

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

	As at 31/03/2018 RM '000	As at 30/06/2017 RM '000
THE GROUP		
<u>Assets</u>		
Cash and short-term funds	9,836,415	12,772,343
Deposits and placements with banks and other financial institutions	12,352,608	6,013,958
Securities purchased under resale agreements	35,618	336,003
Financial assets held-for-trading	8,365,774	9,453,437
Financial investments available-for-sale	36,842,932	35,163,362
Financial investments held-to-maturity	14,582,264	14,581,030
Derivative financial instruments	1,057,739	977,604
Loans, advances and financing	125,238,948	124,812,079
Clients' and brokers' balances	422,229	508,070
Other receivables	1,576,191	1,529,785
Statutory deposits with Central Banks	4,289,540	3,796,330
Tax recoverable	2,490	1,909
Investment in associated companies	4,662,015	4,321,625
Investment in joint ventures	175,337	169,185
Property and equipment	1,876,918	1,884,451
Goodwill	2,410,644	2,410,644
Intangible assets	173,494	230,588
Total Assets	<u>223,901,156</u>	<u>218,962,403</u>
<u>Liabilities</u>		
Deposits from customers	154,085,728	154,458,017
Deposits and placements of banks and other financial institutions	6,453,350	7,734,425
Obligations on securities sold under repurchase agreements	4,461,895	2,978,728
Bills and acceptances payable	746,013	364,675
Derivative financial instruments	1,731,052	1,479,564
Clients' and brokers' balances	237,614	271,738
Payables and other liabilities	10,984,682	8,531,035
Recourse obligations on loans sold to Cagamas Berhad	201,057	202,926
Provision for claims	125,070	147,767
Provision for taxation	286,658	235,309
Deferred tax liabilities	275,134	302,517
Borrowings	1,059,398	1,526,222
Subordinated obligations	2,982,801	2,959,779
Innovative Tier 1 capital securities	502,627	515,623
Multi-currency Additional Tier 1 capital securities	406,501	-
Insurance funds	13,056,916	12,221,565
Total Liabilities	<u>197,596,496</u>	<u>193,929,890</u>
<u>Equity</u>		
Share capital	2,267,008	2,267,008
Capital reserves	1,430,600	1,590,528
Retained profits	13,807,810	12,527,478
Fair value reserve	156,372	259,635
Treasury shares for ESOS	(29,795)	(35,712)
Total shareholders' equity	<u>17,631,995</u>	<u>16,608,937</u>
Non-controlling interests	8,672,665	8,423,576
Total Equity	<u>26,304,660</u>	<u>25,032,513</u>
Total Liabilities and Equity	<u>223,901,156</u>	<u>218,962,403</u>
Commitment and Contingencies		
	<u>214,428,081</u>	<u>171,332,247</u>
Net assets per share (net of treasury shares) attributable to ordinary equity holders of the parent (RM)	<u>15.41</u>	<u>14.52</u>

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

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

THE GROUP	Individual Quarter		Cumulative Quarter	
	Current quarter ended 31/03/2018	Last year quarter ended 31/03/2017	Current year to date 31/03/2018	Last year to date 31/03/2017
	RM '000	RM '000	RM '000	RM '000
Interest income	1,619,916	1,575,327	4,857,307	4,740,587
Interest expense	(914,193)	(856,111)	(2,676,386)	(2,635,679)
Net interest income	705,723	719,216	2,180,921	2,104,908
Net income from Islamic banking business	166,680	139,287	483,323	407,298
Non-interest income	513,952	367,080	1,366,878	1,249,292
Net income	1,386,355	1,225,583	4,031,122	3,761,498
Overhead expenses	(592,567)	(552,659)	(1,723,150)	(1,651,241)
Operating profit before allowances	793,788	672,924	2,307,972	2,110,257
Allowance for impairment losses on loans, advances and financing and other losses	(12,586)	(45,928)	(66,692)	(97,516)
Writeback of/(Allowance for) impairment losses	1,454	2,516	1,545	(57)
	782,656	629,512	2,242,825	2,012,684
Share of results of associated companies	154,701	129,448	450,226	292,478
Share of results of joint ventures	5,412	4,855	14,907	16,661
Profit before taxation	942,769	763,815	2,707,958	2,321,823
Taxation	(181,273)	(136,488)	(506,588)	(447,393)
Net profit for the financial period	761,496	627,327	2,201,370	1,874,430
Attributable to:				
Owners of the parent	502,557	418,746	1,453,152	1,247,971
Non-controlling interests	258,939	208,581	748,218	626,459
Net profit for the financial period	761,496	627,327	2,201,370	1,874,430
Earnings per share - basic (sen)	43.9	36.6	127.1	109.1
Earnings per share - fully diluted (sen)	43.9	36.6	127.1	109.1

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

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

	Individual Quarter		Cumulative Quarter	
	Current quarter ended 31/03/2018 RM '000	Last year quarter ended 31/03/2017 RM '000	Current year to date 31/03/2018 RM '000	Last year to date 31/03/2017 RM '000
THE GROUP				
Net profit for the financial period	761,496	627,327	2,201,370	1,874,430
Other comprehensive income:				
<u>Items that may be reclassified</u> <u>subsequently to profit or loss:</u>				
Share of other comprehensive (loss) /income of associated companies	(102)	1,168	1,116	(5,648)
Net fair value changes in financial investments available-for-sale	(133,440)	71,776	(197,613)	(201,808)
Net fair value changes in cash flow hedge	35	149	1,406	1,291
Currency translation differences	(136,794)	(21,799)	(300,870)	330,802
Income tax relating to components of other comprehensive income	28,703	(15,175)	41,448	47,253
Other comprehensive (loss)/income for the financial period, net of tax	(241,598)	36,119	(454,513)	171,890
Total comprehensive income for the financial period, net of tax	519,898	663,446	1,746,857	2,046,320
Attributable to:				
Owners of the parent	340,376	442,728	1,147,041	1,365,040
Non-controlling interests	179,522	220,718	599,816	681,280
	519,898	663,446	1,746,857	2,046,320

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

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

	As at 31/03/2018 RM '000	As at 30/06/2017 RM '000
THE COMPANY		
<u>Assets</u>		
Cash and short-term funds	26,500	7,721
Deposits and placements with banks and other financial institutions	3,360	8,400
Other receivables	8,401	39,221
Tax recoverable	-	1,685
Deferred tax assets	50	36
Investment in subsidiary companies	17,493,880	16,909,723
Property and equipment	4,881	1,418
Intangible assets	1	13
Total Assets	<u>17,537,073</u>	<u>16,968,217</u>
<u>Liabilities</u>		
Derivative financial instruments	350	874
Payables and other liabilities	8,439	9,489
Provision for taxation	2,355	-
Multi-currency Additional Tier 1 capital securities	405,848	-
Borrowings	1,059,398	1,526,222
Total Liabilities	<u>1,476,390</u>	<u>1,536,585</u>
<u>Financed by:</u>		
Share capital	2,267,008	2,267,008
Capital reserves	255,970	254,991
Retained profits	13,537,708	12,909,636
Treasury shares for ESOS	(3)	(3)
Total Equity	<u>16,060,683</u>	<u>15,431,632</u>
Total Liabilities and Equity	<u>17,537,073</u>	<u>16,968,217</u>
Commitment and Contingencies	<u>100,000</u>	<u>100,000</u>

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

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

	Individual Quarter		Cumulative Quarter	
	Current	Last year	Current year	Last year
	quarter ended 31/03/2018	quarter ended 31/03/2017	to date 31/03/2018	to date 31/03/2017
THE COMPANY	RM '000	RM '000	RM '000	RM '000
Interest income	5,219	235	8,549	945
Interest expense	(18,142)	(13,897)	(50,225)	(46,210)
Net interest expense	(12,923)	(13,662)	(41,676)	(45,265)
Non-interest income	405,064	201,782	846,764	660,064
Net income	392,141	188,120	805,088	614,799
Overhead expenses	(12,487)	(3,231)	(23,813)	(14,461)
Profit before taxation	379,654	184,889	781,275	600,338
Taxation	(2,112)	(771)	(4,026)	(1,578)
Net profit for the financial period	<u>377,542</u>	<u>184,118</u>	<u>777,249</u>	<u>598,760</u>
Earnings per share - basic (sen)	<u>32.9</u>	<u>16.0</u>	<u>67.7</u>	<u>52.2</u>
Earnings per share - fully diluted (sen)	<u>32.9</u>	<u>16.0</u>	<u>67.7</u>	<u>52.2</u>

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

	Individual Quarter		Cumulative Quarter	
	Current	Last year	Current year	Last year
	quarter ended 31/03/2018	quarter ended 31/03/2017	to date 31/03/2018	to date 31/03/2017
THE COMPANY	RM '000	RM '000	RM '000	RM '000
Net profit for the financial period	377,542	184,118	777,249	598,760
Other comprehensive income for the financial period	-	-	-	-
Total comprehensive income for the financial period, net of tax	<u>377,542</u>	<u>184,118</u>	<u>777,249</u>	<u>598,760</u>

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

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

	Share capital	Share premium	Statutory reserve	Other capital reserve	Share options reserve	Fair value reserve	Cash flow hedge reserve	Regulatory 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	RM '000	RM '000
THE GROUP														
At 1 July 2017	2,267,008	-	-	134,957	29,429	259,635	(703)	680,987	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	-	-	-	-	-	-	-	-	-	1,453,152	-	1,453,152	748,218	2,201,370
Currency translation differences	-	-	-	-	-	-	-	-	(203,549)	-	-	(203,549)	(97,321)	(300,870)
Share of other comprehensive income of associated companies	-	-	-	-	-	935	-	-	-	-	-	935	181	1,116
Net fair value changes in financial investments available-for-sale, net of tax	-	-	-	-	-	(104,198)	-	-	-	-	-	(104,198)	(51,629)	(155,827)
Net fair value changes in cash flow hedge, net of tax	-	-	-	-	-	-	701	-	-	-	-	701	367	1,068
Total comprehensive (loss)/income	-	-	-	-	-	(103,263)	701	-	(203,549)	1,453,152	-	1,147,041	599,816	1,746,857
<u>Transaction with owners</u>														
Transfer to regulatory reserve	-	-	-	-	-	-	-	26,650	-	(26,650)	-	-	-	-
Allocation of other reserves to non-controlling interests	-	-	-	-	-	-	-	-	-	(3,819)	-	(3,819)	3,819	-
Dividends paid	-	-	-	-	-	-	-	-	-	(149,177)	-	(149,177)	-	(149,177)
Non-controlling interests share of dividend	-	-	-	-	-	-	-	-	-	-	-	-	(356,241)	(356,241)
Non-controlling interests share of subsidiaries' treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	1,695	1,695
Option charge arising from ESS granted	-	-	-	-	19,302	-	-	-	-	-	-	19,302	-	19,302
ESS exercised	-	-	-	-	(3,036)	-	-	-	-	6,830	5,917	9,711	-	9,711
Transfer to other capital reserve	-	-	-	4	-	-	-	-	-	(4)	-	-	-	-
At 31 March 2018	2,267,008	-	-	134,961	45,695	156,372	(2)	707,637	542,309	13,807,810	(29,795)	17,631,995	8,672,665	26,304,660
At 1 July 2016	1,147,517	1,119,491	3,310,501	134,870	10,205	237,252	(1,129)	602,335	587,368	8,228,437	(35,712)	15,341,135	7,836,021	23,177,156
<u>Comprehensive income</u>														
Net profit for the financial period	-	-	-	-	-	-	-	-	-	1,247,971	-	1,247,971	626,459	1,874,430
Currency translation differences	-	-	-	-	-	-	-	-	222,474	-	-	222,474	108,328	330,802
Share of other comprehensive loss of associated companies	-	-	-	-	-	(3,261)	-	-	-	-	-	(3,261)	(2,387)	(5,648)
Net fair value changes in financial investments available-for-sale, net of tax	-	-	-	-	-	(102,787)	-	-	-	-	-	(102,787)	(51,457)	(154,244)
Net fair value changes in cash flow hedge, net of tax	-	-	-	-	-	-	643	-	-	-	-	643	337	980
Total comprehensive (loss)/income	-	-	-	-	-	(106,048)	643	-	222,474	1,247,971	-	1,365,040	681,280	2,046,320
<u>Transaction with owners</u>														
Transfer to statutory reserve	-	-	43,668	-	-	-	-	-	-	(43,668)	-	-	-	-
Transfer to regulatory reserve	-	-	-	-	-	-	-	43,731	-	(43,731)	-	-	-	-
Allocation of other reserves to non-controlling interests	-	-	-	-	-	-	-	-	-	(3,094)	-	(3,094)	3,094	-
Dividends paid	-	-	-	-	-	-	-	-	-	(149,177)	-	(149,177)	-	(149,177)
Non-controlling interests share of dividend	-	-	-	-	-	-	-	-	-	-	-	-	(320,160)	(320,160)
Non-controlling interests share of subsidiaries' treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	1,079	1,079
Option charge arising from ESS granted	-	-	-	-	7,661	-	-	-	-	-	-	7,661	-	7,661
ESS exercised	-	-	-	-	(1,933)	-	-	-	-	854	-	(1,079)	-	(1,079)
Transfer to other capital reserve	-	-	-	85	-	-	-	-	-	(85)	-	-	-	-
Transfer pursuant to the Companies Act, 2016**	1,119,491	(1,119,491)	-	-	-	-	-	-	-	-	-	-	-	-
At 31 March 2017	2,267,008	-	3,354,169	134,955	15,933	131,204	(486)	646,066	809,842	9,237,507	(35,712)	16,560,486	8,201,314	24,761,800

Comprise regulatory reserves maintained by the Group's banking subsidiary companies in Malaysia of RM696,392,000 (31 March 2017: RM634,821,000) 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 March 2017: RM11,245,000).

** The new Companies Act, 2016, which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, any amount standing to the credit of the share premium account of RM1,119,491,000 becomes part of the Company's share capital pursuant to the transitional provisions set out in Section 618(2) of the Companies Act, 2016. Notwithstanding this provision, the Company may within 24 months from the commencement of the Companies Act, 2016, use the amount standing to the credit of its share premium account of RM1,119,491,000 for purposes as set out in Section 618(3) of the Companies Act, 2016. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

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

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

THE COMPANY	Share capital RM '000	Share premium RM '000	Other capital reserve RM '000	Share options reserve RM '000	Retained profits RM '000	Treasury shares for ESOS RM '000	Total equity RM '000
At 1 July 2017	2,267,008	-	254,991	-	12,909,636	(3)	15,431,632
Net profit for the financial period	-	-	-	-	777,249	-	777,249
Dividend paid	-	-	-	-	(149,177)	-	(149,177)
Option charge arising from ESOS	-	-	-	979	-	-	979
At 31 March 2018	2,267,008	-	254,991	979	13,537,708	(3)	16,060,683
At 1 July 2016	1,147,517	1,119,491	254,991	-	12,764,322	(3)	15,286,318
Net profit for the financial period	-	-	-	-	598,760	-	598,760
Dividend paid	-	-	-	-	(149,177)	-	(149,177)
Transfer pursuant to the Companies Act, 2016**	1,119,491	(1,119,491)	-	-	-	-	-
At 31 March 2017	2,267,008	-	254,991	-	13,213,905	(3)	15,735,901

** The new Companies Act, 2016, which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, any amount standing to the credit of the share premium account of RM1,119,491,000 becomes part of the Company's share capital pursuant to the transitional provisions set out in Section 618(2) of the Companies Act, 2016. Notwithstanding this provision, the Company may within 24 months from the commencement of the Companies Act, 2016, use the amount standing to the credit of its share premium account of RM1,119,491,000 for purposes as set out in Section 618(3) of the Companies Act, 2016. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

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

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

	The Group		The Company	
	31/03/2018 RM '000	31/03/2017 RM '000	31/03/2018 RM '000	31/03/2017 RM '000
Profit before taxation	2,707,958	2,321,823	781,275	600,338
Adjustment for non-cash items	(696,921)	(3,096)	(796,031)	(609,987)
Operating profit/(loss) before working capital changes	2,011,037	2,318,727	(14,756)	(9,649)
Income tax paid	(369,745)	(234,616)	-	(700)
Interest received	1,690	945	1,690	945
Changes in working capital				
Net changes in operating assets	(7,861,886)	1,220,204	45,752	(43)
Net changes in operating liabilities	2,545,720	4,322,812	(1,051)	(2,785)
Net cash (used in)/generated from operating activities	(3,673,184)	7,628,072	31,635	(12,232)
Cash flow from investing activities				
Net purchases of financial investments available-for-sale	(1,627,375)	(5,807,062)	-	-
Net purchases of financial investments held-to-maturity	(1,231)	(1,477,903)	-	-
Interest received on financial investments available-for-sale and financial investments held-to-maturity	888,988	786,258	-	-
Purchase of intangible assets	(6,894)	(14,145)	-	(1)
Purchase of property and equipment	(110,000)	(124,486)	(4,000)	(337)
Net proceeds from disposal of property and equipment	5,826	4,337	-	-
Dividends received from other investments	240,178	216,460	-	-
Dividends received from subsidiary companies	-	-	648,555	655,150
Dividends received from associated companies	-	88,634	-	-
Dividends received from joint ventures	3,563	3,428	-	-
Subscription of Additional Tier 1 capital securities in subsidiary company	-	-	(400,000)	-
Proceeds from redemption of redeemable preference shares and liquidation	-	-	6,000	5,451
Net cash (used in)/generated from investing activities	(606,945)	(6,324,479)	250,555	660,263
Cash flow from financing activities				
Dividends paid to equity holders of the Company	(149,177)	(149,177)	(149,177)	(149,177)
Dividends paid to non-controlling interests	(356,241)	(320,160)	-	-
Repayment of revolving credit	(315,000)	(200,000)	(315,000)	(200,000)
Redemption of medium term notes and commercial papers (Repayment)/drawdown of term loans	(150,000)	(370,000)	(150,000)	(420,000)
Proceeds from issuance of Multi-currency Additional Tier 1 capital securities	400,000	-	400,000	-
Interest paid on subordinated obligations	(64,994)	(64,645)	-	-
Interest paid on borrowings	(37,510)	(66,116)	(44,974)	(48,468)
Interest paid on innovative Tier 1 capital securities	(37,601)	(35,355)	-	-
Interest expense on recourse obligations on loans sold to Cagamas	(7,576)	-	-	-
Net cash used in financing activities	(718,099)	(1,420,183)	(259,151)	(647,645)
Net (decrease)/increase in cash and cash equivalents	(4,998,228)	(116,590)	23,039	386
Effects of exchange rate changes	(280,110)	315,084	-	-
Cash and cash equivalents at 1 July	12,772,343	9,428,692	6,821	8,720
Cash and cash equivalents at 31 March	7,494,005	9,627,186	29,860	9,106
Analysis of cash and cash equivalents				
Cash and short-term funds	9,836,415	9,067,090	26,500	9,106
Deposits and placements with banks and other financial institutions	12,352,608	2,902,928	3,360	9,300
	22,189,023	11,970,018	29,860	18,406
Less: deposits and placements with banks and other financial institutions with original maturity of more than three months and restricted cash	(14,695,018)	(2,342,832)	-	(9,300)
	7,494,005	9,627,186	29,860	9,106

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

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

1. Basis of preparation

The unaudited condensed financial statements for the financial period ended 31 March 2018 have been prepared under the historical cost convention, as modified by the revaluation of financial investments available-for-sale and financial assets/financial liabilities at fair value through profit or loss (including 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 2017. The explanatory notes attached to the unaudited condensed financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group and the Company since the financial year ended 30 June 2017.

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

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

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

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

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

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.

4. Exceptional items or unusual events affecting financial statements

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

5. Variation from financial estimates reported in preceding financial period

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

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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 HLFG for the financial period ended 31 March 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 HLFG shares at an exercise price of RM17.12 to eligible executives of HLFG 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.

As at 31 March 2018, the total number of Treasury Shares for Executive Share Option Scheme ("ESOS") is 500 at an average price of RM6.31 per share and the total consideration paid, including transaction costs was RM3,155.

During the financial period ended 31 March 2018, no shares were exercised pursuant to the Company's ESOS.

The insurance subsidiary company exercised a total of 656,800 ordinary shares pursuant to the Company's ESS at the adjusted exercise price of RM16.61 during the financial period ended 31 March 2018.

The remaining number of shares held by the appointed trustee for the insurance subsidiary company as at 31 March 2018 was 3,307,100 units at an average price of RM9.01 per share with total consideration paid, including transaction costs was RM29,792,340 which have been classified as treasury shares for ESOS at the Group level.

b) Issuance of Multi-currency Additional Tier 1 capital securities

On 30 November 2017, the Company issued RM400 million nominal value of 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 a 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.

7. Dividends paid

Single-tier interim dividend of 13.0 sen per share amounting to RM149.2 million was paid on 28 December 2017.

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 takaful business
Other operations	Investment holding and provision of management services

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8. Segmental reporting (continued)

The Group 31 March 2018	Commercial Banking RM '000	Investment Banking RM '000	Insurance RM '000	Others RM '000	Eliminations RM '000	Consolidated RM '000
Revenue for the period ended						
External revenue	3,660,446	137,758	278,826	(45,908)	-	4,031,122
Intersegment revenue	2,805	7,110	3,750	663,219	(676,884)	-
	<u>3,663,251</u>	<u>144,868</u>	<u>282,576</u>	<u>617,311</u>	<u>(676,884)</u>	<u>4,031,122</u>
Results for the period ended						
Segment results	2,049,279	58,020	202,128	944,089	(1,010,691)	2,242,825
Share of results of associated companies						450,226
Share of results of joint ventures						14,907
Profit before taxation						<u>2,707,958</u>
Taxation						(506,588)
Net profit for the financial period						<u>2,201,370</u>
Non-controlling interests						(748,218)
Profit attributable to owners of the parent						<u><u>1,453,152</u></u>
Other information						
Segment assets	197,283,356	3,949,687	19,705,874	17,537,254	(14,575,015)	<u><u>223,901,156</u></u>
Segment liabilities	173,935,738	3,190,193	16,937,726	1,478,039	2,054,800	<u><u>197,596,496</u></u>

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8. Segmental reporting (continued)

The Group 31 March 2017	Commercial Banking RM '000	Investment Banking RM '000	Insurance RM '000	Others RM '000	Eliminations RM '000	Consolidated RM '000
Revenue for the period ended						
External revenue	3,386,885	145,312	265,410	(36,109)	-	3,761,498
Intersegment revenue	11,846	5,199	3,083	665,228	(685,356)	-
	<u>3,398,731</u>	<u>150,511</u>	<u>268,493</u>	<u>629,119</u>	<u>(685,356)</u>	<u>3,761,498</u>
Results for the period ended						
Segment results	1,809,821	65,668	194,540	605,562	(662,907)	2,012,684
Share of results of associated companies						292,478
Share of results of joint ventures						16,661
Profit before taxation						<u>2,321,823</u>
Taxation						<u>(447,393)</u>
Net profit for the financial period						1,874,430
Non-controlling interests						<u>(626,459)</u>
Profit attributable to owners of the parent						<u>1,247,971</u>
Other information						
Segment assets	195,002,988	4,431,788	17,859,314	17,114,169	(16,944,557)	<u>217,463,702</u>
Segment liabilities	172,905,018	3,696,443	15,200,295	1,198,392	(298,246)	<u>192,701,902</u>

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9. Financial assets held-for-trading

	The Group	
	As at	As at
	31/03/2018	30/06/2017
	RM '000	RM '000
Money market instruments:		
Government treasury bills	234,304	-
Malaysian Government securities	459,062	475,794
Negotiable instruments of deposit	3,312,484	5,177,899
Bankers' acceptances and Islamic accepted bills	49,855	-
Bank Negara Malaysia bills	21,814	-
Malaysian Government investment certificates	1,299,306	715,133
Cagamas bonds	-	1,013
Other Government securities	624,779	557,649
	<u>6,001,604</u>	<u>6,927,488</u>
Quoted securities:		
Shares in Malaysia	726,423	743,504
Shares outside Malaysia	107,561	71,073
Foreign currency bonds in Malaysia	7,719	195,592
Foreign currency bonds outside Malaysia	26,112	62,860
Unit trust investments	429,143	332,260
Warrants quoted in Malaysia	420	-
	<u>1,297,378</u>	<u>1,405,289</u>
Unquoted securities:		
Foreign currency bonds outside Malaysia	15,741	53,087
Malaysia Government sukuk	-	191,394
Corporate bonds and sukuk	1,051,051	876,179
	<u>1,066,792</u>	<u>1,120,660</u>
Total financial assets held-for-trading	<u>8,365,774</u>	<u>9,453,437</u>

10. Financial investments available-for-sale

	The Group	
	As at	As at
	31/03/2018	30/06/2017
	RM '000	RM '000
Money market instruments:		
Malaysian Government securities	838,032	1,367,665
Malaysian Government investment certificates	4,687,297	4,446,014
Khazanah bonds	586,864	406,904
Cagamas bonds	1,502,782	1,458,370
Other Government securities	4,158,943	3,284,010
	<u>11,773,918</u>	<u>10,962,963</u>
Quoted securities:		
Shares in Malaysia	1,561,290	1,504,150
Shares outside Malaysia	102,631	114,374
Foreign currency bonds in Malaysia	3,074,522	3,056,104
Foreign currency bonds outside Malaysia	1,248,452	1,818,131
Investment-linked funds	300	300
Unit trust investments	601,164	470,603
	<u>6,588,359</u>	<u>6,963,662</u>
Unquoted securities:		
Shares in Malaysia	457,075	457,132
Shares outside Malaysia	83,398	149,361
Foreign currency bonds in Malaysia	1,005,256	294,300
Foreign currency bonds outside Malaysia	1,054,245	862,710
Malaysian Government sukuk	2,192,597	2,040,793
Corporate bonds and sukuk	13,688,084	13,432,441
	<u>18,480,655</u>	<u>17,236,737</u>
Total financial investments available-for-sale	<u>36,842,932</u>	<u>35,163,362</u>

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11. Financial investments held-to-maturity

	The Group	
	As at	As at
	31/03/2018	30/06/2017
	RM '000	RM '000
Money market instruments:		
Government treasury bills	51,124	57,367
Malaysian Government securities	1,540,343	2,764,747
Malaysian Government investment certificates	10,252,562	9,482,704
Other Government securities	454,100	484,230
	<u>12,298,129</u>	<u>12,789,048</u>
Unquoted securities:		
Loan stocks	48	48
Malaysian Government sukuk	1,403,785	814,591
Corporate bonds and sukuk	698,034	697,481
Foreign currency bonds outside Malaysia	151,402	247,796
Redeemable preference shares	30,866	32,066
	<u>2,284,135</u>	<u>1,791,982</u>
Total financial investments held-to-maturity	<u>14,582,264</u>	<u>14,581,030</u>

12. Loans, advances and financing

	The Group	
	As at	As at
	31/03/2018	30/06/2017
	RM '000	RM '000
Overdrafts	3,607,735	3,776,243
Term loans/financing:		
- Housing and shop loans/financing	69,197,427	65,998,057
- Syndicated term loan/financing	9,539,425	9,225,253
- Hire purchase receivables	17,246,882	18,159,364
- Other term loans/financing	7,318,076	8,135,246
Credit/charge card receivables	3,631,945	3,997,701
Bills receivables	915,787	1,081,635
Trust receipts	325,172	314,042
Claims on customers under acceptance credits	7,210,612	7,451,325
Revolving credits	6,073,409	6,611,688
Policy and premium loans	577,032	584,546
Staff loans/financing	145,162	146,737
Other loans/financing	469,085	486,255
Gross loans, advances and financing	<u>126,257,749</u>	<u>125,968,092</u>
Fair value changes arising from fair value hedges	(1,930)	(34)
Unamortised fair value changes arising from terminated fair value hedges	(13)	(36)
Allowance for impaired loans, advances and financing:		
- Collective assessment allowance	(809,626)	(830,407)
- Individual assessment allowance	(207,232)	(325,536)
Total net loans, advances and financing	<u>125,238,948</u>	<u>124,812,079</u>

Included in loans, advances and financing are housing loans sold to Cagamas with recourse to the Group amounting to RM180,758,000 (2017: RM184,571,000).

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12. Loans, advances and financing (continued)

(a) By type of customer

	The Group	
	As at 31/03/2018	As at 30/06/2017
	RM '000	RM '000
Domestic non-bank financial institutions	413,815	651,907
Domestic business enterprises:		
- small and medium enterprises	20,645,605	20,377,345
- others	14,301,994	15,491,115
Government and statutory bodies	19,681	29,072
Individuals	83,887,274	82,063,090
Other domestic entities	271,919	79,052
Foreign entities	6,717,461	7,276,511
Gross loans, advances and financing	<u>126,257,749</u>	<u>125,968,092</u>

(b) By interest/profit rate sensitivity

	The Group	
	As at 31/03/2018	As at 30/06/2017
	RM '000	RM '000
Fixed rate		
- Housing and shop loans/financing	3,264,862	4,753,971
- Hire purchase receivables	16,907,485	17,747,828
- Other fixed rate loan/financing	6,843,985	7,513,604
Variable rate		
- Base rate/base lending rate plus	83,142,742	78,636,505
- Cost plus	15,745,082	16,918,373
- Other variables rates	353,593	397,811
Gross loans, advances and financing	<u>126,257,749</u>	<u>125,968,092</u>

(c) By economic purpose

	The Group	
	As at 31/03/2018	As at 30/06/2017
	RM '000	RM '000
Purchase of securities	635,757	700,958
Purchase of transport vehicles	16,961,761	17,583,693
Purchase of landed properties		
- residential	60,226,113	56,861,181
- non-residential	15,424,240	15,774,407
Purchase of fixed assets (excluding landed properties)	440,040	379,050
Personal use	3,242,109	3,563,125
Credit card	3,631,945	3,997,701
Construction	1,558,662	1,238,539
Mergers and acquisition	168,440	201,182
Working capital	21,998,678	23,216,086
Other purpose	1,970,004	2,452,170
Gross loans, advances and financing	<u>126,257,749</u>	<u>125,968,092</u>

(d) By geographical distribution

	The Group	
	As at 31/03/2018	As at 30/06/2017
	RM '000	RM '000
Malaysia	120,051,992	119,382,844
Singapore	4,953,760	5,379,133
Vietnam	353,593	397,813
Cambodia	898,404	808,302
Gross loans, advances and financing	<u>126,257,749</u>	<u>125,968,092</u>

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12. Loans, advances and financing (continued)

(e) By residual contractual maturity

	The Group	
	As at	As at
	31/03/2018	30/06/2017
	RM '000	RM '000
Within one year	25,399,413	27,380,609
One year to less than three years	5,969,014	5,492,203
Three years to less than five years	8,995,838	10,265,641
Five years and more	85,893,484	82,829,639
Gross loans, advances and financing	<u>126,257,749</u>	<u>125,968,092</u>

(f) Impaired loans, advances and financing by economic purpose

	The Group	
	As at	As at
	31/03/2018	30/06/2017
	RM '000	RM '000
Purchase of securities	1,576	2,196
Purchase of transport vehicles	129,406	142,754
Purchase of landed properties		
- residential	305,310	307,234
- non-residential	152,567	133,296
Purchase of fixed assets (excluding landed properties)	1,073	3,332
Personal use	46,957	44,066
Credit card	39,961	48,005
Construction	4,770	7,209
Working capital	379,809	510,724
Other purpose	3,430	16,201
Gross impaired loans, advances and financing	<u>1,064,859</u>	<u>1,215,017</u>

(g) Impaired loans, advances and financing by geographical distribution

	The Group	
	As at	As at
	31/03/2018	30/06/2017
	RM '000	RM '000
Malaysia	1,048,459	1,208,932
Singapore	8,545	471
Vietnam	4,178	5,098
Cambodia	3,677	516
Gross impaired loans, advances and financing	<u>1,064,859</u>	<u>1,215,017</u>

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

	The Group	
	As at	As at
	31/03/2018	30/06/2017
	RM '000	RM '000
As at beginning of the financial period/year	1,215,017	957,153
Impaired during the financial period/year	1,211,580	1,824,594
Performing during the financial period/year	(675,112)	(821,519)
Amount written back in respect of recoveries	(299,601)	(336,403)
Amount written off	(380,070)	(407,656)
Exchange differences	(6,955)	(1,152)
As at end of the financial period/year	<u>1,064,859</u>	<u>1,215,017</u>
Gross impaired loans as a % of gross loans, advances and financing	<u>0.8%</u>	<u>1.0%</u>

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12. Loans, advances and financing (continued)

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

	The Group	
	As at 31/03/2018 RM '000	As at 30/06/2017 RM '000
<u>Collective assessment allowance</u>		
As at beginning of the financial period/year	830,407	856,971
Net allowance made during the period/year	228,414	282,483
Amount transferred to individual assessment allowance	-	(729)
Amount written off	(237,524)	(298,120)
Unwinding income	(10,706)	(10,732)
Exchange differences	(965)	534
As at end of the financial period/year	<u>809,626</u>	<u>830,407</u>
Collective assessment allowance (inclusive of regulatory reserve) as % of gross loans, advances and financing less individual impairment allowance	<u>1.2%</u>	<u>1.2%</u>
<u>Individual assessment allowance</u>		
As at beginning of the financial period/year	325,536	289,844
Net allowance made during the period/year	54,459	162,679
Amount transferred from collective assessment allowance	-	729
Amount written back in respect of recoveries	(41,130)	(46,433)
Amount written off	(119,095)	(72,260)
Unwinding income	(6,021)	(8,741)
Exchange differences	(6,517)	(282)
As at end of the financial period/year	<u>207,232</u>	<u>325,536</u>

13. Other receivables

	The Group	
	As at 31/03/2018 RM '000	As at 30/06/2017 RM '000
Investment properties	2,030	2,030
Foreclosed properties	46	46
Sundry debtors and other prepayments	192,770	181,987
Treasury related receivable	824,688	457,935
Fee income receivable	3,170	16,076
Collateral pledged for derivative transactions	411,289	676,156
Other receivables	142,198	195,555
	<u>1,576,191</u>	<u>1,529,785</u>
	The Company	
	As at 31/03/2018 RM '000	As at 30/06/2017 RM '000
Amount due from subsidiary companies	185	38,646
Sundry debtors and other prepayments	1,125	301
Interest receivables	6,860	11
Other receivables	231	263
	<u>8,401</u>	<u>39,221</u>

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14. Investment in joint venture

	The Group	
	As at 31/03/2018 RM '000	As at 30/06/2017 RM '000
Unquoted shares outside Malaysia, at cost	24,657	24,657
Cumulative share of results, net of dividend received	24,529	20,882
Exchange fluctuation reserve	7,173	8,842
	56,359	54,381
Equity interest held for sale	118,978	114,804
	175,337	169,185

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 sell down the original share capital held by HLB to new strategic investors through an exercise via Southwest United Equity Exchange. The completion of the sale is currently pending the China Banking Regulatory Commission approval. Upon the divestment exercise, the retained interest of 12% of the expanded capital will be recognised as a financial asset in accordance with MFRS 139 'Financial Instruments: Recognition and Measurement'.

Investment in joint venture classified as asset held for sale as at the reporting period was measured at the lower of its carrying amount and fair value less costs to sell at the time of the reclassification. The investment classified as asset held for sale amounted to RM118,978,000 for the financial period ended 31 March 2018 (30 June 2017: RM114,804,000).

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

15. Deposits from customers

(a) By type of deposits

	The Group	
	As at 31/03/2018 RM '000	As at 30/06/2017 RM '000
At amortised cost		
Fixed deposits	87,593,109	88,216,001
Short-term placements	14,282,981	18,312,314
Negotiable instruments of deposits	7,180,556	5,713,184
	109,056,646	112,241,499
Demand deposits	23,467,335	21,186,820
Savings deposits	17,591,764	17,531,603
Others	1,028,543	1,017,170
Gross deposits from customers	151,144,288	151,977,092
At fair value through profit or loss		
Structured deposits linked to interest rate derivatives	3,098,813	2,597,863
Fair value changes arising from designation at fair value through profit or loss*	(157,373)	(116,938)
Total net deposits from customers	154,085,728	154,458,017

*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 139 'Financial Instruments: Recognition and Measurement' as it significantly reduces accounting mismatch. These instruments are managed by the Group on the basis of its 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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15. Deposits from customers (continued)

(b) By type of customers

	The Group	
	As at	As at
	31/03/2018	30/06/2017
	RM '000	RM '000
Government and statutory bodies	3,009,724	3,395,343
Business enterprises	60,244,230	62,087,439
Individuals	88,209,258	86,196,444
Others	2,622,516	2,778,791
Net deposits from customers	<u>154,085,728</u>	<u>154,458,017</u>

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

	The Group	
	As at	As at
	31/03/2018	30/06/2017
	RM '000	RM '000
Due within six months	79,367,352	93,035,057
More than six months to one year	26,637,287	17,382,345
More than one year to five years	3,052,007	1,824,097
	<u>109,056,646</u>	<u>112,241,499</u>

16. Deposits and placements of banks and other financial institutions

	The Group	
	As at	As at
	31/03/2018	30/06/2017
	RM '000	RM '000
Licensed banks and investment banks	4,711,276	6,312,662
Other financial institutions	1,742,074	1,421,763
	<u>6,453,350</u>	<u>7,734,425</u>
The maturity structure of deposits and placements of banks and other financial institutions:		
- One year or less (short-term)	<u>6,453,350</u>	<u>7,734,425</u>

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17. Payables and other liabilities

	The Group	
	As at 31/03/2018 RM '000	As at 30/06/2017 RM '000
Trade payables	2,599,175	2,333,872
Loan advance payment	3,190,870	2,987,067
Post employment benefits obligation - defined contribution plan	1,846	1,819
Treasury and cheque clearing	200,596	129,556
Cheque clearing	89,094	114,889
Treasury related payables	173,899	235,295
Sundry creditors and accruals	521,763	332,197
Provision for bonus and staff related expenses	185,777	207,627
Financial liabilities due to third party investors *	3,443,177	1,773,647
Others	578,485	529,955
	<u>10,984,682</u>	<u>8,531,035</u>

	The Company	
	As at 31/03/2018 RM '000	As at 30/06/2017 RM '000
Sundry creditors and accruals	1,010	1,276
Provision for bonus and staff related expenses	7,384	8,169
Post employment benefits obligation - defined contribution plan	45	44
	<u>8,439</u>	<u>9,489</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'.

18. Interest income

	The Group		The Group	
	Current quarter ended 31/03/2018 RM '000	Last year quarter ended 31/03/2017 RM '000	Current year to date 31/03/2018 RM '000	Last year to date 31/03/2017 RM '000
Loans, advances and financing	1,153,799	1,152,652	3,479,793	3,486,955
Money at call and deposit placements with financial institutions	62,422	39,630	152,507	93,138
Securities purchased under resale agreements	2,992	5	5,030	35,284
Financial assets held-for-trading	98,036	108,316	312,260	326,363
Financial investments available-for-sale	198,567	172,195	586,638	503,555
Financial investments held-to-maturity	98,750	97,732	302,350	282,703
Others	5,350	4,797	18,729	12,589
	<u>1,619,916</u>	<u>1,575,327</u>	<u>4,857,307</u>	<u>4,740,587</u>

Of which:				
Interest income earned on impaired loans, advances and financing	<u>12,726</u>	<u>5,958</u>	<u>39,808</u>	<u>18,425</u>

	The Company		The Company	
	Current quarter ended 31/03/2018 RM '000	Last year quarter ended 31/03/2017 RM '000	Current year to date 31/03/2018 RM '000	Last year to date 31/03/2017 RM '000
Money at call and deposit placements with financial institutions	159	235	1,229	945
Other interest income	5,060	-	7,320	-
	<u>5,219</u>	<u>235</u>	<u>8,549</u>	<u>945</u>

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19. Interest expense

	The Group		The Group	
	Current	Last year	Current year	Last year
	quarter ended 31/03/2018	quarter ended 31/03/2017	to date 31/03/2018	to date 31/03/2017
	RM '000	RM '000	RM '000	RM '000
Deposits and placements of banks and other financial institutions	54,102	30,993	144,851	82,076
Deposits from customers	724,795	675,490	2,105,884	2,110,723
Short-term placements	76,062	80,814	245,895	231,631
Borrowings	12,776	24,596	42,714	76,705
Subordinated obligations	28,896	28,968	88,016	88,226
Recourse obligation on loans sold to Cagamas	1,875	1,875	5,707	4,832
Innovative Tier 1 capital securities	9,552	8,830	28,479	26,342
Multi-currency Additional Tier 1 capital securities	98	-	943	-
Others	6,037	4,545	13,897	15,144
	<u>914,193</u>	<u>856,111</u>	<u>2,676,386</u>	<u>2,635,679</u>

	The Company		The Company	
	Current	Last year	Current year	Last year
	quarter ended 31/03/2018	quarter ended 31/03/2017	to date 31/03/2018	to date 31/03/2017
	RM '000	RM '000	RM '000	RM '000
Borrowings	12,776	13,748	42,714	45,899
Multi-currency Additional Tier 1 capital securities	5,219	-	7,074	-
Others	147	149	437	311
	<u>18,142</u>	<u>13,897</u>	<u>50,225</u>	<u>46,210</u>

20. Net income from Islamic Banking business

	The Group		The Group	
	Current	Last year	Current year	Last year
	quarter ended 31/03/2018	quarter ended 31/03/2017	to date 31/03/2018	to date 31/03/2017
	RM '000	RM '000	RM '000	RM '000
Income derived from investment of depositors' funds and others	320,000	274,098	937,654	806,830
of which Finance income	319,679	274,495	933,179	802,759
of which other operating income	321	(397)	4,475	4,071
Income derived from investment of shareholders' funds	40,362	33,518	113,367	107,339
of which Finance income	27,798	23,867	81,146	69,805
of which other operating income	12,564	9,651	32,221	37,534
Income attributable to depositors	(193,682)	(168,329)	(567,698)	(506,871)
	<u>166,680</u>	<u>139,287</u>	<u>483,323</u>	<u>407,298</u>

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21. Non-Interest Income

	The Group		The Group	
	Current quarter ended 31/03/2018 RM '000	Last year quarter ended 31/03/2017 RM '000	Current year to date 31/03/2018 RM '000	Last year to date 31/03/2017 RM '000
Net income from insurance business	71,634	40,025	200,145	205,521
Net brokerage and commissions from stockbroking business	19,751	20,386	50,373	49,176
Net unit trust and asset management income	8,945	6,670	24,859	19,392
Fee income:				
Commissions	36,951	33,152	118,852	109,083
Service charges and fees	17,544	17,805	48,113	46,412
Guarantee fees	4,269	3,154	10,706	10,253
Credit card related fees	53,277	56,991	168,515	180,469
Corporate advisory fees	1,733	1,449	4,454	6,483
Commitment fees	8,056	8,479	25,028	26,325
Fee on loans, advances and financing	10,271	9,208	29,716	42,209
Placement fees	675	-	768	3,542
Arranger fees	170	1,434	3,485	6,330
Other fee income	33,728	36,457	87,905	70,950
	166,674	168,129	497,542	502,056
Gain/(loss) arising from sale/redemption of financial assets:				
Net gain/(loss) from sale of financial assets held-for-trading	14,643	(18,710)	42,130	2,286
Net gain from sale of financial investments available-for-sale	67,706	2,300	146,454	24,641
Net gain from redemption of financial investments held-to-maturity	3	116	3	150
Net gain from sale of derivative financial instruments	107,567	16,078	49,034	22,783
	189,919	(216)	237,621	49,860
Gross dividend income from:				
Financial assets held-for-trading	1,130	1,318	3,839	1,948
Financial investments available-for-sale	78,385	67,049	236,339	214,512
	79,515	68,367	240,178	216,460
Net unrealised (loss)/gain on revaluation of:				
Financial assets held-for-trading	(12,202)	32,140	(21,985)	(200)
Derivative financial instruments	(80,272)	(14,046)	3,763	135,740
	(92,474)	18,094	(18,222)	135,540
Amortisation of fair value changes arising from terminated fair value hedges	(259)	(15)	(704)	(41)
Net unrealised loss on fair value changes arising from fair value hedges	(102)	(37)	(138)	(37)
Other income:				
Foreign exchange gain	63,538	41,323	115,487	54,997
Rental income	2,364	546	6,477	3,248
Gain on disposal of property and equipment (net)	784	158	2,545	1,272
Others	3,663	3,650	10,715	11,848
	70,349	45,677	135,224	71,365
Total non-interest income	513,952	367,080	1,366,878	1,249,292

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21. Non-Interest Income (continued)

	The Company		The Company	
	Current quarter ended 31/03/2018 RM '000	Last year quarter ended 31/03/2017 RM '000	Current year to date 31/03/2018 RM '000	Last year to date 31/03/2017 RM '000
Fee income:				
Management fees	2,409	2,631	7,523	4,241
Net loss from sale of derivative financial instruments	-	-	-	(80)
Gross dividend income from:				
Subsidiary companies	212,314	199,044	648,555	655,150
Net unrealised gain on revaluation of:				
Derivative financial instruments	180	107	525	738
Gain from distribution on liquidation of subsidiary	190,156	-	190,156	-
Other income	5	-	5	15
Total non-interest income	405,064	201,782	846,764	660,064

22. Overhead expenses

	The Group		The Group	
	Current quarter ended 31/03/2018 RM '000	Last year quarter ended 31/03/2017 RM '000	Current year to date 31/03/2018 RM '000	Last year to date 31/03/2017 RM '000
<u>Personnel costs</u>				
- Salaries, allowances and bonuses	288,535	282,617	866,122	848,544
- Medical expenses	9,089	8,944	24,793	21,279
- Training and convention expenses	5,400	4,225	18,785	21,727
- Staff welfare	3,153	2,849	7,678	9,318
- Others	16,071	12,123	30,403	34,883
	322,249	310,758	947,782	935,751
<u>Establishment costs</u>				
- Depreciation of property and equipment	37,980	25,908	95,006	73,550
- Amortisation of intangible assets	20,501	20,324	61,965	60,717
- Rental of premises	19,763	22,460	63,948	68,198
- Information technology expenses	45,406	42,778	130,839	116,534
- Security services	7,954	6,544	20,768	20,740
- Electricity, water and sewerage	6,448	6,196	20,491	18,588
- Hire of plant and machinery	3,196	3,747	9,539	10,909
- Others	9,943	3,805	26,926	18,019
	151,191	131,762	429,482	387,255
<u>Marketing expenses</u>				
- Advertisement and publicity	9,618	10,342	29,684	25,409
- Credit card related fees	26,193	23,999	82,729	81,044
- Others	6,314	5,436	18,579	15,542
	42,125	39,777	130,992	121,995
<u>Administration and general expenses</u>				
- Teletransmission expenses	4,866	4,881	13,958	13,640
- Stationery and printing expenses	4,566	3,958	11,642	12,474
- Professional fees	20,136	20,152	62,239	53,772
- Insurance fees	10,555	10,386	31,895	30,060
- Credit card fees	9,807	10,985	30,552	29,112
- Travelling and transport expenses	1,148	1,135	3,160	3,267
- Registration and license fees	2,624	2,649	7,714	7,616
- Brokerage and commission	2,127	1,913	5,567	4,971
- Stamp, postage and courier	5,353	5,159	13,349	14,968
- Others	15,820	9,144	34,818	36,360
	77,002	70,362	214,894	206,240
	592,567	552,659	1,723,150	1,651,241

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22. Overhead expenses (continued)

	The Company		The Company	
	Current	Last year	Current year	Last year
	quarter ended 31/03/2018 RM '000	quarter ended 31/03/2017 RM '000	to date 31/03/2018 RM '000	to date 31/03/2017 RM '000
<u>Personnel costs</u>				
- Salaries, allowances and bonuses	9,409	1,289	17,336	9,174
- Medical expenses	27	38	87	62
- Training and convention expenses	5	4	20	9
- Staff welfare	139	137	401	391
- Others	1,174	165	1,511	484
	<u>10,754</u>	<u>1,633</u>	<u>19,355</u>	<u>10,120</u>
<u>Establishment costs</u>				
- Depreciation of property and equipment	233	170	537	489
- Amortisation of intangible assets	8	27	12	81
- Rental of premises	279	190	627	570
- Electricity, water and sewerage	6	12	34	34
- Hire of machinery	1	9	6	23
- Others	90	88	189	185
	<u>617</u>	<u>496</u>	<u>1,405</u>	<u>1,382</u>
<u>Administration and general expenses</u>				
- Teletransmission expenses	8	7	23	23
- Stationery and printing expenses	5	4	26	14
- Professional fees	303	368	699	812
- Management fees	562	562	1,688	1,688
- Travelling and transport expenses	22	38	56	99
- Others	216	123	561	323
	<u>1,116</u>	<u>1,102</u>	<u>3,053</u>	<u>2,959</u>
	<u>12,487</u>	<u>3,231</u>	<u>23,813</u>	<u>14,461</u>

23. Allowance for impairment losses on loans, advances and financing and other losses

	The Group		The Group	
	Current	Last year	Current year	Last year
	quarter ended 31/03/2018 RM '000	quarter ended 31/03/2017 RM '000	to date 31/03/2018 RM '000	to date 31/03/2017 RM '000
(Writeback of)/allowance for impairment losses on loans, advances and financing:				
- Individual assessment allowance	(2,768)	19,197	13,329	37,224
- Collective assessment allowance	72,202	89,181	228,414	229,308
(Writeback of)/allowance for impairment losses on client's and brokers' balances:				
- Individual assessment allowance	(68)	(23)	(173)	188
- Collective assessment allowance	(22)	(4)	2	(1)
(Writeback of)/allowance for impairment losses on other assets:				
- Individual assessment allowance	(183)	632	(231)	806
Impaired loans and financing:				
- written off	4,539	5,886	15,118	16,569
- recovered	(61,114)	(68,941)	(189,767)	(186,578)
	<u>12,586</u>	<u>45,928</u>	<u>66,692</u>	<u>97,516</u>

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24. Capital adequacy

The banking subsidiaries' regulatory capital is governed by BNM Capital Adequacy Framework guidelines. With effect from 1 January 2013, the capital adequacy ratios of the banking subsidiaries are computed in accordance with BNM's Capital Adequacy Framework (Capital Component) reissued on 4 August 2017. The Framework sets out the approach for computing the regulatory capital adequacy ratios, the minimum levels of the ratios at which banking institutions are required to operate as well as requirement on Capital Conservation Buffer ("CCB") and Counter Cyclical Buffer ("CCyB"). The minimum capital adequacy requirements for Common Equity Tier I (CET I) capital ratio, Tier I capital ratio and Total Capital ratio are 4.50%, 6.00% and 8.00% respectively. The Group 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. There is no BNM announcement on the CCyB rates yet.

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	
	31/03/2018	30/06/2017	31/03/2018	30/06/2017	31/03/2018	30/06/2017
Before deducting proposed dividends						
CET I capital ratio	12.015%	13.788%	11.660%	13.078%	27.668%	29.744%
Tier I capital ratio	12.705%	14.193%	12.112%	13.556%	27.668%	29.744%
Total capital ratio	15.264%	16.280%	14.938%	15.997%	32.200%	33.912%
After deducting proposed dividends						
CET I capital ratio	12.015%	13.286%	11.660%	12.486%	27.668%	25.398%
Tier I capital ratio	12.705%	13.691%	12.112%	12.964%	27.668%	25.398%
Total capital ratio	15.264%	15.779%	14.938%	15.405%	32.200%	29.566%

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

	Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	31/03/2018	30/06/2017	31/03/2018	30/06/2017	31/03/2018	30/06/2017
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
CET I capital						
Paid up share capital	7,739,063	7,739,063	7,739,063	7,739,063	252,950	252,950
Retained profit	13,609,126	13,560,582	10,166,287	10,245,205	191,910	246,910
Other reserves	925,514	1,265,223	294,368	422,954	(667)	648
Less: Treasury shares	(732,267)	(733,961)	(732,267)	(733,961)	-	-
Less: Other intangible assets	(161,147)	(213,323)	(145,417)	(194,870)	-	-
Less: Goodwill	(1,831,312)	(1,831,312)	(1,771,547)	(1,771,547)	(32,283)	(33,796)
Less: Deferred tax assets	(1,582)	(4,851)	-	-	(90,153)	(90,153)
Less: Investment in subsidiary companies/ associated company/joint venture	(3,936,233)	(2,908,861)	(2,762,349)	(2,148,516)	(200)	(160)
Total CET I capital	15,611,162	16,872,560	12,788,138	13,558,328	321,557	376,399
Additional Tier I capital						
Multi-currency Additional Tier 1 capital securities	399,360	-	399,360	-	-	-
Innovative Tier 1 capital securities	497,166	495,778	497,166	495,778	-	-
Additional Tier I before regulatory adjustments	896,526	495,778	896,526	495,778	-	-
Less: Investment in Additional Tier 1 perpetual subordinated sukuk wakalah	-	-	(400,000)	-	-	-
Additional Tier I after regulatory adjustments	896,526	495,778	496,526	495,778	-	-
Total Tier I capital	16,507,688	17,368,338	13,284,664	14,054,106	321,557	376,399

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24. Capital adequacy (continued)

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

	Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	31/03/2018	30/06/2017	31/03/2018	30/06/2017	31/03/2018	30/06/2017
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Tier II capital						
Collective assessment allowance ^ and regulatory reserves #	1,324,999	1,281,686	1,099,085	1,067,705	2,665	2,783
Subordinated obligations	1,999,874	1,999,723	1,999,874	1,999,723	50,000	50,000
Tier II capital before regulatory adjustments	3,324,873	3,281,409	3,098,959	3,067,428	52,665	52,783
Less: Investment in subsidiary companies/ associated company/joint venture	-	(727,215)	-	(537,129)	-	(40)
Total Tier II capital	3,324,873	2,554,194	3,098,959	2,530,299	52,665	52,743
Total capital	19,832,561	19,922,532	16,383,623	16,584,405	374,222	429,142

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

Includes the qualifying regulatory reserves for non-impaired loans of Hong Leong Bank Group of RM693,928,000 (2017: RM667,238,000), Hong Leong Bank Berhad of RM596,157,000 (2017: RM571,678,000) and Hong Leong Investment Bank Berhad of RM2,464,000 (2017: RM2,504,000) respectively.

(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	
	31/03/2018	30/06/2017	31/03/2018	30/06/2017	31/03/2018	30/06/2017
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Credit risk	117,163,859	111,299,987	97,768,351	93,397,418	414,439	461,963
Market risk	4,438,306	3,115,525	4,721,771	3,340,119	456,134	517,433
Operational risk	8,326,534	7,958,340	7,188,729	6,934,552	291,616	286,064
Total RWA	129,928,699	122,373,852	109,678,851	103,672,089	1,162,189	1,265,460

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

	Hong Leong Islamic Bank	
	31/03/2018	30/06/2017
Before deducting proposed dividends		
CET I capital ratio	10.261%	10.622%
Tier I capital ratio	12.287%	10.622%
Total capital ratio	15.408%	13.946%
After deducting proposed dividends		
CET I capital ratio	10.261%	10.622%
Tier I capital ratio	12.287%	10.622%
Total capital ratio	15.408%	13.946%

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25. Events after Balance Sheet date

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

26. 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 followings:

- (a) On 6 October 2017, Hong Leong Capital Berhad, a subsidiary of HLFGB, announced that it had placed its wholly-owned subsidiary, HLG Securities Sdn Bhd ("HLGS"), under member's voluntary winding-up pursuant to Section 439(1)(b) of the Companies Act, 2016. HLGS is dormant.
- (b) On 31 January 2018, Bank of Chengdu Co., Ltd ("BOCD"), an associated company of HLB (a subsidiary of HLFGB) 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, HLB's equity interest of the enlarged capital in BOCD is now reduced to 18% from 20%.
- (c) On 12 February 2018, HLFGB announced that it had placed its wholly-owned subsidiaries, Hong Leong Equities Sdn Bhd ("HLE") and HLFGB Assets Sdn Bhd ("HLFGA"), under member's voluntary winding-up pursuant to Section 439(1)(b) of the Companies Act, 2016. HLE is an investment holding company and HLFGA is currently dormant. There are no future plans for the subsidiaries.

27. Related party transactions

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

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28. 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 not secured against the assets of the Group.

The notional/principal amount of the commitments and contingencies constitute the following:

	The Group	
	31/03/2018	30/06/2017
	RM '000	RM '000
Direct credit substitutes	95,971	82,785
Certain transaction related contingent items	1,299,553	1,391,111
Short-term self liquidating trade related contingencies	906,073	780,216
Obligations under underwriting agreement	-	130,000
Irrevocable commitments to extend credit:		
- less than one year	16,828,974	16,098,253
- more than one year	13,722,713	13,257,147
Any commitments that are unconditionally cancellable at any time by the Group without prior notice:		
- less than one year	618,543	661,322
Foreign exchange related contracts:		
- less than one year	45,125,084	37,699,553
- one year to less than five years	2,629,935	3,758,574
- five years and above	602,673	1,260,525
Interest rate related contracts:		
- less than one year	69,977,089	45,167,380
- one year to less than five years	49,553,837	37,794,681
- five years and above	5,211,025	5,807,786
Equity related contracts:		
- less than one year	276,190	155,471
- one year to less than five years	375,735	286,187
Unutilised credit card lines	7,204,686	7,001,256
Total	214,428,081	171,332,247

	The Company	
	31/03/2018	30/06/2017
	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 Trustee Malaysia Berhad, the trustee of the Funds, that if the funds fall 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 March 2018 (30 June 2017: RM1 million).

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29. 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.

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29. 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:

The Group	Fair value			Total
	Level 1	Level 2	Level 3	
31 March 2018	RM '000	RM '000	RM '000	RM '000
Recurring fair value measurements				
Financial assets				
Financial assets held-for-trading				
- Money market instruments	-	6,001,604	-	6,001,604
- Quoted securities	1,297,378	-	-	1,297,378
- Unquoted securities	-	1,066,792	-	1,066,792
Financial investments available-for-sale				
- Money market instruments	-	11,773,918	-	11,773,918
- Quoted securities	6,588,359	-	-	6,588,359
- Unquoted securities	-	18,023,580	457,075	18,480,655
Derivative financial instruments	2,231	1,034,741	20,767	1,057,739
	<u>7,887,968</u>	<u>37,900,635</u>	<u>477,842</u>	<u>46,266,445</u>
Financial liabilities				
Derivative financial instruments	4,460	1,705,825	20,767	1,731,052
Financial liabilities designated at fair value				
- Structured deposits linked to interest rate derivatives	-	2,941,440	-	2,941,440
	<u>4,460</u>	<u>4,647,265</u>	<u>20,767</u>	<u>4,672,492</u>
30 June 2017				
	Level 1	Level 2	Level 3	Total
	RM '000	RM '000	RM '000	RM '000
Recurring fair value measurements				
Financial assets				
Financial assets held-for-trading				
- Money market instruments	-	6,927,488	-	6,927,488
- Quoted securities	1,405,289	-	-	1,405,289
- Unquoted securities	-	1,120,660	-	1,120,660
Financial investments available-for-sale				
- Money market instruments	-	10,962,963	-	10,962,963
- Quoted securities	6,963,662	-	-	6,963,662
- Unquoted securities	-	16,779,585	457,152	17,236,737
Derivative financial instruments	18	969,018	8,568	977,604
	<u>8,368,969</u>	<u>36,759,714</u>	<u>465,720</u>	<u>45,594,403</u>
Financial liabilities				
Derivative financial instruments	1,228	1,469,768	8,568	1,479,564
Financial liabilities designated at fair value				
- Structured deposits linked to interest rate derivatives	-	2,480,925	-	2,480,925
	<u>1,228</u>	<u>3,950,693</u>	<u>8,568</u>	<u>3,960,489</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 (30 June 2017: RM Nil).

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29. 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 Company	Fair value			Total RM '000
	Level 1 RM '000	Level 2 RM '000	Level 3 RM '000	
31 March 2018				
Recurring fair value measurements				
Financial liabilities				
Derivative financial instruments	-	350	-	350
30 June 2017	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	-	874	-	874

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

	Financial assets		Financial liability
	Financial investments available-for-sale RM '000	Derivative financial instruments RM '000	Derivative financial instruments RM '000
The Group			
31 March 2018			
As at beginning of the financial period	457,152	8,568	8,568
Fair value changes recognised in statements of income	-	871	871
Net fair value changes recognised in other comprehensive income	(57)	-	-
Purchases	-	11,328	11,328
Disposal	(20)	-	-
As at end of the financial period	457,075	20,767	20,767
Fair value changes recognised in statements of income relating to assets/liability held on 31 March 2018	-	871	871
Total gain recognised in other comprehensive income relating to assets held on 31 March 2018	(57)	-	-
	Financial Assets		Financial Liability
	Financial investments available-for-sale RM '000	Derivative financial instruments RM '000	Derivative financial instruments RM '000
The Group			
30 June 2017			
As at beginning of the financial year	429,720	7,995	7,995
Fair value changes recognised in statements of income	-	7,297	7,297
Net fair value changes recognised in other comprehensive income	31,814	-	-
Purchases	-	7,582	7,582
Disposal	(53)	-	-
Settlements	-	(14,306)	(14,306)
Transfer out from level 3	(4,329)	-	-
As at end of the financial year	457,152	8,568	8,568
Fair value changes recognised in statements of income relating to assets/liability held on 30 June 2017	-	7,297	7,297
Total gain recognised in other comprehensive income relating to assets held on 30 June 2017	31,814	-	-

**HONG LEONG FINANCIAL GROUP BERHAD (“HLFG”)
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Review of performance

1 Current quarter against previous corresponding quarter

HLFG Group recorded a profit before tax of RM942.8 million for the current quarter ended 31 March 2018 as compared to RM763.8 million in the previous corresponding quarter, an increase of RM179.0 million or 23.4%. The increase was mainly due to higher contribution from the commercial banking and insurance divisions.

Hong Leong Bank Group recorded a profit before tax of RM855.1 million for the current quarter ended 31 March 2018 as compared to RM697.0 million in the previous corresponding quarter, an increase of RM158.1 million or 22.7%. The increase was mainly due to higher revenue of RM132.3 million, higher share of profit from the Bank of Chengdu and Sichuan Jincheng Consumer Finance Joint Venture of RM19.1 million and lower allowance for impairment losses on loans, advances and financing of RM33.1 million. This is however offset by higher operating expenses of RM25.8 million and lower writeback of allowance for impairment losses on securities of RM0.6 million.

HLA Holdings Group recorded a profit before tax of RM95.5 million for the current quarter ended 31 March 2018 as compared to RM56.1 million in the previous corresponding quarter, an increase of RM39.4 million or 70.2%. The increase was mainly due higher life fund surplus of RM26.1 million, higher share of profit from associated company of RM6.7 million and higher revenue of RM16.1 million. This is however offset by higher operating expenses of RM9.0 million.

Hong Leong Capital Group recorded a profit before tax of RM20.7 million for the current quarter ended 31 March 2018 as compared to RM25.8 million in the previous corresponding quarter, a decrease of RM5.1 million or 19.8%. The decrease was mainly due 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 RM2,708.0 million for the period ended 31 March 2018 as compared to RM2,321.8 million in the previous corresponding period, an increase of RM386.2 million or 16.6%. The increase was mainly due to higher contribution from the commercial banking and insurance divisions.

Hong Leong Bank Group recorded a profit before tax of RM2,468.6 million for the period ended 31 March 2018 as compared to RM2,068.3 million in the previous corresponding period, an increase of RM400.3 million or 19.4%. The increase was due to higher revenue of RM264.5 million, higher share of profit from the Bank of Chengdu and Sichuan Jincheng Consumer Finance joint venture of RM160.9 million, lower allowance for impairment losses on loans, advances and financing of RM30.6 mil and lower allowance for impairment losses on securities of RM1.7 million. This was however offset by higher operating expenses of RM57.4 million.

HLA Holdings Group recorded a profit before tax of RM247.9 million for the period ended 31 March 2018 as compared to RM245.2 million in the previous corresponding period, an increase of RM2.7 million or 1.1%. The increase was mainly due to higher revenue of RM19.9 million. This is however offset by lower share of profit from an associated company of RM4.9 million, lower operating expenses of RM6.4 million and lower life fund surplus of RM5.8 million.

Hong Leong Capital Group recorded a profit before tax of RM58.0 million for the period ended 31 March 2018 as compared to RM65.7 million in the previous corresponding period, a decrease of RM7.7 million or 11.7%. This was mainly due to lower contribution from the investment banking and stockbroking divisions.

HLFG's consolidated Common Equity Tier I capital ratio, Tier I capital ratio and Total capital ratio as at 31 March 2018 is 9.277%, 10.094% and 11.787% 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 RM942.8 million for the current quarter ended 31 March 2018 as compared to RM924.7 million in the preceding quarter, an increase of RM18.1 million or 2.0%. The increase was mainly due to higher contribution across all operating divisions.

Hong Leong Bank Group recorded a profit before tax of RM855.1 million for the current quarter ended 31 March 2018 as compared to RM833.1 million in the preceding quarter, an increase of RM22.0 million or 2.6%. The increase was mainly due to higher revenue of RM27.5 million, higher writeback of allowance for impairment losses on securities of RM1.4 million and higher share of profit from the Bank of Chengdu and Sichuan Jincheng Consumer Finance Joint Venture of RM6.4 million. This was however offset by higher operating expenses of RM10.8 million and higher allowance for impairment losses on loans, advances and financing of RM2.5 million.

HLA Holdings Group recorded a profit before tax of RM95.5 million for the current quarter ended 31 March 2018 as compared to RM91.8 million in the preceding quarter, an increase of RM3.7 million or 4.0%. The increase was mainly due to higher revenue of RM2.0 million, higher share of profit from associated company of RM12.5 million and higher life fund surplus of RM3.0 million. This was however offset by higher operating expenses of RM13.6 million.

Hong Leong Capital Group recorded a profit before tax of RM20.7 million for the current quarter ended 31 March 2018 as compared to RM19.0 million in the previous corresponding period, an increase of RM1.7 million or 8.9%. This was mainly due to higher contribution from investment banking and stockbroking divisions.

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4 Prospects for the current 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 31/03/2018 RM '000	Last year quarter ended 31/03/2017 RM '000	Current year to date 31/03/2018 RM '000	Last year to date 31/03/2017 RM '000
Income tax	172,908	126,288	488,407	462,109
Transfer from/(to) deferred tax	8,310	8,095	18,126	(16,845)
	<u>181,218</u>	<u>134,383</u>	<u>506,533</u>	<u>445,264</u>
Prior year under provision	55	2,105	55	2,129
	<u>181,273</u>	<u>136,488</u>	<u>506,588</u>	<u>447,393</u>

	The Company		The Company	
	Current quarter ended 31/03/2018 RM '000	Last year quarter ended 31/03/2017 RM '000	Current year to date 31/03/2018 RM '000	Last year to date 31/03/2017 RM '000
Income tax	2,101	752	4,040	1,302
Transfer from/(to) deferred tax	11	19	(14)	276
	<u>2,112</u>	<u>771</u>	<u>4,026</u>	<u>1,578</u>

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 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.

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10 Borrowings

	Note	The Group and The Company	
		As at 31/03/2018 RM '000	As at 30/06/2017 RM '000
Term loans	(i)	350,144	350,230
Revolving credit	(ii)	55,177	370,197
Medium term notes	(iii)	654,077	656,088
Commercial papers	(iii)	-	149,707
		<u>1,059,398</u>	<u>1,526,222</u>
Repayment of term loans			
- less than one year		350,144	350,230
Repayment of revolving credit			
- less than one year		55,177	370,197
Repayment of medium term notes			
- less than one year		150,213	-
- one to three years		253,576	402,775
- three years and above		250,288	253,313
Repayment of commercial papers			
- less than one year		-	149,707
		<u>1,059,398</u>	<u>1,526,222</u>

(i) The Company has the following term loans for the financial year:

- (a) an unsecured short-term loan facility of RM150 million maturing on 27 April 2018. The term loan with one month interest period bears an interest rate at 3.51% to 3.70% (30 June 2017: 3.51% to 3.88%) per annum.
- (b) an unsecured 1 year term loan of RM200 million maturing on 27 April 2018. The term loan with one month interest period bears an interest rate at 3.51% to 3.70% (30 June 2017: 3.51% to 3.88%) per annum.

(ii) The unsecured revolving credit facilities carried an interest rate ranging from 3.45% to 4.38% (30 June 2017: ranging from 3.40% to 3.84%) per annum and repayable within 12 months.

(iii) On 14 October 2011, the Company entered into RM1.8 billion CP/MTNs Programme comprising a seven (7) years Commercial Papers (CP) programmes and a twenty (20) years Medium Term Notes (MTNs) programmes which were constituted by a Trust Deed between the Company and Malaysian Trustees Berhad as trustee. 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 an interest rate ranging from 3.66% to 3.77% (30 June 2017: 3.38% to 3.75%).

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% (30 June 2017: 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.

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11 Subordinated obligations

	Note	The Group	
		As at 31/03/2018 RM '000	As at 30/06/2017 RM '000
RM1.5 billion Tier 2 subordinated debt, at par	(a)	1,500,000	1,500,000
Add: Interest payable		18,494	1,664
		<u>1,518,494</u>	<u>1,501,664</u>
Less: Unamortised discounts		(126)	(277)
		<u>1,518,368</u>	<u>1,501,387</u>
RM500 million Tier 2 subordinated debt, at par	(b)	500,000	500,000
Add: Interest payable		3,205	8,815
		<u>503,205</u>	<u>508,815</u>
Less: Unamortised discounts		(1,310)	(1,443)
		<u>501,895</u>	<u>507,372</u>
RM400 million Tier 2 subordinated Sukuk Ijarah, at par	(c)	400,000	400,000
Add: Profit payable		5,471	631
		<u>405,471</u>	<u>400,631</u>
Less: Unamortised discounts		(68)	(128)
		<u>405,403</u>	<u>400,503</u>
RM500 million Tier 2 subordinated notes, at par	(d)	500,000	500,000
Add: Interest payable		6,312	526
		<u>506,312</u>	<u>500,526</u>
Less: Unamortised discounts		(123)	(271)
		<u>506,189</u>	<u>500,255</u>
RM50 million Tier 2 subordinated notes, at par	(e)	50,000	50,000
Add: Interest payable		1,060	392
		<u>51,060</u>	<u>50,392</u>
Less: Unamortised discounts		(114)	(130)
		<u>50,946</u>	<u>50,262</u>
		<u>2,982,801</u>	<u>2,959,779</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.

- (b) On 19 September 2012, 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, the 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 extend and in the manner provided in the Subordinated Sukuk Ijarah, ranking pari passu among themselves. The Subordinated Sukuk Ijarah is subordinated in right of payment to all deposit liabilities and other liabilities of HLISB, except to those liabilities, which by their terms, rank equally in right of payment with or are subordinated to the Subordinated Sukuk Ijarah. The Subordinated Sukuk Ijarah qualifies as Tier 2 capital for the purpose of determining the capital adequacy ratio of HLISB.

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11 Subordinated obligations (continued)

- (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 HLFG, 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.

12 Innovative Tier 1 capital securities

	The Group	
	As at 31/03/2018 RM '000	As at 30/06/2017 RM '000
RM500 million Innovative Tier 1 capital securities, at par	500,000	500,000
Add: Interest payable	2,261	12,771
	<u>502,261</u>	<u>512,771</u>
Less: Unamortised discounts	(2,835)	(4,223)
Add: Fair value adjustments on completion of business combination accounting	3,201	7,075
	<u>502,627</u>	<u>515,623</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.

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13 Multi-currency Additional Tier 1 capital securities

	The Group	
	As at 31/03/2018 RM '000	As at 30/06/2017 RM '000
RM400 million Multi-currency Additional Tier 1 capital securities at par	400,000	-
Add: Interest payable	6,993	-
	<u>406,993</u>	<u>-</u>
Less: Unamortised discounts	(492)	-
	<u>406,501</u>	<u>-</u>
	The Company	
	As at 31/03/2018 RM '000	As at 30/06/2017 RM '000
RM400 million Multi-currency Additional Tier 1 capital securities at par	400,000	-
Add: Interest payable	6,993	-
	<u>406,993</u>	<u>-</u>
Less: Unamortised discounts	(1,145)	-
	<u>405,848</u>	<u>-</u>

On 30 November 2017, the Company issued RM400 million nominal value of 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 a 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.

14 Off-balance sheet financial instruments

Details of financial instruments with off-balance sheet risk as at 31 March 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	30,282,331	353,451	(875,813)
(ii) 1 year to 3 years	112,026	-	(12,454)
(iii) More than 3 years	218,695	28,434	(13,587)
- Swaps			
(i) Less than 1 year	12,103,976	185,176	(343,483)
(ii) 1 year to 3 years	1,378,784	93,346	(28,220)
(iii) More than 3 years	1,523,103	104,152	(37,388)
- Options			
(i) Less than 1 year	2,738,777	13,550	(16,888)
Interest rate related contracts			
- Futures			
(i) Less than 1 year	54,770,189	2,125	(3,190)
(ii) 1 year to 3 years	6,567,100	106	(1,494)
- Swaps			
(i) Less than 1 year	15,206,900	17,897	(15,602)
(ii) 1 year to 3 years	29,588,230	130,791	(127,178)
(iii) More than 3 years	18,532,242	99,909	(234,988)
- Cross currency swaps			
(i) 1 year to 3 years	77,290	7,928	-
Equity related contracts			
(i) Less than 1 year	276,190	5,653	(5,652)
(ii) 1 year to 3 years	349,607	11,498	(11,394)
(iii) More than 3 years	26,128	3,723	(3,721)
Total	173,751,568	1,057,739	(1,731,052)

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14 Off-balance sheet financial instruments (continued)

Details of financial instruments with off-balance sheet risk as at 31 March 2018 (continued)

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	-	(350)
Total	100,000	-	(350)

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

The Group

Items	Principal amount RM '000	Fair value	
		Assets RM '000	Liabilities RM '000
Foreign exchange related contracts			
- Forwards			
(i) Less than 1 year	25,921,762	239,561	(271,730)
(ii) 1 year to 3 years	23,617	85	-
(iii) More than 3 years	218,695	5,520	(24,616)
- Swaps			
(i) Less than 1 year	8,545,197	213,147	(333,716)
(ii) 1 year to 3 years	2,823,719	120,831	(334,551)
(iii) More than 3 years	1,953,068	136,419	(56,466)
- Options			
(i) Less than 1 year	3,232,594	19,762	(17,012)
Interest rate related contracts			
- Futures			
(i) Less than 1 year	29,257,607	355	(1,228)
- Swaps			
(i) Less than 1 year	15,823,888	12,730	(13,499)
(ii) 1 year to 3 years	22,862,048	111,743	(165,374)
(iii) More than 3 years	20,654,534	108,165	(236,080)
- Cross currency swaps			
(i) Less than 1 year	85,885	46	(16,371)
(ii) 1 year to 3 years	85,885	37	(353)
Equity related contracts			
(i) Less than 1 year	155,471	410	(410)
(ii) 1 year to 3 years	250,143	4,238	(4,238)
(iii) More than 3 years	36,044	4,555	(3,920)
Total	131,930,157	977,604	(1,479,564)

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	-	(874)
Total	100,000	-	(874)

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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 RM254,069,000 (FYE June 2017: RM115,444,000) and RM124,301,542,000 (FYE June 2017: RM85,460,579,000) respectively.

Derivatives

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

Credit risk

Credit risk arises from the possibility that a counter-party may be unable to meet the terms of a contract in which the Group has a gain position. As at the end of the financial period, the amount of credit risk, measured in terms of the cost to replace the profitable contracts was RM1,111,212,000 (FYE June 2017: RM1,014,653,000). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

Derivatives

The amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (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 years 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 HLFG Dividend

A second single-tier interim dividend of 27 sen per share has been proposed by the Company for the current quarter.

- (i) Amount per share : 27 sen per share
- (ii) Previous corresponding period : 25 sen per share
- (iii) Entitlement date : 14 June 2018
- (iv) Payment date : 26 June 2018

For the financial period ended 31 March 2018, a total single-tier dividend of 40 sen per share was declared (31 March 2017: 38 sen per share).

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 year.

	The Group		The Group	
	Current quarter ended 31/03/2018 RM '000	Last year quarter ended 31/03/2017 RM '000	Current year to date 31/03/2018 RM '000	Last year to date 31/03/2017 RM '000
Net profit attributable to equity holders	502,557	418,746	1,453,152	1,247,971
Weighted average number of ordinary shares ('000)	1,143,552	1,143,552	1,143,552	1,143,552
Basic earnings per share (sen)	43.9	36.6	127.1	109.1

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17 Earnings per share (continued)

(a) Basic earnings per share (continued)

	The Company		The Company	
	Current quarter ended 31/03/2018 RM '000	Last year quarter ended 31/03/2017 RM '000	Current year to date 31/03/2018 RM '000	Last year to date 31/03/2017 RM '000
Net profit attributable to equity holders	377,542	184,118	777,249	598,760
Weighted average number of ordinary shares ('000)	1,147,516	1,147,516	1,147,516	1,147,516
Basic earnings per share (sen)	32.9	16.0	67.7	52.2

(b) Fully diluted earnings per share

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

	The Group		The Group	
	Current quarter ended 31/03/2018 RM '000	Last year quarter ended 31/03/2017 RM '000	Current year to date 31/03/2018 RM '000	Last year to date 31/03/2017 RM '000
Net profit attributable to equity holders	502,557	418,746	1,453,152	1,247,971
Weighted average number of ordinary shares ('000)	1,143,552	1,143,552	1,143,552	1,143,552
Fully diluted earnings per share (sen)	43.9	36.6	127.1	109.1

	The Company		The Company	
	Current quarter ended 31/03/2018 RM '000	Last year quarter ended 31/03/2017 RM '000	Current year to date 31/03/2018 RM '000	Last year to date 31/03/2017 RM '000
Net profit attributable to equity holders	377,542	184,118	777,249	598,760
Weighted average number of ordinary shares ('000)	1,147,516	1,147,516	1,147,516	1,147,516
Fully diluted earnings per share (sen)	32.9	16.0	67.7	52.2

Dated this 30th May 2018