '000	Other capital reserve RM '000	Share options reserve RM '000	Treasury shares for ESOS RM '000	Retained profits RM '000	Total equity RM '000
At 1 July 2018	2,267,008	254,991	4,169	(3)	13,206,499	15,732,664
Net profit for the financial period	-	-	-	-	420,889	420,889
Dividends paid	-	-	-	-	(149,047)	(149,047)
Option charge arising from ESS granted	-	-	6,254	-	-	6,254
Purchase of treasury shares	-	-	-	(18,429)	-	(18,429)
At 31 December 2018	2,267,008	254,991	10,423	(18,432)	13,478,341	15,992,331
At 1 July 2017	2,267,008	254,991	-	(3)	12,909,636	15,431,632
Net profit for the financial period	-	-	-	-	399,707	399,707
Dividends paid	-	-	-	-	(149,177)	(149,177)
At 31 December 2017	2,267,008	254,991	-	(3)	13,160,166	15,682,162

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2018.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOW
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018

	The Group		The Company	
	31/12/2018 RM '000	31/12/2017 RM '000	31/12/2018 RM '000	31/12/2017 RM '000
Profit before taxation	1,806,630	1,765,189	422,692	401,621
Adjustment for non-cash items	(567,050)	(314,598)	(432,240)	(407,525)
Operating profit/(loss) before working capital changes	1,239,580	1,450,591	(9,548)	(5,904)
Income tax paid	(314,446)	(250,370)	(2,388)	-
Interest received	23,430	3,330	23,430	3,330
Changes in working capital				
Net changes in operating assets	(14,468,248)	(7,043,693)	(34,742)	42,586
Net changes in operating liabilities	10,536,897	6,421,564	5,278	1,860
Net cash (used in)/generated from operating activities	(2,982,787)	581,422	(17,970)	41,872
Cash flow from investing activities				
Net purchases of financial investments at fair value through other comprehensive income	(2,410,822)	-	-	-
Net purchases of financial investments available-for-sale	-	(3,170,118)	-	-
Net purchases of financial investments at amortised cost	(1,488,273)	-	-	-
Net sales of financial investments held-to-maturity	-	277,245	-	-
Interest received on financial investments at fair value through other comprehensive income and financial investments at amortised cost	692,616	-	-	-
Interest received on financial investments available-for-sale and financial investments held-to-maturity	-	591,671	-	-
Purchase of intangible assets	(7,963)	(4,788)	(1)	-
Purchase of property and equipment	(73,731)	(68,927)	(16)	(5)
Net proceeds from disposal of property and equipment	609	2,117	-	-
Dividends received from other investments	168,163	160,663	957	-
Dividends received from subsidiary companies	-	-	466,997	436,241
Dividends received from associated companies	2,901	-	-	-
Dividends received from joint venture	-	3,563	-	-
Proceeds from redemption of redeemable preference shares	-	-	-	3,900
Proceeds from liquidation	-	-	21	-
Investment in debt instrument issued by subsidiary company - Multi-currency Additional Tier 1 capital securities	-	-	-	(400,000)
Net cash (used in)/generated from investing activities	(3,116,500)	(2,208,574)	467,958	40,136
Cash flow from financing activities				
Dividends paid to equity holders of the Company	(149,047)	(149,177)	(149,047)	(149,177)
Dividends paid to non-controlling interests	(263,510)	(243,330)	-	-
Purchase of treasury shares	(18,429)	-	(18,429)	-
Repayment of revolving credit	(77,000)	(134,000)	(77,000)	(134,000)
Redemption of medium term notes and commercial papers	(515,000)	(150,000)	(570,000)	(150,000)
Issuance of senior notes	375,000	-	400,000	-
Repayment of innovative Tier 1 stapled securities	(10,000)	-	-	-
Proceeds from issuance of Multi-currency Additional Tier 1 capital securities	-	400,000	-	400,000
Interest paid on Multi-currency Additional Tier 1 capital securities	(10,546)	-	(10,546)	-
Non-controlling interests subscription of shares	35,000	-	-	-
Interest paid on subordinated obligations	(71,029)	(58,402)	(12,396)	-
Interest paid on borrowings	(26,178)	(27,830)	(26,197)	(29,964)
Interest paid on innovative Tier 1 capital securities	(19,645)	(18,156)	-	-
Interest expense on recourse obligations on loans sold to Cagamas Berhad	(3,790)	(3,787)	-	-
Net cash used in financing activities	(754,174)	(384,682)	(463,615)	(63,141)
Net (decrease)/increase in cash and cash equivalents	(6,853,461)	(2,011,834)	(13,627)	18,867
Effects of exchange rate changes	(30,778)	(150,502)	-	-
Cash and cash equivalents at 1 July	15,684,888	12,648,403	25,526	6,821
Cash and cash equivalents at 31 December	8,800,649	10,486,067	11,899	25,688
Analysis of cash and cash equivalents				
Cash and short-term funds	11,701,468	11,591,363	11,839	23,258
Deposits and placements with banks and other financial institutions	11,779,129	11,289,690	3,360	3,330
	23,480,597	22,881,053	15,199	26,588
Less: deposits and placements with banks and other financial institutions with original maturity of more than three months	(14,679,948)	(12,394,986)	(3,300)	(900)
	8,800,649	10,486,067	11,899	25,688

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2018.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018

1. Basis of preparation

The unaudited condensed financial statements have been prepared under the historical cost convention, except for the following assets and liabilities which are stated at fair values: financial assets at fair value through profit or loss ("FVTPL"), financial investments at fair value through other comprehensive income ("FVOCI") 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 Bursa Malaysia Securities Berhad's Listing Requirements and should be read in conjunction with the audited annual financial statements for the Group and the Company for the financial year ended 30 June 2018. 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 Company since the financial year ended 30 June 2018.

The unaudited condensed financial statements incorporate the activities relating to the Islamic banking and Takaful businesses which have been undertaken by its subsidiaries, Hong Leong Islamic Bank Berhad ("HLISB") and Hong Leong MSIG Takaful Berhad ("HLMT") in compliance with 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 2018 and modified for the adoption of the following accounting standards applicable for financial period beginning on or after 1 July 2018:

- MFRS 9 'Financial Instruments'
- MFRS 15 'Revenue from Contracts with Customers'
- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'

With effect from the financial year beginning on/after 1 July 2018, the Group and the Company apply MFRS 9 'Financial Instruments', replacing MFRS 139 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. MFRS 9 introduces and expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised. The new hedge accounting rules will align the accounting for hedging instruments more closely with The Group's risk management practices. As a general rule, more hedging relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation. Comparatives for 2018 will not be restated. The impact of adoption of MFRS 9 to the Group and the Company are disclosed in Note 34.

The adoption of the above new standards and interpretation are not expected to have impact on the financial results of the Group and the Company, except for the cumulative impact on the adoption of MFRS 9 which is recognised in the retained earnings as at 1 July 2018.

Revised BNM Policy Document on Financial Reporting

On 2 February 2018, BNM issued the revised policy document on Financial Reporting which prescribe the regulatory reserves to be maintained by banking institutions. With effect from 1 January 2018, the Group's domestic banking subsidiary companies must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

The financial effects of the adoption of the revised policy documents are presented in Note 34.

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

2. Status of matters giving rise to the auditor's qualified report in the preceding annual financial statement for the year ended 30 June 2018

There was no qualified report issued by the auditors in the preceding annual financial statements for the year ended 30 June 2018.

3. Seasonality or cyclicity of operations

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

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4. Exceptional items or unusual events affecting financial statements

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

5. Variation from financial estimates reported in preceding financial year

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

6. Issuance and repayment of debt and equity securities

There was no repayment of debt or equity share, share buy-back, share cancellation, shares held as treasury shares nor resale of treasury shares in HLFGB for the financial period ended 31 December 2018 other than as mentioned below.

a) Purchase of shares pursuant to Executive Share Scheme ("ESS")

In December 2017, the Group has granted up to 20,450,000 HLFGB shares at an exercise price of RM17.12 to eligible executives of HLFGB and its subsidiary pursuant to the Company's Executive Share Scheme.

The options granted are subject to the achievement of certain performance criteria by the option holders over two performance periods concluding at the end of the financial years ending 30 June 2019 and 30 June 2021 respectively. The achievement of the performance targets and the numbers of shares (if any) to be vested shall be determined following the end of respective performance periods. The vested options for each performance period are exercisable in three tranches over a period of 2 - 26 months from the respective vesting dates.

During the financial period ended 31 December 2018, the Company purchased 1,000,000 units of shares for RM18,428,800 and no shares were exercised pursuant to the Company's ESOS.

As at 31 December 2018, the total number of Treasury Shares for Executive Share Option Scheme ("ESOS") is 1,000,500 at an average price of RM18.42 per share and the total consideration paid, including transaction costs was RM18,431,956.

The remaining number of shares held by the appointed trustee for the insurance subsidiary company as at 31 December 2018 was 2,517,900 units at an average price of RM9.01 per share with total consideration paid, including transaction costs was RM22,682,753 which have been classified as treasury shares for ESOS at the Group level.

b) Issuance of Senior Notes

On 6 September 2018, the Company issued RM400 million in aggregate principal amount of Senior Notes ("the Notes") out of its multi-currency perpetual notes programme. The Notes were issued for a period of three years with a coupon rate of 4.35% per annum.

7. Dividends paid

A first interim single-tier dividend of 13.0 sen per share amounting to RM149.1 million was paid on 27 December 2018.

8. Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.

Inter-segment pricing is based on internally computed cost of funds.

Segment results, assets and liabilities include items directly attributable to the segment as well as those that can be allocated on a reasonable basis.

No analysis by geographical segments is presented as the Group's operations are substantially carried out in Malaysia.

Business segments

The Group comprises the following main business segments:

Commercial banking	Commercial banking business
Investment banking and asset management	Investment banking, futures and stockbroking, fund and unit trust management
Insurance	Life and general insurance and family takaful business
Other operations	Investment holding and provision of management services

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8. Segmental reporting (continued)

The Group	Commercial	Investment	Insurance	Other	Eliminations/	Consolidated
31 December 2018	banking	banking		operations	consolidation	
	RM '000	RM '000	RM '000	RM '000	adjustments	RM '000
					RM '000	RM '000
Revenue for the period ended						
External revenue	2,381,721	93,854	181,090	(28,208)	-	2,628,457
Intersegment revenue	9,474	309	957	467,741	(478,481)	-
	<u>2,391,195</u>	<u>94,163</u>	<u>182,047</u>	<u>439,533</u>	<u>(478,481)</u>	<u>2,628,457</u>
Results for the period ended						
Segment results	1,393,854	37,531	116,716	422,638	(468,728)	1,502,011
Share of results of associated companies						<u>304,619</u>
Profit before taxation						<u>1,806,630</u>
Taxation						<u>(305,080)</u>
Net profit for the financial period						<u>1,501,550</u>
Non-controlling interests						<u>(514,308)</u>
Profit attributable to owners of the parent						<u><u>987,242</u></u>
Other information						
Segment assets	211,950,471	4,603,704	20,686,056	18,055,437	(14,665,214)	<u><u>240,630,454</u></u>
Segment liabilities	187,491,603	3,837,631	17,696,901	2,064,574	1,888,531	<u><u>212,979,240</u></u>

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8. Segmental reporting (continued)

The Group	Commercial	Investment		Other	Eliminations/	Consolidated
31 December 2017	banking	banking	Insurance	operations	consolidation	
	RM '000	RM '000	RM '000	RM '000	adjustments	RM '000
					RM '000	RM '000
Revenue for the period ended						
External revenue	2,399,824	96,190	175,550	(26,797)	-	2,644,767
Intersegment revenue	7,362	2,016	2,413	444,516	(456,307)	-
	<u>2,407,186</u>	<u>98,206</u>	<u>177,963</u>	<u>417,719</u>	<u>(456,307)</u>	<u>2,644,767</u>
Results for the period ended						
Segment results	1,330,866	37,368	130,047	405,544	(443,656)	1,460,169
Share of results of associated companies						295,525
Share of results of joint ventures						9,495
Profit before taxation						<u>1,765,189</u>
Taxation						<u>(325,315)</u>
Net profit for the financial period						<u>1,439,874</u>
Non-controlling interests						<u>(489,279)</u>
Profit attributable to owners of the parent						<u>950,595</u>
Other information						
Segment assets	202,151,362	4,270,182	19,316,675	17,562,839	(15,969,087)	<u>227,331,971</u>
Segment liabilities	178,954,277	3,531,355	16,601,171	1,658,113	714,438	<u>201,459,354</u>

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9. Financial assets at fair value through profit or loss

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
Money market instruments:		
Government treasury bills	339,574	-
Malaysian Government securities	3,666,717	-
Malaysian Government investment certificates	1,590,039	-
Negotiable instruments of deposit	1,137,640	-
Cagamas bonds	375,497	-
Khazanah bonds	124,265	-
Other Government securities	4,795,209	-
	<u>12,028,941</u>	<u>-</u>
Quoted securities:		
Shares in Malaysia	2,082,426	-
Shares outside Malaysia	267,706	-
Wholesale fund/unit trust investments	1,145,487	-
Foreign currency bonds in Malaysia	74,662	-
Foreign currency bonds outside Malaysia	74,132	-
Investment-linked funds	277	-
Warrants quoted in Malaysia	1,848	-
	<u>3,646,538</u>	<u>-</u>
Unquoted securities:		
Shares in Malaysia	453,295	-
Foreign currency bonds outside Malaysia	391,257	-
Corporate bonds and sukuk	6,926,396	-
Redeemable preference shares	30,866	-
	<u>7,801,814</u>	<u>-</u>
Total financial assets at fair value through profit or loss	<u>23,477,293</u>	<u>-</u>

	The Company	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
Quoted securities:		
Unit trust investments	30,570	-

10. Financial assets held-for-trading

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
Money market instruments:		
Malaysian Government securities	-	2,591,793
Malaysian Government investment certificates	-	867,698
Bankers' acceptances and Islamic accepted bills	-	55,084
Negotiable instruments of deposit	-	3,983,804
Other Government securities	-	655,493
	<u>-</u>	<u>8,153,872</u>
Quoted securities:		
Shares in Malaysia	-	612,759
Shares outside Malaysia	-	108,132
Unit trust investments	-	435,834
Foreign currency bonds in Malaysia	-	40,093
Foreign currency bonds outside Malaysia	-	68,847
	<u>-</u>	<u>1,265,665</u>
Unquoted securities:		
Foreign currency bonds outside Malaysia	-	52,465
Corporate bonds and sukuk	-	1,064,879
	<u>-</u>	<u>1,117,344</u>
Total financial assets held-for-trading	<u>-</u>	<u>10,536,881</u>

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11. Financial investments at fair value through other comprehensive income

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
Money market instruments:		
Government treasury bills	165,392	-
Malaysian Government securities	1,271,710	-
Malaysian Government investment certificates	5,908,220	-
Negotiable instruments of deposit	3,890,563	-
Other Government securities	641,941	-
Khazanah bonds	276,214	-
Cagamas bonds	1,068,038	-
	13,222,078	-
Quoted securities:		
Foreign currency bonds in Malaysia	2,606,070	-
Foreign currency bonds outside Malaysia	2,158,517	-
	4,764,587	-
Unquoted securities:		
Shares in Malaysia	32,534	-
Malaysian Government sukuk	1,072,232	-
Corporate bonds and sukuk	7,844,275	-
Foreign currency bonds in Malaysia	1,094,594	-
Foreign currency bonds outside Malaysia	1,073,565	-
	11,117,200	-
Total financial investments at fair value through other comprehensive income	29,103,865	-

Movements in the allowances for impairment which reflect the expected credit loss ("ECL") model on impairment are as follows:

	The Group As at 31/12/2018 RM '000
12 months ECL Stage 1	
As at beginning of the financial period	-
- as previously stated	-
- effect of adopting MFRS 9	19,202
As restated	19,202
New financial assets originated or purchased	1,358
Financial assets derecognised	(543)
Changes due to change in credit risk	(316)
Exchange differences	352
As at end of the financial period	20,053

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12. Financial investments available-for-sale

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
Money market instruments:		
Malaysian Government securities	-	1,357,655
Malaysian Government investment certificates	-	4,523,680
Other Government securities	-	4,268,647
Khazanah bonds	-	673,444
Cagamas bonds	-	1,490,348
	<u>-</u>	<u>12,313,774</u>
Quoted securities:		
Shares in Malaysia	-	1,520,961
Shares outside Malaysia	-	111,481
Foreign currency bonds in Malaysia	-	2,996,117
Foreign currency bonds outside Malaysia	-	1,660,272
Investment-linked funds	-	300
Unit trust investments	-	558,205
	<u>-</u>	<u>6,847,336</u>
Unquoted securities:		
Shares in Malaysia	-	469,905
Malaysian Government sukuk	-	2,385,470
Corporate bonds and sukuk	-	13,650,762
Foreign currency bonds in Malaysia	-	1,048,287
Foreign currency bonds outside Malaysia	-	1,017,005
	<u>-</u>	<u>18,571,429</u>
Total financial investments available-for-sale	<u>-</u>	<u>37,732,539</u>

13. Financial investments at amortised cost

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
Money market instruments:		
Government treasury bills	53,991	-
Malaysian Government securities	958,628	-
Malaysian Government investment certificates	9,962,164	-
Khazanah bonds	298,607	-
Other Government securities	394,052	-
	<u>11,667,442</u>	<u>-</u>
Quoted securities:		
Foreign currency bonds in Malaysia	816,101	-
Foreign currency bonds outside Malaysia	150,407	-
	<u>966,508</u>	<u>-</u>
Unquoted securities:		
Malaysian Government sukuk	3,053,516	-
Corporate bonds and sukuk	2,062,698	-
Foreign currency bonds outside Malaysia	53,741	-
	<u>5,169,955</u>	<u>-</u>
Total financial investments at amortised cost	<u>17,803,905</u>	<u>-</u>

Movements in the allowances for impairment which reflect the ECL model on impairment are as follows:

	The Group As at 31/12/2018 RM '000
12 months ECL Stage 1	
As at beginning of the financial period	-
- as previously stated	-
- effect of adopting MFRS 9	855
As restated	855
New financial assets originated or purchased	199
Changes due to change in credit risk	1
As at end of the financial period	<u>1,055</u>

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14. Financial investments held-to-maturity

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
Money market instruments:		
Government treasury bills	-	52,950
Malaysian Government securities	-	1,574,180
Malaysian Government investment certificates	-	11,432,594
Other Government securities	-	383,739
	<u>-</u>	<u>13,443,463</u>
Unquoted securities:		
Malaysian Government sukuk	-	1,548,339
Corporate bonds and sukuk	-	748,201
Foreign currency bonds outside Malaysia	-	124,810
Redeemable preference shares	-	30,866
	<u>-</u>	<u>2,452,216</u>
Total financial investments held-to-maturity	<u>-</u>	<u>15,895,679</u>

15. Loans, advances and financing

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
Overdrafts	3,622,758	3,794,584
Term loans/financing:		
- Housing and shop loans/financing	73,216,191	70,332,643
- Syndicated term loan/financing	10,640,597	9,953,665
- Hire purchase receivables	17,613,904	17,229,742
- Other term loans/financing	7,373,686	7,700,340
Credit/charge card receivables	3,606,998	3,899,183
Bills receivables	943,462	996,560
Trust receipts	381,527	328,628
Policy and premium loans	562,703	564,369
Claims on customers under acceptance credits	7,739,602	7,839,208
Revolving credits	6,172,709	6,627,619
Staff loans/financing	141,836	146,088
Other loans/financing	403,503	448,850
Gross loans, advances and financing	<u>132,419,476</u>	<u>129,861,479</u>
Fair value changes arising from fair value hedges	(1,786)	(2,540)
Unamortised fair value changes arising from terminated fair value hedges	(6)	(13)
Allowance for impaired loans, advances and financing:		
- 12 months ECL (Stage 1)	(377,406)	-
- Lifetime ECL not credit impaired (Stage 2)	(484,063)	-
- Lifetime ECL credit impaired (Stage 3)	(417,128)	-
- Collective assessment allowance	-	(805,397)
- Individual assessment allowance	-	(202,295)
Total net loans, advances and financing	<u>131,139,087</u>	<u>128,851,234</u>

Included in loans, advances and financing are housing loans sold to Cagamas with recourse to the Group amounting to RM169,385,000 (2018: RM177,874,000).

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15. Loans, advances and financing (continued)

(a) By type of customer

	The Group	
	As at	As at
	31/12/2018	30/06/2018
	RM '000	RM '000
Domestic non-bank financial institutions	1,031,895	597,185
Domestic business enterprises:		
- small and medium enterprises	21,045,451	20,480,196
- others	17,565,607	16,489,255
Government and statutory bodies	11,460	19,374
Individuals	90,841,217	85,095,493
Other domestic entities	248,129	269,937
Foreign entities	1,675,717	6,910,039
Gross loans, advances and financing	<u>132,419,476</u>	<u>129,861,479</u>

(b) By interest/profit rate sensitivity

	The Group	
	As at	As at
	31/12/2018	30/06/2018
	RM '000	RM '000
Fixed rate		
- Housing and shop loans/financing	1,749,495	2,583,136
- Hire purchase receivables	17,350,345	16,916,260
- Other fixed rate loan/financing	6,897,690	7,241,647
Variable rate		
- Base rate/base lending rate plus	89,265,428	86,079,824
- Cost plus	16,609,723	16,635,549
- Other variables rates	546,795	405,063
Gross loans, advances and financing	<u>132,419,476</u>	<u>129,861,479</u>

(c) By economic purpose

	The Group	
	As at	As at
	31/12/2018	30/06/2018
	RM '000	RM '000
Purchase of securities	843,979	604,109
Purchase of transport vehicles	17,247,744	16,893,711
Purchase of landed properties		
- residential	64,318,778	61,370,803
- non-residential	15,558,381	15,553,253
Purchase of fixed assets (excluding landed properties)	785,615	546,924
Personal use	3,384,668	3,248,454
Credit card	3,606,998	3,899,183
Construction	1,682,040	1,552,918
Mergers and acquisition	348,706	362,600
Working capital	22,738,022	23,857,255
Other purpose	1,904,545	1,972,269
Gross loans, advances and financing	<u>132,419,476</u>	<u>129,861,479</u>

(d) By geographical distribution

	The Group	
	As at	As at
	31/12/2018	30/06/2018
	RM '000	RM '000
Malaysia	125,782,014	123,335,851
Singapore	4,977,142	5,097,771
Vietnam	546,795	405,063
Cambodia	1,113,525	1,022,794
Gross loans, advances and financing	<u>132,419,476</u>	<u>129,861,479</u>

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15. Loans, advances and financing (continued)

(e) By residual contractual maturity

	The Group	
	As at 31/12/2018	As at 30/06/2018
	RM '000	RM '000
Within one year	26,045,897	27,426,888
One year to less than three years	6,284,416	6,027,852
Three years to less than five years	9,309,871	9,069,429
Five years and more	90,779,292	87,337,310
Gross loans, advances and financing	<u>132,419,476</u>	<u>129,861,479</u>

(f) Credit impaired/impaird loans, advances and financing by economic purpose

	The Group	
	As at 31/12/2018	As at 30/06/2018
	RM '000	RM '000
Purchase of securities	534	1,256
Purchase of transport vehicles	127,432	134,141
Purchase of landed properties		
- residential	362,947	353,270
- non-residential	161,935	170,961
Purchase of fixed assets (excluding landed properties)	5,464	3,465
Personal use	43,667	46,682
Credit card	33,755	39,562
Construction	8,227	3,530
Working capital	304,536	376,386
Other purpose	5,806	3,134
Gross credit impaired/impaird loans, advances and financing	<u>1,054,303</u>	<u>1,132,387</u>

(g) Credit impaired/impaird loans, advances and financing by geographical distribution

	The Group	
	As at 31/12/2018	As at 30/06/2018
	RM '000	RM '000
Malaysia	1,037,003	1,119,695
Singapore	10,017	1,394
Vietnam	3,636	3,937
Cambodia	3,647	7,361
Gross credit impaired/impaird loans, advances and financing	<u>1,054,303</u>	<u>1,132,387</u>

(h) Movements in credit impaired/impaird loans, advances and financing are as follows:

	The Group	
	As at 31/12/2018	As at 30/06/2018
	RM '000	RM '000
As at beginning of the financial period/year		
- as previously stated	1,132,387	1,215,017
- effect of adopting MFRS 9	(11)	-
As restated	<u>1,132,376</u>	<u>1,215,017</u>
Classified as impaired during the financial period/year	806,562	1,663,481
Reclassified as non-impaired during the financial period/year	(443,956)	(889,043)
Amount written back in respect of recoveries	(290,124)	(392,039)
Amount written off	(152,272)	(460,834)
Exchange differences	1,717	(4,195)
As at end of the financial period/year	<u>1,054,303</u>	<u>1,132,387</u>
Gross credit impaired/impaird loans as a % of gross loans, advances and financing	<u>0.8%</u>	<u>0.9%</u>

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15. Loans, advances and financing (continued)

(i) Movements in the allowance for impairment on loans, advances and financing are as follows:

The Group	12 months ECL Stage 1 RM '000	Lifetime ECL not credit impaired Stage 2 RM '000	Lifetime ECL credit impaired Stage 3 RM '000	Total ECL RM '000
As at 30/09/2018				
As at beginning of the financial period				
- as previously stated				1,007,692
- effect of adopting MFRS 9				367,550
As restated	420,526	492,615	462,101	1,375,242
Changes in ECL due to transfer within stages	(50,821)	(67,885)	118,706	-
- transfer to 12 months ECL (Stage 1)	12,150	(12,073)	(77)	-
- transfer to Lifetime ECL not credit impaired (Stage 2)	(63,048)	111,318	(48,270)	-
- transfer to Lifetime ECL credit impaired (Stage 3)	77	(167,130)	167,053	-
New financial assets originated	28,826	2,121	38	30,985
Financial assets derecognised	(17,722)	(19,830)	(19,651)	(57,203)
Changes due to change in credit risk	(3,833)	76,820	24,284	97,271
Modifications to contractual cash flows of financial assets	-	-	2,848	2,848
Amount written off	-	-	(135,803)	(135,803)
Exchange differences	430	222	1,553	2,205
Other movements	-	-	(36,948)	(36,948)
As at end of the financial period	<u>377,406</u>	<u>484,063</u>	<u>417,128</u>	<u>1,278,597</u>

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
<u>Collective assessment allowance</u>		
As at beginning of the financial period/year		
- as previously stated	805,397	830,407
- effect of adopting MFRS 9	(805,397)	-
As restated	-	830,407
Net allowance made during the financial period/year	-	300,218
Amount written off	-	(310,061)
Unwinding income	-	(14,475)
Exchange differences	-	(692)
As at end of the financial period/year	<u>-</u>	<u>805,397</u>

Collective assessment allowance (inclusive of regulatory reserve) as % of gross loans, advances and financing less individual impairment allowance 1.2%

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
<u>Individual assessment allowance</u>		
As at beginning of the financial period/year		
- as previously stated	202,295	325,536
- effect of adopting MFRS 9	(202,295)	-
As restated	-	325,536
Net allowance made during the financial period/year	-	63,406
Amount written back in respect of recoveries	-	(55,505)
Amount written off	-	(119,266)
Unwinding income	-	(7,959)
Exchange differences	-	(3,917)
As at end of the financial period/year	<u>-</u>	<u>202,295</u>

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16. Other receivables

	The Group	
	As at	As at
	31/12/2018	30/06/2018
	RM '000	RM '000
Foreclosed properties	20,123	46
Sundry debtors and other prepayments	222,137	293,418
Treasury related receivables	168,603	65,547
Fee income receivable	8,212	2,842
Cash collateral pledged for derivative transactions	270,962	314,855
Other receivables	121,299	275,862
	811,336	952,570

	The Company	
	As at	As at
	31/12/2018	30/06/2018
	RM '000	RM '000
Amount due from subsidiary companies	7,108	4,137
Sundry debtors and other prepayments	1,298	180
Other receivables	230	230
	8,636	4,547

17. Investment in associated companies

	The Group	
	As at	As at
	31/12/2018	30/06/2018
	RM '000	RM '000
<u>Retained portion</u>		
Quoted shares outside Malaysia, at cost	938,311	938,311
Unquoted shares in Malaysia, at cost	618,666	618,666
Unquoted shares outside Malaysia, at cost	24,657	-
Cumulative share of results, net of dividends received	2,834,347	2,498,670
Cumulative share of changes in other comprehensive income	2,988	(4,743)
Exchange fluctuation reserve	431,398	487,422
	4,850,367	4,538,326

On 25 October 2007, Hong Leong Bank Berhad ("HLB") entered into a Share Subscription Agreement with BOCD to subscribe for new shares representing 19.99% equity interest of the Enlarged Capital in BOCD. BOCD is a leading commercial bank in Western and Central China with its base in Chengdu, the capital of Sichuan Province. The subscription enables HLB to enter into a strategic alliance with BOCD to tap into the promising and growing financial services sector of China. It will strengthen and diversify the earnings base of HLB.

On 31 January 2018, BOCD was officially listed on the Shanghai Stock Exchange after completing its initial public offering ("IPO") of 361 million shares and raised 2.53 billion yuan. Arising from the IPO, the Group's equity interest of the enlarged capital in BOCD is now reduced to 18% from 20%.

Included in the investment in associated companies are the reclassification of the retained interest of 12% from investment in joint venture under the Group of RM64,401,000.

On 1 October 2010, HLA Holdings Sdn Bhd ("HLAH") entered into a Strategic Partnership with Mitsui Sumitomo Insurance Company, Limited ("MSIJ") to transfer the Non-Life Business of Hong Leong Assurance Berhad ("HLA") to MSIG Insurance (Malaysia) Bhd ("MSIM"), a subsidiary of MSIJ and one of the largest general insurance in Malaysia, satisfied via the issuance of new shares 30% of the ordinary issued and paid-up capital of MSIM.

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18. Investment in joint venture

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
<u>Retained portion</u>		
Unquoted shares outside Malaysia, at cost	-	24,657
Cumulative share of results, net of dividends received	-	26,342
Exchange fluctuation reserve	-	6,674
	<u>-</u>	<u>57,673</u>
Equity interest held for sale	-	121,753
	<u>-</u>	<u>179,426</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 HLB's strategic partnership in BOCD and affirms HLB's vision and belief in the huge potential of China.

In March 2017, HLB's Board of Directors has approved the divestment of 37% of HLB's stake through non-subscription of the issuance of new share capital by JV Co and selling down the original share capital held by HLB to new strategic investors through an exercise via Southwest United Equity Exchange. The sale was completed upon obtaining approval from CBRC vide its letter dated 3 September 2018.

Post completion of the divestment exercise, the retained interest of 12% under the Group of RM64,401,000 are derecognised from its investment in joint venture and classified as investment in associated companies.

19. Deposits from customers

(a) By type of deposits

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
At amortised cost		
Fixed deposits	92,192,398	88,068,740
Negotiable instruments of deposits	8,101,533	6,892,073
Short-term placements	17,360,375	16,624,892
	<u>117,654,306</u>	<u>111,585,705</u>
Demand deposits	22,973,073	23,586,919
Savings deposits	17,294,365	17,563,850
Others	939,363	979,288
Gross deposits from customers	<u>158,861,107</u>	<u>153,715,762</u>
At fair value through profit or loss		
Structured deposits linked to interest rate derivatives	3,449,955	3,334,428
Fair value changes arising from designation at fair value through profit or loss*	(134,641)	(167,278)
	<u>3,315,314</u>	<u>3,167,150</u>
	<u>162,176,421</u>	<u>156,882,912</u>

*Note:

The Group has issued structured deposits which are linked to interest rate derivatives and designated them at fair value through profit or loss. This designation is permitted under MFRS 9 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 which are linked to interest rate derivatives that are attributable to the changes in own credit risk are not significant.

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19. Deposits from customers (continued)

(b) By type of customers

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
Government and statutory bodies	8,671,003	4,818,613
Business enterprises	66,313,719	61,345,942
Individuals	84,819,898	88,185,501
Others	2,371,801	2,532,856
	<u>162,176,421</u>	<u>156,882,912</u>

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

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
Due within six months	93,459,504	83,100,530
More than six months to one year	22,234,925	26,160,206
More than one year to five years	1,949,797	2,324,969
More than five years	10,080	-
	<u>117,654,306</u>	<u>111,585,705</u>

20. Deposits and placements of banks and other financial institutions

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
Licensed banks	10,205,502	7,134,830
Licensed investment banks	370,106	309,597
Other financial institutions	2,137,201	1,851,968
	<u>12,712,809</u>	<u>9,296,395</u>
The maturity structure of deposits and placements of banks and other financial institutions:		
- One year or less (short-term)	<u>12,712,809</u>	<u>9,296,395</u>

21. Payables and other liabilities

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
Trade payables	2,889,289	2,731,351
Post employment benefits obligation - defined contribution plan	1,874	1,855
Loan advance payment	3,285,384	3,229,766
Treasury and cheque clearing	147,324	50,106
Treasury related payables	106,084	231,223
Sundry creditors and accruals	385,235	554,916
Provision for bonus and staff related expenses	267,357	226,546
Financial liabilities due to third party investors*	5,011,115	3,859,209
Others	671,099	823,219
	<u>12,764,761</u>	<u>11,708,191</u>

* Financial liabilities due to third party investors relate to the net asset value of units held by the third party investors of unit trust funds deemed as subsidiary company pursuant to MFRS 10 "Consolidated Financial Statements".

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21. Payables and other liabilities (continued)

	The Company	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
Post employment benefits obligation - defined contribution plan	45	45
Sundry creditors and accruals	1,530	2,093
Provision for bonus and staff related expenses	17,283	11,474
	<u>18,858</u>	<u>13,612</u>

22. Interest income

	The Group		The Group	
	Current quarter ended 31/12/2018 RM '000	Last year quarter ended 31/12/2017 RM '000	Current year to date 31/12/2018 RM '000	Last year to date 31/12/2017 RM '000
Loans, advances and financing	1,211,268	1,161,948	2,415,239	2,325,994
Money at call and deposit placements with financial institutions	55,271	46,812	116,873	90,085
Securities purchased under resale agreements	437	1,090	940	2,038
Financial assets at fair value through profit or loss	106,841	-	216,184	-
Financial assets held-for-trading	-	109,532	-	214,224
Financial investments at fair value through other comprehensive income	238,537	-	452,583	-
Financial investments available-for-sale	-	203,267	-	388,071
Financial investments at amortised cost	122,753	-	240,033	-
Financial investments held-to-maturity	-	99,468	-	203,600
Others	7,160	6,132	12,767	13,379
	<u>1,742,267</u>	<u>1,628,249</u>	<u>3,454,619</u>	<u>3,237,391</u>
Of which:				
Interest income earned on impaired loans, advances and financing	<u>2,294</u>	<u>13,024</u>	<u>7,786</u>	<u>27,082</u>

	The Company		The Company	
	Current quarter ended 31/12/2018 RM '000	Last year quarter ended 31/12/2017 RM '000	Current year to date 31/12/2018 RM '000	Last year to date 31/12/2017 RM '000
Money at call and deposit placements with financial institutions	369	898	573	1,070
Subordinated obligations	6,125	-	12,250	-
Multi-currency Additional Tier 1 capital securities	5,172	1,799	10,344	1,799
Other interest income	118	101	263	461
	<u>11,784</u>	<u>2,798</u>	<u>23,430</u>	<u>3,330</u>

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23. Interest expense

	The Group		The Group	
	Current	Last year	Current year	Last year
	quarter ended	quarter ended	to date	to date
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	RM '000	RM '000	RM '000	RM '000
Deposits and placements of banks and other financial institutions	80,603	50,168	158,585	90,749
Deposits from customers	777,350	690,889	1,541,549	1,381,089
Short-term placements	116,552	81,276	226,002	169,833
Borrowings	13,978	14,307	29,197	29,938
Subordinated obligations	35,705	29,552	71,425	59,120
Recourse obligation on loans sold to Cagamas	1,916	1,916	3,832	3,832
Innovative Tier 1 capital securities	10,199	9,488	20,351	18,927
Multi-currency Additional Tier 1 capital securities	5,258	845	10,516	845
Others	1,712	3,153	3,271	7,860
	<u>1,043,273</u>	<u>881,594</u>	<u>2,064,728</u>	<u>1,762,193</u>

	The Company		The Company	
	Current	Last year	Current year	Last year
	quarter ended	quarter ended	to date	to date
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	RM '000	RM '000	RM '000	RM '000
Borrowings	13,997	14,307	29,221	29,938
Subordinated obligations	6,252	-	12,505	-
Multi-currency Additional Tier 1 capital securities	5,335	1,855	10,669	1,855
Others	92	148	182	290
	<u>25,676</u>	<u>16,310</u>	<u>52,577</u>	<u>32,083</u>

24. Net income from Islamic banking business

	The Group		The Group	
	Current	Last year	Current year	Last year
	quarter ended	quarter ended	to date	to date
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	RM '000	RM '000	RM '000	RM '000
Income derived from investment of depositors' funds and others	356,728	311,504	711,022	617,654
of which Finance income	356,167	312,937	704,667	613,500
of which other operating income	561	(1,433)	6,355	4,154
Income derived from investment of shareholders' funds	45,447	37,834	86,954	73,005
of which Finance income	30,972	27,212	61,275	53,348
of which other operating income	14,475	10,622	25,679	19,657
Income attributable to depositors	(229,431)	(192,505)	(454,156)	(374,016)
	<u>172,744</u>	<u>156,833</u>	<u>343,820</u>	<u>316,643</u>

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25. Non-interest income

	The Group		The Group	
	Current quarter ended 31/12/2018 RM '000	Last year quarter ended 31/12/2017 RM '000	Current year to date 31/12/2018 RM '000	Last year to date 31/12/2017 RM '000
Net income from insurance business	69,203	70,176	141,759	128,511
Net brokerage and commissions from stockbroking business	12,263	15,984	26,683	30,622
Net unit trust and asset management income	14,188	8,633	25,527	15,914
Fee income:				
Commissions	39,598	40,409	80,230	81,901
Service charges and fees	16,057	17,972	26,746	30,569
Guarantee fees	4,931	3,619	8,045	6,437
Credit card related fees	67,104	59,809	122,259	115,238
Corporate advisory fees	3,304	1,549	4,082	2,721
Commitment fees	8,076	8,384	16,224	16,972
Fee on loans, advances and financing	10,144	10,463	19,325	19,445
Placement fees	1,450	43	1,689	93
Arranger fees	1,283	1,232	1,708	3,315
Other fee income	27,287	29,949	47,608	54,177
	179,234	173,429	327,916	330,868
Net realised (loss)/gain arising from sale/redemption of financial assets:				
Net gain from sale of financial assets at fair value through profit or loss	7,267	-	42,928	-
Net gain from sale of financial assets held-for-trading	-	12,710	-	27,487
Net gain from sale of financial investments at fair value through other comprehensive income	11,265	-	27,759	-
Net gain from sale of financial investments available-for-sale	-	36,658	-	78,748
Net loss from sale of derivative financial instruments	(120,680)	(46,128)	(127,588)	(58,533)
	(102,148)	3,240	(56,901)	47,702
Gross dividend income from:				
Financial assets at fair value through profit or loss	87,713	-	167,960	-
Financial assets held-for-trading	-	295	-	2,709
Financial investments at fair value through other comprehensive income	-	-	203	-
Financial investments available-for-sale	-	82,529	-	157,954
	87,713	82,824	168,163	160,663
Net unrealised gain on revaluation of:				
Financial assets at fair value through profit or loss	(13,656)	-	12,653	-
Financial assets held-for-trading	-	(5,579)	-	(9,783)
Derivative financial instruments	53,971	75,575	57,324	84,035
	40,315	69,996	69,977	74,252
Amortisation of fair value changes arising from terminated fair value hedges	(89)	(271)	(181)	(445)
Net loss on fair value changes arising from fair value hedges	(10)	(35)	(48)	(36)
Other income:				
Foreign exchange gain	48,664	32,156	85,319	51,949
Rental income	297	2,127	2,866	4,113
Net gain on disposal of property and equipment	171	1,306	348	1,761
Net gain on divestment of joint venture	17,864	-	90,106	-
Other non-operating income	5,889	2,962	13,212	7,052
	72,885	38,551	191,851	64,875
Total non-interest income	373,554	462,527	894,746	852,926

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25. Non-interest income (continued)

	The Company		The Company	
	Current quarter ended 31/12/2018 RM '000	Last year quarter ended 31/12/2017 RM '000	Current year to date 31/12/2018 RM '000	Last year to date 31/12/2017 RM '000
Fee income:				
Management fees	3,348	2,332	4,954	5,114
Net loss from sale of financial assets at fair value through profit or loss	(51)	-	(51)	-
Gross dividend income from:				
Financial assets at fair value through profit or loss	559	-	957	-
Subsidiary companies	466,997	436,241	466,997	436,241
Net unrealised gain on revaluation of:				
Derivative financial instruments	58	328	106	345
Other income:				
Gain from distribution on liquidation of subsidiary	-	-	21	-
Other non-operating income	18	-	26	-
Total non-interest income	470,929	438,901	473,010	441,700

26. Overhead expenses

	The Group		The Group	
	Current quarter ended 31/12/2018 RM '000	Last year quarter ended 31/12/2017 RM '000	Current year to date 31/12/2018 RM '000	Last year to date 31/12/2017 RM '000
<u>Personnel costs</u>				
- Salaries, allowances and bonuses	283,109	297,504	582,727	577,587
- Medical expenses	8,286	8,089	13,038	15,704
- Training and convention expenses	5,700	7,662	12,671	13,385
- Staff welfare	2,471	2,547	4,954	4,525
- Others	19,815	1,933	41,948	14,332
	319,381	317,735	655,338	625,533
<u>Establishment costs</u>				
- Depreciation of property and equipment	34,674	28,693	68,957	57,026
- Amortisation of intangible assets	15,052	20,692	30,298	41,464
- Rental of premises	16,643	22,444	34,077	44,185
- Information technology expenses	47,068	42,710	90,427	85,433
- Security services	6,645	4,791	13,820	12,814
- Electricity, water and sewerage	6,271	7,024	12,563	14,043
- Hire of plant and machinery	3,084	3,128	6,134	6,343
- Others	7,650	7,665	18,576	16,983
	137,087	137,147	274,852	278,291
<u>Marketing expenses</u>				
- Advertisement and publicity	5,747	9,750	11,942	20,066
- Sales commission and credit card related fees	33,061	31,219	64,871	56,536
- Others	9,029	6,415	19,230	12,265
	47,837	47,384	96,043	88,867
<u>Administration and general expenses</u>				
- Teletransmission expenses	4,331	4,561	8,833	9,092
- Stationery and printing expenses	3,755	3,680	7,452	7,076
- Professional fees	21,284	19,542	43,155	42,103
- Insurance fees	11,201	11,306	21,338	21,340
- Stamp, postage and courier	3,432	3,554	6,722	7,996
- Credit card fees	10,604	11,110	21,221	20,745
- Travelling and transport expenses	1,182	1,052	2,356	2,012
- Registration and license fees	2,534	2,528	5,008	5,090
- Brokerage and commission	1,935	1,976	3,821	3,440
- Others	8,791	10,762	18,728	18,998
	69,049	70,071	138,634	137,892
	573,354	572,337	1,164,867	1,130,583

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26. Overhead expenses (continued)

	The Company		The Company	
	Current quarter ended 31/12/2018 RM '000	Last year quarter ended 31/12/2017 RM '000	Current year to date 31/12/2018 RM '000	Last year to date 31/12/2017 RM '000
<u>Personnel costs</u>				
- Salaries, allowances and bonuses	5,480	3,981	10,972	7,927
- Medical expenses	33	33	61	60
- Training and convention expenses	14	13	26	15
- Staff welfare	158	132	295	262
- Others	3,353	161	6,680	337
	<u>9,038</u>	<u>4,320</u>	<u>18,034</u>	<u>8,601</u>
<u>Establishment costs</u>				
- Depreciation of property and equipment	285	152	570	304
- Amortisation of intangible assets	1	(7)	1	4
- Rental of premises	239	158	469	348
- Information technology expenses	23	24	62	50
- Electricity, water and sewerage	10	11	22	28
- Hire of machinery	-	1	-	5
- Others	40	25	76	49
	<u>598</u>	<u>364</u>	<u>1,200</u>	<u>788</u>
<u>Administration and general expenses</u>				
- Teletransmission expenses	12	7	21	15
- Stationery and printing expenses	12	13	24	21
- Professional fees	265	213	485	396
- Management fees	692	563	1,038	1,126
- Travelling and transport expenses	19	16	31	34
- Others	243	162	338	345
	<u>1,243</u>	<u>974</u>	<u>1,937</u>	<u>1,937</u>
	<u>10,879</u>	<u>5,658</u>	<u>21,171</u>	<u>11,326</u>

27. (Writeback of)/allowance for impairment losses on loans, advances and financing and other losses

	The Group		The Group	
	Current quarter ended 31/12/2018 RM '000	Last year quarter ended 31/12/2017 RM '000	Current year to date 31/12/2018 RM '000	Last year to date 31/12/2017 RM '000
(Writeback of)/allowance for impairment losses on loans, advances and financing:				
- Stage 1 - 12 months ECL	(45,500)	-	(43,548)	-
- Stage 2 - Lifetime ECL not credit impaired	(10,799)	-	(8,776)	-
- Stage 3 - Lifetime ECL credit impaired	54,547	-	126,226	-
- Collective assessment allowance	-	62,945	-	156,212
- Individual assessment allowance	-	14,573	-	16,097
Allowance for/(writeback of) impairment losses on client's and brokers' balances:				
- Stage 1 - 12 months ECL	4	-	(7)	-
- Stage 3 - Lifetime ECL credit impaired	(33)	-	(15)	-
- Collective assessment allowance	-	23	-	24
- Individual assessment allowance	-	(129)	-	(105)
(Writeback of)/allowance for impairment losses on other assets:				
- Stage 1 - 12 months ECL	(341)	-	6	-
- Stage 3 - Lifetime ECL credit impaired	(21)	-	(85)	-
- Individual assessment allowance	-	28	-	(48)
Credit impaired/impaired loans, advances and financing:				
- written off	4,661	5,288	9,091	10,579
- recovered from bad debt written off	(61,106)	(72,305)	(122,392)	(128,653)
	<u>(58,588)</u>	<u>10,423</u>	<u>(39,500)</u>	<u>54,106</u>

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28. Capital adequacy

The banking subsidiaries' regulatory capital is governed by BNM's Capital Adequacy Framework guidelines. The capital adequacy ratios of the banking subsidiaries are computed in accordance with BNM's Capital Adequacy Framework (Capital Component) (the "Framework"). The Framework sets out the approach for computing the regulatory capital adequacy ratios, the minimum levels of the ratios at which banking institutions are required to operate as well as requirement on Capital Conservation Buffer ("CCB") and Counter Cyclical Buffer ("CCyB"). The Group is 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. The minimum capital adequacy including CCB for Common Equity Tier 1 (CET 1) capital ratio, Tier 1 capital ratio and Total capital ratio for year 2018 are 6.375%, 7.875% and 9.875% respectively.

The risk-weighted assets ("RWA") of the banking subsidiaries have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk computation.

(a) The capital adequacy ratios of the banking subsidiaries are as follows:

	Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	31/12/2018	30/06/2018	31/12/2018	30/06/2018	31/12/2018	30/06/2018
Before deducting proposed dividends						
CET 1 capital ratio	12.911%	13.113%	12.524%	12.545%	18.937%	33.073%
Tier 1 capital ratio	13.578%	13.797%	12.966%	12.997%	18.937%	33.073%
Total capital ratio	16.577%	16.752%	16.316%	16.301%	22.327%	37.619%
After deducting proposed dividends						
CET 1 capital ratio	12.668%	12.614%	12.234%	11.949%	18.937%	29.115%
Tier 1 capital ratio	13.335%	13.298%	12.676%	12.401%	18.937%	29.115%
Total capital ratio	16.334%	16.253%	16.026%	15.706%	22.327%	33.661%

(b) The component of CET 1, Tier 1 and Tier 2 capital under the revised Capital Components Framework are as follows:

	Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	31/12/2018	30/06/2018	31/12/2018	30/06/2018	31/12/2018	30/06/2018
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
CET 1 capital						
Share capital	7,739,063	7,739,063	7,739,063	7,739,063	252,950	252,950
Retained profit	15,604,193	15,184,533	11,559,693	11,212,525	192,445	250,085
Other reserves	722,621	868,134	213,860	298,837	864	(3,355)
Less: Treasury shares	(732,267)	(732,267)	(732,267)	(732,267)	-	-
Less: Other intangible assets	(133,286)	(152,541)	(118,246)	(137,166)	-	-
Less: Goodwill	(1,831,312)	(1,831,312)	(1,771,547)	(1,771,547)	(31,121)	(31,672)
Less: Deferred tax assets	(52,510)	(53,067)	(39,507)	(47,908)	(93,569)	(87,582)
Less: Investment in subsidiary companies/associated company/joint venture	(3,937,006)	(3,830,517)	(2,727,376)	(2,778,569)	(200)	(200)
Total CET 1 capital	17,379,496	17,192,026	14,123,673	13,782,968	321,369	380,226
Additional Tier 1 capital						
Multi-currency Additional Tier 1 capital securities	399,458	399,393	399,458	399,393	-	-
Innovative Tier 1 capital securities	498,522	497,562	498,522	497,562	-	-
Additional Tier 1 capital before regulatory adjustments	897,980	896,955	897,980	896,955	-	-
Less: Investment in Additional Tier 1 perpetual subordinated sukuk wakalah	-	-	(400,000)	(400,000)	-	-
Additional Tier 1 capital after regulatory adjustments	897,980	896,955	497,980	496,955	-	-
Total Tier 1 capital	18,277,476	18,088,981	14,621,653	14,279,923	321,369	380,226

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28. Capital adequacy (continued)

(b) The component of CET 1, Tier 1 and Tier 2 capital under the revised Capital Components Framework are as follows: (continued)

	Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	31/12/2018	30/06/2018	31/12/2018	30/06/2018	31/12/2018	30/06/2018
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Tier 2 capital						
Stage 1 and Stage 2 expected credit loss allowances and regulatory reserves #	1,537,018	-	1,277,812	-	-	-
Collective assessment allowance ^ and regulatory reserves #	-	1,375,082	-	1,130,670	-	2,266
General provisions *	-	-	-	-	7,534	-
Subordinated obligations	2,499,911	2,499,820	2,499,911	2,499,820	50,000	50,000
Total Tier 2 capital	<u>4,036,929</u>	<u>3,874,902</u>	<u>3,777,723</u>	<u>3,630,490</u>	<u>57,534</u>	<u>52,266</u>
Total capital	<u>22,314,405</u>	<u>21,963,883</u>	<u>18,399,376</u>	<u>17,910,413</u>	<u>378,903</u>	<u>432,492</u>

Includes the qualifying regulatory reserves for non-impaired loans of Hong Leong Bank Group of RM825,134,000 (2018: RM741,694,000), Hong Leong Bank Berhad of RM685,741,000 (2018: RM637,098,000) and Hong Leong Investment Bank Berhad of RM Nil (2018: RM2,071,000) respectively.

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

* Pursuant to BNM's policy document on Financial Reporting, general provision refers to loss allowance, measured at an amount equal to 12-month and lifetime expected credit losses and regulatory reserve, to the extent they are ascribed to non-credit impaired exposures, determined under Standardised Approach for credit risk.

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

	Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	31/12/2018	30/06/2018	31/12/2018	30/06/2018	31/12/2018	30/06/2018
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Credit risk	122,961,455	118,853,998	102,224,976	98,504,099	602,762	407,598
Market risk	3,146,708	3,850,444	3,304,482	4,140,291	819,184	457,231
Operational risk	8,498,541	8,403,939	7,239,511	7,226,134	275,141	284,840
Total RWA	<u>134,606,704</u>	<u>131,108,381</u>	<u>112,768,969</u>	<u>109,870,524</u>	<u>1,697,087</u>	<u>1,149,669</u>

(d) The capital adequacy ratios of Hong Leong Bank Group's subsidiary company are as follows:

	Hong Leong Islamic Bank Berhad	
	31/12/2018	30/06/2018
Before deducting proposed dividends		
CET 1 capital ratio	10.930%	10.461%
Tier 1 capital ratio	12.836%	12.404%
Total capital ratio	<u>15.885%</u>	<u>15.477%</u>
After deducting proposed dividends		
CET 1 capital ratio	10.834%	10.461%
Tier 1 capital ratio	12.741%	12.404%
Total capital ratio	<u>15.789%</u>	<u>15.477%</u>

29. Events after Balance Sheet date

There are no material events subsequent to the end of the financial period ended 31 December 2018.

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30. Changes in composition of the Group

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

- (a) Hong Leong Equities Sdn Bhd, a wholly-owned subsidiary of HLFGB, was dissolved on 27 November 2018.

31. 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.

32. Commitments and contingencies

- (a) In the normal course of business, the Group 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/principal amount of the commitments and contingencies constitute the following:

	The Group	
	31/12/2018	30/06/2018
	RM '000	RM '000
Direct credit substitutes	103,515	109,341
Certain transaction related contingent items	1,374,121	1,286,782
Short-term self liquidating trade related contingencies	803,122	836,785
Obligations under underwriting agreement	100,000	-
Irrevocable commitments to extend credit:		
- less than one year	18,363,791	16,074,689
- more than one year	16,878,048	14,301,856
Any commitments that are unconditionally cancellable at any time by the Group without prior notice:		
- less than one year	709,916	662,442
Foreign exchange related contracts:		
- less than one year	43,795,588	45,991,115
- one year to less than five years	2,618,308	2,640,932
- five years and above	219,061	517,407
Interest rate related contracts:		
- less than one year	39,729,738	29,754,327
- one year to less than five years	26,902,483	50,035,129
- five years and above	7,238,398	7,161,925
Equity related contracts:		
- less than one year	666,660	306,258
- one year to less than five years	34,991	510,502
Credit related contracts:		
- five years and above	19,498	-
Unutilised credit card lines	7,416,026	6,908,565
Total	166,973,264	177,098,055

	The Company	
	31/12/2018	30/06/2018
	RM '000	RM '000
Interest rate swaps:		
- one year to less than five years	100,000	100,000

- (b) Hong Leong Asset Management Bhd, a wholly-owned subsidiary company of Hong Leong Capital Berhad ("HLCB"), is the Manager of Hong Leong Consumer Products Sector Fund ("Funds"). HLCB provided a guarantee to Deutsche Trustees Malaysia Berhad, the trustee of the Funds, that if the fund falls below the minimum fund size of RM1 million, HLCB would invest cash, equivalent to the shortfall, into the relevant fund.

The size of the fund was above the minimum of RM1 million as at 31 December 2018 (2018: RM1 million).

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33. 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.

Determination of fair value and fair value hierarchy

The Group and the Company 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 instrument 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.

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

The Group 31 December 2018	Fair value			Total RM '000
	Level 1 RM '000	Level 2 RM '000	Level 3 RM '000	
<u>Recurring fair value measurements</u>				
<u>Financial assets</u>				
Financial assets at fair value through profit or loss				
- Money market instruments	-	12,028,941	-	12,028,941
- Quoted securities	3,646,538	-	-	3,646,538
- Unquoted securities	-	7,348,519	453,295	7,801,814
Financial investments at fair value through other comprehensive income				
- Money market instruments	-	13,222,078	-	13,222,078
- Quoted securities	4,764,587	-	-	4,764,587
- Unquoted securities	-	11,084,666	32,534	11,117,200
Derivative financial instruments	560	562,146	5,121	567,827
	<u>8,411,685</u>	<u>44,246,350</u>	<u>490,950</u>	<u>53,148,985</u>

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33. Fair value of financial instruments (continued)

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 Group 31 December 2018	Fair value			Total RM '000
	Level 1 RM '000	Level 2 RM '000	Level 3 RM '000	
Recurring fair value measurements				
Financial liabilities				
Derivative financial instruments	1,373	679,067	5,121	685,561
Financial liabilities designated at fair value				
- Structured deposits linked to interest rate derivatives	-	3,315,314	-	3,315,314
	<u>1,373</u>	<u>3,994,381</u>	<u>5,121</u>	<u>4,000,875</u>

30 June 2018

Recurring fair value measurements

Financial assets

Financial assets held-for-trading				
- Money market instruments	-	8,153,872	-	8,153,872
- Quoted securities	1,265,665	-	-	1,265,665
- Unquoted securities	-	1,117,344	-	1,117,344
Financial investments available-for-sale				
- Money market instruments	-	12,313,774	-	12,313,774
- Quoted securities	6,847,336	-	-	6,847,336
- Unquoted securities	-	18,101,525	469,904	18,571,429
Derivative financial instruments	1,221	956,098	13,876	971,195
	<u>8,114,222</u>	<u>40,642,613</u>	<u>483,780</u>	<u>49,240,615</u>

Financial liabilities

Derivative financial instruments	4,913	1,063,351	13,876	1,082,140
Financial liabilities designated at fair value				
- Structured deposits linked to interest rate derivatives	-	3,167,150	-	3,167,150
	<u>4,913</u>	<u>4,230,501</u>	<u>13,876</u>	<u>4,249,290</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 (2018: RM Nil).

The Company 31 December 2018	Fair value			Total RM '000
	Level 1 RM '000	Level 2 RM '000	Level 3 RM '000	
Recurring fair value measurements				
Financial assets				
Financial assets at fair value through profit or loss				
- Quoted securities	30,570	-	-	30,570
	<u>30,570</u>	<u>-</u>	<u>-</u>	<u>30,570</u>
Financial liabilities				
Derivative financial instruments	-	221	-	221
	<u>-</u>	<u>221</u>	<u>-</u>	<u>221</u>

30 June 2018

Recurring fair value measurements

Financial liabilities

Derivative financial instruments	-	327	-	327
	<u>-</u>	<u>327</u>	<u>-</u>	<u>327</u>

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33. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy (continued)

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy:

	Financial assets				Financial liability
	Financial assets at fair value through profit or loss RM '000	Financial investments at fair value through other comprehensive income RM '000	Financial investments available-for-sale RM '000	Derivative financial instruments RM '000	Derivative financial instruments RM '000
The Group					
31 December 2018					
As at beginning of the financial period					
- as previously stated	-	-	469,904	13,876	13,876
- effect of adopting MFRS 9	453,295	33,477	(469,904)	-	-
As restated	453,295	33,477	-	13,876	13,876
Fair value changes recognised in statements of income	-	-	-	(8,072)	(8,072)
Net fair value changes recognised in other comprehensive income	-	(943)	-	-	-
Purchases	-	-	-	2,040	2,040
Settlements	-	-	-	(2,723)	(2,723)
As at end of the financial period	453,295	32,534	-	5,121	5,121
Fair value changes recognised in statements of income relating to assets/liability held on 31 December 2018	-	-	-	(8,072)	(8,072)
Total loss recognised in other comprehensive income relating to assets held on 31 December 2018	-	(943)	-	-	-

	Financial assets			Financial liability
	Financial investments available-for-sale RM '000	Derivative financial instruments RM '000	Derivative financial instruments RM '000	Derivative financial instruments RM '000
The Group				
30 June 2018				
As at beginning of the financial year	457,152	8,568	8,568	
Fair value changes recognised in statements of income	-	4,672	4,672	
Net fair value changes recognised in other comprehensive income	162,113	-	-	
Purchases	-	6,672	6,672	
Disposal	(149,361)	-	-	
Settlements	-	(6,036)	(6,036)	
As at end of the financial year	469,904	13,876	13,876	
Fair value changes recognised in statements of income relating to assets/liability held on 30 June 2018	-	4,672	4,672	
Total gain recognised in other comprehensive income relating to assets held on 30 June 2018	162,113	-	-	

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34. Change in accounting policies

With effect from financial year beginning on/after 1 July 2018, the Group and the Company apply MFRS 9 "Financial Instruments", replacing MFRS 139 "Financial Instruments: Recognition and Measurement", and include requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

The following table analyses the impact of transition on the Statements of Financial Position of the Group from MFRS 139 to MFRS 9 as at 1 July 2018:

Impact of adopting MFRS 9 as at 1 July 2018

	The Group RM '000
Cash and short-term funds	
Closing balance under MFRS 139 as at 30 June 2018	9,890,071
- recognition of expected credit losses under MFRS 9	(463)
Opening balance under MFRS 9 as at 1 July 2018	<u>9,889,608</u>
Deposits and placements with banks and other financial institutions	
Closing balance under MFRS 139 as at 30 June 2018	10,196,421
- recognition of expected credit losses under MFRS 9	(303)
Opening balance under MFRS 9 as at 1 July 2018	<u>10,196,118</u>
Securities purchased under resale agreements	
Closing balance under MFRS 139 as at 30 June 2018	35,126
- recognition of expected credit losses under MFRS 9	(2)
Opening balance under MFRS 9 as at 1 July 2018	<u>35,124</u>
Financial assets at fair value through profit or loss	
Closing balance under MFRS 139 as at 30 June 2018	-
- redesignation from financial assets held-for-trading	1,134,571
- redesignation from financial investments available-for-sale	19,579,248
- redesignation from financial investments held-to-maturity	641,941
- unrealised gain on unquoted equity instruments	15,707
- unrealised gain on redesignation from financial investments available-for-sale	1,135
- unrealised gain on redesignation from financial investments held-to-maturity	9,530
Opening balance under MFRS 9 as at 1 July 2018	<u>21,382,132</u>
Financial assets held-for-trading	
Closing balance under MFRS 139 as at 30 June 2018	10,536,881
- redesignation to financial assets at fair value through profit or loss	(7,982,521)
- redesignation to financial investments at fair value through other comprehensive income	(2,554,360)
Opening balance under MFRS 9 as at 1 July 2018	<u>-</u>
Financial investments at fair value through other comprehensive income	
Closing balance under MFRS 139 as at 30 June 2018	-
- redesignation from financial investments available-for-sale	20,807,950
- redesignation from financial assets held-for-trading	2,554,360
- redesignation from financial investments held-to-maturity	3,169,316
- unrealised gain on financial investments	10,914
- unrealised gain on redesignation from financial investments held-to-maturity	1,909
- recognition of expected credit losses under MFRS 9	(3,380)
Opening balance under MFRS 9 as at 1 July 2018	<u>26,541,069</u>
Financial investments available-for-sale	
Closing balance under MFRS 139 as at 30 June 2018	37,732,539
- redesignation to financial investments at fair value through other comprehensive income	(13,960,001)
- redesignation to financial investments at amortised cost	(4,193,288)
- redesignation to financial assets at fair value through profit or loss	(19,579,250)
Opening balance under MFRS 9 as at 1 July 2018	<u>-</u>

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34. Change in accounting policies (continued)

The following table analyses the impact of transition on the Statements of Financial Position of the Group from MFRS 139 to MFRS 9 as at 1 July 2018: (continued)

Impact of adopting MFRS 9 as at 1 July 2018 (continued)

	The Group RM '000
Financial investments at amortised cost	
Closing balance under MFRS 139 as at 30 June 2018	-
- redesignation from financial investments held-to-maturity	12,084,422
- redesignation from financial investments available-for-sale	4,193,288
- remeasurement of debt instruments at amortised cost	38,776
- recognition of expected credit losses under MFRS 9	(854)
Opening balance under MFRS 9 as at 1 July 2018	<u>16,315,632</u>
Financial investments held-to-maturity	
Closing balance under MFRS 139 as at 30 June 2018	15,895,679
- redesignation to financial assets at fair value through profit or loss	(641,941)
- redesignation to financial investments at fair value through other comprehensive income	(3,169,316)
- redesignation to financial investments at amortised cost	(12,084,422)
Opening balance under MFRS 9 as at 1 July 2018	<u>-</u>
Loans, advances and financing	
Closing balance under MFRS 139 as at 30 June 2018	128,851,234
- recognition of expected credit losses under MFRS 9	(338,584)
- other classification and measurement	(11)
Opening balance under MFRS 9 as at 1 July 2018	<u>128,512,639</u>
Other receivables	
Closing balance under MFRS 139 as at 30 June 2018	952,570
- recognition of expected credit losses under MFRS 9	(7,600)
Opening balance under MFRS 9 as at 1 July 2018	<u>944,970</u>
Provision for taxation	
Closing balance under MFRS 139 as at 30 June 2018	244,162
- recognition of expected credit losses under MFRS 9	(80,534)
Opening balance under MFRS 9 as at 1 July 2018	<u>163,628</u>
Deferred tax liabilities	
Closing balance under MFRS 139 as at 30 June 2018	78,309
- in respect of unrealised gain/loss on financial investments at fair value through other comprehensive income reserves	14,080
- unrealised gain on redesignation from financial assets at fair value through profit or loss	272
- unrealised gain on redesignation from financial investments at fair value through other comprehensive income	5,020
- recognition of expected credit losses under MFRS 9	(1,422)
- other classification and measurement	(2)
Opening balance under MFRS 9 as at 1 July 2018	<u>96,257</u>
Insurance funds	
Closing balance under MFRS 139 as at 30 June 2018	13,188,787
- unrealised gain on redesignation from financial assets at fair value through profit or loss	9,167
- recognition of expected credit losses under MFRS 9	(3,233)
- deferred tax on unrealised gain on redesignation from financial assets at fair value through profit or loss	(615)
Opening balance under MFRS 9 as at 1 July 2018	<u>13,194,106</u>

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34. Change in accounting policies (continued)

The following table analyses the impact of transition on the Statements of Financial Position of the Group from MFRS 139 to MFRS 9 as at 1 July 2018: (continued)

Impact of adopting MFRS 9 as at 1 July 2018 (continued)

	The Group RM '000
Capital reserves	
Closing balance under MFRS 139 as at 30 June 2018	1,540,421
- transfer from retained profits	6,391
Opening balance under MFRS 9 as at 1 July 2018	<u>1,546,812</u>
Retained profits	
Closing balance under MFRS 139 as at 30 June 2018	13,910,419
- transfer to regulatory reserves	(6,392)
- transfer from fair value reserves	19,725
- unrealised gain on financial assets at fair value through profit or loss	218,214
- recognition of effective interest rate using contractual maturity	28,966
- recognition of expected credit losses under MFRS 9	(282,050)
- deferred tax adjustment on unrealised gain/loss on financial investments at fair value through other comprehensive income	(14,080)
- deferred tax on unrealised gain on redesignation from financial assets at fair value through profit or loss	(2,299)
- tax effect arising from the recognition of expected credit losses under MFRS 9	81,084
- other classification and measurement	(11)
Opening balance under MFRS 9 as at 1 July 2018	<u>13,953,576</u>
Fair value reserve	
Closing balance under MFRS 139 as at 30 June 2018	109,284
- transfer to retained profits	(19,725)
- reversal of unrealised loss on financial investments at fair value through other comprehensive income	5,970
- unrealised gain on redesignation to financial investments at fair value through other comprehensive income	10,914
- day 1 remeasurement of debts at amortised cost	38,776
- unrealised gain on financial assets at fair value through profit or loss transfer to retained profits	(225,875)
- deferred tax in respect of unrealised gain on financial investments at fair value through other comprehensive income	(555)
Opening balance under MFRS 9 as at 1 July 2018	<u>(81,211)</u>
Non-controlling interests	
Closing balance under MFRS 139 as at 30 June 2018	8,875,277
- non-controlling interests share of impact arising from:	
- classification and measurement	19,687
- expected credit loss	(97,264)
- unrealised gain on financial assets at fair value through profit or loss	4,820
- recognition of expected credit losses under MFRS 9	(1,310)
- deferred tax on unrealised gain on redesignation from financial assets at fair value through profit or loss	(1,184)
- tax effect arising from the recognition of expected credit losses under MFRS 9	236
Opening balance under MFRS 9 as at 1 July 2018	<u>8,800,262</u>

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34. Change in accounting policies (continued)

The following table analyses the impact of transition on the Statements of Financial Position of the Group from MFRS 139 to MFRS 9 as at 1 July 2018: (continued)

The Group	30 June 2018 RM '000	Classification and measurement RM '000	Expected credit losses RM '000	1 July 2018 RM '000
Assets				
Cash and short-term funds	9,890,071	-	(463)	9,889,608
Deposits and placements with banks and other financial institutions	10,196,421	-	(303)	10,196,118
Securities purchased under resale agreements	35,126	-	(2)	35,124
Financial assets at fair value through profit or loss	-	21,382,132	-	21,382,132
Financial assets held-for-trading	10,536,881	(10,536,881)	-	-
Financial investments at fair value through other comprehensive income	-	26,544,449	(3,380)	26,541,069
Financial investments available-for-sale	37,732,539	(37,732,539)	-	-
Financial investments at amortised cost	-	16,316,486	(854)	16,315,632
Financial investments held-to-maturity	15,895,679	(15,895,679)	-	-
Derivative financial instruments	971,195	-	-	971,195
Loans, advances and financing	128,851,234	(11)	(338,584)	128,512,639
Clients' and brokers' balances	525,556	-	-	525,556
Other receivables	952,570	-	(7,600)	944,970
Statutory deposits with Central Banks	4,364,982	-	-	4,364,982
Tax recoverable	367	-	-	367
Investment in associated companies	4,538,326	-	-	4,538,326
Investment in joint ventures	179,426	-	-	179,426
Property and equipment	1,573,829	-	-	1,573,829
Investment properties	494,164	-	-	494,164
Goodwill	2,410,644	-	-	2,410,644
Intangible assets	168,541	-	-	168,541
Total Assets	229,317,551	77,957	(351,186)	229,044,322
Liabilities				
Deposits from customers	156,882,912	-	-	156,882,912
Deposits and placements of banks and other financial institutions	9,296,395	-	-	9,296,395
Obligations on securities sold under repurchase agreements	3,931,523	-	-	3,931,523
Bills and acceptances payable	544,450	-	-	544,450
Derivative financial instruments	1,082,140	-	-	1,082,140
Clients' and brokers' balances	350,730	-	-	350,730
Payables and other liabilities	11,708,191	-	-	11,708,191
Recourse obligations on loans sold to Cagamas Berhad	202,952	-	-	202,952
Provision for claims	150,478	-	-	150,478
Provision for taxation	244,162	6,952	(87,486)	163,628
Deferred tax liabilities	78,309	19,370	(1,422)	96,257
Borrowings	1,300,371	-	-	1,300,371
Subordinated obligations	2,800,447	-	-	2,800,447
Innovative Tier 1 capital securities	474,612	-	-	474,612
Multi-currency Additional Tier 1 capital securities	401,369	-	-	401,369
Insurance funds	13,188,787	8,552	(3,233)	13,194,106
Total Liabilities	202,637,828	34,874	(92,141)	202,580,561
Equity				
Share capital	2,267,008	-	-	2,267,008
Capital reserves	1,540,421	10,671	(4,280)	1,546,812
Retained profits	13,910,419	232,255	(189,098)	13,953,576
Fair value reserve	109,284	(190,495)	-	(81,211)
Treasury shares for ESOS	(22,686)	-	-	(22,686)
Total Shareholders' Equity	17,804,446	52,431	(193,378)	17,663,499
Non-controlling interests	8,875,277	23,323	(98,338)	8,800,262
Total Equity	26,679,723	75,754	(291,716)	26,463,761
Total Liabilities and Equity	229,317,551	110,628	(383,857)	229,044,322

**HONG LEONG FINANCIAL GROUP BERHAD (“HLFG”)
ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018**

Review of performance

1. Current quarter against previous corresponding quarter

HLFG Group recorded a profit before tax of RM877.5 million for the current quarter ended 31 December 2018 as compared to RM924.7 million in the previous corresponding quarter, a decrease of RM47.2 million or 5.1%. The decrease was due to lower contribution across all the operating divisions.

Hong Leong Bank Group recorded a profit before tax of RM823.2 million for the current quarter ended 31 December 2018 as compared to RM833.1 million in the previous corresponding quarter, a decrease of RM9.9 million or 1.2%. The decrease was mainly due to lower revenue of RM86.4 million and higher allowance for impairment losses on securities of RM0.4 million. This is however mitigated by writeback of allowance for impairment losses on loans, advances and financing of RM68.6 million, lower operating expenses of RM5.0 million, higher share of profit from associated companies Bank of Chengdu and Sichuan Jincheng Consumer Finance Joint Venture of RM3.3 million.

HLA Holdings Group recorded a profit before tax of RM58.7 million for the current quarter ended 31 December 2018 as compared to RM91.8 million in the previous corresponding quarter, a decrease of RM33.1 million or 36.1%. The decrease was mainly due to lower revenue of RM20.1 million, lower life fund surplus of RM2.3 million and higher operating expenses of RM13.6 million. This is however mitigated by higher share of profit from associated company of RM2.7 million and lower allowance for impairment losses on securities of RM0.2 million.

Hong Leong Capital Group recorded a profit before tax of RM14.8 million for the current quarter ended 31 December 2018 as compared to RM19.0 million in the previous corresponding quarter, a decrease of RM4.2 million or 22.1%. The decrease was mainly due to lower contribution from the investment banking and stockbroking divisions.

2. Current year-to-date against previous year-to-date

HLFG Group recorded a profit before tax of RM1,806.6 million for the period ended 31 December 2018 as compared to RM1,765.2 million in the previous corresponding period, an increase of RM41.4 million or 2.3%. The increase was mainly due to higher contribution from the commercial banking division.

Hong Leong Bank Group recorded a profit before tax of RM1,674.3 million for the period ended 31 December 2018 as compared to RM1,613.5 million in the previous corresponding period, an increase of RM60.8 million or 3.8%. The increase was mainly due to higher writeback of impairment losses on loans, advances and financing of RM93.3 million. This was however mitigated by lower revenue of RM16.0 million, higher operating expenses of RM13.0 million, higher allowance for impairment losses on financial investments of RM1.3 million and lower share of profit from the Bank of Chengdu and Sichuan Jincheng Consumer Finance of RM2.2 million.

HLA Holdings Group recorded a profit before tax of RM140.9 million for the period ended 31 December 2018 as compared to RM152.5 million in the previous corresponding period, a decrease of RM11.6 million or 7.6%. The decrease was mainly due to lower revenue of RM8.7 million and higher operating expenses of RM17.8 million. This is however mitigated by higher share of profit from associated company of RM1.7 million, lower allowance for impairment losses on securities of RM0.4 million and higher life fund surplus of RM12.8 million.

Hong Leong Capital Group recorded a profit before tax of RM37.5 million for the period ended 31 December 2018 as compared to RM37.4 million in the previous corresponding period, an increase of RM0.1 million or 0.3%. This was mainly due to higher contribution from the asset management division.

HLFG's consolidated Common Equity Tier 1 capital ratio, Tier 1 capital ratio and Total capital ratio as at 31 December 2018 is 10.134%, 10.937% and 13.111% respectively. The ratios are computed in full compliance with the Capital Adequacy Framework (Capital Components) issued by Bank Negara Malaysia on 4 August 2017.

3. Current quarter against preceding quarter

HLFG Group recorded a profit before taxation of RM877.5 million for the current quarter ended 31 December 2018 as compared to RM929.1 million in the preceding quarter, a decrease of RM51.6 million or 5.6%. The decrease was mainly due to lower contribution across all the operation divisions.

Hong Leong Bank Group recorded a profit before tax of RM823.2 million for the current quarter ended 31 December 2018 as compared to RM851.1 million in the preceding quarter, a decrease of RM27.9 million or 3.3%. The decrease was mainly due to lower revenue of RM106.9 million and lower share of profit from associated companies of RM13.3 million. This was however mitigated by lower operating expenses of RM14.4 million, higher writeback of impairment losses on loans, advances and financing of RM76.9 million and higher writeback of allowance for impairment losses on securities of RM1.0 million.

HLA Holdings Group recorded a profit before tax of RM58.7 million for the current quarter ended 31 December 2018 as compared to RM82.2 million in the preceding quarter, a decrease of RM23.5 million or 28.6%. The decrease was mainly due to lower revenue of RM22.7 million and lower life fund surplus of RM5.1 million. This was however mitigated by lower operating expenses of RM1.2 million and higher share of profit from associated company of RM3.1 million.

Hong Leong Capital Group recorded a profit before tax of RM14.8 million for the current quarter ended 31 December 2018 as compared to RM22.7 million in the preceding quarter, a decrease of RM7.9 million or 34.8%. This was mainly due to lower contribution from the investment banking and stockbroking divisions.

**HONG LEONG FINANCIAL GROUP BERHAD (“HLFG”)
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4. Prospects for the current financial year

Barring unforeseen circumstances, the Group is expected to maintain its performance in line with market conditions for the current financial year.

5. Variance of actual profit from forecasted profit

There was no profit forecast or profit guarantee issued by the Group.

6. Taxation

	The Group		The Group	
	Current quarter ended 31/12/2018 RM '000	Last year quarter ended 31/12/2017 RM '000	Current year to date 31/12/2018 RM '000	Last year to date 31/12/2017 RM '000
Income tax	178,206	168,672	325,011	315,499
Transfer (to)/from deferred tax	(32,608)	6,269	(19,903)	9,816
	145,598	174,941	305,108	325,315
Prior year over provision	(17)	-	(28)	-
	145,581	174,941	305,080	325,315

	The Company		The Company	
	Current quarter ended 31/12/2018 RM '000	Last year quarter ended 31/12/2017 RM '000	Current year to date 31/12/2018 RM '000	Last year to date 31/12/2017 RM '000
Income tax	1,830	1,726	1,830	1,939
Transfer to deferred tax	(7)	(13)	(27)	(25)
	1,823	1,713	1,803	1,914

The effective tax rate for the Company for the current financial period is lower than the statutory rate of taxation as certain income was not subjected to tax.

7. Sale of properties/unquoted investments

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.

8. Purchase/sale of quoted securities of the Group

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

9. 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.

**HONG LEONG FINANCIAL GROUP BERHAD ("HLFG")
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10. Borrowings

	Note	The Group		The Company	
		As at 31/12/2018 RM '000	As at 30/06/2018 RM '000	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
Term loans	(i)	350,144	350,108	350,144	350,108
Revolving credit	(ii)	133,138	210,222	133,138	210,222
Medium term notes	(iii)	222,928	570,431	253,346	655,994
Commercial papers	(iii)	-	169,610	-	169,610
Senior notes	(iv)	380,181	-	405,330	-
		<u>1,086,391</u>	<u>1,300,371</u>	<u>1,141,958</u>	<u>1,385,934</u>
Repayment of term loans					
- less than one year		350,144	350,108	350,144	350,108
Repayment of revolving credit					
- less than one year		133,138	210,222	133,138	210,222
Repayment of medium term notes					
- less than one year		3,419	377,355	3,419	402,703
- one to three years		219,509	193,076	249,927	253,291
Repayment of commercial papers					
- less than one year		-	169,610	-	169,610
Repayment of senior notes					
- one to three years		380,181	-	405,330	-
		<u>1,086,391</u>	<u>1,300,371</u>	<u>1,141,958</u>	<u>1,385,934</u>

- (i) The Company has an unsecured short-term loan facility of RM350 million maturing on 28 January 2019. The term loan with one month interest period bears an interest rate of 3.76% (2018: 3.51% to 3.76%) per annum.
- (ii) The unsecured revolving credit facilities carried an interest rate of 3.70% (2018: 3.45% to 4.38%) per annum and repayable within 12 months.
- (iii) The CPs are issued at a discount and the issue price is calculated in accordance with the Rules on Fully Automated System for Issuing/Tendering ("FAST") issued by Bank Negara Malaysia at the tenure of one (1), two (2), three (3), six (6), nine (9) or twelve (12) months as the Company may select. The CPs carry interest rate ranging from 3.75% to 3.78% (2018: 3.66% to 3.81%).

The MTNs are issued at par and the issue price is calculated in accordance with the FAST Rules, at the tenure which shall be more than one (1) year as the Company may select. The MTNs carry interest rates ranging from 4.50% to 4.80% (2018: 4.50% to 4.80%) per annum.

The CP/MTNs are unsecured and the Company is required to maintain a debt to equity ratio for these facilities.

- (iv) The Group and the Company has the following senior notes:

	The Group		The Company	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
RM400 million senior notes, at par	375,000	-	400,000	-
Add: Interest payable	5,181	-	5,530	-
	<u>380,181</u>	<u>-</u>	<u>405,530</u>	<u>-</u>
Less: Unamortised discounts	-	-	(200)	-
	<u>380,181</u>	<u>-</u>	<u>405,330</u>	<u>-</u>

On 6 September 2018, the Company issued RM400 million in aggregate principal amount of Senior Notes ("the Notes") out of its multi-currency perpetual notes programme. The Notes were issued for a period of three years with a coupon rate of 4.35% per annum.

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11. Subordinated obligations

	Note	The Group		The Company	
		As at 31/12/2018 RM '000	As at 30/06/2018 RM '000	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
RM1.5 billion Tier 2 subordinated debt, at par	(a)	861,000	861,000	-	-
Add: Interest payable		699	964	-	-
		<u>861,699</u>	<u>861,964</u>	<u>-</u>	<u>-</u>
Less: Unamortised discounts		(45)	(91)	-	-
		<u>861,654</u>	<u>861,873</u>	<u>-</u>	<u>-</u>
RM500 million Tier 2 subordinated debt, at par	(b)	500,000	500,000	-	-
Add: Interest payable		9,000	8,815	-	-
		<u>509,000</u>	<u>508,815</u>	<u>-</u>	<u>-</u>
Less: Unamortised discounts		(1,177)	(1,266)	-	-
		<u>507,823</u>	<u>507,549</u>	<u>-</u>	<u>-</u>
RM400 million Tier 2 subordinated Sukuk Ijarah, at par	(c)	379,500	379,500	-	-
Add: Profit payable		749	646	-	-
		<u>380,249</u>	<u>380,146</u>	<u>-</u>	<u>-</u>
Less: Unamortised discounts		(35)	(54)	-	-
		<u>380,214</u>	<u>380,092</u>	<u>-</u>	<u>-</u>
RM500 million Tier 2 subordinated notes, at par	(d)	500,000	500,000	-	-
Add: Interest payable		526	395	-	-
		<u>500,526</u>	<u>500,395</u>	<u>-</u>	<u>-</u>
Less: Unamortised discounts		(43)	(89)	-	-
		<u>500,483</u>	<u>500,306</u>	<u>-</u>	<u>-</u>
RM50 million Tier 2 subordinated notes, at par	(e)	50,000	50,000	-	-
Add: Interest payable		399	399	-	-
		<u>50,399</u>	<u>50,399</u>	<u>-</u>	<u>-</u>
Less: Unamortised discounts		(99)	(109)	-	-
		<u>50,300</u>	<u>50,290</u>	<u>-</u>	<u>-</u>
RM500 million Tier 2 subordinated notes, at par	(f)	500,000	500,000	500,000	500,000
Add: Interest payable		405	405	405	405
		<u>500,405</u>	<u>500,405</u>	<u>500,405</u>	<u>500,405</u>
Less: Unamortised discounts		(36)	(68)	(697)	(806)
		<u>500,369</u>	<u>500,337</u>	<u>499,708</u>	<u>499,599</u>
		<u>2,800,843</u>	<u>2,800,447</u>	<u>499,708</u>	<u>499,599</u>

(a) On 22 June 2012, HLB 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 HLB, and is subordinated in right of payment to the deposit liabilities and all other liabilities of HLB 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 HLB.

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11. Subordinated obligations (continued)

- (b) On 19 September 2012, Hong Leong Assurance Berhad ("HLA") has created and issued up to RM500 million in nominal value of Subordinated Notes ("Sub-Notes") under a proposed Subordinated Notes Programme to raise funds for general working capital and/or business operations purpose.

On 20 March 2013, the Securities Commission approved the application subject to certain operational terms and conditions being fulfilled.

On 7 February 2013, HLA completed its RM500 million Sub-Notes issuance. The Sub-Notes were issued for a period of 12 years on a 12 non-callable 7 basis with a coupon rate of 4.5% per annum.

The Sub-Notes are classified as Tier 2 capital under Risk-Based Capital Framework for Insurers.

- (c) On 17 June 2014, Hong Leong Islamic Bank Berhad ("HLISB"), a wholly-owned subsidiary of HLB, had completed the first issuance of RM400 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 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.

- (d) On 23 June 2014, HLB had completed the first issuance of RM500 million nominal value of Tier 2 Subordinated Notes ("Sub-Notes") out of its RM10.0 billion Multi-Currency Sub-Notes Programme. The RM500 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 HLB, and is subordinated in right of payment to the deposit liabilities and all other liabilities of HLB 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 HLB.

- (e) On 6 November 2014, Hong Leong Investment Bank Berhad ("HLIB"), a wholly-owned subsidiary of Hong Leong Capital Berhad and also an indirect subsidiary of HLFGB, had completed the first issuance of RM50 million nominal value of Tier 2 Subordinated Notes ("Sub-Notes") out of its RM1.0 billion Multi-Currency Sub-Notes Programme. The RM50 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 5.30% 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 HLIB, and is subordinated in right of payment to the deposit liabilities and all other liabilities of HLIB 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 qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of HLIB.

- (f) On 25 June 2018, the Company had issued RM500 million nominal value of Tier 2 subordinated notes ("Sub-Notes") out of its multi-currency perpetual notes programme. The Sub-Notes, which qualified as Tier 2 capital for the Company, carry a distribution rate of 4.93% per annum. The Sub-Notes has a tenure of 10 years non-callable 5 years. The proceeds from the issuance of Sub-Notes were used to subscribe for RM500 million Tier 2 subordinated notes issued by HLB, a subsidiary of the Company.

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12. Innovative Tier 1 capital securities

	The Group	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
RM500 million Innovative Tier 1 capital securities, at par	453,200	463,200
Add: Interest payable	11,350	11,605
	<u>464,550</u>	<u>474,805</u>
Less: Unamortised discounts	(1,478)	(2,439)
Fair value adjustments on completion of business combination accounting	842	2,246
	<u><u>463,914</u></u>	<u><u>474,612</u></u>

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

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

On 1 July 2011, the above IT-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 HLB.

13. Multi-currency Additional Tier 1 capital securities

	The Group		The Company	
	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000	As at 31/12/2018 RM '000	As at 30/06/2018 RM '000
RM400 million Multi-currency Additional Tier 1 capital securities, at par	400,000	400,000	400,000	400,000
Add: Interest payable	1,834	1,834	1,834	1,834
	<u>401,834</u>	<u>401,834</u>	<u>401,834</u>	<u>401,834</u>
Less: Unamortised discounts	(415)	(465)	(961)	(1,083)
	<u><u>401,419</u></u>	<u><u>401,369</u></u>	<u><u>400,873</u></u>	<u><u>400,751</u></u>

On 30 November 2017, the Company issued RM400 million nominal value of Multi-currency Additional Tier 1 capital securities ("Capital Securities") out of its multi-currency perpetual notes programme. The Capital Securities, which qualify as Additional Tier 1 capital for the Company, carry a distribution rate of 5.23% per annum. The Capital Securities are perpetual with an Issuer's call option to redeem at the end of year 5. The proceeds from the issuance was used to subscribe for RM400 million Additional Tier 1 capital securities issued by HLB, a subsidiary of the Company.

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14. Off-balance sheet financial instruments

Details of financial instruments with off-balance sheet risk as at 31 December 2018

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	32,426,643	231,701	(138,728)
- Swaps			
(i) Less than 1 year	9,607,973	63,779	(147,269)
(ii) 1 year to 3 years	1,646,340	15,610	(27,886)
(iii) More than 3 years	1,191,029	56,774	(4,618)
- Options			
(i) Less than 1 year	1,760,939	8,712	(7,087)
- Spots			
(i) Less than 1 year	33	-	-
Interest rate related contracts			
- Futures			
(i) Less than 1 year	5,128,237	574	(4,706)
- Swaps			
(i) Less than 1 year	34,601,501	73,905	(88,156)
(ii) 1 year to 3 years	20,540,911	30,458	(77,099)
(iii) More than 3 years	13,298,545	61,863	(166,819)
- Cross currency swaps			
(i) More than 3 years	301,425	19,239	(18,068)
Equity related contracts			
(i) Less than 1 year	666,660	3,097	(3,096)
(ii) 1 year to 3 years	34,991	2,026	(2,026)
Credit related contracts			
(i) More than 3 years	19,498	89	(3)
Total	121,224,725	567,827	(685,561)

The Company

Items	Principal amount RM '000	Fair value	
		Assets RM '000	Liabilities RM '000
Interest rate related contracts			
- Swaps			
(i) 1 year to 3 years	100,000	-	(221)
Total	100,000	-	(221)

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14. Off-balance sheet financial instruments (continued)

Details of financial instruments with off-balance sheet risk as at 30 June 2018

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	33,252,323	396,925	(300,709)
(ii) 1 year to 3 years	109,039	-	(7,832)
- Swaps			
(i) Less than 1 year	10,400,940	167,597	(307,060)
(ii) 1 year to 3 years	1,340,534	45,187	(27,542)
(iii) More than 3 years	1,708,766	82,045	(29,159)
- Options			
(i) Less than 1 year	2,337,852	15,975	(12,834)
Interest rate related contracts			
- Futures			
(i) Less than 1 year	17,298,574	1,185	(4,048)
(ii) 1 year to 3 years	6,865,450	404	(871)
- Swaps			
(i) Less than 1 year	12,455,753	7,626	(13,201)
(ii) 1 year to 3 years	29,368,386	96,715	(97,945)
(iii) More than 3 years	20,663,773	115,091	(251,216)
- Cross currency swaps			
(i) 1 year to 3 years	80,750	5,031	-
(ii) More than 3 years	218,695	23,518	(15,846)
Equity related contracts			
(i) Less than 1 year	306,258	3,928	(3,927)
(ii) 1 year to 3 years	483,187	6,756	(6,738)
(iii) More than 3 years	27,315	3,212	(3,212)
Total	136,917,595	971,195	(1,082,140)

The Company

Items	Principal amount RM '000	Fair value	
		Assets RM '000	Liabilities RM '000
Interest rate related contracts			
- Swaps			
(i) 1 year to 3 years	100,000	-	(327)
Total	100,000	-	(327)

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14. Off-balance sheet financial instruments (continued)

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 RM466,717,000 (2018: RM57,213,000) and RM72,307,504,000 (2018: RM86,167,241,000) 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 RM618,011,000 (2018: RM1,049,517,000). 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 (ie, assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

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

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

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

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

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

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14. Off-balance sheet financial instruments (continued)

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 period when the hedged items affects the statements of income.

15. 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.

16. Dividend

For the financial period ended 31 December 2018, a single-tier dividend of 13 sen per share (31 December 2017: 13 sen per share) was paid on 27 December 2018.

17. Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares (excluding treasury shares) in issue during the financial period.

	The Group		The Group	
	Current quarter ended 31/12/2018 RM '000	Last year quarter ended 31/12/2017 RM '000	Current year to date 31/12/2018 RM '000	Last year to date 31/12/2017 RM '000
Net profit attributable to equity holders	481,547	495,343	987,242	950,595
Weighted average number of ordinary shares ('000)	1,144,640	1,143,552	1,144,819	1,143,552
Basic earnings per share (sen)	42.1	43.3	86.2	83.1

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17. Earnings per share (continued)

(a) Basic earnings per share (continued)

	The Company		The Company	
	Current quarter ended 31/12/2018 RM '000	Last year quarter ended 31/12/2017 RM '000	Current year to date 31/12/2018 RM '000	Last year to date 31/12/2017 RM '000
Net loss attributable to equity holders	444,335	418,018	420,889	399,707
Weighted average number of ordinary shares ('000)	1,147,158	1,147,516	1,147,337	1,147,516
Basic earnings per share (sen)	38.7	36.4	36.7	34.8

(b) Diluted earnings per share

The Group has no dilution in its earnings per ordinary share in the current and previous financial period as there are no dilutive potential ordinary shares.

Dated this 26 February 2019