

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
THE GROUP		
Assets		
Cash and short-term funds	8,613,481	9,890,071
Deposits and placements with banks and other financial institutions	10,062,870	10,196,421
Securities purchased under resale agreements	-	35,126
Financial assets at fair value through profit or loss	24,422,067	-
Financial assets held-for-trading	-	10,536,881
Financial investments at fair value through other comprehensive income	24,965,425	-
Financial investments available-for-sale	-	37,732,539
Financial investments at amortised cost	15,888,863	-
Financial investments held-to-maturity	-	15,895,679
Derivative financial instruments	570,185	971,195
Loans, advances and financing	137,057,616	128,851,234
Clients' and brokers' balances	482,445	525,556
Other receivables	1,332,662	952,570
Statutory deposits with Central Banks	4,626,092	4,364,982
Tax recoverable	224	367
Investment in associated companies	5,280,376	4,538,326
Investment in joint venture	-	179,426
Property and equipment	1,540,533	1,573,829
Investment properties	489,500	494,164
Goodwill	2,410,644	2,410,644
Intangible assets	139,628	168,541
Total Assets	237,882,611	229,317,551
Liabilities		
Deposits from customers	161,887,885	156,882,912
Investment accounts of customers	2,235	-
Deposits and placements of banks and other financial institutions	9,780,544	9,296,395
Obligations on securities sold under repurchase agreements	2,333,916	3,931,523
Bills and acceptances payable	393,022	544,450
Derivative financial instruments	732,443	1,082,140
Clients' and brokers' balances	282,521	350,730
Payables and other liabilities	13,234,447	11,708,191
Recourse obligations on loans/financing sold to Cagamas Berhad	253,591	202,952
Provision for claims	132,442	150,478
Provision for taxation	113,705	244,162
Deferred tax liabilities	230,248	78,309
Borrowings	1,398,277	1,300,371
Subordinated obligations	2,160,432	2,800,447
Innovative Tier 1 capital securities	464,273	474,612
Multi-currency Additional Tier 1 capital securities	806,376	401,369
Insurance funds	15,075,217	13,188,787
Total Liabilities	209,281,574	202,637,828
Equity		
Share capital	2,267,008	2,267,008
Capital reserves	1,678,535	1,540,421
Retained profits	15,196,453	13,910,419
Fair value reserve	116,503	109,284
Treasury shares for ESOS	(161,909)	(22,686)
Total Shareholders' Equity	19,096,590	17,804,446
Non-controlling interests	9,504,447	8,875,277
Total Equity	28,601,037	26,679,723
Total Liabilities and Equity	237,882,611	229,317,551
Commitments and Contingencies	174,185,694	177,098,055
Net assets per share (net of treasury shares) attributable to ordinary equity holders of the parent (RM)	16.78	15.55

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

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	Individual Quarter		Cumulative Quarter	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
THE GROUP				
Interest income	1,615,385	1,661,903	6,638,000	6,519,210
Interest income for financial assets at fair value through profit or loss	118,838	-	449,813	-
Interest expense	(1,010,562)	(972,216)	(4,113,247)	(3,648,602)
Net interest income	723,661	689,687	2,974,566	2,870,608
Income from Islamic banking business	174,981	162,741	707,269	646,064
Non-interest income	443,206	467,441	1,596,175	1,834,319
Net income	1,341,848	1,319,869	5,278,010	5,350,991
Overhead expenses	(615,562)	(571,881)	(2,380,884)	(2,295,031)
Operating profit before allowances	726,286	747,988	2,897,126	3,055,960
Allowance for impairment losses on loans, advances and financing and other losses	(47,188)	(10,691)	(12,294)	(77,383)
Writeback of/(allowance for) impairment losses on financial investments	755	(1,258)	1,108	287
	679,853	736,039	2,885,940	2,978,864
Share of results of associated companies	160,044	128,947	619,700	579,173
Share of results of joint venture	-	5,641	-	20,548
Profit before taxation	839,897	870,627	3,505,640	3,578,585
Taxation	(129,164)	(177,471)	(591,379)	(684,059)
Net profit for the financial year	710,733	693,156	2,914,261	2,894,526
Attributable to:				
Owners of the parent	468,702	454,290	1,919,359	1,907,442
Non-controlling interests	242,031	238,866	994,902	987,084
Net profit for the financial year	710,733	693,156	2,914,261	2,894,526
Earnings per share - basic (sen)	41.0	39.7	167.8	166.8

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

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	Individual Quarter		Cumulative Quarter	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
THE GROUP				
Net profit for the financial year	710,733	693,156	2,914,261	2,894,526
Other comprehensive income/(loss) in respect of:				
(i) Items that will not be reclassified to profit or loss:				
Equity instruments at fair value through other comprehensive income				
- Net fair value changes	11,796	-	11,796	-
- Net gain on disposal	105	-	105	-
(ii) Items that may be reclassified subsequently to profit or loss:				
(a) Share of other comprehensive income/ (loss) of associated companies	12,092	(7,006)	22,637	(5,890)
(b) Debt instruments at fair value through other comprehensive income				
- Net fair value changes	85,856	-	334,298	-
- Changes in expected credit losses	(862)	-	(862)	-
(c) Net fair value changes in financial investments available-for-sale	-	(205,863)	-	(403,475)
(d) Revaluation of property upon transfer to investment properties	-	78,896	-	78,896
(e) Net fair value changes in cash flow hedge	(1,550)	993	(4,531)	2,398
(f) Currency translation differences	(8,865)	(35,438)	(19,048)	(336,308)
(g) Income tax relating to components of other comprehensive (loss)/income	(17,399)	141,830	(73,550)	183,278
Other comprehensive income/(loss) for the financial year, net of tax	81,173	(26,588)	270,845	(481,101)
Total comprehensive income for the financial year, net of tax	791,906	666,568	3,185,106	2,413,425
Attributable to:				
Owners of the parent	525,031	465,634	2,103,805	1,612,675
Non-controlling interests	266,875	200,934	1,081,301	800,750
	791,906	666,568	3,185,106	2,413,425

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

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
THE COMPANY		
<u>Assets</u>		
Cash and short-term funds	84,496	25,466
Deposits and placements with banks and other financial institutions	3,360	3,360
Other receivables	4,157	4,547
Deferred tax assets	135	75
Investment in subsidiary companies	19,498,076	17,996,078
Property and equipment	4,179	5,332
Intangible assets	3	1
Total Assets	19,594,406	18,034,859
<u>Liabilities</u>		
Derivative financial instruments	135	327
Payables and other liabilities	33,918	13,612
Provision for taxation	766	1,972
Subordinated obligations	1,600,205	499,599
Multi-currency Additional Tier 1 capital securities	805,236	400,751
Borrowings	1,453,881	1,385,934
Total Liabilities	3,894,141	2,302,195
<u>Financed by:</u>		
Share capital	2,267,008	2,267,008
Capital reserves	271,667	259,160
Retained profits	13,313,734	13,206,499
Treasury shares for ESOS	(152,144)	(3)
Total Equity	15,700,265	15,732,664
Total Liabilities and Equity	19,594,406	18,034,859
Commitments and Contingencies	100,000	100,000

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

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	Individual Quarter		Cumulative Quarter	
	Current	Last year	Current year	Last year
	quarter ended 30/06/2019	quarter ended 30/06/2018	to date 30/06/2019	to date 30/06/2018
THE COMPANY	RM '000	RM '000	RM '000	RM '000
Interest income	18,304	5,690	53,062	14,239
Interest expense	(29,626)	(17,270)	(105,162)	(67,495)
Net interest expense	(11,322)	(11,580)	(52,100)	(53,256)
Non-interest income	2,797	3,522	693,084	850,286
Net (expense)/income	(8,525)	(8,058)	640,984	797,030
Overhead expenses	(11,300)	(11,996)	(44,524)	(35,809)
Allowance for impairment losses on financial investments	(2,146)	-	(2,146)	-
(Loss)/profit before taxation	(21,971)	(20,054)	594,314	761,221
Taxation	542	(1,326)	(4,107)	(5,352)
Net (loss)/profit for the financial year	(21,429)	(21,380)	590,207	755,869
Earnings per share - basic (sen)	(1.9)	(1.9)	51.5	65.9

UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	Individual Quarter		Cumulative Quarter	
	Current	Last year	Current year	Last year
	quarter ended 30/06/2019	quarter ended 30/06/2018	to date 30/06/2019	to date 30/06/2018
THE COMPANY	RM '000	RM '000	RM '000	RM '000
Net (loss)/profit for the financial year	(21,429)	(21,380)	590,207	755,869
Other comprehensive income for the financial year	-	-	-	-
Total comprehensive (loss)/income for the financial year, net of tax	(21,429)	(21,380)	590,207	755,869

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

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

THE GROUP	Share capital	Regulatory reserves#	Fair value reserve	Cash flow hedge reserve	Other reserves	Share options reserve	Exchange fluctuation reserve	Retained profits	Treasury shares for ESOS	Total shareholders' equity	Non-controlling interests	Total equity
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
As at 1 July 2018	2,267,008	755,010	109,284	544	213,314	50,254	521,299	13,910,419	(22,686)	17,804,446	8,875,277	26,679,723
Effect of adopting MFRS 9	-	6,391	(190,324)	-	-	-	-	(50,960)	-	(234,893)	(124,355)	(359,248)
As restated	2,267,008	761,401	(81,040)	544	213,314	50,254	521,299	13,859,459	(22,686)	17,569,553	8,750,922	26,320,475
<u>Comprehensive income</u>												
Net profit for the financial year	-	-	-	-	-	-	-	1,919,359	-	1,919,359	994,902	2,914,261
Currency translation differences	-	-	-	-	-	-	(10,340)	-	-	(10,340)	(8,708)	(19,048)
Share of other comprehensive income/ (loss) of associated companies	-	-	18,366	-	-	-	-	(525)	-	17,841	4,796	22,637
Financial assets measured at fair value through other comprehensive income												
- Equity instruments												
- Net fair value changes	-	-	7,737	-	-	-	-	-	-	7,737	4,059	11,796
- Net (loss)/gain on disposal	-	-	(33)	-	-	-	-	102	-	69	36	105
- Debt instruments												
- Net fair value changes	-	-	172,038	-	-	-	-	-	-	172,038	87,737	259,775
- Changes in expected credit losses	-	-	(565)	-	-	-	-	-	-	(565)	(297)	(862)
Net fair value changes in cash flow hedge, net of tax	-	-	-	(2,334)	-	-	-	-	-	(2,334)	(1,224)	(3,558)
Total comprehensive income/(loss)	-	-	197,543	(2,334)	-	-	(10,340)	1,918,936	-	2,103,805	1,081,301	3,185,106
<u>Transaction with owners</u>												
Transfer to regulatory reserve	-	108,522	-	-	-	-	-	(108,522)	-	-	-	-
Allocation of other reserves to non-controlling interests	-	-	-	-	-	-	-	(9,255)	-	(9,255)	9,255	-
Dividends paid	-	-	-	-	-	-	-	(480,087)	-	(480,087)	-	(480,087)
Non-controlling interests subscription of shares	-	-	-	-	-	-	-	-	-	-	35,000	35,000
Non-controlling interests share of dividend	-	-	-	-	-	-	-	-	-	-	(376,481)	(376,481)
Non-controlling interests share of subsidiary's treasury shares	-	-	-	-	-	-	-	-	-	-	4,450	4,450
Option charge arising from executive share scheme	-	-	-	-	-	41,129	-	-	-	41,129	-	41,129
Purchase of treasury shares	-	-	-	-	-	-	-	-	(152,141)	(152,141)	-	(152,141)
Executive share scheme exercised	-	-	-	-	-	(5,254)	-	15,922	12,918	23,586	-	23,586
As at 30 June 2019	2,267,008	869,923	116,503	(1,790)	213,314	86,129	510,959	15,196,453	(161,909)	19,096,590	9,504,447	28,601,037

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

THE GROUP	Share capital	Regulatory reserves#	Fair value reserve	Cash flow hedge reserve	Other reserves	Share options reserve	Exchange fluctuation reserve	Retained profits	Treasury shares for ESOS	Total shareholders' equity	Non-controlling interests	Total equity
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
As at 1 July 2017	2,267,008	680,987	259,635	(703)	134,957	29,429	745,858	12,527,478	(35,712)	16,608,937	8,423,576	25,032,513
<u>Comprehensive income</u>												
Net profit for the financial year	-	-	-	-	-	-	-	1,907,442	-	1,907,442	987,084	2,894,526
Currency translation differences	-	-	-	-	-	-	(224,559)	-	-	(224,559)	(111,749)	(336,308)
Share of other comprehensive loss of associated companies	-	-	(5,610)	-	-	-	-	-	-	(5,610)	(280)	(5,890)
Net fair value changes in financial investments available-for-sale, net of tax	-	-	(144,741)	-	-	-	-	-	-	(144,741)	(74,958)	(219,699)
Revaluation of property upon transfer to investment properties	-	-	-	-	80,156	-	-	-	-	80,156	-	80,156
Others	-	-	-	-	(1,260)	-	-	-	-	(1,260)	-	(1,260)
Net fair value changes in cash flow hedge, net of tax	-	-	-	1,247	-	-	-	-	-	1,247	653	1,900
Total comprehensive (loss)/income	-	-	(150,351)	1,247	78,896	-	(224,559)	1,907,442	-	1,612,675	800,750	2,413,425
<u>Transaction with owners</u>												
Transfer to regulatory reserve	-	74,023	-	-	-	-	-	(74,023)	-	-	-	-
Allocation of other reserves to non-controlling interests	-	-	-	-	-	-	-	(5,497)	-	(5,497)	5,497	-
Dividends paid	-	-	-	-	-	-	-	(459,006)	-	(459,006)	-	(459,006)
Non-controlling interests share of dividend	-	-	-	-	-	-	-	-	-	-	(356,241)	(356,241)
Non-controlling interests share of subsidiary's treasury shares	-	-	-	-	-	-	-	-	-	-	1,695	1,695
Option charge arising from executive share scheme	-	-	-	-	-	23,861	-	-	-	23,861	-	23,861
Executive share scheme exercised	-	-	-	-	-	(3,036)	-	13,486	13,026	23,476	-	23,476
Transfer to other reserves	-	-	-	-	(539)	-	-	539	-	-	-	-
As at 30 June 2018	2,267,008	755,010	109,284	544	213,314	50,254	521,299	13,910,419	(22,686)	17,804,446	8,875,277	26,679,723

Comprise regulatory reserves maintained by the Group's banking subsidiary companies in Malaysia of RM858,678,000 (30 June 2018: RM743,765,000) 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 (30 June 2018: RM11,245,000).

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HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	Share capital RM '000	Other capital reserve RM '000	Share options reserve RM '000	Treasury shares for ESOS RM '000	Retained profits RM '000	Total equity RM '000
<u>THE COMPANY</u>						
As at 1 July 2018	2,267,008	254,991	4,169	(3)	13,206,499	15,732,664
Effect of adopting MFRS 9	-	-	-	-	(2,885)	(2,885)
As restated	2,267,008	254,991	4,169	(3)	13,203,614	15,729,779
Net profit for the financial year	-	-	-	-	590,207	590,207
Dividends paid	-	-	-	-	(480,087)	(480,087)
Options charge arising from executive share scheme	-	-	12,507	-	-	12,507
Purchase of treasury shares	-	-	-	(152,141)	-	(152,141)
As at 30 June 2019	2,267,008	254,991	16,676	(152,144)	13,313,734	15,700,265
As at 1 July 2017	2,267,008	254,991	-	(3)	12,909,636	15,431,632
Net profit for the financial year	-	-	-	-	755,869	755,869
Dividends paid	-	-	-	-	(459,006)	(459,006)
Options charge arising from executive share scheme	-	-	4,169	-	-	4,169
As at 30 June 2018	2,267,008	254,991	4,169	(3)	13,206,499	15,732,664

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

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	The Group		The Company	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
	RM '000	RM '000	RM '000	RM '000
Profit before taxation	3,505,640	3,578,585	594,314	761,221
Adjustment for non-cash items	(15,728)	(1,208,470)	(614,936)	(782,787)
Operating profit/(loss) before working capital changes	3,489,912	2,370,115	(20,622)	(21,566)
Income tax paid	(712,210)	(754,459)	(5,372)	(1,733)
Interest received	822	866	1,213	1,327
Changes in working capital				
Net changes in operating assets	(19,770,190)	(3,430,135)	338	40,674
Net changes in operating liabilities	5,287,332	8,490,997	19,959	4,123
Net cash (used in)/generated from operating activities	(11,704,334)	6,677,384	(4,484)	22,825
Cash flows from investing activities				
Net sales of financial investments at fair value through other comprehensive income	2,088,475	-	-	-
Net purchases of financial investments available-for-sale	-	(2,850,988)	-	-
Net sales of financial investments at amortised cost	442,671	-	-	-
Net purchases of financial investments held-to-maturity	-	(1,318,487)	-	-
Interest received on financial investments at fair value through other comprehensive income and financial investments at amortised cost	1,326,979	-	-	-
Interest received on financial investments available-for-sale and financial investments held-to-maturity	-	1,522,158	-	-
Purchase of intangible assets	(16,029)	(14,119)	(3)	-
Purchase of property and equipment	(136,649)	(148,285)	(26)	(4,725)
Net proceeds from disposal of property and equipment	2,259	5,898	1	2
Dividends received from other investments	94,436	327,549	1,287	-
Dividends received from subsidiary companies	-	-	681,419	648,555
Dividends received from associated companies	164,392	101,111	-	-
Dividends received from joint venture	-	3,563	-	-
Proceeds from redemption of redeemable preference shares	-	-	-	3,900
Proceeds from liquidation	-	-	21	2,100
Proceeds from divestment of joint venture	60,606	120,603	-	-
Investment in debt instrument issued by subsidiary companies				
- Multi-currency Additional Tier 1 capital securities	-	-	(400,000)	(400,000)
- Tier 2 subordinated notes	-	-	(1,100,000)	(500,000)
Interest received from investment in debt instrument issued by subsidiary company				
- Multi-currency Additional Tier 1 capital securities	-	-	20,520	10,175
- Tier 2 subordinated notes	-	-	24,300	-
Net cash generated from/(used in) investing activities	4,027,140	(2,250,997)	(772,481)	(239,993)
Cash flows from financing activities				
Dividends paid to equity holders of the Company	(480,087)	(459,006)	(480,087)	(459,006)
Dividends paid to non-controlling interests	(376,481)	(356,241)	-	-
Purchase of treasury shares	(152,141)	-	(152,141)	-
Proceeds from ESOS exercised	23,589	-	-	-
Proceeds from/(repayment of) revolving credit	220,000	(245,000)	220,000	(160,000)
Proceeds from medium term notes and commercial papers	220,000	20,000	220,000	20,000
Repayment of medium term notes and commercial papers	(520,000)	-	(575,000)	-
Proceeds from senior notes	375,000	-	400,000	-
Repayment of innovative Tier 1 capital securities	(10,000)	(36,800)	-	-
Repayment of term loans	(200,000)	-	(200,000)	-
Proceeds from Multi-currency Additional Tier 1 capital securities	400,000	400,000	400,000	400,000
Proceeds from subordinated obligations	1,100,000	500,000	1,100,000	500,000
Repayment of subordinated obligations	(1,740,500)	(659,500)	-	-
Proceeds from recourse obligations on loans sold to Cagamas Berhad	50,000	-	-	-
Non-controlling interests subscription of shares	35,000	-	-	-
Interest paid on Multi-currency Additional Tier 1 capital securities	(20,821)	(11,168)	(21,685)	(10,517)
Interest paid on subordinated obligations	(141,619)	(118,020)	(26,422)	(14)
Interest paid on borrowings	(48,650)	(55,153)	(48,670)	(54,590)
Interest paid on innovative Tier 1 capital securities	(39,258)	(39,371)	-	-
Interest paid on recourse obligations on loans sold to Cagamas Berhad	(7,600)	(7,576)	-	-
Net cash (used in)/generated from financing activities	(1,313,568)	(1,067,835)	835,995	235,873
Net (decrease)/increase in cash and cash equivalents	(8,990,762)	3,358,552	59,030	18,705
Effects of exchange rate changes	66,831	(322,067)	-	-
Cash and cash equivalents at 1 July	15,684,888	12,648,403	25,526	6,821
Cash and cash equivalents at 30 June	6,760,957	15,684,888	84,556	25,526
Analysis of cash and cash equivalents				
Cash and short-term funds	8,613,481	9,890,071	84,496	25,466
Deposits and placements with banks and other financial institutions	10,062,870	10,196,421	3,360	3,360
	18,676,351	20,086,492	87,856	28,826
Less: deposits and placements with banks and other financial institutions with original maturity of more than three months	(11,915,394)	(4,401,604)	(3,300)	(3,300)
	6,760,957	15,684,888	84,556	25,526

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

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

1. Basis of preparation

The unaudited condensed financial statements have been prepared under the historical cost convention, except for the following assets and liabilities which are stated at fair values: financial assets at fair value through profit or loss, financial investments at fair value through other comprehensive income and derivative financial instruments.

The unaudited condensed financial statements have been prepared in accordance with MFRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standard Board and paragraph 9.22 of Bursa Malaysia Securities Berhad's Listing Requirements and should be read in conjunction with the audited annual financial statements for the Group and the Company for the financial year ended 30 June 2018. The explanatory notes attached to the unaudited condensed financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group and the Company since the financial year ended 30 June 2018.

The unaudited condensed financial statements incorporate the activities relating to the Islamic banking and Takaful businesses which have been undertaken by its subsidiaries, Hong Leong Islamic Bank Berhad and Hong Leong MSIG Takaful Berhad in compliance with Shariah principles.

The significant accounting policies and methods of computation applied in the unaudited condensed financial statements are consistent with those adopted in the annual audited financial statements for the financial year ended 30 June 2018 and modified for the adoption of the following accounting standards applicable for financial year beginning on or after 1 July 2018:

- MFRS 9 'Financial Instruments'
- MFRS 15 'Revenue from Contracts with Customers'
- Amendments to MFRS 2 'Share-based Payment – Classification and Measurement of Share-based Payment Transactions'
- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'
- Annual Improvements to MFRSs 2014 – 2016 Cycle: MFRS 128 'Investments in Associates and Joint Ventures'

With effect from the financial year beginning on/after 1 July 2018, the Group and the Company apply MFRS 9 'Financial Instruments', replacing MFRS 139 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised. The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedging relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation. Comparatives for 2018 will not be restated. The impact of adoption of MFRS 9 to the Group and the Company are disclosed in Note 37.

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

Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks

The Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks in relation to Basel II - Risk-Weighted Assets and Capital Components were updated and reissued by Bank Negara Malaysia ("BNM") on 2 February 2018.

The updates focused mainly on the following changes:

- Revised definition of General Provision and Specific Provision arising from the implementation of MFRS 9 'Financial Instruments';
- Definition of General Provision and its recognition in Tier 2 capital;
- Alignment of terminologies used under MFRS 9 for the purpose of capital recognition and regulatory adjustments; and
- Clarification on the capital treatment of bargain purchase gains and right-of-use assets.

The updates above mainly address clarification on capital recognition and regulatory adjustment requirements arising from the implementation of MFRS 9.

BNM's Revised Policy Documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions

On 2 February 2018, BNM had issued the revised policy document on Financial Reporting which prescribe the regulatory reserves to be maintained by banking institutions. The revised policy document requires the banking institutions to maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

The financial effects of the adoption of the revised policy documents are presented in Note 37.

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

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
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2. Status of matters giving rise to the auditor's qualified report in the preceding annual financial statement for the year ended 30 June 2018

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

3. Seasonality or cyclicity of operations

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

4. Exceptional items or unusual events affecting financial statements

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

5. Variation from financial estimates reported in preceding financial year

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

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 during the financial year ended 30 June 2019 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 shares at an exercise price of RM17.12 to eligible executives of the Company and its subsidiary pursuant to the Company's ESS.

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

During the financial year ended 30 June 2019, the Company purchased 8,088,700 units of shares for RM152,140,959 and no shares were exercised pursuant to the Company's Executive Share Option Scheme ("ESOS").

As at 30 June 2019, the total number of Treasury Shares for ESOS is 8,089,200 at an average price of RM18.81 per share and the total consideration paid, including transaction costs was RM152,144,115.

The insurance subsidiary company exercised a total of 1,434,000 ordinary shares pursuant to the Company's ESS at the adjusted exercise price of RM16.61 during the financial year ended 30 June 2019.

The remaining number of shares held by the appointed trustee for the insurance subsidiary company as at 30 June 2019 was 1,083,900 units at an average price of RM9.01 per share with total consideration paid, including transaction costs was RM9,764,421 which have been classified as Treasury Shares for ESOS at the Group level.

b) Issuance of Senior Notes

On 6 September 2018, the Company issued RM400.0 million in aggregate principal amount of Senior Notes ("the Notes") out of its multi-currency perpetual notes programme. The Notes were issued for a period of three years with a coupon rate of 4.35% per annum.

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

On 29 March 2019, the Company issued second tranche of RM400.0 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 4.82% per annum. The Capital Securities are perpetual with an Issuer's call option to redeem at the end of year 5. The proceeds from the issuance was used to subscribe for RM400.0 million Additional Tier 1 capital securities issued by Hong Leong Bank Berhad, a subsidiary of the Company.

d) Issuance of Tier 2 subordinated notes

On 14 June 2019, the Company issued RM1.1 billion nominal value of Tier 2 subordinated notes ("Sub-Notes") out of its multi-currency perpetual notes programme. The Sub-Notes, which qualify as Tier 2 capital for the Company, carry a distribution rate of 4.30% per annum. The Sub-Notes has a tenure of 10 years non-callable 5 years. The proceeds from the issuance of Sub-Notes were used to subscribe for RM1.0 billion Tier 2 subordinated notes issued by Hong Leong Bank Berhad, a subsidiary of the Company, and RM100.0 million Tier 2 subordinated notes issued by Hong Leong Investment Bank Berhad, an indirect subsidiary of the Company.

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7. Dividends paid

A first interim single-tier dividend of 13.0 sen per share amounting to RM149.0 million was paid on 27 December 2018.

Second interim single-tier dividend of 29.0 sen per share amounting to RM331.0 million was paid on 26 June 2019.

8. Segmental reporting

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

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

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

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

Business segments

The Group comprises the following main business segments:

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

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
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8. Segmental reporting (continued)

The Group 30 June 2019	Commercial banking RM '000	Investment banking RM '000	Insurance RM '000	Other operations RM '000	Eliminations/ consolidation adjustments RM '000	Consolidated RM '000
Revenue						
External revenue	4,702,559	199,387	422,471	(46,407)	-	5,278,010
Inter-segment revenue	23,276	(511)	1,942	677,448	(702,155)	-
Segment revenue	<u>4,725,835</u>	<u>198,876</u>	<u>424,413</u>	<u>631,041</u>	<u>(702,155)</u>	<u>5,278,010</u>
Results						
Segment results	2,622,909	76,732	272,629	594,233	(680,563)	2,885,940
Share of results of associated companies						<u>619,700</u>
Profit before taxation						<u>3,505,640</u>
Taxation						<u>(591,379)</u>
Net profit for the financial year						<u>2,914,261</u>
Non-controlling interests						<u>(994,902)</u>
Profit attributable to owners of the parent						<u><u>1,919,359</u></u>
Other information						
Segment assets	207,353,385	4,498,638	22,623,114	19,594,441	(16,186,967)	<u><u>237,882,611</u></u>
Segment liabilities	181,878,998	3,701,031	19,463,500	3,895,671	342,374	<u><u>209,281,574</u></u>

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
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8. Segmental reporting (continued)

The Group 30 June 2018	Commercial banking RM '000	Investment banking RM '000	Insurance RM '000	Other operations RM '000	Eliminations/ consolidation adjustments RM '000	Consolidated RM '000
Revenue						
External revenue	4,828,978	191,845	393,475	(63,307)	-	5,350,991
Inter-segment revenue	10,587	3,912	5,711	1,026,175	(1,046,385)	-
Segment revenue	<u>4,839,565</u>	<u>195,757</u>	<u>399,186</u>	<u>962,868</u>	<u>(1,046,385)</u>	<u>5,350,991</u>
Results						
Segment results	2,709,596	78,587	284,959	924,028	(1,018,306)	2,978,864
Share of results of associated companies						579,173
Share of results of joint venture						20,548
Profit before taxation						<u>3,578,585</u>
Taxation						<u>(684,059)</u>
Net profit for the financial year						<u>2,894,526</u>
Non-controlling interests						<u>(987,084)</u>
Profit attributable to owners of the parent						<u><u>1,907,442</u></u>
Other information						
Segment assets	202,837,706	4,463,753	19,970,891	18,035,015	(15,989,814)	<u>229,317,551</u>
Segment liabilities	178,945,447	3,697,695	17,132,404	2,303,823	558,459	<u><u>202,637,828</u></u>

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9. Financial assets at fair value through profit or loss

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Money market instruments:		
Government treasury bills	21,900	-
Malaysian Government securities	3,770,728	-
Malaysian Government investment certificates	1,957,141	-
Negotiable instruments of deposit	1,472,835	-
Cagamas bonds	81,403	-
Khazanah bonds	136,726	-
Other Government securities	5,382,979	-
	<u>12,823,712</u>	<u>-</u>
Quoted securities:		
Shares in Malaysia	2,732,371	-
Shares outside Malaysia	297,944	-
Wholesale fund/unit trust investments	634,762	-
Foreign currency bonds in Malaysia	60,375	-
Foreign currency bonds outside Malaysia	108,167	-
Investment-linked funds	285	-
Loan stocks	1,178	-
	<u>3,835,082</u>	<u>-</u>
Unquoted securities:		
Shares in Malaysia	326,621	-
Foreign currency bonds outside Malaysia	332,979	-
Corporate bonds and sukuk	7,072,807	-
Redeemable preference shares	30,866	-
	<u>7,763,273</u>	<u>-</u>
Total financial assets at fair value through profit or loss	<u>24,422,067</u>	<u>-</u>

10. Financial assets held-for-trading

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Money market instruments:		
Malaysian Government securities	-	2,591,793
Malaysian Government investment certificates	-	867,698
Bankers' acceptances and Islamic accepted bills	-	55,084
Negotiable instruments of deposit	-	3,983,804
Other Government securities	-	655,493
	<u>-</u>	<u>8,153,872</u>
Quoted securities:		
Shares in Malaysia	-	612,759
Shares outside Malaysia	-	108,132
Unit trust investments	-	435,834
Foreign currency bonds in Malaysia	-	40,093
Foreign currency bonds outside Malaysia	-	68,847
	<u>-</u>	<u>1,265,665</u>
Unquoted securities:		
Foreign currency bonds outside Malaysia	-	52,465
Corporate bonds and sukuk	-	1,064,879
	<u>-</u>	<u>1,117,344</u>
Total financial assets held-for-trading	<u>-</u>	<u>10,536,881</u>

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
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11. Financial investments at fair value through other comprehensive income

	Note	The Group	
		As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
At fair value			
Debt instruments	(a)	24,921,094	-
Equity instruments	(b)	44,331	-
		<u>24,965,425</u>	<u>-</u>
(a) Debt instruments			
Money market instruments:			
Malaysian Government securities		1,656,380	-
Malaysian Government investment certificates		6,334,482	-
Negotiable instruments of deposit		1,197,900	-
Other Government securities		694,508	-
Khazanah bonds		272,685	-
Cagamas bonds		1,367,584	-
		<u>11,523,539</u>	<u>-</u>
Quoted securities:			
Foreign currency bonds in Malaysia		1,776,207	-
Foreign currency bonds outside Malaysia		1,638,380	-
		<u>3,414,587</u>	<u>-</u>
Unquoted securities:			
Malaysian Government sukuk		350,898	-
Corporate bonds and sukuk		7,995,442	-
Foreign currency bonds in Malaysia		973,343	-
Foreign currency bonds outside Malaysia		663,285	-
		<u>9,982,968</u>	<u>-</u>
		<u>24,921,094</u>	<u>-</u>

Movements in expected credit losses ("ECL") of debt instruments at fair value through other comprehensive income are as follows:

	Stage 1	Stage 2	Stage 3	Total ECL RM '000
	12 months ECL RM '000	Lifetime ECL not credit impaired RM '000	Lifetime ECL credit impaired RM '000	
The Group 30 June 2019				
As at 1 July	-	-	-	-
Effect of adopting MFRS 9	2,633	-	16,569	19,202
As at 1 July, as restated	2,633	-	16,569	19,202
New financial assets originated or purchased	1,026	-	-	1,026
Financial assets derecognised	(1,614)	-	(166)	(1,780)
Changes due to change in credit risk	(377)	-	-	(377)
Exchange differences	41	-	310	351
As at 30 June	<u>1,709</u>	<u>-</u>	<u>16,713</u>	<u>18,422</u>

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
(b) Equity instruments		
Unquoted securities:		
Shares in Malaysia	44,331	-
	<u>44,331</u>	<u>-</u>

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
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12. Financial investments available-for-sale

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Money market instruments:		
Malaysian Government securities	-	1,357,655
Malaysian Government investment certificates	-	4,523,680
Other Government securities	-	4,268,647
Khazanah bonds	-	673,444
Cagamas bonds	-	1,490,348
	-	12,313,774
Quoted securities:		
Shares in Malaysia	-	1,520,961
Shares outside Malaysia	-	111,481
Foreign currency bonds in Malaysia	-	2,996,117
Foreign currency bonds outside Malaysia	-	1,660,272
Investment-linked funds	-	300
Unit trust investments	-	558,205
	-	6,847,336
Unquoted securities:		
Shares in Malaysia	-	469,905
Malaysian Government sukuk	-	2,385,470
Corporate bonds and sukuk	-	13,650,762
Foreign currency bonds in Malaysia	-	1,048,287
Foreign currency bonds outside Malaysia	-	1,017,005
	-	18,571,429
Total financial investments available-for-sale	-	37,732,539

13. Financial investments at amortised cost

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Money market instruments:		
Government treasury bills	53,820	-
Malaysian Government securities	260,010	-
Malaysian Government investment certificates	9,200,311	-
Khazanah bonds	304,266	-
Other Government securities	326,179	-
	10,144,586	-
Quoted securities:		
Foreign currency bonds in Malaysia	845,592	-
Foreign currency bonds outside Malaysia	151,587	-
	997,179	-
Unquoted securities:		
Malaysian Government sukuk	2,657,094	-
Corporate bonds and sukuk	2,037,237	-
Foreign currency bonds outside Malaysia	53,810	-
	4,748,141	-
Less: Expected credit losses	(1,043)	-
Total financial investments at amortised cost	15,888,863	-

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

13. Financial investments at amortised cost (continued)

Movements in expected credit losses of financial investments at amortised cost are as follows:

	Stage 1	Stage 2	Stage 3	Total ECL RM '000
	12 months ECL RM '000	Lifetime ECL not credit impaired RM '000	Lifetime ECL credit impaired RM '000	
The Group				
30 June 2019				
As at 1 July	-	-	-	-
Effect of adopting MFRS 9	27	-	827	854
As at 1 July, as restated	27	-	827	854
New financial assets originated or purchased	193	-	-	193
Exchange differences	(4)	-	-	(4)
As at 30 June	216	-	827	1,043

14. Financial investments held-to-maturity

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Money market instruments:		
Government treasury bills	-	52,950
Malaysian Government securities	-	1,574,180
Malaysian Government investment certificates	-	11,432,594
Other Government securities	-	383,739
	-	13,443,463
Unquoted securities:		
Malaysian Government sukuk	-	1,548,339
Corporate bonds and sukuk	-	748,201
Foreign currency bonds outside Malaysia	-	124,810
Redeemable preference shares	-	30,866
	-	2,452,216
Total financial investments held-to-maturity	-	15,895,679

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15. Loans, advances and financing

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Overdrafts	3,863,555	3,794,584
Term loans/financing:		
- Housing and shop loans/financing	76,495,886	70,332,643
- Syndicated term loans/financing	11,740,501	9,953,665
- Hire purchase receivables	17,634,182	17,229,742
- Other term loans/financing	8,192,827	7,700,340
Credit/charge card receivables	3,597,974	3,899,183
Bills receivable	1,061,015	996,560
Trust receipts	421,884	328,628
Policy and premium loans	544,109	564,369
Claims on customers under acceptance credits	8,029,521	7,839,208
Revolving credits	6,227,550	6,627,619
Staff loans/financing	138,804	146,088
Other loans/financing	371,329	448,850
Gross loans, advances and financing	<u>138,319,137</u>	<u>129,861,479</u>
Fair value changes arising from fair value hedges and unamortised fair value changes arising from terminated fair value hedges	3,473	(2,553)
Allowance for impairment losses:		
- Expected credit losses	(1,264,994)	-
- Collective assessment allowance	-	(805,397)
- Individual assessment allowance	-	(202,295)
Total net loans, advances and financing	<u>137,057,616</u>	<u>128,851,234</u>

Included in loans, advances and financing are housing loans sold to Cagamas with recourse to the Group amounting to RM237,374,000 (2018: RM177,874,000).

(a) By type of customers

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Domestic non-bank financial institutions	953,920	597,185
Domestic business enterprises:		
- small and medium enterprises	21,504,631	20,480,196
- others	19,303,934	16,489,255
Government and statutory bodies	2,037	19,374
Individuals	94,057,634	85,095,493
Other domestic entities	418,282	269,937
Foreign entities	2,078,699	6,910,039
Gross loans, advances and financing	<u>138,319,137</u>	<u>129,861,479</u>

(b) By interest/profit rate sensitivity

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Fixed rate		
- Housing and shop loans/financing	1,641,152	2,583,136
- Hire purchase receivables	17,413,826	16,916,260
- Other fixed rate loan/financing	6,919,394	7,241,647
Variable rate		
- Base rate/base lending rate plus	94,502,743	86,079,824
- Cost plus	17,225,281	16,635,549
- Other variable rates	616,741	405,063
Gross loans, advances and financing	<u>138,319,137</u>	<u>129,861,479</u>

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15. Loans, advances and financing (continued)

(c) By economic purposes

	The Group	
	As at	As at
	30/06/2019	30/06/2018
	RM '000	RM '000
Purchase of securities	1,010,286	604,109
Purchase of transport vehicles	17,489,214	16,893,711
Purchase of landed properties		
- residential	67,438,186	61,370,803
- non-residential	16,369,237	15,553,253
Purchase of fixed assets (excluding landed properties)	988,287	546,924
Personal use	3,389,881	3,248,454
Credit card	3,597,974	3,899,183
Construction	2,006,223	1,552,918
Mergers and acquisition	312,445	362,600
Working capital	23,798,349	23,857,255
Other purposes	1,919,055	1,972,269
Gross loans, advances and financing	<u>138,319,137</u>	<u>129,861,479</u>

(d) By geographical distribution

	The Group	
	As at	As at
	30/06/2019	30/06/2018
	RM '000	RM '000
Malaysia	131,208,547	123,335,851
Singapore	5,224,287	5,097,771
Vietnam	616,741	405,063
Cambodia	1,269,562	1,022,794
Gross loans, advances and financing	<u>138,319,137</u>	<u>129,861,479</u>

(e) By residual contractual maturity

	The Group	
	As at	As at
	30/06/2019	30/06/2018
	RM '000	RM '000
Within one year	26,983,273	27,426,888
One year to less than three years	5,920,568	6,027,852
Three years to less than five years	9,612,277	9,069,429
Five years and more	95,803,019	87,337,310
Gross loans, advances and financing	<u>138,319,137</u>	<u>129,861,479</u>

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

	The Group	
	As at	As at
	30/06/2019	30/06/2018
	RM '000	RM '000
As at 1 July	1,132,387	1,215,017
Effect of adopting MFRS 9	(11)	-
As at 1 July, as restated	<u>1,132,376</u>	<u>1,215,017</u>
Classified as impaired during the financial year	1,620,203	1,663,481
Reclassified as non-impaired during the financial year	(868,464)	(889,043)
Amount written back in respect of recoveries	(489,105)	(392,039)
Amount written off	(318,398)	(460,834)
Exchange differences	1,397	(4,195)
As at 30 June	<u>1,078,009</u>	<u>1,132,387</u>
Gross impaired loans, advances and financing as a % of gross loans, advances and financing	<u>0.8%</u>	<u>0.9%</u>

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15. Loans, advances and financing (continued)

(g) Impaired loans, advances and financing by economic purposes

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Purchase of securities	51	1,256
Purchase of transport vehicles	122,231	134,141
Purchase of landed properties		
- residential	376,570	353,270
- non-residential	169,127	170,961
Purchase of fixed assets (excluding landed properties)	5,325	3,465
Personal use	44,470	46,682
Credit card	32,505	39,562
Construction	17,350	3,530
Working capital	305,350	376,386
Other purposes	5,030	3,134
Gross credit impaired/impaired loans, advances and financing	<u>1,078,009</u>	<u>1,132,387</u>

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

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Malaysia	1,070,808	1,119,695
Singapore	1,512	1,394
Vietnam	1,621	3,937
Cambodia	4,068	7,361
Gross impaired loans, advances and financing	<u>1,078,009</u>	<u>1,132,387</u>

(i) Movements in expected credit losses for loans, advances and financing are as follows:

	Stage 1	Stage 2	Stage 3	Total ECL RM '000
	12 months ECL RM '000	Lifetime ECL not credit impaired RM '000	Lifetime ECL credit impaired RM '000	
The Group 30 June 2019				
As at 1 July				1,007,692
Effect of adopting MFRS 9				<u>360,630</u>
As at 1 July, as restated	418,458	487,760	462,104	1,368,322
Changes in ECL due to transfer within stages	(101,284)	(144,222)	245,506	-
Transfer to Stage 1	23,088	(22,843)	(245)	-
Transfer to Stage 2	(124,380)	219,695	(95,315)	-
Transfer to Stage 3	8	(341,074)	341,066	-
New financial assets originated	53,868	4,019	110	57,997
Financial assets derecognised	(34,800)	(42,683)	(29,024)	(106,507)
Changes due to change in credit risk	33,156	193,325	38,496	264,977
Modifications to contractual cash flows of financial assets	-	-	4,101	4,101
Amount written off	-	-	(282,501)	(282,501)
Exchange differences	457	127	1,578	2,162
Other movements	-	-	(43,557)	(43,557)
As at 30 June	<u>369,855</u>	<u>498,326</u>	<u>396,813</u>	<u>1,264,994</u>

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15. Loans, advances and financing (continued)

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

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
<u>Collective assessment allowance</u>		
As at 1 July	805,397	830,407
Effect of adopting MFRS 9	(805,397)	-
As at 1 July, as restated	-	830,407
Allowance made during the financial year	-	300,218
Amount written off	-	(310,061)
Unwinding income	-	(14,475)
Exchange differences	-	(692)
As at 30 June	-	805,397
Collective assessment allowance (inclusive of regulatory reserve) as % of gross loans, advances and financing less individual impairment allowance		1.2%
<u>Individual assessment allowance</u>		
As at 1 July	202,295	325,536
Effect of adopting MFRS 9	(202,295)	-
As at 1 July, as restated	-	325,536
Allowance made during the financial year	-	63,406
Amount written back in respect of recoveries	-	(55,505)
Amount written off	-	(119,266)
Unwinding income	-	(7,959)
Exchange differences	-	(3,917)
As at 30 June	-	202,295

16. Other receivables

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Foreclosed properties	21,839	46
Sundry debtors and other prepayments	450,480	293,418
Treasury related receivables	242,617	65,547
Fee income receivables	7,511	2,842
Cash collateral pledged for derivative transactions	308,969	314,855
Other receivables	301,246	275,862
	1,332,662	952,570
<u>The Company</u>		
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Amount due from subsidiary companies	702	4,137
Sundry debtors and other prepayments	3,455	410
	4,157	4,547

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17. Investment in associated companies

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
<u>Retained portion</u>		
Quoted shares outside Malaysia, at cost	938,311	938,311
Unquoted shares in Malaysia, at cost	618,666	618,666
Unquoted shares outside Malaysia, at cost	24,657	-
Quoted unit trust investment in Malaysia	258,460	-
Cumulative share of results, net of dividends received	2,987,933	2,498,670
Cumulative share of changes in other comprehensive income/(loss)	17,894	(4,743)
Exchange fluctuation reserve	434,455	487,422
	5,280,376	4,538,326

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

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

Included in the investment in associated companies are the reclassification of the retained interest of 12% from investment in joint venture under the Group of RM68,782,000.

18. Investment in joint venture

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
<u>Retained portion</u>		
Unquoted shares outside Malaysia, at cost	-	24,657
Cumulative share of results, net of dividends received	-	26,342
Exchange fluctuation reserve	-	6,674
	-	57,673
Equity interest held for sale	-	121,753
	-	179,426

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

In March 2017, HLB's Board of Directors has approved the divestment of 37% of HLB's stake through non-subscription of the issuance of new share capital by JV Co and selling down the original share capital held by HLB to new strategic investors through an exercise via Southwest United Equity Exchange. The sale was completed upon obtaining approval from CBRC vide its letter dated 3 September 2018. The net gain on divestment of joint venture of RM90,106,000 is recognised in statements of income.

Post completion of the divestment exercise, the retained interest of 12% under the Group of RM68,782,000 are derecognised from its investment in joint venture and classified as investment in associated companies.

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19. Deposits from customers

(a) By type of deposits

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
At amortised cost		
Fixed deposits	90,777,422	88,068,740
Negotiable instruments of deposits	9,823,072	6,892,073
Short-term placements	16,571,939	16,624,892
	<u>117,172,433</u>	<u>111,585,705</u>
Demand deposits	24,012,738	23,586,919
Savings deposits	17,706,562	17,563,850
Others	891,350	979,288
	<u>159,783,083</u>	<u>153,715,762</u>
At fair value through profit or loss		
Structured deposits linked to interest rate derivatives	2,159,671	3,334,428
Fair value changes arising from designation at fair value through profit or loss*	(54,869)	(167,278)
	<u>2,104,802</u>	<u>3,167,150</u>
	<u><u>161,887,885</u></u>	<u><u>156,882,912</u></u>

*Note:

The Group has issued structured deposits which are linked to interest rate derivatives and designated them at fair value through profit or loss. This designation is permitted under MFRS 9 as it significantly reduces accounting mismatch. These instruments are managed by the Group on the basis of fair value and includes terms that have substantive derivative characteristics.

The fair value changes of the structured deposits which are linked to interest rate derivatives that are attributable to the changes in own credit risk are not significant.

(b) By type of customers

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Government and statutory bodies	7,940,833	4,818,613
Business enterprises	65,288,256	61,345,942
Individuals	85,560,723	88,185,501
Others	3,098,073	2,532,856
	<u>161,887,885</u>	<u>156,882,912</u>

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

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Due within six months	93,925,096	83,100,530
More than six months to one year	21,763,420	26,160,206
More than one year to five years	1,440,321	2,324,969
More than five years	43,596	-
	<u>117,172,433</u>	<u>111,585,705</u>

20. Investment accounts of customers

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Unrestricted investment accounts	<u>2,235</u>	<u>-</u>

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21. Deposits and placements of banks and other financial institutions

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Licensed banks	7,379,378	7,134,830
Licensed investment banks	225,055	309,597
Licensed Islamic banks	140,000	-
Central banks	12,222	-
Other financial institutions	2,023,889	1,851,968
	<u>9,780,544</u>	<u>9,296,395</u>
The maturity structure of deposits and placements of banks and other financial institutions:		
- One year or less (short-term)	<u>9,780,544</u>	<u>9,296,395</u>

22. Payables and other liabilities

	Note	The Group	
		As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Trade payables		3,062,424	2,731,351
Post employment benefits obligation - defined contribution plan		1,892	1,855
Loan advance payment		3,351,885	3,229,766
Treasury and cheque clearing		452,626	50,106
Treasury related payables		149,347	231,223
Sundry creditors and accruals		224,309	554,916
Provision for bonus and staff related expenses		222,387	226,546
Expected credit losses on financial guarantee contracts	(a)	7,928	-
Financial liabilities due to third party investors	(b)	4,816,377	3,859,209
Others		945,272	823,219
		<u>13,234,447</u>	<u>11,708,191</u>

(a) Movements in expected credit losses of financial guarantee contracts are as follows:

The Group 30 June 2019	Stage 1	Stage 2	Stage 3	Total ECL RM '000
	12 months ECL RM '000	Lifetime ECL not credit impaired RM '000	Lifetime ECL credit impaired RM '000	
As at 1 July				-
Effect of adopting MFRS 9				6,920
As at 1 July, as restated	2,065	4,855	-	6,920
Changes in ECL due to transfer within stages	(13)	(80)	93	-
Transfer to Stage 1	23	(23)	-	-
Transfer to Stage 2	(36)	36	-	-
Transfer to Stage 3	-	(93)	93	-
New financial assets originated	142	2	-	144
Financial assets derecognised	(28)	(12)	-	(40)
Changes due to change in credit risk	220	642	(68)	794
Exchange differences	(6)	120	-	114
Other movements	-	-	(4)	(4)
As at 30 June	<u>2,380</u>	<u>5,527</u>	<u>21</u>	<u>7,928</u>

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

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22. Payables and other liabilities (continued)

	The Company	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
Post employment benefits obligation - defined contribution plan	45	45
Sundry creditors and accruals	20,848	2,093
Provision for bonus and staff related expenses	13,025	11,474
	<u>33,918</u>	<u>13,612</u>

23. Interest income

	The Group		The Group	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
Loans, advances and financing	1,207,171	1,177,219	4,841,206	4,657,012
Money at call and deposit placements with financial institutions	98,855	63,872	441,686	216,379
Securities purchased under resale agreements	1	454	952	5,484
Financial assets held-for-trading	-	107,174	-	419,434
Financial investments at fair value through other comprehensive income	200,652	-	872,786	-
Financial investments available-for-sale	-	201,204	-	787,842
Financial investments at amortised cost	102,123	-	454,193	-
Financial investments held-to-maturity	-	105,686	-	408,036
Others	6,583	6,294	27,177	25,023
	<u>1,615,385</u>	<u>1,661,903</u>	<u>6,638,000</u>	<u>6,519,210</u>
Of which:				
Interest income earned on impaired loans, advances and financing	5,129	25,684	12,915	52,766

	The Company		The Company	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
Money at call and deposit placements with financial institutions	256	175	950	1,404
Subordinated obligations	8,225	399	26,467	399
Multi-currency Additional Tier 1 capital securities	9,823	5,116	25,382	11,975
Others	-	-	263	461
	<u>18,304</u>	<u>5,690</u>	<u>53,062</u>	<u>14,239</u>

24. Interest income for financial assets at fair value through profit or loss

	The Group		The Group	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
Financial assets at fair value through profit or loss	118,838	-	449,813	-

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25. Interest expense

	The Group		The Group	
	Current	Last year	Current year	Last year
	quarter ended 30/06/2019	quarter ended 30/06/2018	to date 30/06/2019	to date 30/06/2018
	RM '000	RM '000	RM '000	RM '000
Deposits and placements of banks and other financial institutions	57,967	53,010	298,538	197,861
Deposits from customers	773,064	755,667	3,108,656	2,861,551
Short-term placements	107,315	98,767	429,986	344,662
Borrowings	10,995	11,474	51,556	54,188
Subordinated obligations	35,765	29,600	142,104	117,616
Recourse obligations on loans sold to Cagamas Berhad	1,895	1,895	7,602	7,602
Innovative Tier 1 capital securities	10,443	9,726	41,053	38,205
Multi-currency Additional Tier 1 capital securities	10,010	12,059	25,828	13,002
Others	3,108	18	7,924	13,915
	<u>1,010,562</u>	<u>972,216</u>	<u>4,113,247</u>	<u>3,648,602</u>

	The Company		The Company	
	Current	Last year	Current year	Last year
	quarter ended 30/06/2019	quarter ended 30/06/2018	to date 30/06/2019	to date 30/06/2018
	RM '000	RM '000	RM '000	RM '000
Borrowings	11,013	11,474	51,617	54,188
Subordinated obligations	8,405	419	27,028	419
Multi-currency Additional Tier 1 capital securities	10,122	5,277	26,170	12,351
Others	86	100	347	537
	<u>29,626</u>	<u>17,270</u>	<u>105,162</u>	<u>67,495</u>

26. Income from Islamic banking business

	The Group		The Group	
	Current	Last year	Current year	Last year
	quarter ended 30/06/2019	quarter ended 30/06/2018	to date 30/06/2019	to date 30/06/2018
	RM '000	RM '000	RM '000	RM '000
Income derived from investment of depositors' funds and others	355,550	342,340	1,455,046	1,279,994
of which finance income	346,244	344,338	1,428,517	1,277,517
of which other operating income	9,306	(1,998)	26,529	2,477
Income derived from investment of shareholders' funds	58,180	24,377	176,972	137,744
of which finance income	42,758	15,012	124,219	96,158
of which other operating income	15,422	9,365	52,753	41,586
Income derived from investment of investment accounts	10	-	12	-
Income attributable to depositors	(238,753)	(203,976)	(924,754)	(771,674)
Income attributable to depositors on investment accounts	(6)	-	(7)	-
	<u>174,981</u>	<u>162,741</u>	<u>707,269</u>	<u>646,064</u>

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27. Non-interest income

	The Group		The Group	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
Net income from insurance business	112,466	83,797	318,878	283,942
Net brokerage and commissions from stockbroking business	12,288	15,481	51,868	65,854
Net unit trust and asset management income	12,886	9,494	50,199	34,353
Fee income:				
Commissions	36,924	34,018	148,490	152,870
Service charges and fees	12,380	14,561	51,723	62,674
Guarantee fees	4,084	3,507	15,488	14,213
Credit card related fees	59,001	49,710	239,129	218,225
Corporate advisory fees	1,649	1,472	6,499	5,926
Commitment fees	8,289	8,058	32,662	33,086
Fee on loans, advances and financing	9,208	9,974	37,193	39,690
Placement fees	3,827	625	5,852	1,393
Arranger fees	1,778	(346)	4,363	3,139
Other fee income	35,973	35,397	119,102	123,302
	173,113	156,976	660,501	654,518
Net realised gain/(loss) from sale/redemption of:				
Financial assets at fair value through profit or loss	52,970	-	126,024	-
Financial assets held-for-trading	-	(22,459)	-	19,671
Financial investments at fair value through other comprehensive income	87,910	-	168,261	-
Financial investments available-for-sale	-	71,162	-	217,616
Financial investments at amortised cost	-	-	15,902	-
Financial investments held-to-maturity	-	4	-	7
Derivative financial instruments	(16,467)	(69,746)	(257,356)	(20,712)
	124,413	(21,039)	52,831	216,582
Gross dividend income from:				
Financial assets at fair value through profit or loss	22,724	-	94,233	-
Financial assets held-for-trading	-	1,277	-	5,116
Financial investments at fair value through other comprehensive income	-	-	203	-
Financial investments available-for-sale	-	86,094	-	322,433
	22,724	87,371	94,436	327,549
Net unrealised (loss)/gain on revaluation of:				
Financial assets at fair value through profit or loss	11,919	-	72,682	-
Financial assets held-for-trading	-	10,791	-	(11,194)
Derivative financial instruments	(60,765)	118,000	11,860	121,763
Investment property	(6,594)	-	(6,594)	-
	(55,440)	128,791	77,948	110,569
Net realised loss on fair value changes arising from fair value hedges	(214)	(96)	(504)	(800)
Net unrealised loss on fair value changes arising from fair value hedges	(108)	(14)	(305)	(152)
Other income:				
Foreign exchange gain	34,390	28,284	169,372	143,771
Rental income	4,128	2,211	9,135	8,688
Net gain/(loss) on disposal of property and equipment	1,199	(53)	1,552	2,492
Net gain on divestment of joint venture	-	-	90,106	-
Net loss on dilution of investment in associated company	-	(26,800)	-	(26,800)
Other non-operating income	1,361	3,038	20,158	13,753
	41,078	6,680	290,323	141,904
Total non-interest income	443,206	467,441	1,596,175	1,834,319

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27. Non-interest income (continued)

	The Company		The Company	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
Fee income:				
Management fees	2,651	3,492	10,212	11,015
Net realised gain/(loss) from sale of:				
Financial assets at fair value through profit or loss	15	-	(51)	-
Gross dividend income from:				
Financial assets at fair value through profit or loss	137	-	1,287	-
Subsidiary companies	-	-	681,419	648,555
Net unrealised gain on revaluation of:				
Derivative financial instruments	37	22	192	547
Other income:				
Gain from distribution on liquidation of subsidiary	-	-	21	190,156
Other non-operating (expense)/income	(43)	8	4	13
Total non-interest income	2,797	3,522	693,084	850,286

28. Overhead expenses

	The Group		The Group	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
<u>Personnel costs</u>				
- Salaries, bonus and allowances	301,212	272,668	1,188,062	1,138,790
- Medical expenses	10,397	11,739	32,373	36,532
- Training and convention expenses	7,148	7,631	24,686	26,416
- Staff welfare	3,274	2,784	11,286	10,462
- Others	9,012	12,372	64,323	42,776
	331,043	307,194	1,320,730	1,254,976
<u>Establishment costs</u>				
- Depreciation of property and equipment	35,571	35,007	139,467	130,013
- Amortisation of intangible assets	14,830	16,945	59,854	78,910
- Rental of premises	16,483	16,876	66,991	80,824
- Information technology expenses	44,447	44,495	182,351	175,334
- Security services	7,562	8,128	28,807	28,896
- Electricity, water and sewerage	6,719	6,737	26,240	27,228
- Hire of plant and machinery	3,331	3,156	12,632	12,695
- Others	7,749	11,804	35,995	38,730
	136,692	143,148	552,337	572,630
<u>Marketing expenses</u>				
- Advertisement and publicity	12,419	11,960	35,434	41,644
- Sales commission and credit card related fees	33,742	24,762	128,651	107,491
- Others	22,882	7,209	49,633	25,788
	69,043	43,931	213,718	174,923
<u>Administration and general expenses</u>				
- Teletransmission expenses	5,690	4,207	20,485	18,165
- Stationery and printing expenses	4,680	4,941	15,924	16,583
- Professional fees	26,862	24,997	92,861	87,236
- Insurance fees	9,946	9,877	42,102	41,772
- Stamp, postage and courier	3,977	2,062	15,431	15,411
- Credit card fees	11,423	9,645	43,056	40,197
- Travelling and transport expenses	1,333	1,502	4,869	4,662
- Registration and license fees	2,794	2,486	10,199	10,200
- Brokerage and commission	2,184	2,436	8,425	8,003
- Others	9,895	15,455	40,747	50,273
	78,784	77,608	294,099	292,502
	615,562	571,881	2,380,884	2,295,031

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28. Overhead expenses (continued)

	The Company		The Company	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
<u>Personnel costs</u>				
- Salaries, bonus and allowances	6,535	6,655	24,068	23,991
- Medical expenses	33	43	139	130
- Training and convention expenses	18	5	59	25
- Staff welfare	161	158	608	559
- Others	3,270	3,361	13,303	4,872
	<u>10,017</u>	<u>10,222</u>	<u>38,177</u>	<u>29,577</u>
<u>Establishment costs</u>				
- Depreciation of property and equipment	268	273	1,124	810
- Amortisation of intangible assets	-	-	1	12
- Rental of premises	233	233	937	860
- Information technology expenses	24	24	141	117
- Electricity, water and sewerage	10	17	47	51
- Hire of machinery	-	-	-	6
- Others	(121)	131	22	227
	<u>414</u>	<u>678</u>	<u>2,272</u>	<u>2,083</u>
<u>Administration and general expenses</u>				
- Teletransmission expenses	6	11	35	34
- Stationery and printing expenses	11	1	42	27
- Professional fees	305	315	1,175	1,014
- Management fees	351	549	2,081	2,237
- Travelling and transport expenses	3	54	47	110
- Others	193	166	695	727
	<u>869</u>	<u>1,096</u>	<u>4,075</u>	<u>4,149</u>
	<u>11,300</u>	<u>11,996</u>	<u>44,524</u>	<u>35,809</u>

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

	The Group		The Group	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
Allowance for/(writeback of) impairment losses on loans, advances and financing:				
- Expected credit losses	92,525	-	221,467	-
- Collective assessment allowance	-	71,804	-	300,218
- Individual assessment allowance	-	(5,428)	-	7,901
(Writeback of)/allowance for impairment losses on clients' and brokers' balances:				
- Expected credit losses	(98)	-	(149)	-
- Collective assessment allowance	-	(2)	-	-
- Individual assessment allowance	-	107	-	(66)
Allowance for impairment losses on other assets:				
- Expected credit losses	109	-	-	-
- Individual assessment allowance	-	689	-	458
Impaired loans, advances and financing:				
- Written off	3,918	4,601	17,679	19,719
- Recovered from bad debt written off	(49,266)	(61,080)	(226,703)	(250,847)
	<u>47,188</u>	<u>10,691</u>	<u>12,294</u>	<u>77,383</u>

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30. (Writeback of)/allowance for impairment losses on financial investments

	The Group		The Group	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
Expected credit losses on:				
- Financial investments at fair value through other comprehensive income	(220)	-	(968)	-
- Financial investments at amortised cost	(73)	-	189	-
- Other receivables	(103)	-	(302)	-
- Cash and short-term funds	(71)	-	47	-
- Deposits and placements with banks and other financial institutions	(288)	-	(74)	-
Allowance for/(writeback of) impairment losses on:				
- Financial investments available-for-sale	-	5,916	-	6,771
- Financial investments held-to-maturity	-	(4,658)	-	(7,058)
	<u>(755)</u>	<u>1,258</u>	<u>(1,108)</u>	<u>(287)</u>
	The Company		The Company	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
Expected credit losses on:				
- Investment in debt instruments issued by subsidiary	2,146	-	2,146	-

31. Capital adequacy

The capital adequacy ratios are computed in accordance with BNM's Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework (Basel II – Risk-weighted Assets) both reissued on 2 February 2018. The consolidated capital adequacy of the Group includes consolidation of all financial and non-financial subsidiary companies, except the insurance/takaful subsidiary companies which shall be deducted in the calculation of Common Equity Tier 1 ("CET 1") capital. The total risk-weighted assets ("RWA") of the Group are computed based on Standardised Approach for Credit Risk and Market Risk, and Basic Indicator Approach for Operational Risk.

The Capital Adequacy Framework (Capital Components) sets out the minimum capital adequacy ratios as well as requirements on Capital Conservation Buffer ("CCB") and Counter Cyclical Buffer ("CCyB"). The minimum capital adequacy requirements for CET 1 capital ratio, Tier 1 capital ratio and Total capital ratio are 4.500%, 6.000% and 8.000% respectively. The Group is also required to maintain CCB of up to 2.500% of total 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 the Group has credit exposures. The minimum capital adequacy including CCB for CET 1 capital ratio, Tier 1 capital ratio and Total capital ratio for year 2019 are 7.000%, 8.500% and 10.500% respectively.

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

	Hong Leong Financial Group 30/06/2019	Hong Leong Bank Group 30/06/2019	Hong Leong Bank Berhad 30/06/2018	Hong Leong Bank Berhad 30/06/2019	Hong Leong Bank Berhad 30/06/2018	Hong Leong Investment Bank Berhad 30/06/2019	Hong Leong Investment Bank Berhad 30/06/2018
Before deducting proposed dividends							
CET 1 capital ratio	10.903%	13.627%	13.113%	13.266%	12.545%	30.907%	33.073%
Tier 1 capital ratio	11.895%	14.585%	13.797%	14.074%	12.997%	30.907%	33.073%
Total capital ratio	<u>14.968%</u>	<u>16.839%</u>	<u>16.752%</u>	<u>16.203%</u>	<u>16.301%</u>	<u>43.489%</u>	<u>37.619%</u>
After deducting proposed dividends							
CET 1 capital ratio	10.903%	13.113%	12.614%	12.640%	11.949%	28.642%	29.115%
Tier 1 capital ratio	11.895%	14.072%	13.298%	13.448%	12.401%	28.642%	29.115%
Total capital ratio	<u>14.968%</u>	<u>16.326%</u>	<u>16.253%</u>	<u>15.577%</u>	<u>15.706%</u>	<u>41.224%</u>	<u>33.661%</u>

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31. Capital adequacy (continued)

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

	Hong Leong Financial Group 30/06/2019 RM '000	Hong Leong Bank Group 30/06/2019 RM '000	Hong Leong Bank Group 30/06/2018 RM '000	Hong Leong Bank Berhad 30/06/2019 RM '000	Hong Leong Bank Berhad 30/06/2018 RM '000	Hong Leong Investment Bank Berhad 30/06/2019 RM '000	Hong Leong Investment Bank Berhad 30/06/2018 RM '000
CET 1 capital							
Share capital	2,267,008	7,739,063	7,739,063	7,739,063	7,739,063	252,950	252,950
Retained profit	15,196,453	16,686,412	15,184,533	12,034,337	11,212,525	237,920	250,085
Other reserves	874,076	849,361	868,134	315,816	298,837	3,507	(3,355)
Qualifying non-controlling interests	5,398,860	-	-	-	-	-	-
Less: Treasury shares	(161,909)	(727,817)	(732,267)	(727,817)	(732,267)	-	-
Less: Other intangible assets	(128,331)	(125,225)	(152,541)	(110,895)	(137,166)	-	-
Less: Goodwill	(2,346,287)	(1,831,312)	(1,831,312)	(1,771,547)	(1,771,547)	(31,129)	(31,672)
Less: Deferred tax assets	-	(16,030)	(53,067)	-	(47,908)	(80,926)	(87,582)
Less: Investment in subsidiary companies/ associated company/ joint venture	(6,661,118)	(4,106,375)	(3,830,517)	(2,726,932)	(2,778,569)	(200)	(200)
Total CET 1 capital	14,438,752	18,468,077	17,192,026	14,752,025	13,782,968	382,122	380,226
Additional Tier 1 capital							
Multi-currency Additional Tier 1 capital securities	799,577	799,523	399,393	799,523	399,393	-	-
Innovative Tier 1 capital securities	-	499,498	497,562	499,498	497,562	-	-
Qualifying non-controlling interests	513,375	-	-	-	-	-	-
Additional Tier 1 capital before regulatory adjustments	1,312,952	1,299,021	896,955	1,299,021	896,955	-	-
Less: Investment in perpetual subordinated sukuk wakalah	-	-	-	(400,000)	(400,000)	-	-
Additional Tier 1 capital after regulatory adjustments	1,312,952	1,299,021	896,955	899,021	496,955	-	-
Total Tier 1 capital	15,751,704	19,767,098	18,088,981	15,651,046	14,279,923	382,122	380,226
Tier 2 capital							
Stage 1 and Stage 2 expected credit loss allowances and regulatory reserves #	1,560,449	1,554,893	-	1,267,205	-	5,556	-
Collective assessment allowance ^ and regulatory reserves #	-	-	1,375,082	-	1,130,670	-	2,266
Subordinated obligations	1,599,790	1,499,970	2,499,820	1,499,970	2,499,820	150,000	50,000
Qualifying non-controlling interests	909,772	-	-	-	-	-	-
Less: Investment in Tier 2 subordinated sukuk murabahah	-	-	-	(400,000)	-	-	-
Total Tier 2 capital	4,070,011	3,054,863	3,874,902	2,367,175	3,630,490	155,556	52,266
Total capital	19,821,715	22,821,961	21,963,883	18,018,221	17,910,413	537,678	432,492

Includes the qualifying regulatory reserves for non-impaired loans of Hong Leong Bank Group of RM847,070,000 (2018: RM741,694,000), Hong Leong Bank Berhad of RM695,197,000 (2018: RM637,098,000) and Hong Leong Investment Bank Berhad of RM Nil (2018: RM2,071,000) respectively.

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

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31. Capital adequacy (continued)

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

	Hong Leong			Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	Financial Group	Hong Leong Bank Group	Hong Leong Bank Group	Hong Leong Bank Berhad	Hong Leong Bank Berhad	Hong Leong Bank Berhad	Hong Leong Bank Berhad
	30/06/2019	30/06/2019	30/06/2018	30/06/2019	30/06/2018	30/06/2019	30/06/2018
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Credit risk *	120,247,407	124,391,420	118,853,998	101,376,433	98,504,099	444,468	407,598
Market risk	3,244,202	2,558,573	3,850,444	2,595,185	4,140,291	519,266	457,231
Operational risk	8,936,235	8,577,308	8,403,939	7,233,933	7,226,134	272,622	284,840
Total RWA	<u>132,427,844</u>	<u>135,527,301</u>	<u>131,108,381</u>	<u>111,205,551</u>	<u>109,870,524</u>	<u>1,236,356</u>	<u>1,149,669</u>

* In accordance with BNM Investment Account Policy, the credit RWA of Hong Leong Islamic Bank Berhad funded by Investment Account of RM1,294,000 is excluded from the calculation of capital adequacy ratio of the Group.

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

	Hong Leong Islamic Bank Berhad	
	30/06/2019	30/06/2018
Before deducting proposed dividends		
CET 1 capital ratio	10.529%	10.461%
Tier 1 capital ratio	12.258%	12.404%
Total capital ratio	<u>15.150%</u>	<u>15.477%</u>
After deducting proposed dividends		
CET 1 capital ratio	10.529%	10.461%
Tier 1 capital ratio	12.258%	12.404%
Total capital ratio	<u>15.150%</u>	<u>15.477%</u>

32. Events after Balance Sheet date

There are no material events subsequent to the end of the financial year ended 30 June 2019.

33. Changes in composition of the Group

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

- Hong Leong Equities Sdn Bhd, a wholly-owned subsidiary of HLFGB, was dissolved on 27 November 2018.
- On 7 March 2019, Hong Leong Capital Berhad ("HLCB"), a subsidiary of HLFGB, announced that it had placed HLCB Assets Sdn Bhd ("HLCB Assets") and HLG Capital Markets Sdn Bhd ("HLGCM"), its wholly-owned subsidiaries, under member's voluntary winding-up pursuant to Section 439(1)(b) of the Companies Act, 2016. HLCB Assets and HLGCM were investment holding companies and will become dormant following the disposal of all investments upon the commencement of the winding-up. There are no future plans for the subsidiaries.
- On 30 April 2019, Hong Leong Bank Berhad ("HLB"), a subsidiary of HLFGB, announced that HLF Credit (Perak) Bhd ("HLFC"), a wholly-owned subsidiary of HLB, had placed Chew Geok Lin Finance Sdn Bhd and WTB Corporation Sdn Bhd (collectively referred to as "Companies"), wholly-owned subsidiaries of HLFC, under member's voluntary winding-up pursuant to Section 439(1)(b) of the Companies Act, 2016. The Companies are currently dormant and there are no future plans to activate the Companies.
- On 28 June 2019, HLCB announced that Hong Leong Asset Management Bhd ("HLAM"), a wholly-owned subsidiary of HLCB, has entered into a sale and purchase agreement with HL Management Co Sdn Bhd for the acquisition of the entire equity interest in Hong Leong Fund Management Sdn Bhd ("HLFM") comprising 2,600,000 ordinary shares in HLFM for a cash consideration of RM2,554,815.82 (the "Acquisition").

The Acquisition has been completed on even date.

- On 1 July 2019, HLB announced that it had placed EB Nominees (Asing) Sendirian Berhad ("EB Nominees (Asing)"), its wholly-owned subsidiary, under member's voluntary winding-up pursuant to Section 439(1)(b) of the Companies Act, 2016. EB Nominees (Asing) is currently dormant and there are no future plans to activate the company.

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34. 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.

35. Commitments and contingencies

(a) In the normal course of business, the Group make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. These commitments and contingencies are also not secured over the assets of the Group.

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

	The Group	
	30/06/2019	30/06/2018
	RM '000	RM '000
Direct credit substitutes	118,740	109,341
Certain transaction related contingent items	1,446,851	1,286,782
Short-term self liquidating trade related contingencies	674,511	836,785
Obligations under underwriting agreement	18,860	-
Irrevocable commitments to extend credit:		
- less than one year	19,020,280	16,074,689
- more than one year	17,720,606	14,301,856
Any commitments that are unconditionally cancellable at any time by the Group without prior notice:		
- less than one year	750,103	662,442
Foreign exchange related contracts:		
- less than one year	37,642,710	45,991,115
- one year to less than five years	3,995,994	2,640,932
- five years and above	301,327	517,407
Interest rate related contracts:		
- less than one year	43,078,630	29,754,327
- one year to less than five years	37,887,050	50,035,129
- five years and above	3,415,389	7,161,925
Equity related contracts:		
- less than one year	627,537	306,258
- one year to less than five years	127,853	510,502
Credit related contracts:		
- five years and above	82,753	-
Unutilised credit card lines	7,276,500	6,908,565
Total	174,185,694	177,098,055

	The Company	
	30/06/2019	30/06/2018
	RM '000	RM '000
Interest rate related contracts:		
- less than one year	100,000	-
- one year to less than five years	-	100,000
	<u>100,000</u>	<u>100,000</u>

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

The size of the fund was above the minimum of RM1 million (2018: RM1 million).

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36. 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 instruments are generally classified as Level 2.

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

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

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

The Group 30 June 2019	Fair value			Total RM '000
	Level 1 RM '000	Level 2 RM '000	Level 3 RM '000	
<u>Recurring fair value measurements</u>				
<u>Financial assets</u>				
Financial assets at fair value through profit or loss				
- Money market instruments	-	12,823,712	-	12,823,712
- Quoted securities	3,835,082	-	-	3,835,082
- Unquoted securities	-	7,436,652	326,621	7,763,273
Financial investments at fair value through other comprehensive income				
- Money market instruments	-	11,523,539	-	11,523,539
- Quoted securities	3,414,587	-	-	3,414,587
- Unquoted securities	-	9,982,968	44,331	10,027,299
Derivative financial instruments	32	562,341	7,812	570,185
	<u>7,249,701</u>	<u>42,329,212</u>	<u>378,764</u>	<u>49,957,677</u>

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36. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy (continued)

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

The Group 30 June 2019	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	2,940	721,691	7,812	732,443
Financial liabilities designated at fair value				
- Structured deposits linked to interest rate derivatives	-	2,104,802	-	2,104,802
	<u>2,940</u>	<u>2,826,493</u>	<u>7,812</u>	<u>2,837,245</u>

30 June 2018

Recurring fair value measurements

Financial assets

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

Financial liabilities

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

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial year (2018: RM Nil).

The Company 30 June 2019	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	-	135	-	135
30 June 2018				
Recurring fair value measurements				
Financial liabilities				
Derivative financial instruments	-	327	-	327

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36. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy (continued)

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

	Financial assets				Financial liability
	Financial assets at fair value through profit or loss RM '000	Financial investments at fair value through other comprehensive income RM '000	Financial investments available-for-sale RM '000	Derivative financial instruments RM '000	Derivative financial instruments RM '000
The Group					
30 June 2019					
As at 1 July	-	-	469,904	13,876	13,876
Effect of adopting MFRS 9	309,740	33,477	(469,904)	-	-
As at 1 July, as restated	309,740	33,477	-	13,876	13,876
Fair value changes recognised in statements of income	16,896	-	-	(12,653)	(12,653)
Net fair value changes recognised in other comprehensive income	(15)	10,854	-	-	-
Purchases	-	-	-	(1,810)	(1,810)
Settlements	-	-	-	8,399	8,399
As at 30 June	326,621	44,331	-	7,812	7,812
Fair value changes recognised in statements of income relating to assets/liability held on 30 June 2019	16,896	-	-	(12,653)	(12,653)
Total (loss)/gain recognised in other comprehensive income relating to assets held on 30 June 2019	(15)	10,854	-	-	-

	Financial assets			Financial liability
	Financial investments available-for-sale RM '000	Derivative financial instruments RM '000	Derivative financial instruments RM '000	Derivative financial instruments RM '000
The Group				
30 June 2018				
As at 1 July	457,152	8,568	8,568	
Fair value changes recognised in statements of income	-	4,672	4,672	
Net fair value changes recognised in other comprehensive income	162,113	-	-	
Purchases	-	6,672	6,672	
Disposal	(149,361)	-	-	
Settlements	-	(6,036)	(6,036)	
As at 30 June	469,904	13,876	13,876	
Fair value changes recognised in statements of income relating to assets/liability held on 30 June 2018	-	4,672	4,672	
Total gain recognised in other comprehensive income relating to assets held on 30 June 2018	162,113	-	-	

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

37. Change in accounting policies

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

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

Effect of adopting MFRS 9 as at 1 July 2018

	The Group RM '000
Cash and short-term funds	
Closing balance under MFRS 139 as at 30 June 2018	9,890,071
- recognition of expected credit losses under MFRS 9	(463)
Opening balance under MFRS 9 as at 1 July 2018	<u>9,889,608</u>
Deposits and placements with banks and other financial institutions	
Closing balance under MFRS 139 as at 30 June 2018	10,196,421
- recognition of expected credit losses under MFRS 9	(303)
Opening balance under MFRS 9 as at 1 July 2018	<u>10,196,118</u>
Securities purchased under resale agreements	
Closing balance under MFRS 139 as at 30 June 2018	35,126
- recognition of expected credit losses under MFRS 9	(2)
Opening balance under MFRS 9 as at 1 July 2018	<u>35,124</u>
Financial assets at fair value through profit or loss	
Closing balance under MFRS 139 as at 30 June 2018	-
- reclassification from financial assets held-for-trading	7,982,521
- reclassification from financial investments available-for-sale	12,731,301
- reclassification from financial investments held-to-maturity	641,941
- remeasurement of fair value of financial instruments	(143,555)
- unrealised gain on reclassification from financial investments available-for-sale to financial assets at fair value through profit or loss	26,375
Opening balance under MFRS 9 as at 1 July 2018	<u>21,238,583</u>
Financial assets held-for-trading	
Closing balance under MFRS 139 as at 30 June 2018	10,536,881
- reclassification to financial assets at fair value through profit or loss	(7,982,521)
- reclassification to financial investments at fair value through other comprehensive income	(2,554,360)
Opening balance under MFRS 9 as at 1 July 2018	<u>-</u>
Financial investments at fair value through other comprehensive income	
Closing balance under MFRS 139 as at 30 June 2018	-
- reclassification from financial investments available-for-sale	20,807,950
- reclassification from financial assets held-for-trading	2,554,360
- reclassification from financial investments held-to-maturity	3,169,316
- reversal of unrealised loss on financial investments at fair value through other comprehensive income	15,822
- unrealised gain on financial investments	13,028
- recognition of expected credit losses under MFRS 9	(19,202)
Opening balance under MFRS 9 as at 1 July 2018	<u>26,541,274</u>
Financial investments available-for-sale	
Closing balance under MFRS 139 as at 30 June 2018	37,732,539
- reclassification to financial investments at fair value through other comprehensive income	(20,807,950)
- reclassification to financial investments at amortised cost	(4,193,288)
- reclassification to financial assets at fair value through profit or loss	(12,731,301)
Opening balance under MFRS 9 as at 1 July 2018	<u>-</u>

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
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37. Change in accounting policies (continued)

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

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

	The Group RM '000
Financial investments at amortised cost	
Closing balance under MFRS 139 as at 30 June 2018	-
- reclassification from financial investments held-to-maturity	12,084,422
- reclassification from financial investments available-for-sale	4,193,288
- remeasurement of debt instruments at amortised cost	38,776
- recognition of expected credit losses under MFRS 9	(854)
Opening balance under MFRS 9 as at 1 July 2018	<u>16,315,632</u>
Financial investments held-to-maturity	
Closing balance under MFRS 139 as at 30 June 2018	15,895,679
- reclassification to financial assets at fair value through profit or loss	(641,941)
- reclassification to financial investments at fair value through other comprehensive income	(3,169,316)
- reclassification to financial investments at amortised cost	(12,084,422)
Opening balance under MFRS 9 as at 1 July 2018	<u>-</u>
Loans, advances and financing	
Closing balance under MFRS 139 as at 30 June 2018	128,851,234
- recognition of expected credit losses under MFRS 9	(360,630)
- remeasurement of loans, advances and financing	28,966
- remeasurement of unwinding of income	(11)
Opening balance under MFRS 9 as at 1 July 2018	<u>128,519,559</u>
Other receivables	
Closing balance under MFRS 139 as at 30 June 2018	952,570
- recognition of expected credit losses under MFRS 9	(7,529)
Opening balance under MFRS 9 as at 1 July 2018	<u>945,041</u>
Payables and other liabilities	
Closing balance under MFRS 139 as at 30 June 2018	11,708,191
- recognition of expected credit losses under MFRS 9	6,920
Opening balance under MFRS 9 as at 1 July 2018	<u>11,715,111</u>
Provision for taxation	
Closing balance under MFRS 139 as at 30 June 2018	244,162
- in respect of recognition of expected credit losses under MFRS 9	(80,534)
Opening balance under MFRS 9 as at 1 July 2018	<u>163,628</u>
Deferred tax liabilities	
Closing balance under MFRS 139 as at 30 June 2018	78,309
- in respect of unrealised gain/loss on financial investments at fair value through other comprehensive income reserves	14,080
- remeasurement of fair value of financial instruments	5,292
- recognition of expected credit losses under MFRS 9	(1,409)
- other classification and measurement	(2)
Opening balance under MFRS 9 as at 1 July 2018	<u>96,270</u>
Insurance funds	
Closing balance under MFRS 139 as at 30 June 2018	13,188,787
- unrealised gain on reclassification from financial assets at fair value through profit or loss	9,167
- recognition of expected credit losses under MFRS 9	(3,233)
- deferred tax on unrealised gain on reclassification from financial assets at fair value through profit or loss	(615)
Opening balance under MFRS 9 as at 1 July 2018	<u>13,194,106</u>

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

37. Change in accounting policies (continued)

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

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

	The Group RM '000
Capital reserves	
Closing balance under MFRS 139 as at 30 June 2018	1,540,421
- transfer from retained profits	6,391
Opening balance under MFRS 9 as at 1 July 2018	<u>1,546,812</u>
Retained profits	
Closing balance under MFRS 139 as at 30 June 2018	13,910,419
- transfer to regulatory reserves	(6,391)
- transfer from fair value reserves	19,725
- unrealised gain on financial assets at fair value through profit or loss	255,498
- remeasurement of fair value of financial instruments	(110,844)
- remeasurement of loans, advances and financing	22,366
- recognition of expected credit losses under MFRS 9	(281,995)
- deferred tax on unrealised gain on reclassification from financial assets at fair value through profit or loss	(1,078)
- tax effect arising from adoption of MFRS 9	51,767
- remeasurement of unwinding of income	(8)
Opening balance under MFRS 9 as at 1 July 2018	<u>13,859,459</u>
Fair value reserve	
Closing balance under MFRS 139 as at 30 June 2018	109,284
- transfer to retained profits	(19,725)
- reversal of unrealised loss on financial investments at fair value through other comprehensive income	14,776
- unrealised gain on financial investments at fair value through other comprehensive income reclassified from financial investments held-to-maturity	8,401
- remeasurement of debt instruments at amortised cost previously held at financial investments available-for-sale	25,400
- unrealised gain on financial assets at fair value through profit or loss transfer to retained profits	(206,867)
- recognition of expected credit losses under MFRS 9	(11,945)
- deferred tax in respect of unrealised gain on financial investments at fair value through other comprehensive income	(300)
- deferred tax in respect of reversal of unrealised loss on financial investments at fair value through other comprehensive income	(64)
Opening balance under MFRS 9 as at 1 July 2018	<u>(81,040)</u>
Non-controlling interests	
Closing balance under MFRS 139 as at 30 June 2018	8,875,277
- non-controlling interests share of impact arising from:	
- classification and measurement	(29,648)
- expected credit loss	(98,596)
- unrealised gain on financial assets at fair value through profit or loss	4,435
- deferred tax on unrealised gain on reclassification from financial assets at fair value through profit or loss	(799)
- tax effect arising from the recognition of expected credit losses under MFRS 9	253
Opening balance under MFRS 9 as at 1 July 2018	<u>8,750,922</u>
The Company RM '000	
Investment in subsidiary companies	
Closing balance under MFRS 139 as at 30 June 2018	17,996,078
- recognition of expected credit losses under MFRS 9	(2,885)
Opening balance under MFRS 9 as at 1 July 2018	<u>17,993,193</u>
Retained profits	
Closing balance under MFRS 139 as at 30 June 2018	13,206,499
- recognition of expected credit losses under MFRS 9	(2,885)
Opening balance under MFRS 9 as at 1 July 2018	<u>13,203,614</u>

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

37. Change in accounting policies (continued)

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

The Group	30 June 2018 RM '000	Classification and measurement RM '000	Expected credit losses RM '000	1 July 2018 RM '000
Assets				
Cash and short-term funds	9,890,071	-	(463)	9,889,608
Deposits and placements with banks and other financial institutions	10,196,421	-	(303)	10,196,118
Securities purchased under resale agreements	35,126	-	(2)	35,124
Financial assets at fair value through profit or loss	-	21,238,583	-	21,238,583
Financial assets held-for-trading	10,536,881	(10,536,881)	-	-
Financial investments at fair value through other comprehensive income	-	26,560,476	(19,202)	26,541,274
Financial investments available-for-sale	37,732,539	(37,732,539)	-	-
Financial investments at amortised cost	-	16,316,486	(854)	16,315,632
Financial investments held-to-maturity	15,895,679	(15,895,679)	-	-
Derivative financial instruments	971,195	-	-	971,195
Loans, advances and financing	128,851,234	28,955	(360,630)	128,519,559
Clients' and brokers' balances	525,556	-	-	525,556
Other receivables	952,570	-	(7,529)	945,041
Statutory deposits with Central Banks	4,364,982	-	-	4,364,982
Tax recoverable	367	-	-	367
Investment in associated companies	4,538,326	-	-	4,538,326
Investment in joint venture	179,426	-	-	179,426
Property and equipment	1,573,829	-	-	1,573,829
Investment properties	494,164	-	-	494,164
Goodwill	2,410,644	-	-	2,410,644
Intangible assets	168,541	-	-	168,541
Total Assets	229,317,551	(20,599)	(388,983)	228,907,969
Liabilities				
Deposits from customers	156,882,912	-	-	156,882,912
Deposits and placements of banks and other financial institutions	9,296,395	-	-	9,296,395
Obligations on securities sold under repurchase agreements	3,931,523	-	-	3,931,523
Bills and acceptances payable	544,450	-	-	544,450
Derivative financial instruments	1,082,140	-	-	1,082,140
Clients' and brokers' balances	350,730	-	-	350,730
Payables and other liabilities	11,708,191	-	6,920	11,715,111
Recourse obligations on loans sold to Cagamas Berhad	202,952	-	-	202,952
Provision for claims	150,478	-	-	150,478
Provision for taxation	244,162	6,953	(87,487)	163,628
Deferred tax liabilities	78,309	19,370	(1,409)	96,270
Borrowings	1,300,371	-	-	1,300,371
Subordinated obligations	2,800,447	-	-	2,800,447
Innovative Tier 1 capital securities	474,612	-	-	474,612
Multi-currency Additional Tier 1 capital securities	401,369	-	-	401,369
Insurance funds	13,188,787	8,552	(3,233)	13,194,106
Total Liabilities	202,637,828	34,875	(85,209)	202,587,494
Equity				
Share capital	2,267,008	-	-	2,267,008
Capital reserves	1,540,421	10,671	(4,280)	1,546,812
Retained profits	13,910,419	138,041	(189,001)	13,859,459
Fair value reserve	109,284	(178,379)	(11,945)	(81,040)
Treasury shares for ESOS	(22,686)	-	-	(22,686)
Total Shareholders' Equity	17,804,446	(29,667)	(205,226)	17,569,553
Non-controlling interests	8,875,277	(26,012)	(98,343)	8,750,922
Total Equity	26,679,723	(55,679)	(303,569)	26,320,475
Total Liabilities and Equity	229,317,551	(20,804)	(388,778)	228,907,969

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

37. Change in accounting policies (continued)

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

The Company	30 June 2018	Expected	1 July 2018
	RM '000	credit losses	RM '000
		RM '000	
Assets			
Investment in subsidiary companies	17,996,078	(2,885)	17,993,193
Equity			
Retained profits	13,206,499	(2,885)	13,203,614

- (ii) The following table is a reconciliation of the impairment allowance from the closing balance as at 30 June 2018 in accordance with MFRS 139 to the opening balance as at 1 July 2018 in accordance with MFRS 9:

The Group	MFRS 139	Remeasurement	MFRS 9
	balance as at		balance as at
	30 June 2018	RM '000	1 July 2018
	RM '000	RM '000	RM '000
Cash and short-term funds	-	463	463
Deposits and placements with banks and other financial institutions	-	303	303
Securities purchased under resale agreements	-	2	2
Financial investments at fair value through other comprehensive income	-	19,202	19,202
Financial investments at amortised cost	-	854	854
Loans, advances and financing	1,007,692	360,630	1,368,322
Other receivables	-	7,529	7,529
Payables and other liabilities	-	6,920	6,920
	<u>1,007,692</u>	<u>395,903</u>	<u>1,403,595</u>
The Company			
Investment in subsidiary companies	-	2,885	2,885

- (iii) Presentation of interest for derivatives and other financial instruments measured at fair value through profit or loss

MFRS 9 introduced a consequential amendment to paragraph 82(a) of MFRS 1 'Presentation of Financial Statements', which is effective for accounting periods beginning on or after 1 January 2018. Under this amendment, interest/profit revenue calculated using the effective interest/profit method should be separately presented as a component of revenue on the face of the statements of income.

The effective interest/profit method does not apply to derivatives and other instruments measured at fair value through profit or loss. The interest/profit arising on such instruments should not be included in the line item of 'interest/profit income' (except for gains and losses arising from related hedging instruments that are accounted for as hedges under MFRS 9).

Accordingly, the Group and the Company have changed the classification of interest/profit income for financial assets measured at fair value through profit or loss and derivative instruments from 'Interest income' to 'Interest income for financial assets at fair value through profit or loss' as reflected in Note 24.

**HONG LEONG FINANCIAL GROUP BERHAD (“HLFG”)
ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019**

Review of performance

1. Current quarter against previous corresponding quarter

HLFG Group recorded a profit before tax of RM839.9 million for the current quarter ended 30 June 2019 as compared to RM870.6 million in the previous corresponding quarter, a decrease of RM30.7 million or 3.5%. The decrease was mainly due to lower contribution from the commercial banking division.

Hong Leong Bank Group recorded a profit before tax of RM733.0 million for the current quarter ended 30 June 2019 as compared to RM777.6 million in the previous corresponding quarter, a decrease of RM44.6 million or 5.7%. The decrease was mainly due to lower revenue of RM8.5 million, higher operating expenses of RM19.2 million, higher allowance for impairment losses on loans, advances and financing of RM37.2 million and lower writeback of impairment losses on financial investments of RM4.1 million. This is however mitigated by higher share of profit from associated companies of RM24.4 million.

HLA Holdings Group recorded a profit before tax of RM104.5 million for the current quarter ended 30 June 2019 as compared to RM100.1 million in the previous corresponding quarter, an increase of RM4.4 million or 4.4%. The increase was mainly due to higher life fund surplus of RM28.4 million, higher share of profit from associated company of RM1.1 million and lower allowance for impairment losses on financial investments of RM5.9 million. This is however offset by lower revenue of RM9.8 million and higher operating expenses of RM21.2 million.

Hong Leong Capital Group recorded a profit before tax of RM20.8 million for the current quarter ended 30 June 2019 as compared to RM20.6 million in the previous corresponding quarter, an increase of RM0.2 million or 1.0%. The increase was mainly due to higher contribution from the asset management division.

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

HLFG Group recorded a profit before tax of RM3,505.6 million for the year ended 30 June 2019 as compared to RM3,578.6 million in the previous corresponding year, a decrease of RM73.0 million or 2.0%. The decrease was mainly due to lower contribution across all the operation divisions.

Hong Leong Bank Group recorded a profit before tax of RM3,186.0 million for the year ended 30 June 2019 as compared to RM3,246.3 million in the previous corresponding year, a decrease of RM60.3 million or 1.9%. The decrease was mainly due to lower revenue of RM113.7 million, higher operating expenses of RM31.1 million and lower writeback of impairment losses on financial investments of RM6.2 million. This was however mitigated by lower allowance for impairment losses on loans, advances and financing of RM64.3 million and higher share of profit from associated companies of RM26.4 million.

HLA Holdings Group recorded a profit before tax of RM329.2 million for the year ended 30 June 2019 as compared to RM348.0 million in the previous corresponding year, a decrease of RM18.8 million or 5.4%. The decrease was mainly due to lower revenue of RM7.3 million, higher operating expenses of RM44.4 million and lower share of profit from associated company of RM6.5 million. This is however mitigated by lower allowance for impairment losses on financial investments of RM6.8 million and higher life fund surplus of RM32.6 million.

Hong Leong Capital Group recorded a profit before tax of RM76.7 million for the year ended 30 June 2019 as compared to RM78.6 million in the previous corresponding year, a decrease of RM1.9 million or 2.4%. This was mainly due to lower contribution from the investment banking and stockbroking divisions.

3. Current quarter against preceding quarter

HLFG Group recorded a profit before tax of RM839.9 million for the current quarter ended 30 June 2019 as compared to RM859.1 million in the preceding quarter, a decrease of RM19.2 million or 2.2%. The decrease was mainly due to lower contribution from the commercial banking division.

Hong Leong Bank Group recorded a profit before tax of RM733.0 million for the current quarter ended 30 June 2019 as compared to RM778.7 million in the preceding quarter, a decrease of RM45.7 million or 5.9%. The decrease was mainly due to higher operating expenses of RM4.6 million, higher allowance for impairment losses on loans, advances and financing of RM42.3 million and lower writeback of impairment losses on financial investments of RM0.5 million. This was however mitigated by higher revenue of RM1.0 million and higher share of profit from associated companies of RM0.7 million.

HLA Holdings Group recorded a profit before tax of RM104.5 million for the current quarter ended 30 June 2019 as compared to RM83.8 million in the preceding quarter, an increase of RM20.7 million or 24.7%. The increase was mainly due to higher life fund surplus of RM47.0 million and higher share of profit from associated company of RM4.3 million. This was however offset by lower revenue of RM18.8 million and higher operating expenses of RM11.8 million.

Hong Leong Capital Group recorded a profit before tax of RM20.8 million for the current quarter ended 30 June 2019 as compared to RM18.4 million in the preceding quarter, an increase of RM2.4 million or 13.0%. This was mainly due to higher contribution from the asset management, investment banking and stockbroking divisions.

**HONG LEONG FINANCIAL GROUP BERHAD (“HLFG”)
 ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES
 FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019**

4. Prospects for the current financial year

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

5. Variance of actual profit from forecasted profit

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

6. Taxation

	The Group		The Group	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
Income tax	152,373	210,313	646,234	698,720
Transfer from/(to) deferred tax	26,332	(34,400)	(3,296)	(16,274)
	178,705	175,913	642,938	682,446
Prior year (over)/under provision	(49,541)	1,558	(51,559)	1,613
	129,164	177,471	591,379	684,059

	The Company		The Company	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
Income tax	1,550	1,371	6,200	5,411
Transfer to deferred tax	(59)	(25)	(60)	(39)
	1,491	1,346	6,140	5,372
Prior year over provision	(2,033)	(20)	(2,033)	(20)
	(542)	1,326	4,107	5,352

The effective tax rate for the Company for the current financial year 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 year under review.

8. Purchase/sale of quoted securities of the Group

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

9. Status of corporate proposals

There were no corporate proposals announced but not completed at the latest practicable date which was not earlier than 7 days from the issue of this report.

**HONG LEONG FINANCIAL GROUP BERHAD (“HLFG”)
 ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES
 FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019**

10. Borrowings

	The Group		The Company	
	As at	As at	As at	As at
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
	RM '000	RM '000	RM '000	RM '000
Unsecured				
RM Term loans	150,058	350,108	150,058	350,108
RM Revolving credit	430,501	210,222	430,501	210,222
RM Medium term notes	222,950	570,431	253,368	655,994
RM Commercial papers	214,587	169,610	214,587	169,610
RM Senior notes	380,181	-	405,367	-
	<u>1,398,277</u>	<u>1,300,371</u>	<u>1,453,881</u>	<u>1,385,934</u>
Repayment of term loans				
- less than one year	150,058	350,108	150,058	350,108
Repayment of revolving credit				
- less than one year	430,501	210,222	430,501	210,222
Repayment of medium term notes				
- less than one year	3,375	377,355	3,375	402,703
- one to three years	219,574	193,076	249,993	253,291
Repayment of commercial papers				
- less than one year	214,587	169,610	214,587	169,610
Repayment of senior notes				
- less than one year	5,530	-	5,455	-
- one to three years	374,652	-	399,912	-
	<u>1,398,277</u>	<u>1,300,371</u>	<u>1,453,881</u>	<u>1,385,934</u>

11. Subordinated obligations

	Note	The Group		The Company	
		As at	As at	As at	As at
		30/06/2019	30/06/2018	30/06/2019	30/06/2018
		RM '000	RM '000	RM '000	RM '000
RM1.5 billion Tier 2 subordinated debt, at par	(a)	-	861,000	-	-
Add: Interest payable		-	964	-	-
		<u>-</u>	<u>861,964</u>	<u>-</u>	<u>-</u>
Less: Unamortised discounts		-	(91)	-	-
		<u>-</u>	<u>861,873</u>	<u>-</u>	<u>-</u>
RM500.0 million Tier 2 subordinated debt, at par	(b)	500,000	500,000	-	-
Add: Interest payable		8,815	8,815	-	-
		<u>508,815</u>	<u>508,815</u>	<u>-</u>	<u>-</u>
Less: Unamortised discounts		(1,089)	(1,266)	-	-
		<u>507,726</u>	<u>507,549</u>	<u>-</u>	<u>-</u>
RM400.0 million Tier 2 subordinated Sukuk Ijarah, at par	(c)	-	379,500	-	-
Add: Profit payable		-	646	-	-
		<u>-</u>	<u>380,146</u>	<u>-</u>	<u>-</u>
Less: Unamortised discounts		-	(54)	-	-
		<u>-</u>	<u>380,092</u>	<u>-</u>	<u>-</u>
RM500.0 million Tier 2 subordinated notes, at par	(d)	-	500,000	-	-
Add: Interest payable		-	395	-	-
		<u>-</u>	<u>500,395</u>	<u>-</u>	<u>-</u>
Less: Unamortised discounts		-	(89)	-	-
		<u>-</u>	<u>500,306</u>	<u>-</u>	<u>-</u>

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11. Subordinated obligations (continued)

	Note	The Group		The Company	
		As at 30/06/2019 RM '000	As at 30/06/2018 RM '000	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
RM50.0 million Tier 2 subordinated notes, at par	(e)	50,000	50,000	-	-
Add: Interest payable		406	399	-	-
		<u>50,406</u>	<u>50,399</u>	<u>-</u>	<u>-</u>
Less: Unamortised discounts		(98)	(109)	-	-
		<u>50,308</u>	<u>50,290</u>	<u>-</u>	<u>-</u>
RM1.6 billion Tier 2 subordinated notes, at par	(f)	1,600,000	500,000	1,600,000	500,000
Add: Interest payable		2,608	405	2,608	405
		<u>1,602,608</u>	<u>500,405</u>	<u>1,602,608</u>	<u>500,405</u>
Less: Unamortised discounts		(210)	(68)	(2,403)	(806)
		<u>1,602,398</u>	<u>500,337</u>	<u>1,600,205</u>	<u>499,599</u>
		<u>2,160,432</u>	<u>2,800,447</u>	<u>1,600,205</u>	<u>499,599</u>

- (a) On 22 June 2012, Hong Leong Bank Berhad ("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.

On 24 June 2019, HLB had fully redeemed the RM1.5 billion nominal value of this Sub Notes.

- (b) On 19 September 2012, Hong Leong Assurance Berhad ("HLA") has created and issued up to RM500.0 million in nominal value of Subordinated Notes ("Sub-Notes") under a proposed Subordinated Notes Programme to raise funds for general working capital and/or business operations purpose.

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

On 7 February 2013, HLA completed its RM500.0 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 4.50% 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 RM400.0 million nominal value of Tier 2 Subordinated Sukuk Ijarah ("Subordinated Sukuk Ijarah") out of its RM1.0 billion Tier 2 Subordinated Sukuk Ijarah Programme. The RM400.0 million Subordinated Sukuk Ijarah will mature in 2024 and is callable at end of year 5 and on each subsequent coupon payment dates thereafter subject to approval of BNM. The Subordinated Sukuk Ijarah which bears profit rate of 4.80% per annum is payable semi-annually in arrears.

The Subordinated Sukuk Ijarah constitute direct, unconditional, subordinated and unsecured obligations of HLISB and subordinated in right and priority of payment, to the 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.

On 18 June 2019, HLISB had fully redeemed the RM400.0 million nominal value of Subordinated Sukuk Ijarah.

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11. Subordinated obligations (continued)

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

The Sub-Notes constitute unsecured liabilities of 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.

On 24 June 2019, HLB had fully redeemed the RM500.0 million nominal value of this Sub-Notes.

- (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 RM50.0 million nominal value of Tier 2 Subordinated Notes ("Sub-Notes") out of its RM1.0 billion Multi-Currency Sub-Notes Programme. The RM50.0 million Sub-Notes will mature in 2024 and is callable on any coupon payment date falling on or after the 5th anniversary of the issue date. The Sub-Notes which bears interest rate of 5.30% per annum is payable semi-annually in arrears. The exercise of the call option on the Sub-Notes shall be subject to the approval of BNM.

The Sub-Notes constitute unsecured liabilities of HLIB, and is subordinated in right of payment to the deposit liabilities and all other liabilities of HLIB in accordance with the terms and conditions of the issue, except to those liabilities, which by their terms, rank equally in right of payment with or are subordinated to the Sub-Notes. The Sub-Notes qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of HLIB.

- (f) On 25 June 2018, the Company had issued RM500.0 million nominal value of Tier 2 subordinated notes ("Sub-Notes") out of its multi-currency perpetual notes programme. The Sub-Notes, which qualified as Tier 2 capital for the Company, carry a distribution rate of 4.93% per annum. The Sub-Notes has a tenure of 10 years non-callable 5 years. The proceeds from the issuance of Sub-Notes were used to subscribe for RM500.0 million Tier 2 subordinated notes issued by HLB.

Subsequently, on 14 June 2019, the Company issued RM1.1 billion nominal value Sub-Notes. The Sub-Notes carry a distribution rate of 4.30% per annum with a tenure of 10 years non-callable 5 years. The proceeds from the issuance of Sub-Notes were used to subscribe for RM1.0 billion Tier 2 subordinated notes issued by HLB and RM100.0 million Tier 2 subordinated notes issued by HLIB.

12. Innovative Tier 1 capital securities

	The Group	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
RM500.0 million Innovative Tier 1 capital securities, at par	453,200	463,200
Add: Interest payable	11,463	11,605
	<u>464,663</u>	<u>474,805</u>
Less: Unamortised discounts	(502)	(2,439)
Fair value adjustments on completion of business combination accounting	112	2,246
	<u>464,273</u>	<u>474,612</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 RM500.0 million in nominal value, from its RM1.0 billion IT-1 Capital Securities Programme. The IT-1 Capital Securities is structured in accordance with the Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components) issued by BNM.

The RM500.0 million IT-1 Capital Securities has a tenor of 30 years and Promino has the option to redeem the RM500.0 million IT-1 Capital Securities at the 10th anniversary, subject to BNM approval. The RM500.0 million IT-1 Capital Securities has a coupon rate of 8.25% per annum, payable semi-annually. In the event the IT-1 Capital Securities is not redeemed at the 10th anniversary (the First Optional Redemption Date), the coupon rate will be revised to 9.25% per annum from the 11th year to the final maturity.

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

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13. Multi-currency Additional Tier 1 capital securities

	The Group		The Company	
	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000	As at 30/06/2019 RM '000	As at 30/06/2018 RM '000
RM800.0 million Multi-currency Additional Tier 1 capital securities, at par	800,000	400,000	800,000	400,000
Add: Interest payable	6,799	1,834	6,799	1,834
	<u>806,799</u>	<u>401,834</u>	<u>806,799</u>	<u>401,834</u>
Less: Unamortised discounts	(423)	(465)	(1,563)	(1,083)
	<u>806,376</u>	<u>401,369</u>	<u>805,236</u>	<u>400,751</u>

On 30 November 2017, the Company issued RM400.0 million nominal value of Multi-currency Additional Tier 1 capital securities ("Capital Securities") out of its multi-currency perpetual notes programme. The Capital Securities, which qualify as Additional Tier 1 capital for the Company, carry a distribution rate of 5.23% per annum. The Capital Securities are perpetual with an Issuer's call option to redeem at the end of year 5. The proceeds from the issuance was used to subscribe for RM400.0 million Additional Tier 1 capital securities issued by HLB.

Subsequently, on 29 March 2019, the Company issued a second tranche of RM400.0 million nominal value Capital Securities. The Capital Securities carry a distribution rate of 4.82% per annum, perpetual with an Issuer's call option to redeem at the end of year 5. The proceeds from the issuance was used to subscribe for RM400.0 million Additional Tier 1 capital securities issued by HLB.

14. Off-balance sheet financial instruments

Details of financial instruments with off-balance sheet risk as at 30 June 2019

The Group

Items	Principal amount RM '000	Fair value	
		Assets RM '000	Liabilities RM '000
Foreign exchange related contracts			
- Forwards			
(i) Less than 1 year	28,736,198	104,423	(91,391)
(ii) 1 year to 3 years	70,414	-	(317)
- Swaps			
(i) Less than 1 year	6,993,879	45,134	(24,170)
(ii) 1 year to 3 years	2,787,703	19,450	(54,137)
(iii) More than 3 years	1,439,204	120,602	(9,555)
- Options			
(i) Less than 1 year	1,912,633	8,129	(4,416)
Interest rate related contracts			
- Futures			
(i) Less than 1 year	17,695,321	32	(3,074)
- Swaps			
(i) Less than 1 year	25,383,309	62,896	(70,300)
(ii) 1 year to 3 years	24,212,428	68,834	(157,629)
(iii) More than 3 years	16,788,596	116,174	(289,333)
- Cross currency swaps			
(i) 1 year to 3 years	194,295	12,514	-
(ii) More than 3 years	107,120	3,121	(19,299)
Equity related contracts			
(i) Less than 1 year	627,537	4,815	(4,761)
(ii) 1 year to 3 years	127,853	3,053	(3,053)
Credit related contracts			
(i) More than 3 years	82,753	1,008	(1,008)
Total	127,159,243	570,185	(732,443)

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14. Off-balance sheet financial instruments (continued)

Details of financial instruments with off-balance sheet risk as at 30 June 2019 (continued)

The Company

Items	Principal amount RM '000	Fair value	
		Assets RM '000	Liabilities RM '000
Interest rate related contracts			
- Swaps			
(i) Less than 1 year	100,000	-	(135)
Total	100,000	-	(135)

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

The Group

Items	Principal amount RM '000	Fair value	
		Assets RM '000	Liabilities RM '000
Foreign exchange related contracts			
- Forwards			
(i) Less than 1 year	33,252,323	396,925	(300,709)
(ii) 1 year to 3 years	109,039	-	(7,832)
- Swaps			
(i) Less than 1 year	10,400,940	167,597	(307,060)
(ii) 1 year to 3 years	1,340,534	45,187	(27,542)
(iii) More than 3 years	1,708,766	82,045	(29,159)
- Options			
(i) Less than 1 year	2,337,852	15,975	(12,834)
Interest rate related contracts			
- Futures			
(i) Less than 1 year	17,298,574	1,185	(4,048)
(ii) 1 year to 3 years	6,865,450	404	(871)
- Swaps			
(i) Less than 1 year	12,455,753	7,626	(13,201)
(ii) 1 year to 3 years	29,368,386	96,715	(97,945)
(iii) More than 3 years	20,663,773	115,091	(251,216)
- Cross currency swaps			
(i) 1 year to 3 years	80,750	5,031	-
(ii) More than 3 years	218,695	23,518	(15,846)
Equity related contracts			
(i) Less than 1 year	306,258	3,928	(3,927)
(ii) 1 year to 3 years	483,187	6,756	(6,738)
(iii) More than 3 years	27,315	3,212	(3,212)
Total	136,917,595	971,195	(1,082,140)

The Company

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

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14. Off-balance sheet financial instruments (continued)

Foreign exchange, interest rate, equity and commodity related contracts are subject to market risk and credit risk.

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amount subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at the end of the financial year, the amount of contracts which were not hedged effectively and hence, exposed to foreign exchange and interest rate market risk were RM41,912,000 (2018: RM57,213,000) and RM79,552,125,000 (2018: RM86,167,241,000) respectively.

Derivatives

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

Credit risk

Credit risk arises from the possibility that a counter-party may be unable to meet the terms of a contract in which the Group has a gain position. As at the end of the financial year, the amount of credit risk, measured in terms of the cost to replace the profitable contracts was RM580,235,000 (2018: RM1,049,517,000). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

Derivatives

The amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (ie, assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

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

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

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

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

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

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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 periods when the hedged items affects the statements of income.

15. Material litigation

The Group does not have any material litigation which, in the opinion of the Directors, would have a material adverse impact on the financial results of the Group.

16. Dividend

For the financial year ended 30 June 2019, a total single-tier dividend of 42 sen per share was declared and paid (2018: 40 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 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
Net profit attributable to equity holders	468,702	454,290	1,919,359	1,907,442
Weighted average number of ordinary shares ('000)	1,142,278	1,144,495	1,144,036	1,143,824
Basic earnings per share (sen)	41.0	39.7	167.8	166.8

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17. Earnings per share (continued)

(a) Basic earnings per share (continued)

	The Company		The Company	
	Current quarter ended 30/06/2019 RM '000	Last year quarter ended 30/06/2018 RM '000	Current year to date 30/06/2019 RM '000	Last year to date 30/06/2018 RM '000
Net (loss)/profit attributable to equity holders	(21,429)	(21,380)	590,207	755,869
Weighted average number of ordinary shares ('000)	1,143,967	1,147,516	1,146,293	1,147,516
Basic earnings per share (sen)	(1.9)	(1.9)	51.5	65.9

(b) Diluted earnings per share

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

Dated this 28 August 2019