Hong Leong Financial Group Berhad

Annual Report 2014

RM190.2 billion
Total assets
(2013: RM180.5 billion)

RM4.6 billion
Revenue
(2013: RM4.4 billion)

RM3.0 billion
Profit before tax
(2013: RM2.6 billion)

162.9 sen
Basic earnings per share
(2013: 142.7 sen)

Corporate Section

Financial Section

What's Inside...

01 Malaysia
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04 Vietnam
05 Singapore
06 China

Introduction

The Financial Group's integrated suite of conventional and Islamic financial products and services enables it to reach out and connect with its customers both in Malaysia and in the region.

INTRODUCTION
(continued)

"Hong Leong Financial Group Berhad, the holding company for Hong Leong Group's banking and financial services, has continuously grown over the years through focused business strategies supported by strong management and financial disciplines..."

Through Hong Leong Bank Berhad, the Group provides comprehensive services in personal financial services, business banking, treasury, transaction banking, wealth management and Islamic financial services. With an extensive distribution network of more than 300 branches and 1500 self-service terminals throughout Malaysia, Hong Leong Bank is well positioned to offer effective, sound and responsible financial solutions to Malaysians from all walks of life.

Beyond its home base, the Bank's regional footprint is marked by branches in Singapore and Hong Kong, as well as wholly owned subsidiaries in Vietnam and Cambodia. In China, the Bank has a 20% shareholding in Bank of Chengdu Co., Ltd., Sichuan, and is also a joint venture partner with Bank of Chengdu in operating a licensed consumer finance company in Chengdu, Sichuan.

Islamic banking and wealth management services are provided through its full-fledged Islamic bank, Hong Leong Islamic Bank Berhad. Offering holistic financial solutions in wholesale and investment banking, business banking, personal financial services and wealth management that encapsulate the tenets and principles of Syariah Law, Hong Leong Islamic Bank's products and services are easily accessible to customers seeking an alternative to conventional banking both through itsdedicated Islamic banking branches as well as through all conventional banking branches nationwide.

Hong Leong Assurance Berhad, a leading Malaysian insurance company, is one of the country's fastest growing life insurers backed by a fast expanding agency force nationwide. Through a strategic partnership exercise, Hong Leong Assurance Berhad has merged its general insurance business with MSIG Insurance (Malaysia) Bhd, forming Malaysia's second largest general insurer. The Group is also present in Hong Kong through its subsidiary Hong Leong Insurance (Asia) Limited. Additionally, Islamic General Insurance, or Takaful is provided through Hong Leong MSIG Takaful Berhad.

The Financial Group also provides stockbroking, investment banking, capital market services and fund management services across the region through the subsidiaries of Hong Leong Capital Berhad, namely Hong Leong Investment Bank Berhad and Hong Leong Asset Management Bhd. Hong Leong Investment Bank Berhad offers relevant and effective solutions to institutional clients in Asia seeking to generate value and access to capital markets as well as innovative trading products and services across treasury, equities, derivatives and foreign exchange.

HLG Unit Trust Bhd, one of the pioneers in the Malaysian Unit Trust industry, after a merger with HLG Asset Management Sdn Bhd is today known as Hong Leong Asset Management Bhd. Hong Leong Asset Management offers a comprehensive range of managed solutions across equity and debt asset classes along with efficient customer support and communication to help its customers achieve superior long term risk-adjusted returns.

FIVE YEAR GROUP FINANCIAL HIGHLIGHTS

The Group	2010 RM'Million	2011# RM'Million	2012# RM'Million	2013 RM'Million	2014 RM'Million
Statements of Financial Position					
Total Assets	94,221	156,028	170,286	180,473	**190,177**
Net Loans	38,522	82,495	89,513	96,275	**103,665**
Total Liabilities	86,703	145,179	157,004	165,468	**173,172**
Deposits from customers	69,481	114,749	123,217	123,959	**130,632**
Shareholders' Funds	5,219	7,874	8,899	10,076	**11,474**
Commitments and contingencies	102,891	142,617	154,326	167,126	**200,530**
Statements of Income					
Revenue	2,459	3,666	4,158	4,379	**4,563**
Profit before tax	1,451	2,423	2,394	2,630	**3,009**
Net Profit	1,206	2,072	1,853	2,165	**2,517**
Profit attributable to owners of the parent	861	1,674	1,234	1,488	**1,707**
Key Performance Indicators					
Share price	8.41	13.18	12.24	14.46	**16.14**
Book Value per Share (RM)	5.03	7.59	8.56	9.66	**10.95**
Earnings per Share (sen)	83.1	161.4	118.6	142.7	**162.9**
Net Dividend per Share (sen)	18.8	26.4	25.0	36.0	**38.0**
Financial Ratios (%)					
Profitability Ratios					
Return on Equity	17.7%	25.6%	14.7%	15.7%	**15.8%**
Return on average assets	1.0%	1.3%	0.8%	0.8%	**0.9%**
Cost/income ratio	42.7%	36.6%	50.4%	46.5%	**43.4%**
Asset Quality/Loan Ratios					
Gross loans to deposits ratio	56.6%	73.9%	74.3%	79.1%	**80.6%**
Gross impaired loans ratio	1.9%	2.3%	1.7%	1.4%	**1.2%**

Restated with retrospective application of MFRS and changes in accounting policies. For FYE 2011, only relevant balance sheet items have been restated to position as at 1 July 2011

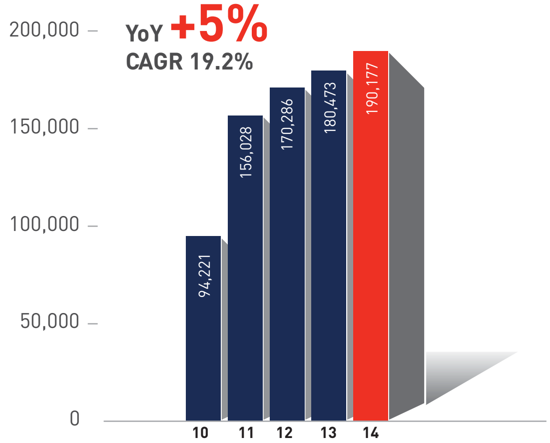
FIVE YEAR GROUP FINANCIAL HIGHLIGHTS

(continued)

FIVE YEAR PERFORMANCE CHART (% GROWTH)

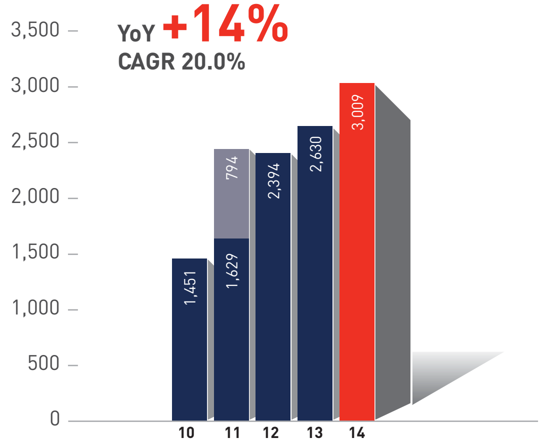
GROUP TOTAL ASSETS

(RM'Million)



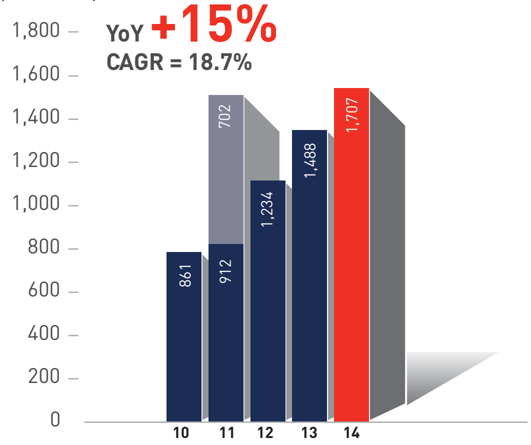
GROUP PROFIT BEFORE TAX

(RM'Million)



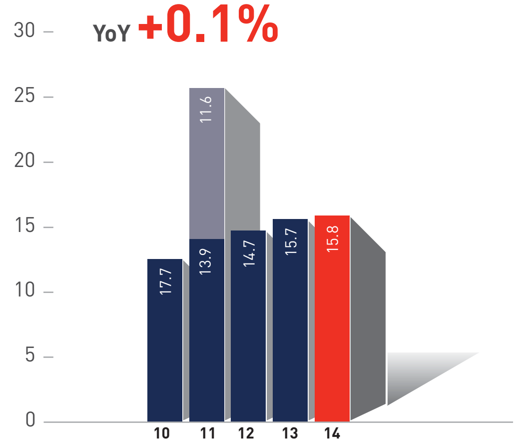
GROUP PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

(RM'Million)



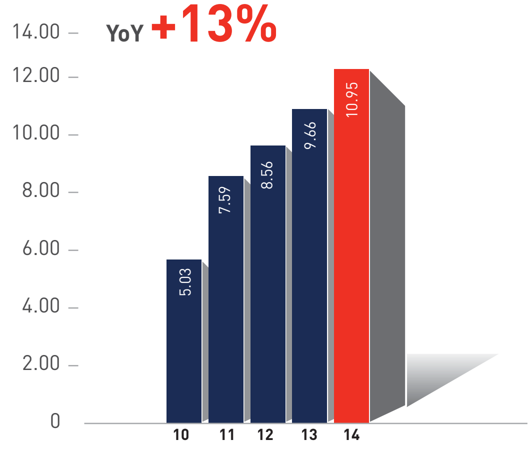
GROUP RETURN ON EQUITY

(%)



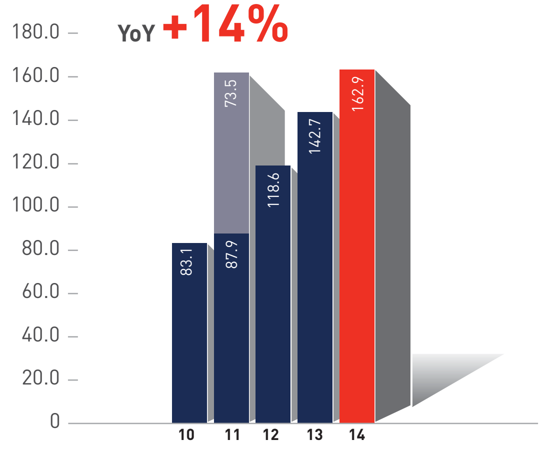
GROUP BOOK VALUE PER SHARE

(RM)



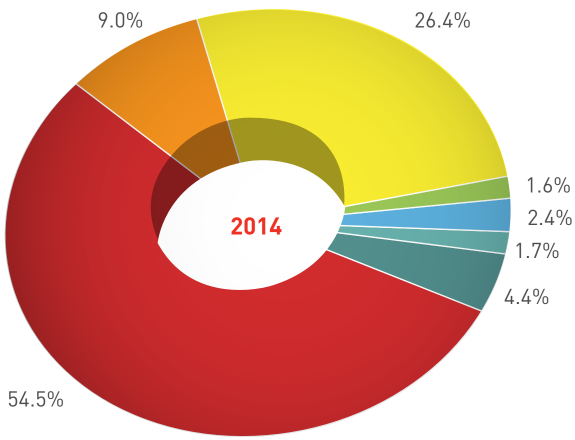
GROUP EARNINGS PER SHARE

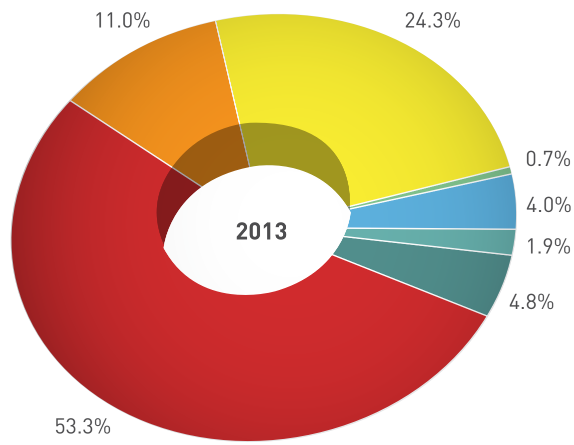
(SEN)



SIMPLIFIED GROUP STATEMENTS OF FINANCIAL POSITION

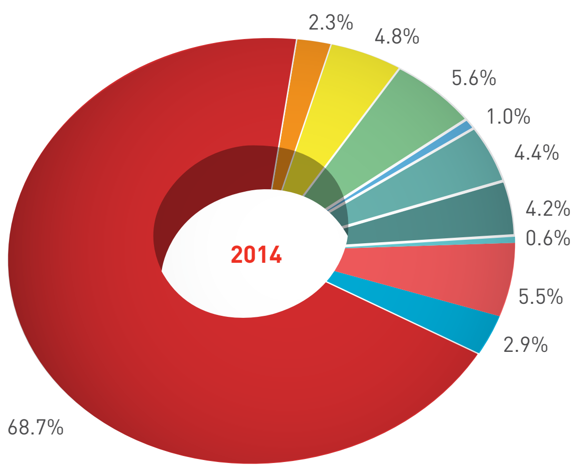
ASSETS

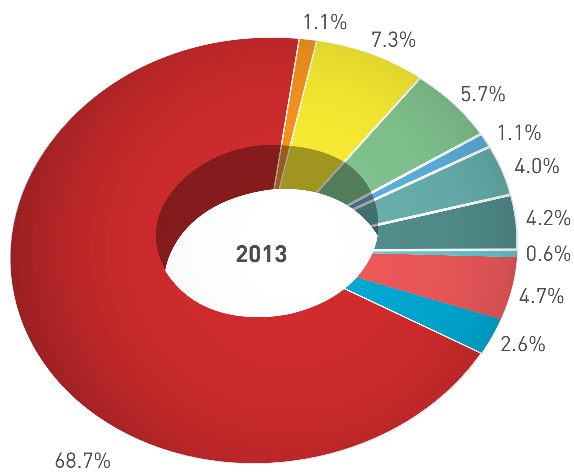




- Loans, advances and financing
- Cash and short-term funds
- Portfolio of securities
- Securities purchased under resale agreements
- Deposits and placements of banks and other FI
- Statutory deposits with Central Banks
- Other assets (including goodwill)

LIABILITIES & EQUITY





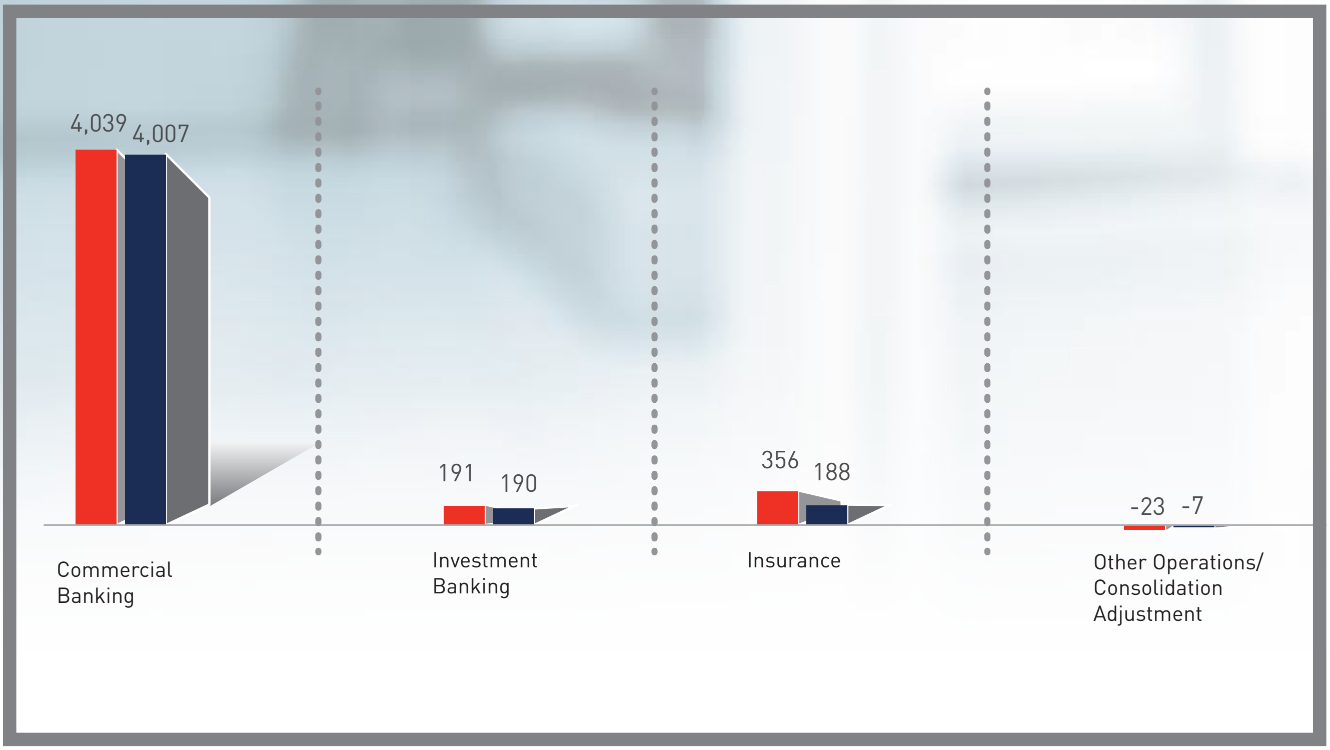
- Deposits from customers
- Obligations on securities sold under repurchase agreements
- Deposits and placements of banks and other FI
- Borrowings and subordinated obligations
- Innovative and Non-innovative Tier 1 securities
- Insurance funds
- Other liabilities
- Share capital
- Reserve
- Non-controlling interests

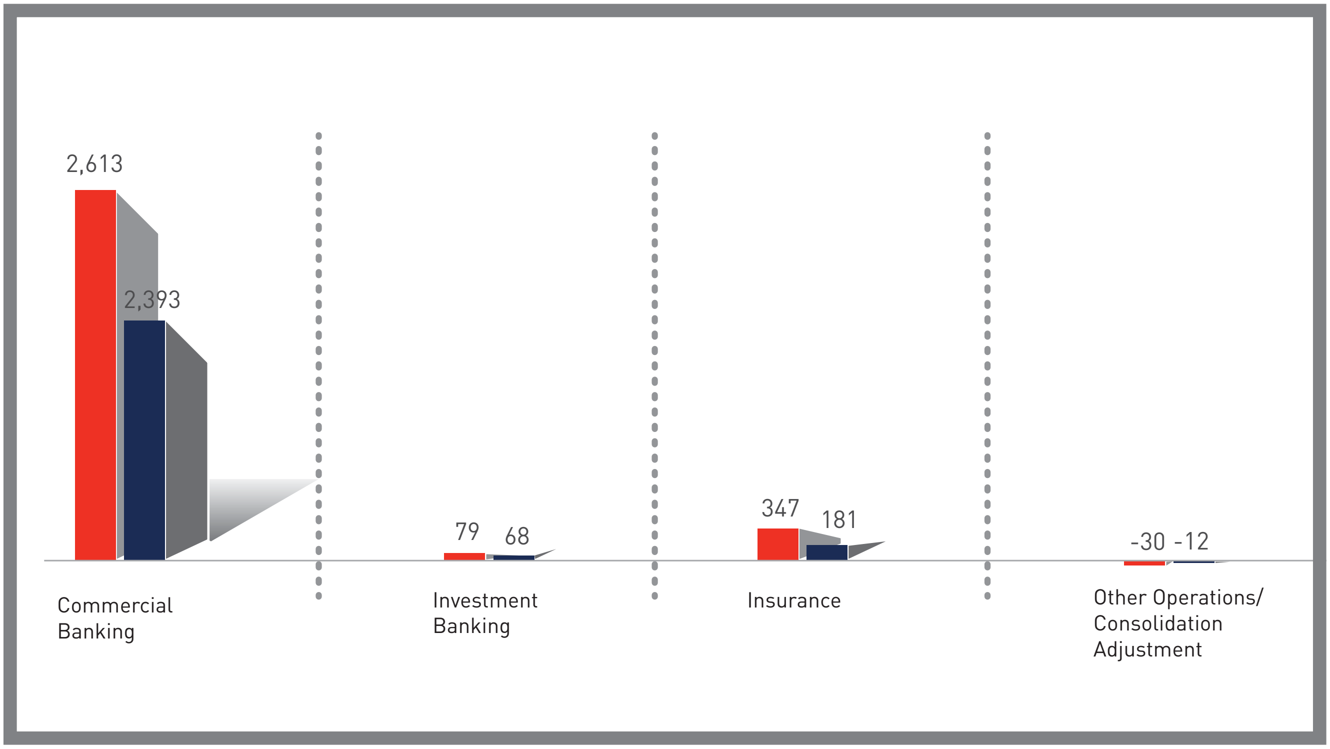
GROUP QUARTERLY FINANCIAL PERFORMANCE

	2014				
RM'million	**Q1**	**Q2**	**Q3**	**Q4**	**Year**
Statements of Income					
Revenue	**1,173**	**1,176**	**1,053**	**1,161**	**4,563**
Profit before tax	**813**	**753**	**728**	**716**	**3,009**
Net Profit	**637**	**610**	**610**	**660**	**2,517**
Profit attributable to owners of the parent	**430**	**412**	**415**	**450**	**1,707**
Key Performance Indicators					
Share price	**14.5**	**15.5**	**15.7**	**16.1**	**16.1**
Book Value per Share (RM)	**10.0**	**10.4**	**10.7**	**11.0**	**11.0**
Basic earnings per share (sen)	**41.3**	**39.5**	**39.1**	**43.0**	**162.9**
Dividend per share (sen)	**–**	**13.0**	**–**	**25.0**	**38.0**

	2013				
RM'million	**Q1**	**Q2**	**Q3**	**Q4**	**Year**
Statements of Income					
Revenue	1,080	1,161	1,093	1,044	4,379
Profit before tax	689	757	619	565	2,630
Net Profit	518	614	479	554	2,165
Profit attributable to owners of the parent	347	431	320	390	1,488
Key Performance Indicators					
Share price	11.9	13.2	14.9	14.5	14.5
Book Value per Share (RM)	8.8	9.3	9.5	9.7	9.7
Basic earnings per share (sen)	33.4	41.4	30.5	37.4	142.7
Dividend per share (sen)	-	13.0	-	23.0	36.0

SEGMENTAL INFORMATION





HONG LEONG FINANCIAL GROUP SHARE PRICE

DIVIDEND PER SHARE

FY2014	**38.0 sen**
FY2013	36.0 sen
YoY	+5.6%

SHARE PRICE

FY2014	**RM16.14**
FY2013	RM14.46
YoY	+11.6%

MARKET CAPITALISATION

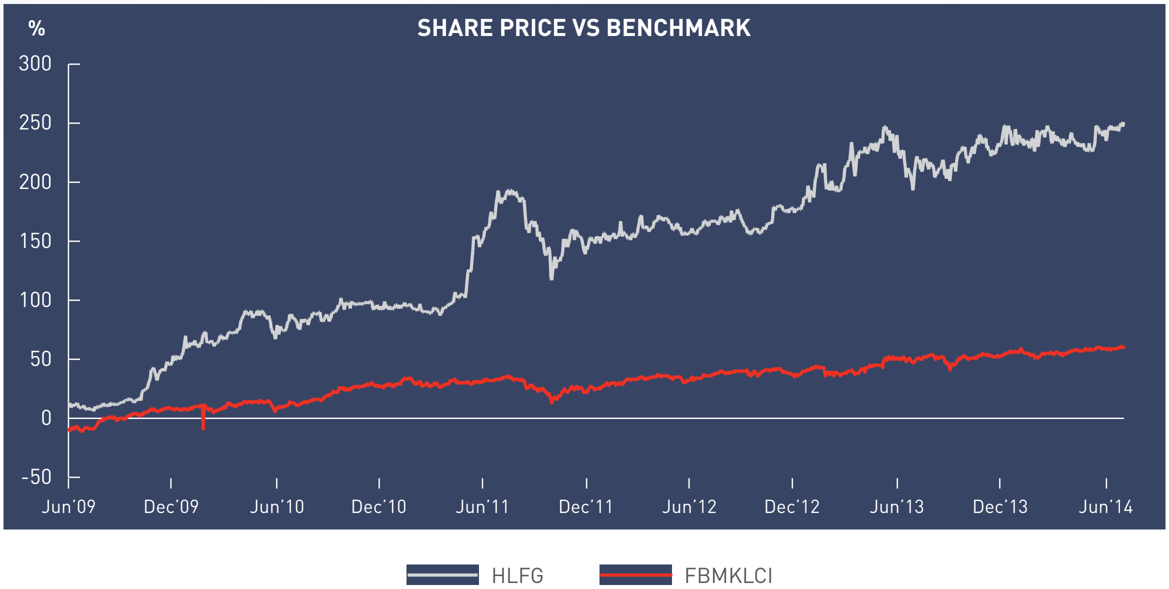
FY2014	**RM17.0 billion**
FY2013	RM15.2 billion
YoY	+11.6%

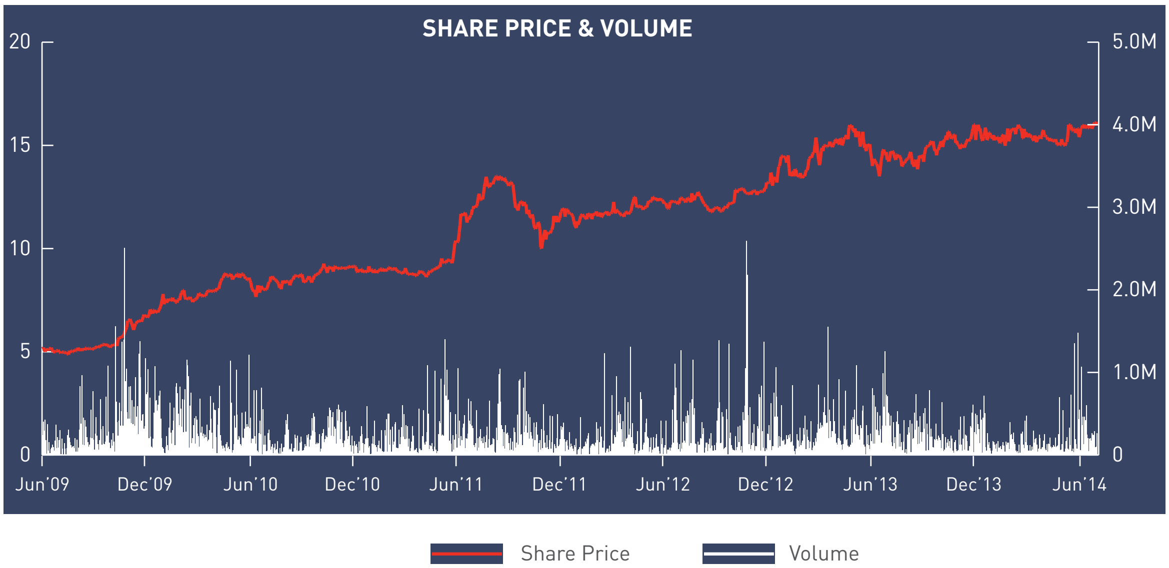
EARNING PER SHARE

FY2014	**162.9 sen**
FY2013	142.7 sen
YoY	+14.2%

TOTAL SHAREHOLDER RETURN

FY2014	**15.8%**
FY2013	15.7%
YoY	+0.1%





Financial Calendar

Annual General Meeting

30 October 2014, Thursday
45TH ANNUAL GENERAL MEETING

DIVIDENDS

1st Interim Single-Tier Dividend of 13 sen per share

Notice : 26 November 2013

Entitlement : 11 December 2013

Payment : 20 December 2013

2nd Interim Single-Tier Dividend of 25 sen per share

Notice : 21 May 2014

Entitlement : 12 June 2014

Payment : 26 June 2014

ANNOUNCEMENT OF CONSOLIDATED RESULTS

26 NOVEMBER 2013
TUESDAY

Unaudited results for 1st quarter ended 30 September 2013

25 FEBRUARY 2014
TUESDAY

Unaudited results for 2nd quarter ended 31 December 2013

21 MAY 2014
WEDNESDAY

Unaudited results for 3rd quarter ended 31 March 2014

26 AUGUST 2014
TUESDAY

Unaudited results for 4th quarter and financial year ended 30 June 2014

Significant Milestones

JUN 13
HLAS obtained Singapore general insurance license

JUL 13
HLB Cambodia commenced operations

HLFG Group FY14 pretax profit surpassed the RM3bn mark

SEP 12
Merger of HLIB & MIMB Inv Bank completed

MAY 11
HLB acquired EON Capital's assets & liabilities

OCT 11
HLB RM2.6bn Rights Issue completed

OCT 11
Transfer of EON Islamic Bank's assets/ liabilities to HLISB completed

JAN 10
Insurance holdco (HLAH) formed

FEB 10
Sichuan Jincheng consumer finance JV incorporated

OCT 10
MSIG Strategic Partnership completed (HLA, HLMT & MSIG)

JAN 09
HLIB obtained investment bank status

JAN 09
HLB granted Vietnam banking license

OCT 09
HLC 1:1 Rights Issue completed

MAR 05
HLISB incorporated

JUL 06
Changed name to 'Hong Leong Financial Group Bhd'

JUN 06
Hong Leong Tokio Marine Takaful Bhd incorporated

OCT 07
HLIB proposed to acquire the identified assets & liabilities of Southern Investment Bank Bhd

APR 08
HLA proposed to acquire PJ City premises

JUL 08
HLB acquired 20% equity interest in the Bank of Chengdu

OCT 08
HLIB acquired SBB Securities Sdn Bhd

LIST OF AWARDS AND ACCOLADES

1 THE ASSET TRIPLE A ISLAMIC FINANCE AWARDS 2014
– Best Islamic Privatisation Deal

2 THE ASSET TRIPLE A ISLAMIC FINANCE AWARDS 2014
– Most Innovative Deal, Highly Commended

3 ISLAMIC FINANCE NEWS AWARDS 2013
– Islamic Perpetual Deal of the Year

4 ISLAMIC FINANCE NEWS AWARDS 2013
– Musharakah Deal of the Year

5 ALPHA SOUTHEAST ASIA DEAL & SOLUTION AWARDS 2013
– Best Equity-linked Deal of the Year

6 THE EDGE BILLION RINGGIT CLUB AWARDS 2014
– Best Performing Stock (Finance)

LIST OF AWARDS AND ACCOLADES

(continued)

7 BEST VISA DEBIT CARD DESIGN
– Hong Leong Transformers Debit Card

8 HONG LEONG VISA PLATINUM CREDIT CARD
– Highest Payment Volume Growth

9 BRONZE MALAYSIAN KANCIL AWARDS
– Mach Dream Pixel Calendar

10 HONG LEONG VISA GOLD CREDIT CARD
– Highest Payment Volume Growth

11 HONG LEONG VISA DEBIT CARD
– Highest Payment Volume Growth

Not shown in picture:

- GLOBAL FINANCE AWARDS
  – Islamic Finance Deal of the Year Hong Leong Islamic Bank

- CAPITAL FINANCE INTERNATIONAL AWARDS
  – Best Islamic Banking in Malaysia Hong Leong Islamic Bank

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT
(continued)

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of Hong Leong Financial Group Berhad ("HLFG" or "the Group") for the financial year ("FY") ended 30 June 2014 ("FY14").

PERFORMANCE REVIEW

I am pleased to announce a new record Group profit before taxation of RM3.0 billion in the current financial year, up 14.4% year-on-year ("yoy") from the previous financial year. This is the first year where our Group pretax profit has crossed the RM3 billion mark.

Earnings growth was broad based across all of our three core businesses of commercial banking, insurance and investment banking. Our commercial banking operations under Hong Leong Bank Berhad ("HLB") delivered a pretax profit growth of 9.2% yoy to RM2.61 billion in FY14.

The highest growth was recorded by our insurance operations under HLA Holdings Sdn Bhd ("HLAH") where pretax profit grew by a sizeable 90.5% yoy to RM350.4 million. This is the first time in many years where insurance operating profit has provided a double digit contribution to Group earnings. HLAH contributed 11.6% of Group pretax profit in FY14.

Our investment banking operations under Hong Leong Capital Berhad ("HLCB") recorded a growth in earnings of 16.2% yoy to RM78.9 million in FY14. Although contribution to Group earnings is small at 2.6% of Group pretax profit, we are pleased with the progress that this business has shown over the last five years. HLCB's operating pretax profit has increased by 5.7x in the last five years. Having an investment bank in our stable of companies also enables us to offer our clients a full suite of product offerings under one Group umbrella.

Profit Attributable to Owners of the Parent ("PAOP") grew by 14.7% yoy to RM1.71 billion and in tandem with this, earnings per share grew by 14.2% yoy to 162.9 sen.

Given the increased regulatory backdrop, heightened competition and the various pre-emptive tightening measures implemented within the property sector, we are pleased with the growth that we have achieved both at the Group level and at the individual business units.

We continue to build shareholders' equity. Group Shareholders' Equity grew by 13.9% yoy to RM11.47 billion as at 30 June 2014. Net assets per share rose from RM9.66 as at 30 June 2013 to RM10.95 as at 30 June 2014. In the last five years, we have grown our net assets per share at a compounded annual growth rate of 20.3%. Return on Equity ("ROE") increased from 15.7% in FY13 to 15.8% in FY14, and this compares favourably with our major competitors.

Banking

The Banking Division of the Group under HLB registered a profit before taxation of RM2,613 million for the financial year ended 30 June 2014 as compared to RM2,393 million in the previous year, reflecting a growth of 9.2% yoy or RM220.3 million.

The main contributing factors to the growth were:

- Higher net interest income, which grew by RM148.6 million yoy; and

CHAIRMAN'S STATEMENT
(continued)

- A higher share of the Bank of Chengdu Co., Ltd's ("BOCD") earnings, of which our 20% share grew by RM104.5 million to RM368.5 million, reflecting a continued stellar growth rate of 39.6% yoy. Total contribution from BOCD and the Sichuan Jincheng Consumer Finance joint venture now account for 14.5% of HLB's pretax profit.

However, there was a contraction in non-interest income, which decreased by RM95.8 million yoy.

Operating expenses fell by RM54.8 million or 3% yoy, and this has resulted in HLB's cost / income ratio falling from 46.1% in FY13 to 44.4% in FY14. Net impaired loan ratio improved from 0.39% as at 30 June 2013 to 0.36% as at 30 June 2014.

Gross loans grew by 7.2% yoy to RM104.2 billion. Customer deposits, which represent an understated source of strength for HLB, rose 5.4% yoy to RM130 billion as at 30 June 2014. Although HLB's loan/ deposit ratio increased from 78.6% as at 30 June 2013 to 80.0% as at 30 June 2014, there is ample funding support for future loan growth. This also makes our balance sheet more efficient in channeling our deposits into higher yielding loans versus lower yielding money market instruments.

Insurance

I am also pleased to report that the efforts which our management team has put in over the last few years, has continued to bear fruit in our insurance bottom line. Our Insurance Division, under wholly-owned HLAH, registered a profit before taxation of RM350.4 million in FY14, an increase of 90.5% yoy or RM166.5 million as compared to the RM183.9 million recorded in the previous financial year. The strong growth was mainly due to:

- Strong operating profit growth, especially in our investment-linked business. Hong Leong Assurance Bhd ("HLA") has made substantial progress in shifting its new business product mix to a more equitable split between the Ordinary Life and Investment-Linked/Non Participating ("Non Par") segments.
- Lower actuarial reserves as a result of an increase in interest rates. The computation of HLA's insurance liabilities decreases in tandem with higher interest rates, which are used to discount future insurance liabilities.

Our full year share of 30% owned general insurance company MSIG Insurance (Malaysia) Bhd's ("MSIG") profit after tax amounted to RM61.1 million in FY14, representing an increase of 4.4% yoy compared to the RM58.5 million recorded in the previous financial year. MSIG is currently the third largest general insurance company in Malaysia as measured by gross premiums.

In the next financial year, we will continue to execute our strategic plan, with a focus on enhancing our new business product mix towards higher margin investment linked / Non Par business. We have laid the foundation by tripling our agency force in 6 years to over 10,000 agents as at 30 June 2014. This has helped to drive HLA's gross premiums growth by 18.7% yoy to RM2.37 billion in FY14. Although our gross premiums growth rate has moderated versus prior years, this growth rate still

CHAIRMAN'S STATEMENT
(continued)

compares favourably with the industry. The slower growth rate is a reflection of management's greater focus to increase our Non Par to Par product mix.

After building up our agency distribution network to a level where we can compete more effectively with industry leaders, we have started focusing on our product strategy, in particular the profitability levers. We will also attempt to further leverage on the largest distribution network in our Group, namely selling bancassurance through HLB's extensive branch network using insurance specialists.

Within HLA's target segment of ordinary life insurance, HLA is now the No. 1 insurer amongst all local and foreign life insurers, as measured by new business annualised regular premiums. Within the overall regular premium segment, which composes of both ordinary life and investment-linked insurance, HLA is the largest domestic insurer as well as the No. 4 insurer amongst all local and foreign life insurers, by the same metric.

Investment Banking

Our Investment Banking Division under HLCB recorded steady growth in FY14 with pretax profit increasing by 16.2% yoy from RM67.9 million in FY13 to RM78.9 million. This was largely due to a better contribution from the stockbroking business. I am also pleased to report that for FY14, HLCB has declared a final gross dividend per share of 15 sen.

Assets under management at Hong Leong Asset Management Berhad stood at RM5.6 billion as at 30 June 2014.

HONG LEONG FINANCIAL GROUP – TOWARDS ACHIEVING OUR VISION

In summary, FY14 was a year where we have managed to generate a good earnings growth, given a relatively subdued economic and challenging regulatory environment. Going forward, we intend to build on our already sizeable earnings base to generate further returns for our shareholders.

We remain mindful of the threats facing our industry. For HLB, we intend to raise our organic growth rate, as well as prepare the bank for the risks and opportunities, which the digital future offers. At HLA, we will continue to restructure our product mix to higher yielding products and expand our distribution capabilities in bancassurance. Within the investment banking segment, we will focus on executing the deal pipeline in the niche areas which we have established.

PROSPECTS

The financial year ahead is expected to be challenging due to increased competition and higher regulatory and capital standards, amidst an uneven global economic outlook. Notwithstanding this, the Board believes that the Group is well positioned to take advantage of opportunities to enhance our competitive position, and to grow and increase our market share in our targeted customer segments. With a clear Group vision, strong work ethics, strict financial discipline and an entrepreneurial spirit, we are confident of further strengthening our position as a leading integrated financial services group.

DIVIDENDS

The Board of Directors, during the financial year under review had declared and paid a total net dividend per share ("DPS") of 38.0 sen, 2.0 sen higher than the 36.0 sen net DPS paid last year.

This comprised:

- 1st interim single-tier dividend of 13.0 sen per share paid on 20 December 2013 (FY13: 13.0 sen single-tier).
- 2nd interim single-tier dividend of 25.0 sen per share paid on 26 June 2014 (FY13: 23.0 sen single-tier).

As with last year, the Board has decided not to recommend a final dividend for the financial year ended 30 June 2014.

APPRECIATION

I would like to take this opportunity to express my appreciation and gratitude to the Board of Directors, management and staff of HLFG Group for their dedication and commitment. My sincere appreciation also goes out to our regulators, shareholders, customers and business partners.

QUEK LENG CHAN
Chairman

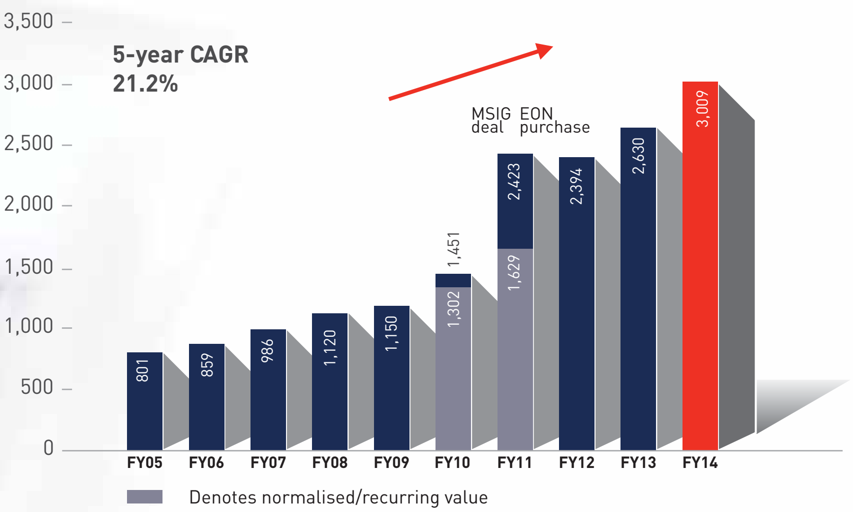
18 September 2014

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW

I am pleased to present the President & CEO's report for the financial year ("FY") ended 30 June 2014. In this report, I would like to provide an update on where we are today and our plans for the future.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW
(continued)

HLFG Pretax Profit – Crossing the RM3 billion Mark



HLFG Net Dividend Per Share – Increasing Returns to Shareholders

FINANCIAL REVIEW – CROSSING THE RM3 BILLION MARK

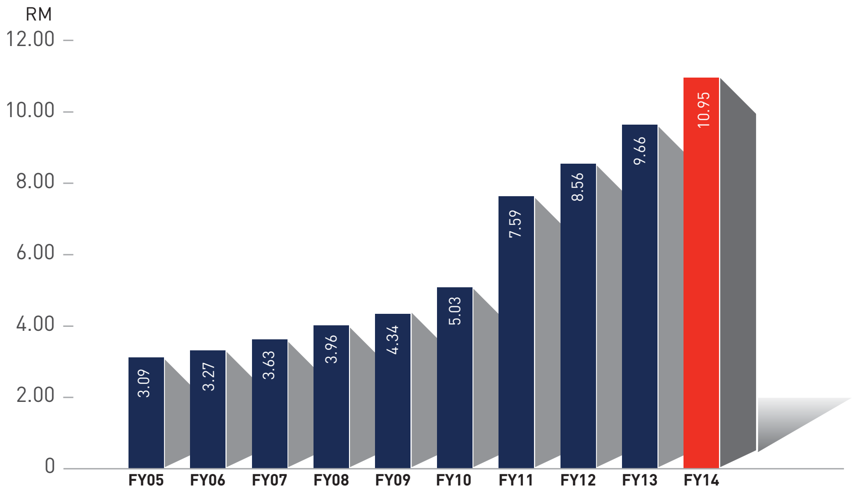
At the Group level, Hong Leong Financial Group Berhad ("HLFG" or "the Group") registered a 14.4% increase in profit before taxation to a record RM3.01 billion for the financial year ended 30 June 2014 due to higher contribution from our three core businesses, namely commercial banking, insurance and investment banking. As the graph on the left shows, we have made good progress in the last few years, growing our pretax profit by 2.6x in the last five years. This translates to a five-year compounded annual growth rate ("CAGR") of 21.2%.

Profit after taxation grew by 16.3% year-on-year ("yoy") to RM2.52 billion whilst profit attributable to owners of the parent ("PAOP") grew by 14.7% yoy to RM1.71 billion. Correspondingly, our return on average equity ("ROE") increased from 15.7% in FY13 to 15.8% in FY14 and is comparable with industry leaders.

Earnings per share improved by 14.2% yoy to 162.9 sen from 142.7 sen in the previous financial year. Our main operating business division, Hong Leong Bank Berhad ("HLB"), had been able to increase its dividend payout in recent years. At the company level, due to the improved cash flows, besides progressively reducing our net borrowings, HLFG has also increased its net dividend per share ("DPS") by 2.0 sen to a record 38.0 sen in FY14.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW
(continued)

HLFG Book Value Per Share – Increasing Value Creation



Book value per share increased by 13.4% yoy, from RM9.66 in FY13 to RM10.95 as at 30 June 2014. Due to the strong value creation over the last few years, our book value per share has grown by 2.5x over the last five years, which represents a CAGR of 20.3%.

BUSINESS AND OPERATIONAL REVIEW

I am pleased to report that we continue to make good progress in terms of growing our core businesses under the Group. For the financial year just ended, the highlights of our achievements are detailed below.

“Hong Leong Financial Group Berhad (“HLFG” or “the Group”) registered a **14.4% increase in profit before taxation to a record RM3.01 billion** for the financial year ended 30 June 2014.”

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW
(continued)

BANKING – NEW MANAGEMENT CONTINUES TO EXECUTE

- FY14 was the third full year of integration for the enlarged HLB. Our merger integration efforts continue to bear fruit, resulting in HLB's cost/income ratio improving by a full 5.2% in the last two years from 49.6% in FY12 to 44.4% in FY14; amongst the lowest in the industry.

- We have made good progress in our target business segments. Within the consumer banking segment, HLB has a 9.5% market share of mortgage loans, 10.5% share of auto loans, 12.2% share of credit card receivables as well as a 4.5% share of personal loans. For the loans to small and medium enterprises, HLB has a 7.6% market share.

- We continue to have a balanced mix in terms of earnings contribution. Personal Financial Services contributed 41% to HLB's pretax profit whilst Business & Corporate Banking contributed 30%. The remainder was contributed by our treasury operations under Global Markets (14%) whilst HLB's international operations now account for 16% of bank-wide pretax profit.

- We continue to practice a strong and disciplined credit culture within the enlarged bank. HLB's gross impaired loans ratio improved further from 1.40% as at 30 June 2013 to 1.18% as at 30 June 2014, 0.59% below the industry average of 1.77%. Loan loss coverage stands at 129%, which is 24% above the industry average of 105%, and amongst the highest in the Malaysian banking system.

- Stable funding base. Current account and savings account ("CASA") deposits grew by 6.5% yoy in FY14, further improving our CASA mix to 26.2% of bank-wide customer deposits in FY14. More granular individual deposits accounted for 51.2% of total bank customer deposits.

- Shareholder value creation remained intact. HLB's return on equity increased from 15.0% in FY13 to 15.3% in FY14, amongst the top tier local banks in this metric.

- HLB has increased its returns to shareholders. Following recent strong earnings growth, HLB has significantly increased its DPS and dividend payout ratio in the last three financial years. Net DPS has more than doubled from 18 sen in FY11 to 41 sen in FY14. Correspondingly, HLB's dividend payout ratio has also increased from 23% in FY11 to 34% in FY14.

- Profit from international operations grew by 29.2% yoy, underpinned by growth at the Bank of Chengdu Co., Ltd ("BOCD") and the Sichuan Jincheng Consumer Finance Limited Company joint venture ("SJCF").

- Profit contribution from BOCD grew by 39.6% yoy in FY14 to RM368.5 million, which is impressive given the headwinds the Chinese economy is facing at the moment. BOCD now commands the sixth largest loan book market share in its home base of Chengdu and is No. 5 in terms of customer deposits. BOCD has 159 outlets and has ventured outside its home base of Chengdu with outlets in Chongqing, Xi'an and several other cities in the Sichuan province.

- BOCD's gross loans grew by 17.3% yoy in its financial year ended 31 December 2013 to RMB110 billion. Gross non-performing loan ratio remained benign at 0.7% and loan loss coverage stands at 362%. Return on equity is commendable at 21.1%. Loan/deposit ratio stood at 56.9% as at 31 December 2013 implying that there remains ample room to grow its loan book. BOCD remains well capitalised with a total capital ratio of 12.8% as at 31 December 2013.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW
(continued)

- Due to its operating history, BOCD has a greater focus on the corporate segment, with corporate loans accounting for 75% of its loan book as at 31 December 2013. However BOCD has made significant strides in the consumer segment since HLB's entry and we intend to further balance its loan and deposit mix in the years to come.

- Contribution from SJCF increased from RM3.1 million in FY13 to RM10.1 million in FY14. We are pleased that this joint venture is now contributing decent returns to the Group. Although contribution from this joint venture is still small to the Group, we believe that the long-term potential in the consumer finance segment in China is sizeable.

- In order to further establish our foot print in China, HLB has established a representative office in Nanjing, Jiangsu Province. The representative office commenced operations in November 2013.

- Further regional inter-linkages. HLB's 100%-owned subsidiary Hong Leong Bank (Cambodia) PLC ("HLBCAM") was granted a license to carry out full commercial banking operations and commenced operations on 8 July 2013. HLBCAM will offer a full range of personal financial services and business banking products and will complement HLB's existing regional network in Singapore, Hong Kong, Vietnam and China.

- HLB continues to expand its 'Mach by Hong Leong Bank' sub-brand outside the Klang Valley, with a total of ten Mach branches opened. Mach is a sub-brand which aims to cater to the needs of the younger or 'Generation Y' consumers.

- In order to better fulfil the needs of the increasingly affluent consumer, we have set up a regional private banking/wealth management hub in Singapore. The hub will support the private banking and wealth management requirements of all Hong Leong Bank Group customers in the region.

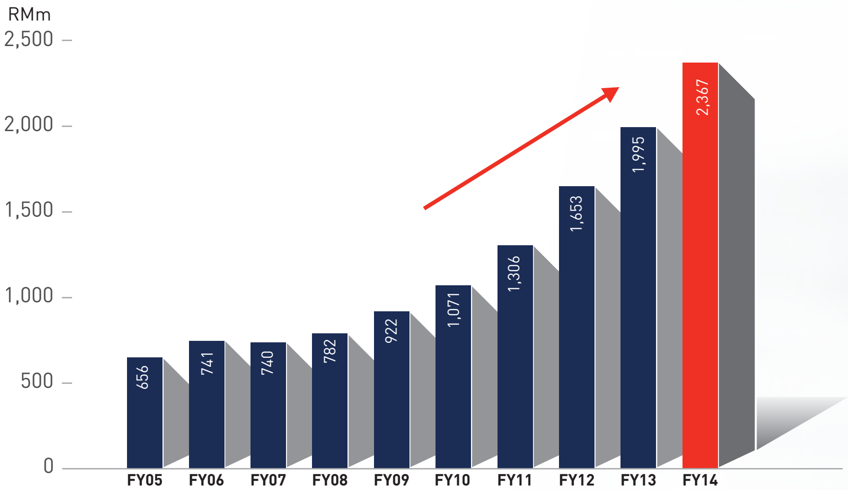
INSURANCE – EXECUTION OF STRATEGY SHOWING RESULTS

- The strong growth in Insurance earnings (insurance pretax profit rose by 90.5% yoy to RM350.4 million in FY14) was largely attributable to the strong performance of our life insurance subsidiary, Hong Leong Assurance Berhad ("HLA"). HLA's pretax profit rose by 130.4% yoy to RM286.6 million. This strong performance was due to the continued execution of our long-term growth strategy at HLA.

- We started executing this strategy six years ago with the deliberate expansion of our agency force. In the last six years, we have tripled our agency force to over 10,300 agents as at 30 June 2014. HLA has one of the fastest growing agency forces in the industry. We have grown our agency force at a compounded annual growth rate of 21.0% over the last five years, significantly outperforming industry growth. HLA now has the fourth largest agency force within the industry, and is able to compete with the market leaders in terms of distribution.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW
(continued)

HLA Gross Life Premiums – Tripled in 6 Years



- Our enhanced distribution capabilities coupled with improvements in our agent productivity has enabled us to triple our premium base in the last six years. HLA's gross premiums crossed the RM2 billion mark in FY13 and in FY14, we improved on this further, by growing our gross premiums by 18.7% yoy to RM2.37 billion.

- HLA is the largest domestic life insurer as well as a top 4 insurer among all life insurance companies, within the regular premium segment (ordinary life + investment-linked). Within the ordinary life segment, HLA is the largest life insurer in Malaysia, with a 18.0% market share of new business regular premiums.

- The value of HLA's business has already increased with the significant amount of new business written in the last few years. New business regular premiums have increased by 2.6x in the last six years to RM460 million in FY14.

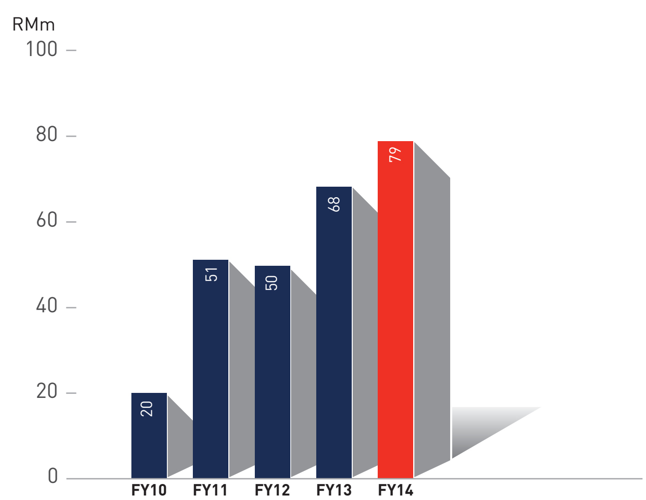
- The significant premium growth in the last few years has created economies of scale. HLA now has a management expense ratio of 5.3% in FY14, the lowest within the industry.

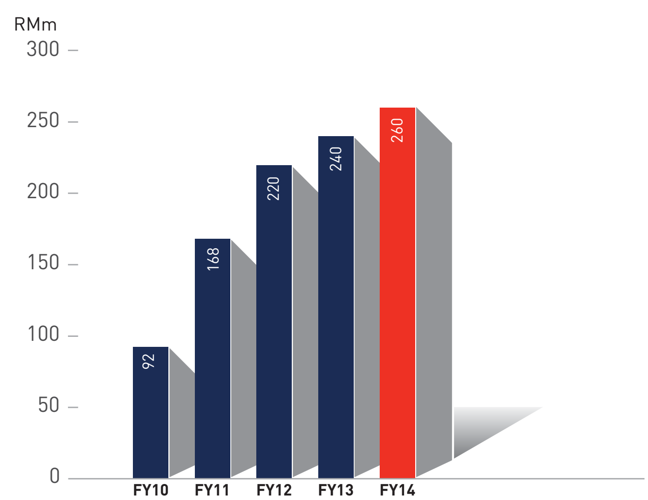
- After making significant headway in growing the volume of our business, in the last two years, we have also focused on growing the profitability of new business. To this end, we have achieved significant improvements in the Non-Participating : Participating mix of new business sold in FY14.

- Within the general insurance segment, we hold a 30% equity interest in MSIG Insurance (Malaysia) Berhad ("MSIG"), a top 3 general insurer by gross premiums. More importantly, MSIG is one of the leading general insurance companies in Malaysia in terms of profitability. MSIG contributed RM61.1 million to HLFG's profit after taxation in FY14, up 4.4% yoy.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW

(continued)





INVESTMENT BANKING – TRANSFORMING

- I am also pleased to report that over the last five years we have transformed the business of Hong Leong Capital Berhad ("HLCB") from a pure stockbroking/asset management outfit to a vibrant investment bank.
- Again we started this process by bringing in a new management team five years ago. The acquisition of SBB Securities Sdn Bhd as well as the identified assets and liabilities of Southern Investment Bank Bhd allowed Hong Leong Investment Bank Bhd ("HLIB") to obtain the appropriate licenses to acquire investment bank status in January 2009.
- HLCB acquired MIMB Investment Bank Berhad ("MIMB") from HLB on 1 June 2012. The merger of Hong Leong Investment Bank Berhad ("HLIB") and MIMB was completed on 29 September 2012, with the enlarged investment bank retaining the HLIB name and branding.
- The fruits of this transformation are evident in the chart above, which shows that HLCB has grown its pretax profit by 3.9x over the last four years.
- In FY14, HLCB grew its pretax profit by 16.2% yoy to RM78.9 million due to higher contribution from the stockbroking business, as we increased our stockbroking market share from 3.6% in FY13 to 4.2% in FY14.
- We continued to entrench HLIB's brand and presence in the upper echelon of the league tables, awards and first-to-market initiatives.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW
(continued)

- We are pleased to report that HLIB was given the award as the Best Investment Bank in Malaysia 2013 by World Finance.

- Notable mentions and achievements by HLIB during the year include:
  - Bond Pricing Agency: Top Lead Arranger (Conventional PDS) – No. 2 by Amount Issued and No. 3 by Number of Issues in 2013.
  - Best Equity-Linked Deal of the Year in Southeast Asia 2013 awarded by Alpha Southeast Asia.
  - Musharakah Deal of the Year 2013 awarded by Islamic Finance News.
  - Perpetual Deal of the Year 2013 awarded by Islamic Finance News.
  - Most Innovative Deal – Highly Commended in 2013 awarded by The Asset Triple A Islamic Finance.
  - Brought the first two Special Purpose Acquisition Companies ("SPAC") to the market (Hibiscus and CLIQ Energy). Also brought the largest SPAC, Reach Energy Bhd to the market in 2014, raising RM750 million.

LOOKING AHEAD – FOCUS AND SUSTAINABLE EARNINGS

Despite a subdued global economic environment and strong competitive challenges, for the next financial year we will continue to grow our core businesses of Commercial Banking, Islamic Financial Services, Insurance, Investment Banking and Asset Management. We will also look for suitable acquisition opportunities to complement our financial services group. HLB will focus on re-energising its growth momentum as well as entrenching its digital foot print. Having built up a sizeable agency distribution force, HLA will focus on its product strategy and further leverage the bancassurance distribution channel. Our investment banking division will work to expand our market presence and positioning, as well as create more innovative products and solutions.

RATING

We are pleased to announce that Malaysian Rating Corporation Berhad ("MARC") in July 2014 affirmed the short-term and long-term credit ratings of HLFG's Commercial Paper/ Medium Term Notes Programme at AA/MARC-1. The rating outlook is stable. HLFG holds the third highest credit rating within MARC's rating scale.

APPRECIATION

Last and not least, I would like to take this opportunity to express my gratitude to the Board of Directors for their support and guidance, and the management, colleagues and staff throughout the HLFG Group for their dedication and commitment.

My sincere appreciation also goes out to the regulators, shareholders, customers and business partners as well as to the community we serve for their continued faith and confidence in Hong Leong Financial Group.

RAYMOND CHOONG
President & CEO

18 September 2014

WORKPLACE

ENVIRONMENT

MARKETPLACE

COMMUNITY

CSR

CORPORATE SOCIAL RESPONSIBILITY

Guided by our corporate value of Social Responsibility, we are committed to meeting the highest standards of corporate citizenship that go beyond complying with statutory laws and legal requirements. We treat all our stakeholders with respect and uphold the principles of integrity in all our dealings. We also go beyond the basics of responsible stakeholder engagement to give back to the communities where we conduct our business.

Our community outreach programmes involve promoting education, providing aid to marginalised communities, and supporting and developing local talent. In addition, we believe in playing our part in preserving the environment by ensuring sustainable operations along our entire supply chain. As a result of our efforts, we feel proud to have been able to contribute significantly to the nation's socio-economic development.

CORPORATE SOCIAL RESPONSIBILITY
(continued)

"At Hong Leong Financial Group ("HLFG"), we believe that serving our communities is not only integral to being a responsible corporate citizen, but that it also forms a critical component to running a business successfully. In supporting our communities, we enhance our relationship and reputation with employees, customers, business partners and other stakeholders, thus strengthening our sustainability."

Details of our commitment to each of our four CSR focus areas, namely the Workplace, Environment, Marketplace and Community, are provided below.

WORKPLACE

Hong Leong Financial Group ("HLFG" or "the Group") believes it is critical to attract the best talent and to retain them by creating an inspiring and conducive work environment in which the rights of each employee are respected and their well-being is taken care of.

We also identify and hire local talent through our Graduate Development Programme through which fresh graduates undergo two years of classroom training, on-the-job familiarisation, learning assignments as well as mentoring in the principles of core banking. At the end of the programme, each graduate is assigned a position within the group suited to his or her skills as well as our needs. For non-executives, various in-house and external programmes are conducted to enhance their technical competencies as well as supervisory skills in order to develop a competent workforce that is knowledgeable and highly motivated.

In tandem with our growth and expansion throughout the region, we have acquired a diverse workforce of talented people who bring with them different experiences, perspectives and cultures. Acknowledging the advantages of diversity, we embrace employees from different ethnic and social backgrounds to nurture an inclusive and innovative environment which helps the organisation to realise its full potential. We abide by best work environment practices to maintain a workplace that is free from discrimination; and comply with all applicable laws pertaining to non-discrimination and equal opportunity.

We have been able to benefit from the expanded knowledge base, collective skills and cross-cultural understanding brought by our employees, by being able to better understand, relate and respond to a diverse and changing global customer profile.

CORPORATE SOCIAL RESPONSIBILITY
(continued)

ENVIRONMENT

In view of climate change issues, and the pressing need to protect our environment for future generations, HLFG is committed to minimising our environmental impact and encouraging greater sustainability throughout our business. We endeavour to identify and minimise our environmental footprint as well as that of our vendors. Our environmental initiatives include the smart and careful consumption of resources such as water and energy, while reducing as far as possible carbon emissions and waste generation.

CORPORATE SOCIAL RESPONSIBILITY
(continued)

MARKETPLACE

HLFG is committed to good business ethics and integrity. For many years now, the Group has had in place internally generated best practices to ensure the economic sustainability of all its companies. Some of these best practices are:

- Established Financial Management Disciplines intended to drive excellence in financial management with the objective of preserving and enhancing the quality of the business as an on-going concern.
- An established Enterprise Risk Management structure to ensure that a systematic process and delegation of responsibility is clearly set out to guide management.
- A code of business conduct and ethics of financial reports which contains disclosures that are true and fair.
- In choosing its directors, the Group seeks individuals of high integrity, and with shareholder orientation and a genuine interest in their respective company's businesses. They are tasked with the responsibility of exercising their business judgment to act in what they reasonably believe to be in the best interest of the company and the shareholders they represent.
- The practice of responsible selling and marketing of products and services.

CORPORATE SOCIAL RESPONSIBILITY
(continued)

COMMUNITY

The Group conducts most of its philanthropic activities through Hong Leong Foundation ("HLF"), the charitable arm of Hong Leong Group.

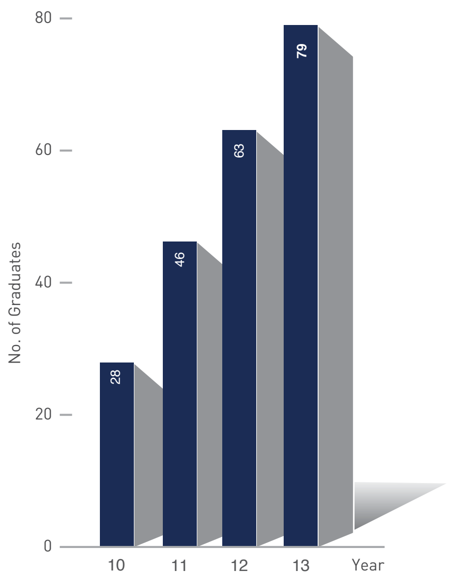
Incorporated in 1992, Hong Leong Foundation is a corporate foundation driven by the interest and passion of the Group. It is funded by contributions from Hong Leong Group Malaysia's companies and is, effectively, its charitable arm through which most of the Group's philanthropic activities are conducted. HLF expended a total of RM20 million over the last three years and has the following programmes in place working with our Community Partners:

- Community Welfare Programme to address the daily needs of homes, shelters and community centres
- Towards Self-Sufficiency:
  - Tertiary Scholarship Programme
  - Reach out and Rise Education Development Programme
  - The Hong Leong Masters Scholarship Programme
  - After School Care Programme
- Community Partner Programme, through which it has contributed to the charity's following mission and vision:
  - Good Jobs: Employment Development Programme
  - Better Homes: Welfare Home Transformation Programme
  - HLF NGO Accelerator Programme

In FY2013/14, the Foundation disbursed a total of RM12 million benefiting 30 charity organisations. Of this sum, RM3.7 million was channelled towards scholarships to benefit around 200 scholars from financially challenged families studying in various universities; and RM4.0 million was presented to four major private universities under a new partnership programme. To bridge opportunity gaps that exist along the entire spectrum of education development, the Foundation has set up a comprehensive programme to empower its scholars via enrichment camps and workshops, internships, mentorships and other support mechanisms to help them excel in their formative years at university and beyond.

Since 1993, Hong Leong Foundation has awarded more than RM26.3 million in scholarships to 1,204 scholars to pursue diplomas as well as Bachelor's and Master's degrees.

HLF Scholarship Graduates by Year:



RM3.7 million was channelled towards scholarships to benefit around 200 scholars from financially challenged families studying in various universities

CORPORATE SOCIAL RESPONSIBILITY
(continued)

In addition to supporting Hong Leong Group CSR initiatives, HLFG plays our part as a responsible company that has people at our heart.

During the year, we participated in the 'Do Good Week' under which all operating companies within the Group were given three weeks to plan community outreach programmes to reinforce the spirit of volunteerism among employees. Along with volunteers from Hong Leong Bank, Hong Leong Islamic Bank, Hong Leong Capital, Hong Leong Investment Bank, Hong Leong Assurance and Hong Leong MSIG Takaful, our volunteers visited underprivileged and cancer-stricken children, planted trees and restored old homes, in addition to carrying out other meaningful activities. In total, 35 charity-driven activities were conducted with various NGOs and homes.

Firm in our conviction on the importance of education, HLFG participated in The Community Chest (TCC) programme jointly coordinated by the Group's CSR Department and TCC, an independent, not-for-profit, non-governmental charitable organisation. Once again joining forces with volunteers from the other Group operating companies, we helped impoverished schools nationwide by: 1) setting up new buildings and facilities and equipping these with essential furniture, fittings and equipment; 2) refurbishing, repairing, extending, renovating and rewiring old buildings and facilities to provide a safer environment for the students and teachers; and 3) setting up e-classrooms. In total, HLFG and the other operating companies deployed 75 volunteers to assist 31 schools across five states in Malaysia during the project period.

This Corporate Social Responsibility Statement is made in accordance with the resolution of the Board of Directors.

CORPORATE INFORMATION

DIRECTORS

YBhg Tan Sri Quek Leng Chan
(Chairman)

Mr Choong Yee How
(President & Chief Executive Officer)

Mr Quek Kon Sean

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman

Ms Lim Tau Kien

Ms Lim Lean See

Mr Saw Kok Wei

GROUP COMPANY SECRETARY

Ms Christine Moh Suat Moi
MAICSA 7005095

AUDITORS

Messrs PricewaterhouseCoopers
Chartered Accountants
Level 10, 1 Sentral
Jalan Travers
Kuala Lumpur Sentral
50706 Kuala Lumpur
Tel: 03-2173 1188
Fax: 03-2173 1288

REGISTRAR

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18 Jalan Perak
50450 Kuala Lumpur
Tel: 03-2164 1818
Fax: 03-2164 3703

REGISTERED OFFICE

Level 8, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Tel : 03-2164 8228
Fax : 03-2164 2503

WEBSITE

www.hlfg.com.my

BOARD OF DIRECTORS' PROFILE

"Hong Leong Financial Group Berhad has **continuously grown over the years in strength and size through sound and focused business strategies aided by strong** management and financial disciplines."

YBHG TAN SRI QUEK LENG CHAN

Chairman/Non-Executive/
Non-Independent

Aged 71, YBhg Tan Sri Quek Leng Chan, a Malaysian, qualified as a Barrister-at-Law from Middle Temple, United Kingdom. He has extensive business experience in various business sectors, including financial services, manufacturing and real estate.

YBhg Tan Sri Quek is the Chairman of Hong Leong Financial Group Berhad ("HLFG") and was appointed to the Board of Directors ("Board") of HLFG on 6 September 1968. He is a member of the Remuneration Committee ("RC") and Nominating Committee ("NC") of HLFG.

He is the Chairman & Chief Executive Officer of Hong Leong Company (Malaysia) Berhad, a public company; Chairman of Hong Leong Bank Berhad ("HLB"), Hong Leong Capital Berhad ("HLCB") and GuocoLand (Malaysia) Berhad, companies listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"); and Chairman of Hong Leong Assurance Berhad ("HLA") and Hong Leong Foundation; and a member of the Board of Trustees of the Community Chest, all public companies.

BOARD OF DIRECTORS' PROFILE
(continued)

MR CHOONG YEE HOW
President & Chief Executive Officer/
Non-Independent

Aged 58, Mr Choong Yee How, a Malaysian, obtained a Bachelor of Science in Biochemistry (Honours) degree in 1979 and a Master of Business Administration in 1981 from the University of Otago, New Zealand. Mr Choong has over 28 years of experience in banking, of which 23 were with Citibank in Malaysia. Mr Choong started his career with Citibank Malaysia as a Management Associate and was promoted to assume various senior positions within the Citibank Group; the last being President and Chief Executive Officer of Citibank Savings Inc, Philippines. Mr Choong is currently the President & Chief Executive Officer of HLFG.

Mr Choong was appointed to the Board of HLFG on 1 December 2005.

Mr Choong is also a Director of HLB and HLCB, both companies listed on the Main Market of Bursa Securities and HLA, Hong Leong MSIG Takaful Berhad, Hong Leong Investment Bank Berhad ("HLIB") and Hong Leong Asset Management Bhd, all public companies.

MR QUEK KON SEAN
Non-Executive Director/
Non-Independent

Aged 34, Mr Quek Kon Sean, a Malaysian, obtained a Bachelor of Science degree and Master of Science in Economics from the London School of Economics and Political Science. He started his career in investment banking prior to assuming the role of Executive Director of HLFG. He is currently Managing Director, Centre for Business Value of HL Management Co Sdn Bhd.

Mr Quek was appointed to the Board of HLFG on 1 December 2005.

Mr Quek is also a Director of HLB and HLCB, both companies listed on the Main Market of Bursa Securities and HLA, a public company.

BOARD OF DIRECTORS' PROFILE
(continued)

YBHG TAN SRI DATO' SERI KHALID AHMAD BIN SULAIMAN
Non-Executive Director/Non-Independent

Aged 78, YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, a Malaysian, was educated in England and was called to the English Bar at Middle Temple in 1964. He is a Consultant in a legal firm in Penang in which he was a Senior Partner from 1969 till June 2008. He was the Chairman of the Advocates and Solicitors Disciplinary Board from 2005 to 2013. He was in the Penang State Executive Council from 1974 to 1982 and has served on various statutory boards.

YBhg Tan Sri Khalid was appointed to the Board of HLFG on 1 July 1982. YBhg Tan Sri Khalid is a member of the NC and RC of HLFG.

YBhg Tan Sri Khalid is also a Director of HLCB, a company listed on the Main Market of Bursa Securities, and HLIB, a public company.

MS LIM TAU KIEN
Non-Executive Director/
Independent

Aged 58, Ms Lim Tau Kien, a Malaysian, graduated with a Bachelor of Accountancy from the University of Glasgow Faculty of Law and is a Chartered Accountant registered with the Institute of Chartered Accountants of Scotland.

Ms Lim forged her early career with Ernst & Young, United Kingdom, before joining the Ministry of Finance and Prime Minister's Department as a Federal Accountant. She subsequently moved to Shell where she held various senior financial positions over a period of 25 years, her last position being the Country Chief Financial Officer/ Country Controller/Finance Director of Shell China.

Ms Lim was appointed to the Board of HLFG on 8 April 2010 and is the Chairman of the Board Audit and Risk Management Committee ("BARMC") and a member of NC of HLFG.

Ms Lim is also a Director of Malaysian Pacific Industries Berhad, a company listed on the Main Market of Bursa Securities and UEM Group Berhad, a public company.

BOARD OF DIRECTORS' PROFILE
(continued)

MS LIM LEAN SEE
Non-Executive Director/
Independent

Aged 61, Ms Lim Lean See, a Malaysian, holds an Associateship in Accounting and an Associateship in Secretarial and Administrative Practice both from the Curtin University, Australia. Her professional qualifications include being a Fellow of the Australian Society of Certified Practicing Accountants, Registered Accountant with the Malaysian Institute of Accountants, a Trade Member of Financial Planning Association of Malaysia and a member of the Institut Bank-Bank Malaysia.

Ms Lim has 33 years experience in the banking industry and has held various senior positions including the Head of Corporate Banking and Head of Business Banking Division, the last being the Chief Representative of a foreign bank Representative Office with the corporate rank of an Executive Director.

Ms Lim was appointed to the Board of HLFG on 22 August 2011 and she is the Chairman of the NC and RC and a member of BARMC of HLFG.

Ms Lim is also a Director of HLB, a company listed on the Main Market of Bursa Securities.

MR SAW KOK WEI
Non-Executive Director/
Independent

Aged 51, Mr Saw Kok Wei, a Malaysian, holds a B.Sc (Hons) in Accounting and Finance degree from the University of Warwick, United Kingdom. Mr Saw is currently the Chief Financial Officer of Jurong Port Pte Ltd, a leading international multi-purpose port operator headquartered in Singapore. Prior to joining Jurong Port Pte Ltd, he was with Electrolux Major Appliances – Asia Pacific for nine years during which time he held the positions of Deputy Head of Strategy, Asia Pacific, based in Singapore from July 2011 to September 2013, Chief Financial Officer of Electrolux China, based in Shanghai from October 2008 to June 2011, General Manager of P.T. Electrolux Indonesia from January 2007 to September 2008 and before that from March 2004 to December 2006, he was the Vice President, Finance & Administration – East Asia.

Before joining Electrolux, Mr Saw was with Merck Sharp & Dohme (I.A.) Corp from 2001 to 2003 and Nike Southeast Asia from 1999 to 2001, where he held the position of Finance Director in both companies.

Mr Saw was appointed to the Board of HLFG on 22 August 2011 and is a member of the BARMC and NC of HLFG.

Notes:

1. **Family Relationship with Director and/or Major Shareholder**
   YBhg Tan Sri Quek Leng Chan and Mr Quek Leng Chye, a deemed major shareholder of HLFG, are brothers. YBhg Tan Sri Quek Leng Chan is the father of Mr Quek Kon Sean. Save as disclosed herein, none of the Directors has any family relationship with any other Director and/or major shareholder of HLFG.
2. **Conflict of Interest**
   None of the Directors has any conflict of interest with HLFG.
3. **Conviction of Offences**
   None of the Directors has been convicted of any offences in the past 10 years.
4. **Attendance of Directors**
   Details of Board meeting attendance of each Director are disclosed in the Statement on Corporate Governance, Risk Management and Internal Control in the Annual Report.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

CONSTITUTION

The Board Audit Committee of Hong Leong Financial Group Berhad ("HLFG" or the "Company") has been established since 23 March 1994 and has been re-designated as the Board Audit & Risk Management Committee ("BARMC") on 29 August 2001.

COMPOSITION

Ms Lim Tau Kien
(Chairman, Independent Non-Executive Director)

Mr Saw Kok Wei
(Independent Non-Executive Director)

Ms Lim Lean See
(Independent Non-Executive Director)
(Appointed on 1 November 2013)

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman
(Non-Independent Non-Executive Director)
(Resigned on 1 November 2013)

SECRETARY

The Secretary(ies) to the BARMC are the Company Secretary(ies) of the Company.

TERMS OF REFERENCE

- To nominate and recommend for the approval of the Board of Directors ("Board"), a person or persons as external auditor(s).
- To review the external audit fees.
- To review, with the external auditors, the audit scope and plan.
- To review, with the external auditors, the audit report and audit findings and the management's response thereto.
- To review the assistance given by the officers of HLFG and its subsidiaries ("the Group") to the external auditors.
- To review the quarterly reports and annual financial statements of the Company and of the Group prior to the approval by the Board.
- To review the adequacy of the internal audit scope and plan, functions, competency and resources of the internal audit functions.
- To review the report and findings of the internal audit department including any findings of internal investigation and the management's response thereto.
- To review the adequacy and integrity of internal control systems, including risk management and management information system.
- To review and monitor the business and financial risks facing the Group and to ensure that all high impact risks are adequately managed at various levels within the Group.
- To review any related party transactions that might arise within the Company or the Group.
- Other functions as may be agreed to by the BARMC and the Board.

AUTHORITY

The BARMC is authorised by the Board to review any activity of the Group within its Terms of Reference. It is authorised to seek any information it requires from any Director or member of management and all employees are directed to co-operate with any request made by the BARMC.

The BARMC is authorised by the Board to obtain independent legal or other professional advice if it considers necessary.

MEETINGS

The BARMC meets at least four (4) times a year and additional meetings may be called at any time as and when necessary. All meetings to review the quarterly reports and annual financial statements are held prior to such quarterly reports and annual financial statements being presented to the Board for approval.

The chief financial officer, Group risk and compliance officers and external auditors are invited to attend the BARMC meetings, whenever required. At least twice a year, the BARMC will have separate sessions with the external auditors without the presence of Executive Directors and management.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT
(continued)

MEETINGS (CONTINUED)

Issues raised, discussions, deliberations, decisions and conclusions made at the BARMC meetings are recorded in the minutes of the BARMC meetings. Where the BARMC is considering a matter in which a BARMC member has an interest, such member abstains from reviewing and deliberating on the subject matter.

Two (2) members of the BARMC, who shall be independent, shall constitute a quorum.

After each BARMC meeting, the BARMC shall report and update the Board on significant issues and concerns discussed during the BARMC meetings and where appropriate, make the necessary recommendations to the Board.

ACTIVITIES

The BARMC carried out its duties in accordance with its Terms of Reference.

During the financial year ended 30 June 2014 ("FYE 2014"), four (4) BARMC meetings were held and the attendance of the BARMC members was as follows:-

Members	Attendance
Ms Lim Tau Kien	4/4
Mr Saw Kok Wei	4/4
[1] Ms Lim Lean See	2/2
[2] YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	2/2

Notes:
[1] *Appointed on 1 November 2013*
[2] *Resigned on 1 November 2013*

The BARMC also had two (2) separate sessions with the external auditors without the presence of Executive Directors and management.

The main activities undertaken by the BARMC during the financial year are summarised as follows:

a) Reviewed the quarterly unaudited financial results and annual audited financial statements of the Group.

b) Met with the external auditors and discussed the nature and scope of the audit, considered any significant changes in accounting and auditing issues, reviewed the management letter and management's response, reviewed pertinent issues which had significant impact on the results of the Group and discussed applicable accounting and auditing standards.

c) Assessed the objectivity and independence of the external auditors prior to the appointment of the external auditors for ad-hoc non-audit services.

d) Evaluated the performance of the external auditors and made the recommendation to the Board for consideration in relation to their appointment and audit fees.

e) Reviewed and approved the annual internal audit plan to ensure adequacy of scope and coverage of the auditable areas including staff requirements.

f) Reviewed the internal auditor's audit findings and recommendations.

g) Reviewed the adequacy and integrity of internal control systems, including risk management and relevant management information system.

h) Reviewed the processes put in place to identify, evaluate and manage the significant risks encountered by the Group.

i) Reviewed various related party transactions carried out by the Group.

INTERNAL AUDIT

The Group's Internal Audit function is carried out by the Group Internal Audit Division ("GIAD"). GIAD employs a risk-based assessment approach in auditing the Group business and operational activities. The high risk activities are given due attention and audited on a more regular basis while the rest are prioritised accordingly to the potential risk exposure and impact.

During the FYE 2014, the GIAD carried out its duties which are in line with the Bank Negara Malaysia Guidelines on Internal Audit Function.

The cost incurred for the Group Internal Audit function for the FYE 2014 was RM11.597 million.

This BARMC Report is made in accordance with the resolution of the Board.

CORPORATE GOVERNANCE, RISK MANAGEMENT & INTERNAL CONTROL

"Corporate Governance is the process and structure used to direct and manage the business and affairs of the Company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of other stakeholders."

~ Finance Committee on Corporate Governance

The Board of Directors ("Board") has reviewed the manner in which the Malaysian Code on Corporate Governance 2012 (the "Code") is applied in the Group as set out below. The Board is pleased to report compliance of the Group with the principles and recommendations as set out in the Code except where otherwise stated.

A. ROLES AND RESPONSIBILITIES OF THE BOARD

The Board assumes responsibility for effective stewardship and control of the Company and has established terms of reference ("TOR") to assist in the discharge of this responsibility.

The roles and responsibilities of the Board are set out in the Board Charter which is published on the Company's website, and broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Group's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage those risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals and major capital expenditure and such other responsibilities that are required of them by Bank Negara Malaysia ("BNM") as specified in guidelines and circulars issued by BNM from time to time.

There is a clear division of responsibilities between the Chairman and the President & Chief Executive Officer ("CEO"), which are distinct and separate. Although the Chairman is not an independent director, this segregation of responsibilities between the Chairman and the CEO ensures an appropriate balance of roles, responsibilities and accountability.

The Chairman leads the Board and ensures its smooth and effective functioning.

The CEO is responsible for the vision and strategic direction of the Group as well as to monitor progress on implementation of Key Performance Areas ("KPAs") and strategic developments.

The CEO's main responsibility is to work with the operating managers to develop strategic business plans and to set out the KPAs for the operating managers as well as to focus on creating value through deployment of the assets in the Group and to seek optimal use of the capital resources available to him.

CORPORATE GOVERNANCE, RISK MANAGEMENT & INTERNAL CONTROL

(continued)

A. ROLES AND RESPONSIBILITIES OF THE BOARD (CONTINUED)

The Group continues to operate in a sustainable manner and seeks to contribute positively to the well-being of stakeholders. The Group's key corporate social responsibility activities are set out in the Corporate Social Responsibility Statement of this Annual Report.

The Board observes the Company Directors' Code of Ethics established by the Companies Commission of Malaysia. In addition, the Group also has a Code of Ethics that sets out sound principles and standards of good practice which are observed by the employees.

B. BOARD COMPOSITION

The Board comprises seven (7) directors, six (6) of whom are non-executive. Of the non-executive directors, three (3) are independent. The profiles of the members of the Board are provided in the Annual Report.

The Company adheres to BNM's Guidelines on Corporate Governance for Licensed Institutions ("BNM/GP1") in determining its Board composition. The Board shall determine the appropriate size of the Board to enable an efficient and effective conduct of Board deliberation. The Board shall have a balance of skills and experience commensurate with the complexity, size, scope and operations of the Company. Board members should have the ability to commit time and effort to carry out duties and responsibilities effectively.

The Board recognises the merits of Board diversity in adding value to collective skills, perspectives and strengths to the Board. The Board will consider appropriate targets in Board diversity including gender balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate.

The Board is of the view that the current size and composition of the Board are appropriate and effective for the control and direction of the Group's business. The composition of the Board also fairly reflects the investment of shareholders in the Company.

C. BOARD COMMITTEES

Board Committees have been established by the Board to assist in the discharge of its duties.

(a) Board Audit Committee & Risk Management ("BARMC")

The composition of the BARMC, its TOR and a summary of its activities are set out in the BARMC Report of this Annual Report.

(b) Nominating Committee ("NC")

The NC has been established on 30 October 2008 and the members are as follows:-

Ms Lim Lean See
(Chairman, Independent Non-Executive Director)

YBhg Tan Sri Quek Leng Chan
(Non-Independent Non-Executive Director)

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman
(Non-Independent Non-Executive Director)

Ms Lim Tau Kien
(Independent Non-Executive Director)

Mr Saw Kok Wei
(Independent Non-Executive Director)

CORPORATE GOVERNANCE, RISK MANAGEMENT & INTERNAL CONTROL
(continued)

C. BOARD COMMITTEES (CONTINUED)

(b) Nominating Committee ("NC") (continued)

The NC's functions and responsibilities are set out in the TOR as follows:-

- Recommend to the Board the minimum requirements for appointments to the Board, Board committees and for the position of Chief Executive Officer.
- Review and recommend to the Board all Board appointments and re-appointments and removals including of the Chief Executive Officer.
- Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between executive directors, non-executive and independent directors, and mix of skills and other core competencies required.
- Assess annually the effectiveness of the Board and key senior management officers as a whole and the contribution by each individual director to the effectiveness of the Board and various Board committees based on criteria approved by the Board.
- Oversee the appointment, management succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities.
- Ensure that the Board receives an appropriate continuous training programme.

The NC carried out its duties in accordance with its TOR.

The Company has in place the process and procedure for assessment of new appointment, re-appointment and re-election of directors and the appointment of CEO, and the criteria used in such assessment.

A formal evaluation process has been put in place to assess the effectiveness of the Board as a whole, the Board committees and the contribution and performance of each individual director.

Having reviewed the assessments in respect of the financial year ended 30 June 2014 ("FYE 2014"), the NC is satisfied that the Board as a whole, Board committees and individual directors have effectively discharged their duties and responsibilities, and are suitably qualified to hold their positions.

In connection with the appointment and re-appointment of directors and CEO of the Company, the NC is guided by a Fit and Proper Policy.

The Fit and Proper Policy includes a policy in relation to the tenure for independent directors of the Company ("Tenure Policy"). Pursuant to the Tenure Policy, an independent director who has served on the Board of Directors of any company under Hong Leong Financial Group for a period of 12 years continuously or more shall submit a Letter of Intent to the NC informing of his intention to continue in office or to retire from the Board as an independent director, upon:-

a) expiry of his term of office approved by BNM; or

b) the due date for his retirement either by rotation pursuant to the Articles of Association of the Company or pursuant to Section 129(2) of the Companies Act, 1965 as the case may be.

If the intention of the independent director is to continue in office, the NC shall consider the re-appointment based on the assessment criteria and guidelines set out in the Fit and Proper Policy and make the appropriate recommendation to the Board. If the intention is to retire from office, an application shall be submitted to BNM to seek clearance, in accordance with the BNM Guidelines.

CORPORATE GOVERNANCE, RISK MANAGEMENT & INTERNAL CONTROL
(continued)

C. BOARD COMMITTEES (CONTINUED)

(b) Nominating Committee ("NC") (continued)

The NC meets at least once in each financial year and additional meetings may be called at any time as and when necessary.

During the FYE 2014, two (2) NC meetings were held and the attendance of the NC members was as follows:

Member	Attendance
Ms Lim Lean See	2/2
YBhg Tan Sri Quek Leng Chan	2/2
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	2/2
Ms Lim Tau Kien	2/2
Mr Saw Kok Wei	2/2

The NC had considered and reviewed the following:

- composition of the Board and Board Committees;
- professional qualification and experience of the directors;
- independence of independent directors and their tenure; and
- appointment, re-appointment and re-election of directors,

and was satisfied that the Board composition in terms of size, the balance between executive, non-executive and independent directors and mix of skills was adequate. The NC also reviewed the performance of the Board against its TOR and was satisfied that the Board was competent and effective in discharging its functions.

(c) Remuneration Committee ("RC")

The RC has been established on 30 October 2008 and the members are as follows:-

Ms Lim Lean See
(Chairman, Independent Non-Executive Director)

YBhg Tan Sri Quek Leng Chan
(Non-Independent Non-Executive Director)

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman
(Non-Independent Non-Executive Director)

The RC's functions and responsibilities are set out in the TOR as follows:-

- Recommend to the Board the framework governing the remuneration of the:
  - Directors;
  - Chief Executive Officer; and
  - Key senior management officers.
- Review and recommend to the Board the specific remuneration packages of executive directors and the Chief Executive Officer.
- Review the remuneration packages of key senior management officers.

During the FYE 2014, one (1) RC meeting was held and the attendance of the RC members was as follows:

Member	Attendance
Ms Lim Lean See	1/1
YBhg Tan Sri Quek Leng Chan	1/1
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	1/1

The Group's remuneration scheme for executive directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked to market/ industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Group's annual plan and budget.

CORPORATE GOVERNANCE, RISK MANAGEMENT & INTERNAL CONTROL
(continued)

C. BOARD COMMITTEES (CONTINUED)

(c) Remuneration Committee ("RC") (continued)

The level of remuneration of non-executive directors reflects the level of responsibilities undertaken by them.

The RC, in assessing and reviewing the remuneration packages of executive directors, ensures that a strong link is maintained between their rewards and individual performance, based on the provisions in the Group's Human Resources Manual, which are reviewed from time to time to align with market/industry practices. The fees of directors, including non-executive directors, are recommended and endorsed by the Board for approval by the shareholders of the Company at its Annual General Meeting ("AGM").

The aggregate remuneration of directors (including remuneration earned as directors of subsidiaries) for the FYE 2014 is as follows:

	Fees (RM)	Salaries & Other Emoluments (RM)	Total (RM)
Executive Directors	–	13,362,695[1]	13,362,695
Non-Executive Directors	530,000	309,500	839,500

The number of directors whose remuneration falls into the following bands is as follows:

Range of Remuneration (RM)	Executive	Non-Executive
1 – 50,000	–	1
100,001 – 150,000	–	2
250,001 – 300,000	–	2
2,650,001 – 2,700,000	1[2]	–
10,650,001 – 10,700,000	1	–

Notes:

[1] *Inclusive of remuneration of a Non-Executive Director during his term as an Executive Director.*

[2] *The Executive Director had on 1 January 2014 been redesignated to Non-Executive Director.*

D. INDEPENDENCE

The Board takes cognisance of Recommendations 3.2 and 3.3 of the Code that the tenure of an independent director should not exceed a cumulative term of 9 years. The Board seeks to strike an appropriate balance between tenure of service, continuity of experience and refreshment of the Board. Although a longer tenure of directorship may be perceived as relevant to the determination of a director's independence, the Board recognises that an individual's independence should not be determined solely based on tenure of service. Further, the continued tenure of directorship brings considerable stability to the Board, and the Company benefits from directors who have, over time, gained valuable insight into the Group, its market and the industry.

The independent directors have declared their independence, and the NC and the Board have determined, at the annual assessment carried out, that the independent directors have continued to bring independent and objective judgment to Board deliberations and decision making.

The designation of Ms Lim Tau Kien, Ms Lim Lean See and Mr Saw Kok Wei as independent directors have received the approval of BNM.

Both the independent directors and non-independent directors are required to submit themselves for re-election at the AGM every 3 years under the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa") and Articles of Association of the Company. In addition, the re-appointment of directors who have attained 70 years of age and above is subject to shareholders' approval at the AGM under Section 129 of the Companies Act, 1965. In respect of the independent directors who have served a tenure of 9 years and above, and who are due for re-election or re-appointment, justification for their re-election or re-appointment, as the case may be, will be set out in the explanatory notes of the notice of AGM.

CORPORATE GOVERNANCE, RISK MANAGEMENT & INTERNAL CONTROL

(continued)

E. COMMITMENT

The directors are aware of their responsibilities and will devote sufficient time to carry out such responsibilities. In line with the MMLR, directors are required to comply with the restrictions on the number of directorships in public listed companies. Directors provide notifications to the Board for acceptance of any new Board appointments. This ensures that their commitment, resources and time are focused on the affairs on the Company to enable them to discharge their duties effectively. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. Directors are required to attend at least 75% of Board meetings held in each financial year pursuant to the BNM/GP1.

All Board members are supplied with information in a timely manner. Board reports are circulated prior to Board meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, updates on the performance of the Company and of the Group and management's proposals which require the approval of the Board.

All directors have access to the advice and services of a qualified and competent Company Secretary and internal auditors. All directors also have access to independent professional advice at the Company's expense, in consultation with the Chairman or the CEO of the Company.

At Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. Any director who has an interest in the subject matter to be deliberated shall abstain from deliberation and voting on the same during the meet.

The Board met five (5) times during FYE 2014 with timely notices of issues to be discussed. Details of attendance of each director are as follows:-

Director	Attendance
YBhg Tan Sri Quek Leng Chan	5/5
Mr Choong Yee How	5/5
Mr Quek Kon Sean	5/5
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	5/5
Ms Lim Tau Kien	5/5
Ms Lim Lean See	5/5
Mr Saw Kok Wei	5/5

The Company recognises the importance of continuous professional development and training for its directors.

The Company is guided by a Directors' Training Policy, which covers an Induction Programme for newly appointed directors to assist them to familiarise and to get acquainted with the Company's business, governance process, roles and responsibilities as director of the Company and continuing professional development which encompasses areas related to the industry or business of the Company, governance, risk management and regulations through a combination of courses and conferences.

All directors of the Company have completed the Mandatory Accreditation Programme.

The Company regularly organises in-house programmes, briefings and updates by its in-house professionals. The directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge. Directors are kept informed of available training programmes on a regular basis.

The Company has prepared for the use of its directors, a Director Manual which highlights, amongst others, the major duties and responsibilities of a director vis-a-vis various laws, regulations and guidelines governing the same.

CORPORATE GOVERNANCE, RISK MANAGEMENT & INTERNAL CONTROL
(continued)

E. COMMITMENT (CONTINUED)

In assessing the training needs of directors, the Board has determined that appropriate training programmes covering matters on corporate governance, finance, legal, risk management and/or statutory/regulatory compliance, be recommended and arranged for the directors to enhance their contributions to the Board.

During the FYE 2014, the directors received regular briefings and updates on the Group's businesses, operations, risk management, internal controls, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Company also organised an in-house programme for its directors and senior management.

The Directors of the Company have also attended various programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties as directors.

During the FYE 2014, the directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- Goods & Services Tax
- BNM – Roles and Responsibilities of Nominating Committee Members of Licensed Institution
- ICLIF – Leadership Energy Summit Asia (LESA)
- ICLIF – Leading a Learning Organisation in an Age of Change
- BNM – Financial Institutions Directors' Education ("FIDE") Elective Programme: "Mergers & Acquisitions for Financial Institutions"
- BNM – FIDE Forum: "A Comprehensive Talent-based Approach to Board Recruitment"
- Bursa Malaysia – Corporate Governance Statement Reporting Workshop
- Malaysian Accounting Standards Board – Roundtable on Financing Reporting
- Singapore CFO Institute and CPA Australia – CFO Connect Symposium 2013
- Malaysian Director's Academy (MINDA) – Breakfast Forum: "Leadership & Learning: Creating A Culture that Drives Leadership, Innovation & Growth"

F. ACCOUNTABILITY AND AUDIT

The Company has put in place a framework of processes whereby Board committees provide oversight on critical processes of the Company's reporting of financial statements, in order to ensure that accountability and audit are integral components of the said processes.

I Financial Reporting

The Board has a fiduciary responsibility to ensure the proper maintenance of accounting records of the Group. The Board receives the recommendation to adopt the financial statements from the BARMC, which assesses the integrity of financial statements with the assistance of the external auditors.

II Internal Control

The Board has overall responsibility for maintaining a system of internal controls which covers financial and operational controls and risk management. This system provides reasonable but not absolute assurance against material misstatements, losses and fraud.

The BARMC is delegated with the responsibility to provide oversight on the Company's management of critical risks that the Group faces, and to review the effectiveness of internal controls implemented in the Company.

The Statement on Risk Management and Internal Control as detailed under Section I of this Statement provides an overview of the system of internal controls and risk management framework of the Group.

CORPORATE GOVERNANCE, RISK MANAGEMENT & INTERNAL CONTROL
(continued)

F. ACCOUNTABILITY AND AUDIT (CONTINUED)

III Relationship with Auditors

The appointment of external auditors is recommended by the BARMC, which determines the remuneration of the external auditors. The BARMC reviews the suitability and independence of the external auditors annually.

During the financial year under review, the external auditors met with the BARMC to:

- present the scope of the audit before the commencement of audit; and
- review the results of the audit as well as the management letter after the conclusion of the audit.

The external auditors meet with the BARMC members at least twice a year without the presence of Executive Directors and management.

G. DISCLOSURE

The Company has in place a corporate disclosure policy for compliance with the disclosure requirements set out in the MMLR, and to raise awareness and provide guidance to the Board and management on the Group's disclosure requirements and practices.

All timely disclosure and material information documents will be posted on the website after release to Bursa.

H. SHAREHOLDERS

I Dialogue between Companies and Investors

The Board acknowledges the importance of regular communication with shareholders and investors via the annual reports, circulars to shareholders and quarterly financial reports and the various announcements made during the year, through which shareholders and investors can have an overview of the Group's performance and operation.

Notices of general meetings and the accompanying explanatory notes are provided within the prescribed notice period on the Company website, Bursa website, in the media and by post to shareholders. This allows shareholders to make the necessary arrangements to attend and participate either in person, by corporate representative, by proxy or by attorney.

Shareholders have the right to demand to vote by way of a poll at the general meetings for substantive resolutions and the voting results will be announced at the meetings and through Bursa.

The Company has a website at 'www.hlfg.com.my' which the shareholders can access for information which includes the Board Charter, corporate information, announcements/press releases/briefings, financial information and investor relations.

The Board has identified Ms Lim Tau Kien, the Chairman of the BARMC, as the Independent Non-Executive Director of the Board to whom concerns may be conveyed, and who would bring the same to the attention of the Board.

In addition, shareholders and investors can have a channel of communication with the Chief Financial Officer to direct queries and provide feedback to the Group.

Queries may be conveyed to the Chief Financial Officer at:

Tel No : 03-2164 8228
Fax No : 03-2715 8988
e-mail address : cfo-hlfg@hongleong.com.my

II AGM

The AGM provides an opportunity for the shareholders to seek and clarify any issues and to have a better understanding of the Group's performance. Shareholders are encouraged to meet and communicate with the Board at the AGM and to vote on all resolutions. Senior management and the external auditors are also available to respond to shareholders' queries during the AGM.

CORPORATE GOVERNANCE, RISK MANAGEMENT & INTERNAL CONTROL
(continued)

I. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

I The Responsibilities of the Board

The Board recognises its responsibilities for the system of internal controls of the Group and for reviewing its adequacy and integrity. Accordingly, the Board has established and maintained a Risk Management Framework appropriate to the operations of the Group, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The controls built into the Risk Management Framework of the Group are designed to ensure that all relevant and significant risks are identified and managed as part of the risk management process and are not intended to eliminate all risks of failure to achieve business objectives. It only provides a reasonable and not absolute assurance against material misstatements, losses or frauds that may affect the Group's financial position or its operations.

The Board has received assurance from the President & Chief Executive Officer and Chief Financial Officer that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Group.

Based on the outcome of these reviews as well as the assurance it has received from management, the Board is of the view that the Group's risk management and internal control system is operating adequately and effectively for the financial year under review and up to the date of approval of this report.

II The Risk Management Framework

The Risk Management Framework established by the Board is to assist it in:

- identifying the significant risks faced by the Group in the operating environment, as well as evaluating the impact of such risks;
- developing and approving the necessary measures to manage these risks; and
- monitoring the effectiveness of such measures and to develop, approve and monitor any corrective actions as may be deemed necessary.

These processes have been in place throughout the FYE 2014 and have continued up to the date this statement was approved.

The Board has entrusted the BARMC with the responsibility to oversee the implementation of the Risk Management Framework of the Group.

The Group's Risk Officers administer the Risk Management Framework of the Group. The primary responsibilities of the Group's Risk Officers are:

- periodically evaluate all identified risks for their relevance in the operating environment and inclusion in the Risk Management Framework;
- oversee and monitor the implementation of appropriate systems and controls to manage these risks;
- assess the adequacy of existing action plans and control systems developed to manage these risks;
- monitor the performance of management in executing the action plans and operating the control systems; and
- regularly report to the BARMC on the state of internal controls and the efficacy of management of risks throughout the Group.

In discharging the above responsibilities, the Group's Risk Officers are guided by but are not limited to the Statement on Risk Management & Internal Control – Guidelines for Directors of Listed Issuers.

III Internal Control Review and Regulatory Compliance Procedures

The Group Internal Audit Division ("GIAD"), under the direction of the BARMC, provides the BARMC and the Board the assurance it requires regarding the adequacy and integrity of the system of internal controls.

CORPORATE GOVERNANCE, RISK MANAGEMENT & INTERNAL CONTROL
(continued)

I. STATEMENT ON INTERNAL CONTROL AND RISK MANAGEMENT (CONTINUED)

III Internal Control Review and Regulatory Compliance Procedures (continued)

The GIAD undertakes periodic and systematic reviews of internal control systems and the review of compliance with the business objectives, policies, reporting standards and control procedures of the Group. This is to provide reasonable assurance to the Board on the proper functioning of the Risk Management Framework.

The Group's Compliance Officers monitor daily operations of licensed subsidiaries to ensure compliance with regulatory requirements and internal policies. All breaches and exceptions are brought to the attention of the BARMC and the BARMC is kept informed of the causes and the remedial measures taken.

IV Management and Decision-Making Processes

The Board has incorporated the Risk Management Framework as an integral component in the management and decision-making process of the Group.

The vision and mission statements of the Group form the basis of medium-term business plans and budgets. The key strategies to achieve these business plans and budgets are approved by the Board. The management performs monthly review to monitor the performance of all operating units against the business plans and budgets. The budget is monitored and major variances are followed-up by the management. These are then reported to the Board on a quarterly basis.

The Company's financial system records business transactions to produce quarterly reports that allow management to focus on key areas of concern. The public release of quarterly financial reporting of the Group will only be made after being reviewed by the BARMC and approved by the Board.

The Group has a well-defined organisational structure with clearly defined authorities, accountability and segregation of duties. The respective heads of the operating subsidiaries of the Group operate their respective units within the policies, functional, financial and operating reporting standards and control procedures developed by the Group. Such reporting standards and control procedures are supplemented by operating procedures developed by the operating units to suit the regulatory and business environment, in which they operate.

The Group has identified the major risks that has significant impact on its operations, namely; credit risk, market risk, liquidity risk, settlement risk, operational risk, and legal and compliance risk. Each operating unit has a number of functional departments and/or units that will be responsible for managing and monitoring these risks through limits, procedures and oversight. Where feasible and necessary, relevant group resources are focused to manage and monitor common risks on an integrated and Group-wide basis, using common tools, procedures and control systems as appropriate.

J. DIRECTORS' RESPONSIBILITY IN FINANCIAL REPORTING

The MMLR requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and of the Company as at the end of the financial year and of its financial performance and cash flow of the Group and of the Company for the financial year.

The directors are satisfied that in preparing the financial statements of the Group and of the Company for the FYE 2014, the Group has used the appropriate accounting policies and applied them consistently. The directors are also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

This Statement on Corporate Governance, Risk Management and Internal Control is made in accordance with the resolution of the Board.

DIRECTORS' REPORT

for the financial year ended 30 June 2014

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 30 June 2014.

PRINCIPAL ACTIVITIES

The principal activities of the Company are those of investment holding and provision of services to its subsidiaries to enhance group value.

The Hong Leong Financial Group (the Company and its subsidiaries) is a diversified financial group whose businesses provide a broad range of financial products and services to consumer, corporate and institutional customers.

The principal activities of the significant subsidiaries consist of commercial banking business, Islamic banking services, insurance and takaful business, investment banking, futures and stock broking and asset management business as disclosed in Note 11 to the financial statements.

There have been no significant changes in the principal activities of the Group and the Company during the financial year.

FINANCIAL RESULTS

	The Group RM'000	The Company RM'000
Net profit after taxation		
– Owners of the parent	1,706,877	374,577
– Non-controlling interests	810,479	–
	2,517,356	374,577

DIVIDENDS

The dividends on ordinary shares paid or declared by the Company since the previous financial year ended 30 June 2013 were as follows:

(a) A first interim single-tier dividend of 13 sen per share, amounting to RM135,905,040 in respect of the financial year ended 30 June 2014, was paid on 20 December 2013.

(b) A second interim single-tier dividend of 25 sen per share, amounting to RM262,441,845 in respect of the financial year ended 30 June 2014, was paid on 26 June 2014.

The Directors do not recommend the payment of any final dividend for the financial year ended 30 June 2014.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 52 to the financial statements.

DIRECTORS' REPORT

for the financial year ended 30 June 2014
(continued)

SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

Significant events subsequent to the statement of financial position date are disclosed in Note 53 to the financial statements.

CREDIT RATING

On 11 July 2014, Malaysian Rating Corporation Berhad ("MARC") has affirmed a MARC-1/AA rating to Hong Leong Financial Group Berhad ("HLFG")'s proposed Commercial Paper and Medium Term Notes Programmes with a combined limit of RM1.8 billion. The rating outlook for the long-term rating is stable. The ratings are based on the continued ability of HLFG's enlarged banking subsidiary, Hong Leong Bank Berhad, to generate strong earnings, the stable financial and operating performance of its insurance business and the well-capitalised positions of both its banking and insurance subsidiaries.

Details of the ratings are as follows:

RM1,800 million Commercial Paper and Medium Term Notes Programmes

Date accorded	Rating action	Rating classification	Definition
July 2014	Affirmed	Short-term rating: MARC-1	Highest category; indicates a very high likelihood that interest and principal will be paid on a timely basis.
July 2014	Affirmed	Long-term rating: AA	Indicates a very strong ability to repay principal and pay interest on a timely basis, with limited incremental risk compared to issues rated in the highest category.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

DIRECTORS

The Directors who have held office since the date of the last report and at the date of this report are as follows:

YBhg Tan Sri Quek Leng Chan	(Chairman, Non-Executive Non-Independent)
Mr Choong Yee How	(President & Chief Executive Officer, Non-Independent)
Mr Quek Kon Sean	(Non-Independent Non-Executive Director)
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	(Non-Independent Non-Executive Director)
Ms Lim Tau Kien	(Independent Non-Executive Director)
Ms Lim Lean See	(Independent Non-Executive Director)
Mr Saw Kok Wei	(Independent Non-Executive Director)

DIRECTORS' REPORT

for the financial year ended 30 June 2014
(continued)

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, the Directors holding office at the end of the financial year who had beneficial interests in the ordinary shares and/or preference shares and/or options over ordinary shares of the Company and/or its related corporations during the financial year are as follows:

		Shareholdings in which Directors have direct interests Number of ordinary shares/preference shares/ *shares issued or to be issued or acquired arising from the exercise of options			
	Nominal value per share RM (unless indicated)	As at 01.07.2013	Acquired	Sold	As at 30.06.2014
Interests of YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	1.00	390,000	–	–	390,000
Hong Leong Financial Group Berhad	1.00	4,989,600	–	–	4,989,600
Narra Industries Berhad	1.00	8,150,200	–	(8,150,200)	–
Guoco Group Limited	USD0.50	1,056,325	–	–	1,056,325
GuocoLand Limited	[1]	13,333,333	–	–	13,333,333
GuocoLand (Malaysia) Berhad	0.50	19,506,780	–	–	19,506,780
GuocoLeisure Limited	USD0.20	735,000	–	–	735,000
The Rank Group Plc	GBP13 $^{8/9}$p	–	285,207[10]	–	285,207
Interests of YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman in:					
Hong Leong Financial Group Berhad	1.00	5,544,000	–	–	5,544,000
Hong Leong Bank Berhad	1.00	400,000	–	–	400,000
Hong Leong Industries Berhad	0.50	52,800	–	–	52,800
Malaysian Pacific Industries Berhad	0.50	20,800	–	–	20,800
Interest of Mr Choong Yee How in:					
Hong Leong Financial Group Berhad	1.00	4,784,000 4,396,000*	2,646,000[12] –	(4,330,000) (2,646,000)[12]	3,100,000 1,750,000*
Interest of Mr Quek Kon Sean in:					
Hong Leong Financial Group Berhad	1.00	1,495,000 2,080,000*	1,180,000[12] –	(500,000) (1,180,000)[12]	2,175,000 900,000*

DIRECTORS' REPORT

for the financial year ended 30 June 2014
(continued)

DIRECTORS' INTERESTS (CONTINUED)

	Nominal value per share RM (unless indicated)	Shareholdings in which Directors have deemed interests Number of ordinary shares/preference shares/ *shares issued or to be issued or acquired arising from the exercise of options As at 01.07.2013	Acquired	Sold	As at 30.06.2014
Interests of YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	1.00	13,069,100	–	–	13,069,100
Hong Leong Financial Group Berhad	1.00	824,437,300	–	–	824,437,300
Hong Leong Capital Berhad	1.00	200,805,058	–	–	200,805,058
Hong Leong Bank Berhad	1.00	1,160,619,285	–	(70,000)	1,160,549,285
Hong Leong MSIG Takaful Berhad	1.00	65,000,000	–	–	65,000,000
Hong Leong Assurance Berhad	1.00	140,000,000	–	–	140,000,000
Hong Leong Industries Berhad	0.50	246,136,603[6]	–	–	246,136,603[6]
Hong Leong Yamaha Motor Sdn Bhd	1.00	17,352,872	–	–	17,352,872
	1.00	6,941[7]	–	–	6,941[7]
Guocera Tile Industries (Meru) Sdn Bhd	1.00	19,600,000	–	–	19,600,000
Hong Leong Maruken Sdn Bhd (In members' voluntary liquidation)	1.00	1,750,000	–	–	1,750,000
Century Touch Sdn Bhd (In members' voluntary liquidation)	1.00	6,545,001	–	–	6,545,001
Varinet Sdn Bhd (In members' voluntary liquidation)	1.00	10,560,627	–	–	10,560,627
RZA Logistics Sdn Bhd (In members' voluntary liquidation)	1.00	7,934,247	–	–	7,934,247
Malaysian Pacific Industries Berhad	0.50	107,782,357[6]	4,169,000	–	111,951,357[6]
Carter Realty Sdn Bhd	1.00	7	5,640,600	–	5,640,607
Carsem (M) Sdn Bhd	1.00	84,000,000	–	–	84,000,000
	100.00	22,400[7]	–	–	22,400[7]
Narra Industries Berhad	1.00	38,314,000	–	(460,900)	37,853,100
Guoco Group Limited	USD0.50	244,415,930	–	(7,291,000)	237,124,930
GuocoLand Limited	[1]	819,244,363[6]	–	–	819,244,363[6]
Southern Steel Berhad	1.00	301,541,202	–	–	301,541,202
Southern Pipe Industry (Malaysia) Sdn Bhd	1.00	118,822,953	–	–	118,822,953
	1.00	50,000[8]	–	–	50,000[8]

DIRECTORS' REPORT

for the financial year ended 30 June 2014
(continued)

DIRECTORS' INTERESTS (CONTINUED)

	Nominal value per share RM (unless indicated)	Shareholdings in which Directors have deemed interests Number of ordinary shares/preference shares/ *shares issued or to be issued or acquired arising from the exercise of options			
		As at 01.07.2013	Acquired	Sold	As at 30.06.2014
Interests of YBhg Tan Sri Quek Leng Chan in: (continued)					
Belmeth Pte. Ltd.	[1]	40,000,000	–	–	40,000,000
Guston Pte. Ltd.	[1]	8,000,000	–	–	8,000,000
Perfect Eagle Pte. Ltd.	[1]	24,000,000	–	–	24,000,000
First Garden Development Pte Ltd	[1]	63,000,000	–	–	63,000,000
Sanctuary Land Pte Ltd	[1]	90,000	–	–	90,000
Beijing Minghua Property Development Co., Ltd (In members' voluntary liquidation)	[2]	150,000,000	–	–	150,000,000
Nanjing Mahui Property Development Co., Ltd	[2]	271,499,800	–	–	271,499,800
Nanjing XinHaoFu Economic Information Consultants Co., Ltd (formerly known as Nanjing Xinhaoning Property Development Co., Ltd)	[3]	98,010,000	–	(98,010,000)	–
Nanjing Xinhaoxuan Property Development Co. Ltd	[3]	11,800,800	119,200	–	11,920,000[9]
Shanghai Xinhaojia Property Development Co., Ltd	[2]	3,150,000,000	–	–	3,150,000,000
Shanghai Xinhaozhong Property Development Co., Ltd	[3]	19,600,000	–	–	19,600,000
Beijing Cheng Jian Dong Hua Real Estate Development Company Limited	[2]	50,000,000	–	–	50,000,000
Lam Soon (Hong Kong) Limited	[5]	140,008,659	–	–	140,008,659
Kwok Wah Hong Flour Company Limited	[5]	9,800	–	–	9,800
Guangzhou Lam Soon Food Products Limited	[4]	6,570,000	–	–	6,570,000
GuocoLand (Malaysia) Berhad	0.50	456,055,616	–	–	456,055,616
Guoman Hotel & Resort Holdings Sdn Bhd	1.00	277,000,000	–	–	277,000,000

DIRECTORS' REPORT

for the financial year ended 30 June 2014
(continued)

DIRECTORS' INTERESTS (CONTINUED)

	Nominal value per share RM (unless indicated)	Shareholdings in which Directors have deemed interests Number of ordinary shares/preference shares/ *shares issued or to be issued or acquired arising from the exercise of options As at 01.07.2013	Acquired	Sold	As at 30.06.2014
Interests of YBhg Tan Sri Quek Leng Chan in: (continued)					
JB Parade Sdn Bhd	1.00	28,000,000	–	–	28,000,000
	0.01	68,594,000[7]	–	–	68,594,000[7]
GuocoLeisure Limited	USD0.20	923,255,425	–	–	923,255,425
The Rank Group Plc ("Rank")	GBP13$^{8/9}$p	291,046,540	65,992,300[10]	(88,843,871)[11]	268,194,969
Interests of YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman in:					
Hong Leong Financial Group Berhad	1.00	3,600[13]	–	–	3,600[13]
Interests of Mr Quek Kon Sean in:					
Hong Leong Industries Berhad	0.50	750,000	–	–	750,000
Malaysian Pacific Industries Berhad	0.50	281,250	–	–	281,250

Notes:

(1) Concept of par value was abolished with effect from 30 January 2006 pursuant to the Singapore Companies (Amendment) Act, 2005
(2) Capital contribution in RMB
(3) Capital contribution in USD
(4) Capital contribution in HKD
(5) Concept of par value was abolished with effect from 3 March 2014 pursuant to the New Companies Ordinance (Chapter 622), Hong Kong
(6) Inclusive of interest pursuant to Section 134(12)(c) of the Companies Act, 1965 in shares held by family member
(7) Redeemable Preference Shares
(8) Redeemable Convertible Cumulative Preference Shares
(9) Became a wholly-owned subsidiary during the financial year
(10) Entitlement pursuant to the distribution of shares in Rank by GGL to its shareholders as special interim dividend in specie ("Distribution of Rank Shares")
(11) Inclusive of Distribution of Rank Shares
(12) Exercise of share options
(13) Interest pursuant to Section 134(12)(c) of the Companies Act, 1965 in shares held by family member

DIRECTORS' REPORT

for the financial year ended 30 June 2014
(continued)

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors of the Company received or became entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the financial statements or as fixed salary of a full-time employee of the Company or of related corporations) by reason of a contract made by the Company or its related corporations with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except for YBhg Tan Sri Quek Leng Chan, who may be deemed to derive a benefit by virtue of those transactions, contracts and agreements for the acquisition and/or disposal of stocks and shares, stocks-in-trade, products, parts, accessories, plants, chattels, fixtures, buildings, land and other properties or any interest in any properties; and/or for the provision of services, including but not limited to project and sales management and any other management and consultancy services; and/or for construction, development, leases, tenancy, licensing, dealership and distributorship; and/or for the provision of treasury functions, advances in the conduct of normal trading, banking, insurance, investment, stockbroking and/or other businesses between the Company or its related corporations and corporations in which YBhg Tan Sri Quek Leng Chan is deemed to have interests.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any other arrangements to which the Company is a party, with the object or objects of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than the share options granted pursuant to the Executive Share Option Scheme.

EXECUTIVE SHARE OPTION SCHEMES AND EXECUTIVE SHARE SCHEME

The Company has concurrently established and implemented an Executive Share Option Scheme and an Executive Share Scheme.

(a) Executive Share Option Scheme 2006/2016 ("ESOS 2006/2016")

The ESOS 2006/2016 of up to fifteen percent (15%) of the issued and paid-up ordinary share capital of the Company, which was approved by the shareholders of the Company on 8 November 2005, was established on 23 January 2006 and would be in force for a period of ten (10) years.

On 18 January 2006, the Company announced that Bursa Malaysia Securities Berhad had approved-in-principle the listing of new ordinary shares of the Company to be issued pursuant to the exercise of options under the ESOS 2006/2016 at any time during the existence of the ESOS 2006/2016.

The ESOS 2006/2016 would provide an opportunity for eligible executives who had contributed to the growth and development of the Company and its subsidiaries ("the Group") to participate in the equity of the Company. The aggregate number of shares to be issued under the ESOS 2006/2016 shall not exceed 15% of the issued and paid-up ordinary share capital of the Company for the time being ("ESOS 2006/2016 Aggregate Maximum Allocation").

There were no options granted under the ESOS 2006/2016 of the Company during the financial year ended 30 June 2014.

As at 30 June 2014, a total of 20,451,000 options had been granted under ESOS 2006/2016, out of which 12,889,700 options had been exercised, with 3,050,300 options remaining outstanding. The aggregate options granted to Directors and chief executives of the Group under the ESOS 2006/2016 amounted to 15,800,000, out of which 10,105,000 options had been exercised, with 2,650,000 options outstanding.

DIRECTORS' REPORT

for the financial year ended 30 June 2014
(continued)

EXECUTIVE SHARE OPTION SCHEMES AND EXECUTIVE SHARE SCHEME (CONTINUED)

(a) Executive Share Option Scheme 2006/2016 ("ESOS 2006/2016") (continued)

Since the commencement of the ESOS 2006/2016, the maximum allocation applicable to Directors and senior management of the Group is 50% of the ESOS 2006/2016 Aggregate Maximum Allocation.

As at 30 June 2014, the actual percentage of total options granted to Directors and senior management of the Group under the ESOS 2006/2016 was 1.81% of the issued and paid up ordinary share capital of the Company.

(b) Executive Share Scheme ("ESS")

The ESS of up to ten percent (10%) of the issued and paid-up ordinary share capital (excluding treasury shares) of the Company comprises the Executive Share Option Scheme 2013/2023 ("ESOS 2013/2023") and the Executive Share Grant Scheme ("ESGS").

(i) ESOS 2013/2023

The ESOS 2013/2023 which was approved by the shareholders of the Company on 30 October 2012, was established on 12 March 2013 and would be in force for a period of ten (10) years.

On 18 September 2012, the Company announced that Bursa Malaysia Securities Berhad had resolved to approve the listing of new ordinary shares of the Company to be issued pursuant to the exercise of options under the ESOS 2013/2023.

The ESOS 2013/2023 would provide an opportunity for eligible executives who had contributed to the growth and development of the Group to participate in the equity of the Company.

(ii) ESGS

The ESGS which was approved by the shareholders of the Company on 29 October 2013, was established on 28 February 2014 and would end on 11 March 2023.

On 6 September 2013, the Company announced that Bursa Malaysia Securities Berhad had resolved to approve-in-principle the listing of new ordinary shares of the Company to be issued pursuant to the ESGS.

The ESGS would provide the Company with the flexibility to reward the eligible executives of the Group for their contribution with awards of the Company's shares without any consideration payable by the eligible executives.

At any point of time during the existence of the ESS, the aggregate number of shares comprised in the options and grants under the ESS and any other executive share schemes established by the Company which are still subsisting shall not exceed 10% of the issued and paid-up ordinary share capital (excluding treasury shares) of the Company at any one time ("Schemes Aggregate Maximum Allocation").

As at 30 June 2014, there were no options or grants granted under the ESS of the Company.

Since the commencement of the ESS, the maximum allocation applicable to Directors and senior management of the Group is 50% of the Schemes Aggregate Maximum Allocation.

DIRECTORS' REPORT

for the financial year ended 30 June 2014
(continued)

EXECUTIVE SHARE OPTION SCHEMES AND EXECUTIVE SHARE SCHEME (CONTINUED)

A trust has been set up for the ESOS 2006/2016 and ESS (collectively "Schemes") and it is administered by an appointed trustee. This trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase the Company's shares from the open market for the purposes of this trust. In accordance with MFRS 132, the shares purchased for the benefit of the Schemes holdings are recorded as "Treasury Shares for ESOS" in the shareholders' equity on the statements of financial position. The cost of operating the Schemes is charged to the statements of income.

For further details on the ESOS 2006/2016 and ESS, refer to notes to the financial statements on Equity Compensation Benefits.

SHARE CAPITAL

During the financial year, there was no issuance of new ordinary shares. As at 30 June 2014, the issued and paid-up share capital of the Company is RM1,052,767,789 comprising 1,052,767,789 ordinary shares of RM1.00 each.

STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY

(a) As at the end of the financial year

(i) Before the statements of income and statements of financial position of the Group and the Company were made out, the Directors took reasonable steps:

- to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of allowance for doubtful debts and financing and had satisfied themselves that all known bad debts and financing had been written off and that adequate allowance had been made for doubtful debts and financing; and
- to ensure that any current assets, other than debts and financing, which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

(ii) In the opinion of the Directors, the results of the operations of the Group and the Company during the financial year had not been substantially affected by any item, transaction or event of a material and unusual nature.

(b) From the end of the financial year to the date of this report

(i) The Directors are not aware of any circumstances:

- which would render the amount written off for bad debts and financing or the amount of the allowance for doubtful debts and financing in the financial statements of the Group and the Company, inadequate to any substantial extent;
- which would render the values attributed to current assets in the financial statements of the Group and the Company misleading; and
- which had arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate.

DIRECTORS' REPORT

for the financial year ended 30 June 2014
(continued)

STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY (CONTINUED)

(b) From the end of the financial year to the date of this report (continued)

(ii) In the opinion of the Directors:

- the results of the operations of the Group and the Company for the financial year ended 30 June 2014 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and
- no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and the Company to meet their obligations as and when they fall due.

(c) As at the date of this report

(i) There are no charges on the assets of the Group and the Company which had arisen since the end of the financial year to secure the liabilities of any other person.

(ii) There are no contingent liabilities which had arisen since the end of the financial year.

(iii) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements of the Group and the Company which would render any amount stated in the financial statements misleading.

DISCLOSURE OF SHARIAH ADVISORY COMMITTEE

The Group's Islamic banking and takaful business activities are subject to the Shariah compliance and confirmation by the Shariah Advisory Committee consisting of 5 scholars, at all times, appointed by the Board of Directors of Hong Leong Islamic Bank Berhad and Hong Leong MSIG Takaful Berhad, and approved by Bank Negara Malaysia.

The primary role of the Shariah Advisory Committee is mainly advising on matters relating to the business operations and products of the Group and providing support by attending regular meetings with the Group to ensure that they are in conformity with Shariah principles.

ULTIMATE HOLDING COMPANY

The ultimate holding company is Hong Leong Company (Malaysia) Berhad, a company incorporated in Malaysia.

AUDITORS

The auditors, Messrs PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 23 July 2014.

CHOONG YEE HOW
Director

QUEK KON SEAN
Director

Kuala Lumpur
18 September 2014

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2014

		The Group		The Company	
	Note	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Assets					
Cash and short-term funds	2	**17,084,360**	19,797,580	**6,882**	10,662
Deposits and placements with banks and other financial institutions	3	**4,494,097**	7,154,848	**8,762**	11,677
Securities purchased under resale agreements		**2,997,197**	1,299,641	**–**	–
Financial assets held-for-trading	4	**13,256,502**	16,804,320	**–**	–
Financial investments available-for-sale	5	**27,106,786**	22,311,708	**–**	–
Financial investments held-to-maturity	6	**9,851,132**	4,816,670	**–**	–
Derivative financial instruments	20	**712,983**	906,483	**1,211**	860
Loans, advances and financing	7	**103,665,448**	96,274,952	**–**	–
Clients' and brokers' balances	8	**430,804**	256,474	**–**	–
Other receivables	9	**693,520**	1,003,569	**2,076**	3,007
Amount due from subsidiaries	47	**–**	–	**54,535**	57,656
Statutory deposits with Central Banks	10	**3,181,392**	3,457,409	**–**	–
Tax recoverable		**11,349**	19,972	**10,800**	17,400
Investment in subsidiary companies	11	**–**	–	**14,986,980**	15,105,348
Investment in associated companies	12	**2,796,943**	2,456,598	**–**	–
Investment in joint ventures	13	**90,912**	79,945	**–**	–
Deferred tax assets	22	**–**	–	**3,550**	4,977
Property and equipment	14	**1,030,256**	1,039,745	**1,798**	898
Investment properties	15	**1,760**	1,680	**–**	–
Goodwill arising on consolidation	16	**2,410,644**	2,410,644	**–**	–
Intangible assets	17	**360,921**	380,907	**172**	11
Total assets		**190,177,006**	180,473,145	**15,076,766**	15,212,496

The accompanying accounting policies and notes form an integral part of these financial statements

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2014
(continued)

		The Group		The Company	
	Note	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Liabilities					
Deposits from customers	18	**130,632,286**	123,958,705	**–**	–
Deposits and placements of banks and other financial institutions	19	**9,166,255**	13,110,123	**–**	–
Obligations on securities sold under repurchase agreements		**4,295,975**	1,925,777	**–**	–
Bills and acceptances payable		**358,732**	800,680	**–**	–
Derivative financial instruments	20	**821,340**	1,009,421	**1,253**	8,160
Clients' and brokers' balances		**337,686**	140,353	**–**	–
Payables and other liabilities	21	**6,269,319**	4,574,141	**17,088**	13,245
Amount due to subsidiaries	47	**–**	–	**24**	1,859
Provision for claims		**67,088**	85,255	**–**	–
Provision for taxation		**38,583**	189,131	**–**	–
Deferred tax liabilities	22	**210,017**	221,561	**–**	–
Borrowings	23	**5,307,604**	5,428,332	**1,311,342**	1,466,106
Subordinated obligations	24	**5,359,614**	4,873,509	**–**	–
Non-innovative Tier 1 stapled securities	25	**1,410,252**	1,408,992	**–**	–
Innovative Tier 1 capital securities	26	**541,767**	556,042	**–**	–
Insurance funds	27	**8,355,757**	7,186,415	**–**	–
Total liabilities		**173,172,275**	165,468,437	**1,329,707**	1,489,370
Equity attributable to owners of the parent					
Share capital	28	**1,052,768**	1,052,768	**1,052,768**	1,052,768
Reserves	29	**10,447,136**	9,072,918	**12,709,472**	12,707,519
Treasury shares for ESOS	30	**(25,422)**	(49,958)	**(15,181)**	(37,161)
		11,474,482	10,075,728	**13,747,059**	13,723,126
Non-controlling interests		**5,530,249**	4,928,980	**–**	–
Total equity		**17,004,731**	15,004,708	**13,747,059**	13,723,126
Total equity and liabilities		**190,177,006**	180,473,145	**15,076,766**	15,212,496
Commitments and contingencies	41	**200,529,510**	167,125,844	**785,308**	967,360

The accompanying accounting policies and notes form an integral part of these financial statements

STATEMENTS OF INCOME

for the financial year ended 30 June 2014

		The Group		The Company	
	Note	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Interest income	31	**5,762,401**	5,618,423	**3,345**	3,804
Interest expense	32	**(3,287,992)**	(3,264,357)	**(50,114)**	(57,076)
Net interest income/(expense)		**2,474,409**	2,354,066	**(46,769)**	(53,272)
Income from Islamic banking business	33	**434,379**	454,887	**–**	–
		2,908,788	2,808,953	**(46,769)**	(53,272)
Non-interest income	34	**1,654,497**	1,569,618	**531,723**	507,729
		4,563,285	4,378,571	**484,954**	454,457
Overhead expenses	35	**(1,980,205)**	(2,036,802)	**(33,983)**	(27,436)
Operating profit before allowances		**2,583,080**	2,341,769	**450,971**	427,021
Allowance for impairment losses on loans, advances and financing and other losses	36	**(52,425)**	(41,621)	**–**	–
Writeback of impairment losses		**39,639**	4,275	**–**	1,056
		2,570,294	2,304,423	**450,971**	428,077
Share of results of associated companies	12	**429,576**	322,542	**–**	–
Share of results of joint ventures	13	**9,353**	3,074	**–**	–
Profit before taxation		**3,009,223**	2,630,039	**450,971**	428,077
Taxation	38	**(491,867)**	(465,265)	**(76,394)**	(97,785)
Net profit for the financial year		**2,517,356**	2,164,774	**374,577**	330,292
Attributable to:					
Owners of the parent		**1,706,877**	1,487,690	**374,577**	330,292
Non-controlling interests		**810,479**	677,084	**–**	–
		2,517,356	2,164,774	**374,577**	330,292
Earnings per share attributable to equity holders of the Company (sen)					
– Basic	39	**162.9**	142.7	**35.7**	31.6
– Diluted	39	**162.8**	142.4	**35.7**	31.5

The accompanying accounting policies and notes form an integral part of these financial statements

STATEMENTS OF COMPREHENSIVE INCOME

for the financial year ended 30 June 2014

		The Group		The Company	
	Note	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Net profit for the financial year		**2,517,356**	2,164,774	**374,577**	330,292
Other comprehensive income/(loss):					
Items that may be reclassified subsequently to profit or loss:					
Currency translation differences		**10,784**	4,879	**–**	–
Share of other comprehensive loss of associated companies		**(3,162)**	(672)	**–**	–
Net fair value changes on financial investments available-for-sale	54	**64,036**	93,060	**–**	–
Income tax relating to components of other comprehensive income	54	**(16,009)**	(25,816)	**–**	–
Other comprehensive income for the financial year, net of tax		**55,649**	71,451	**–**	–
Total comprehensive income for the financial year, net of tax		**2,573,005**	2,236,225	**374,577**	330,292
Attributable to:					
Owners of the parent		**1,754,067**	1,558,886	**374,577**	330,292
Non-controlling interests		**818,938**	677,339	**–**	–
		2,573,005	2,236,225	**374,577**	330,292

The accompanying accounting policies and notes form an integral part of these financial statements

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 30 June 2014

		Attributable to owners of the parent												
The Group	Note	Share capital RM'000	Share premium RM'000	Treasury shares for ESOS RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Fair value reserve RM'000	Other capital reserve RM'000	Share options reserve RM'000	Exchange fluctuation reserve RM'000	Retained profits RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
As at 1 July 2013		1,052,768	117,229	(49,958)	1,971,758	8,527	248,221	134,417	22,768	(20,501)	6,590,499	10,075,728	4,928,980	15,004,708
Comprehensive income														
Net profit for the financial year		–	–	–	–	–	–	–	–	–	1,706,877	1,706,877	810,479	2,517,356
Currency translation differences		–	–	–	–	–	–	–	–	8,154	–	8,154	2,630	10,784
Share of other comprehensive loss of associated companies		–	–	–	–	–	(2,457)	–	–	–	–	(2,457)	(705)	(3,162)
Net fair value changes in financial investments available-for-sale, net of tax	54	–	–	–	–	–	41,493	–	–	–	–	41,493	6,534	48,027
Total comprehensive income		–	–	–	–	–	39,036	–	–	8,154	1,706,877	1,754,067	818,938	2,573,005
Transaction with owners														
Transfer to statutory reserve/regulatory reserve		–	–	–	482,767	1,739	–	–	–	–	(484,506)	–	–	–
Allocation of other reserves to non-controlling interests		–	–	–	–	–	–	–	–	–	(16,917)	(16,917)	16,520	(397)
Dividends paid:														
– first interim dividend for the financial year ended 30 June 2014	40	–	–	–	–	–	–	–	–	–	(135,905)	(135,905)	–	(135,905)
– second interim dividend for the financial year ended 30 June 2014	40	–	–	–	–	–	–	–	–	–	(262,442)	(262,442)	–	(262,442)
Non-controlling interests share of dividend		–	–	–	–	–	–	–	–	–	–	–	(253,003)	(253,003)
Non-controlling interests share of subsidiary treasury shares		–	–	–	–	–	–	–	–	–	–	–	18,814	18,814
Options charge arising from ESOS		–	–	–	–	–	–	–	6,194	–	–	6,194	–	6,194
Exercise of ESOS		–	–	24,536	–	–	–	–	(21,156)	–	50,377	53,757	–	53,757
Transfer to capital redemption reserve		–	–	–	–	–	–	431	–	–	(431)	–	–	–
Total transaction with owners		–	–	24,536	482,767	1,739	–	431	(14,962)	–	(849,824)	(355,313)	(217,669)	(572,982)
As at 30 June 2014		1,052,768	117,229	(25,422)	2,454,525	10,266	287,257	134,848	7,806	(12,347)	7,447,552	11,474,482	5,530,249	17,004,731

The accompanying accounting policies and notes form an integral part of these financial statements

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 30 June 2014
(continued)

		Attributable to owners of the parent												
The Group	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Treasury shares for ESOS RM'000**	**Statutory reserve RM'000**	**Regulatory reserve RM'000**	**Fair value reserve RM'000**	**Other capital reserve RM'000**	**Share options reserve RM'000**	**Exchange fluctuation reserve RM'000**	**Retained profits RM'000**	**Total RM'000**	**Non-controlling interests RM'000**	**Total equity RM'000**
As at 1 July 2012		1,052,768	117,229	(62,705)	1,473,456	6,045	179,506	133,993	35,445	(22,982)	5,985,755	8,898,510	4,383,194	13,281,704
Comprehensive income														
Net profit for the financial year		–	–	–	–	–	–	–	–	–	1,487,690	1,487,690	677,084	2,164,774
Currency translation differences		–	–	–	–	–	–	–	–	2,481	–	2,481	2,398	4,879
Share of other comprehensive loss of associated companies		–	–	–	–	–	(664)	–	–	–	–	(664)	(8)	(672)
Net fair value changes in financial investments available-for-sale, net of tax	54	–	–	–	–	–	69,379	–	–	–	–	69,379	(2,135)	67,244
Total comprehensive income		–	–	–	–	–	68,715	–	–	2,481	1,487,690	1,558,886	677,339	2,236,225
Transaction with owners														
Transfer to statutory reserve/regulatory reserve		–	–	–	498,302	2,482	–	–	–	–	(500,784)	–	–	–
Allocation of other reserves to non-controlling interests		–	–	–	–	–	–	–	–	–	3,435	3,435	(2,064)	1,371
Acquisition of additional interest in subsidiary company		–	–	–	–	–	–	–	–	–	499	499	(9,976)	(9,477)
Dividends paid:														
– first interim dividend for the financial year ended 30 June 2013	40	–	–	–	–	–	–	–	–	–	(135,556)	(135,556)	–	(135,556)
– second interim dividend for the financial year ended 30 June 2013	40	–	–	–	–	–	–	–	–	–	(240,447)	(240,447)	–	(240,447)
Non-controlling interests share of dividend		–	–	–	–	–	–	–	–	–	(32,400)	(32,400)	(172,496)	(204,896)
Non-controlling interests share of subsidiary treasury shares		–	–	–	–	–	–	–	–	–	–	–	52,983	52,983
Options charge arising from ESOS		–	–	–	–	–	–	–	3,401	–	–	3,401	–	3,401
Purchase of treasury shares		–	–	(3,676)	–	–	–	–	–	–	–	(3,676)	–	(3,676)
Exercise of ESOS		–	–	16,423	–	–	–	–	(16,078)	–	22,731	23,076	–	23,076
Transfer to capital redemption reserve		–	–	–	–	–	–	424	–	–	(424)	–	–	–
Total transaction with owners		–	–	12,747	498,302	2,482	–	424	(12,677)	–	(882,946)	(381,668)	(131,553)	(513,221)
As at 30 June 2013		1,052,768	117,229	(49,958)	1,971,758	8,527	248,221	134,417	22,768	(20,501)	6,590,499	10,075,728	4,928,980	15,004,708

The accompanying accounting policies and notes form an integral part of these financial statements

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 30 June 2014
(continued)

		Non-distributable					Distributable	
The Company	Note	Share capital RM'000	Share premium RM'000	Treasury shares for ESOS RM'000	Other capital reserve RM'000	Share options reserve RM'000	Retained profits RM'000	Total equity RM'000
As at 1 July 2013		**1,052,768**	**117,229**	**(37,161)**	**254,991**	**16,680**	**12,318,619**	**13,723,126**
Net profit for the financial year		**–**	**–**	**–**	**–**	**–**	**374,577**	**374,577**
Dividends paid								
– first interim dividend for the financial year ended 30 June 2014	40	**–**	**–**	**–**	**–**	**–**	**(135,905)**	**(135,905)**
– second interim dividend for the financial year ended 30 June 2014	40	**–**	**–**	**–**	**–**	**–**	**(262,442)**	**(262,442)**
Options charge arising from ESOS		**–**	**–**	**–**	**–**	**4,434**	**–**	**4,434**
Exercise of ESOS		**–**	**–**	**21,980**	**–**	**(16,476)**	**37,765**	**43,269**
As at 30 June 2014		**1,052,768**	**117,229**	**(15,181)**	**254,991**	**4,638**	**12,332,614**	**13,747,059**
As at 1 July 2012		1,052,768	117,229	(47,085)	254,991	12,078	12,362,017	13,751,998
Net profit for the financial year		–	–	–	–	–	330,292	330,292
Dividends paid								
– first interim dividend for the financial year ended 30 June 2013	40	–	–	–	–	–	(135,556)	(135,556)
– second interim dividend for the financial year ended 30 June 2013	40	–	–	–	–	–	(240,447)	(240,447)
Options charge arising from ESOS		–	–	–	–	4,602	–	4,602
Purchase of treasury shares		–	–	(3,676)	–	–	–	(3,676)
Exercise of ESOS		–	–	13,600	–	–	2,313	15,913
As at 30 June 2013		1,052,768	117,229	(37,161)	254,991	16,680	12,318,619	13,723,126

The accompanying accounting policies and notes form an integral part of these financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the financial year ended 30 June 2014

	The Group	
	2014 RM'000	2013 RM'000
Cash flows from operating activities		
Profit before taxation	**3,009,223**	2,630,039
Adjustments for:		
Unearned premium reserves	**(3,803)**	(2,098)
Life fund - underwriting surplus	**1,431,853**	1,205,945
Depreciation of property and equipment	**115,492**	110,724
Amortisation of intangible assets	**99,562**	100,483
Intangible assets written off	**8,568**	543
Property and equipment written off	**1,325**	219
Gain on sale of property and equipment	**(6,305)**	(924)
Gain on revaluation of investment properties	**(80)**	–
Gain from disposal of financial assets held-for-trading	**(18,852)**	(47,978)
Gain from redemption of financial investments held-to-maturity	**(802)**	(8,437)
Gain from disposal of financial investments available-for-sale	**(101,177)**	(116,716)
Gain from disposal of derivative financial instruments	**(45,090)**	(19,764)
Net unrealised gain on revaluation of financial assets held-for-trading and derivative financial instruments	**(33,091)**	(110,445)
Net realised loss on fair value changes arising from fair value hedges and amortisation of fair value changes arising from terminated fair value hedges	**8,334**	26,614
Net unrealised gain on fair value changes arising from fair value hedges	**–**	(10,917)
Unrealised exchange loss	**2,371**	2,644
Writeback of impairment losses	**(39,639)**	(4,275)
Allowances for impairment losses on loans, advances and financing	**306,363**	305,374
Interest expense on borrowings	**280,008**	266,516
Interest expense on subordinated obligations	**211,462**	194,731
Interest expense on non-innovative Tier 1 stapled securities	**71,439**	72,215
Interest expense on innovative Tier 1 capital securities	**26,862**	23,742
Interest income from financial assets held-for-trading	**(519,108)**	(741,624)
Interest income from financial investments available-for-sale	**(424,641)**	(322,668)
Interest income from financial investments held-to-maturity	**(196,254)**	(104,525)
Dividend income from financial assets held-for-trading and financial investments available-for-sale	**(271,284)**	(238,352)
Options charge arising from ESOS	**6,194**	3,401
Surplus transferred from life insurance business	**(249,577)**	(94,512)
Share of joint ventures' results	**(9,353)**	(3,074)
Share of associated companies' results	**(429,576)**	(322,542)
	221,201	164,300
Operating profit before working capital changes	**3,230,424**	2,794,339

The accompanying accounting policies and notes form an integral part of these financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the financial year ended 30 June 2014
(continued)

	The Group	
	2014 RM'000	2013 RM'000
Decrease/(increase) in operating assets		
Deposits and placements with banks and other financial institutions	2,660,751	(2,620,228)
Securities purchased under resale agreements	(1,697,556)	(709,120)
Financial assets held-for-trading	4,116,498	7,433,674
Loans, advances and financing	(7,696,859)	(7,067,371)
Clients' and brokers' balances	(174,330)	12,786
Other receivables	391,863	(389,066)
Statutory deposits with Central Banks	276,017	(106,422)
Increase/(decrease) in operating liabilities		
Deposits from customers	6,673,581	741,903
Deposits and placements of banks and other financial institutions	(3,943,868)	2,230,616
Obligations on securities sold under repurchase agreements	2,370,198	1,291,980
Bills and acceptances payable	(441,948)	314,589
Payables and other liabilities	1,658,775	764,628
Provision for claims	(18,167)	(11,563)
Clients' and brokers' balances	197,333	1,902
	4,372,288	1,888,308
Cash flows generated from operating activities	7,602,712	4,682,647
Income tax paid	(646,077)	(570,177)
Interest received	3,345	3,804
	(642,732)	(566,373)
Net cash flows generated from operating activities	6,959,980	4,116,274
Cash flows from investing activities		
Net purchases of financial investments available-for-sale	(4,571,741)	(6,756,049)
Net purchases of financial investments held-to-maturity	(5,033,660)	(442,792)
Interest received on financial investments available-for-sale and financial investments held-to-maturity	620,895	427,192
Dividends received on financial assets held-for-trading and financial investments available-for-sale	271,284	238,352
Dividends received from associated companies	56,086	74,373
Proceeds from disposal of property and equipment	13,182	2,751
Subscription of shares in joint ventures	(1,628)	–
Purchase of property and equipment	(121,536)	(128,847)
Purchase of intangible assets	(88,478)	(28,356)
Acquisition of additional interest in subsidiary company	–	(9,477)
Net cash flows used in investing activities	(8,855,596)	(6,622,853)

The accompanying accounting policies and notes form an integral part of these financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the financial year ended 30 June 2014
(continued)

		The Group	
	Note	2014 RM'000	2013 RM'000
Cash flows from financing activities			
Interest paid on subordinated obligations		**(217,439)**	(186,883)
Interest paid on borrowings		**(279,510)**	(207,197)
Interest paid on non-innovative Tier 1 stapled securities		**(71,245)**	(72,021)
Interest paid on innovative Tier 1 capital securities		**(26,749)**	(23,629)
Drawdown/(repayment) of revolving credit		**65,000**	(165,000)
(Redemption)/issuance of medium term notes and commercial papers		**(40,000)**	2,065,000
Repayment of term loans		**(180,000)**	(178,030)
Purchase of treasury shares		**–**	(3,676)
Proceeds from subordinated obligations		**900,000**	505,000
Repayment of subordinated obligations		**(410,000)**	–
Cash received from ESOS exercised		**53,757**	23,076
Dividends paid to			
– owners of the parent		**(398,347)**	(376,003)
– non-controlling interest		**(253,003)**	(204,896)
Net cash flows (used in)/generated from financing activities		**(857,536)**	1,175,741
Net decrease in cash and cash equivalents		**(2,753,152)**	(1,330,838)
Effects of exchange rate changes		**39,932**	7,379
Cash and cash equivalents at beginning of financial year		**19,797,580**	21,121,039
Cash and cash equivalents at end of financial year	2	**17,084,360**	19,797,580

The accompanying accounting policies and notes form an integral part of these financial statements

COMPANY STATEMENTS OF CASH FLOWS

for the financial year ended 30 June 2014

	The Company	
	2014 RM'000	2013 RM'000
Cash flows from operating activities		
Profit before taxation	**450,971**	428,077
Adjustments for:		
Depreciation of property and equipment	**278**	341
Amortisation of intangible assets	**22**	7
Intangible assets written off	**2**	–
Property and equipment written off	**5**	–
Gain on sale of property and equipment	**(196)**	(1)
Loss from disposal of financial assets held-for-trading	**20**	120
Loss/(gain) from disposal of derivative financial instruments	**2,586**	(7,927)
Net unrealised gain on revaluation of financial assets held-for-trading and derivative financial instruments	**(7,258)**	(8,605)
Realised exchange loss	**–**	452
Writeback of impairment losses	**–**	(1,056)
Interest expense	**50,114**	57,076
Interest income	**(3,345)**	(3,804)
Dividend income from financial assets held-for-trading	**(640)**	(1,025)
Dividend income from subsidiary companies	**(516,469)**	(481,620)
Options charge arising from ESOS	**4,434**	4,602
	(470,447)	(441,440)
Operating loss before working capital changes	**(19,476)**	(13,363)
Decrease in receivables	**11,288**	6,380
Increase in financial assets held-for-trading	**(20)**	(120)
Decrease in payables	**(4,900)**	(7,151)
	6,368	(891)
Cash flows used in operating activities	**(13,108)**	(14,254)
Income tax refunded	**17,429**	16,355
Interest received	**3,345**	3,804
	20,774	20,159
Net cash flows generated from operating activities	**7,666**	5,905

The accompanying accounting policies and notes form an integral part of these financial statements

COMPANY STATEMENTS OF CASH FLOWS

for the financial year ended 30 June 2014
(continued)

		The Company	
	Note	2014 RM'000	2013 RM'000
Cash flows from investing activities			
Dividends received on financial assets held-for-trading		640	1,025
Dividends received from subsidiary companies		430,674	361,215
Proceeds from disposal of property and equipment		342	5
Purchase of property and equipment		(1,329)	(151)
Purchase of intangible assets		(185)	(3)
Proceeds from redemption of redeemable preference shares		120,028	145,717
Subscription of redeemable preference shares		(1,660)	–
Acquisition of additional interest in subsidiary company		–	(9,477)
Net cash flows generated from investing activities		548,510	498,331
Cash flows from financing activities			
Interest paid on borrowings		(49,878)	(57,678)
Drawdown of revolving credit		65,000	–
(Redemption)/issuance of medium term notes and commercial papers		(40,000)	65,000
Repayment of term loans		(180,000)	(178,030)
Purchase of treasury shares		–	(3,676)
Cash received from ESOS exercised		43,269	15,913
Dividends paid to shareholders of the Company		(398,347)	(376,003)
Net cash flows used in financing activities		(559,956)	(534,474)
Net decrease in cash and cash equivalents		(3,780)	(30,238)
Cash and cash equivalents at beginning of financial year		10,662	40,900
Cash and cash equivalents at end of financial year	2	6,882	10,662

The accompanying accounting policies and notes form an integral part of these financial statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014

The following accounting policies have been used consistently in dealing with items that are considered material in relation to the financial statements.

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The financial statements incorporate the activities relating to the Islamic Banking and takaful businesses which have been undertaken by its subsidiaries, Hong Leong Islamic Bank Berhad ("HLISB") and Hong Leong MSIG Takaful Berhad ("HLMT") in compliance with Shariah principles. Islamic Banking business refers generally to the acceptance of deposits and granting of financing under Shariah principles while takaful business refers generally to underwriting of Islamic insurance under the Shariah principles.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial investments available-for-sale and financial assets/financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with 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 financial statements, and the reported amounts of income and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Group's and the Company's accounting policies. Although these estimates and judgement are based on the management and Directors' best knowledge of current events and actions, actual results may differ from those estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 55.

(a) Standards and amendments to published standards that are effective and applicable to the Group and the Company

The new accounting standards and amendments to published standards that are effective and applicable to the Group and the Company for the financial year beginning 1 July 2013 are as follows:

- MFRS 10 "Consolidated Financial Statements"
- MFRS 11 "Joint Arrangements"
- MFRS 12 "Disclosures of Interests in Other Entities"
- MFRS 13 "Fair Value Measurement"
- Revised MFRS 127 "Separate Financial Statements"
- Revised MFRS 128 "Investments in Associates and Joint Ventures"
- Amendment to MFRS 7 "Financial Instruments: Disclosures"
- Amendment to MFRS 10, MFRS 11 and MFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"
- Annual improvements to 2009-2011 Cycle

The adoption of the above accounting standards, amendments and improvements to published standards did not have material impact on the financial statements of the Group and the Company.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards early adopted by the Group

The amendments to MFRS 136 "Impairment of Assets" removed certain disclosures of the recoverable amount of CGUs which had been included in MFRS 136 by the issuance of MFRS 13. The amendment is not mandatory for the Group until 1 July 2014, however the Group has decided to early adopt the amendment as of 1 July 2013.

(c) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013. The Group and the Company will apply these standards, amendments to published standards and interpretations from:

(i) Financial year beginning on/after 1 July 2014

- Amendment to MFRS 132 "Financial Instruments: Presentation" does not change the current offsetting model in MFRS 132. It clarifies the meaning of 'currently has a legally enforceable right of set-off' that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.

- Amendments to MFRS 139 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting (effective 1 January 2014) provide relief from discontinuing hedge accounting in a situation where a derivative (which has been designated as a hedging instrument) is novated to effect clearing with a central counterparty as a result of laws or regulation, subject to meeting the following criteria - the parties to the hedging instrument agree that the central counterparty replaces the original counterparty, other changes to the hedging instrument are limited to those that are necessary to effect replacement of the counterparty.

- Amendments to MFRS 10, MFRS 12 and MFRS 127 introduce an exception to consolidation for investment entities. Investment entities are entities whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both and evaluate the performance of its investments on fair value basis. The amendments require investment entities to measure particular subsidiaries at fair value instead of consolidating them.

- IC Interpretation 21, "Levies" sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation clarifies that a liability to pay a levy is recognised when the obligating event occurs. Obligating event is the event identified by the legislation that triggers the payment of the levy.

- Annual Improvements to MFRSs 2010-2012 Cycle (Amendments to MFRS 2 "Share-based Payment", MFRS 3 "Business Combinations", MFRS 8 "Operating Segments", MFRS 13 "Fair Value Measurement", MFRS 116 "Property, Plant and Equipment", MFRS 124 "Related Party Disclosures" and MFRS 138 "Intangible Assets").

- Annual Improvements to MFRSs 2011-2013 Cycle (Amendments to MFRS 1 "First-time Adoption of Financial Reporting Standards", MFRS 3 "Business Combinations", MFRS 13 "Fair Value Measurement" and MFRS 140 "Investment Property").

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(c) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective (continued)

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013. The Group and the Company will apply these standards, amendments to published standards and interpretations from: (continued)

(ii) Effective date yet to be determined by MASB

- MFRS 9 Financial Instruments "Classification and Measurement of Financial Assets and Financial Liabilities" will replace MFRS 139 "Financial Instruments: Recognition and Measurement". MFRS 9 has two measurement categories - amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

  MFRS 9 Financial Instruments "Hedge Accounting" brings into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. The revised standard establishes a more principle-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in MFRS 139.

None of the standards, amendments and interpretations that are effective after 1 July 2013 is expected to have a significant effect on the financial statements of the Group and the Company, except for MFRS 9. MFRS 9 introduces significant changes in the way the Group accounts for financial instruments. Due to the complexity of this standard and its proposed changes, the financial effects of its adoption are still being assessed by the Group and the Company.

B CONSOLIDATION

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to the end of the financial year.

The Group applies the acquisition method to account for business combinations.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

B CONSOLIDATION (CONTINUED)

(i) Subsidiaries (continued)

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statements of income.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through statements of income.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 either in statements of income or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The Group applies predecessor accounting to account for business combinations under common control. Under predecessor accounting, assets and liabilities acquired are not restated to their respective fair values. They are recognised at the carrying amounts from the consolidated financial statements of the ultimate holding company of the Group and adjusted to conform with the accounting policies adopted by the Group. The difference between any consideration given and the aggregate carrying amounts of the assets and liabilities (as of the date of the transaction) of the acquired entity is recognised as an adjustment to equity. No additional goodwill is recognised.

The acquirer only incorporates the acquired entity's results and statements of financial position prospectively from the date on which the business combination between entities under common control occurred. Consequently, the consolidated financial statements do not reflect the results of the acquired entity for the period before the transaction occurred. The corresponding amounts for the previous financial year are also not restated.

Predecessor accounting may lead to a difference between the cost of the transaction and the carrying value of the net assets. The difference is recorded in retained profits.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

B CONSOLIDATION (CONTINUED)

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in statements of income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to statements of income.

(iv) Joint arrangements

A joint arrangement is an arrangement of which there is contractually agreed sharing of control by the Group with one or more parties, where decisions about the relevant activities relating to the joint arrangement require unanimous consent of the parties sharing control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities, relating to the arrangement.

The Group's interest in a joint venture is accounted for in the financial statements by the equity method of accounting. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

B CONSOLIDATION (CONTINUED)

(v) Associated companies

Associated companies are those corporations, partnerships or other entities in which the Group exercises significant influence, but which it does not control, generally accompanying a shareholding of between 20% and 50% of voting rights. Significant influence is power to participate in financial and operating policy decisions of associates but not power to exercise control over those policies.

Investments in associated companies are accounted for in the consolidated financial statements using equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of associated companies' post-acquisition profits or losses is recognised in statements of income, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the Group's share of losses of an associated company equals or exceeds its interest in the associated company, the Group discontinues recognising its share of further losses. The interest in an associated company is the carrying amount of the investment in the associated company under the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associated company. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associated company. If the associated company subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred. Where necessary, in applying the equity method, adjustments are made to the financial statements of associated companies to ensure consistency of accounting policies with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the statements of income.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to statements of income where appropriate.

Dilution gains and losses arising in investments in associates are recognised in the statements of income.

(vi) Changes in ownership interest

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in statements of income. This fair value is its fair value on initial recognition as a financial asset in accordance with MFRS 139. Any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

B CONSOLIDATION (CONTINUED)

(vii) Investments in subsidiaries, joint ventures and associated companies

In the Company's separate financial statements, investment in subsidiaries, joint ventures and associated companies are carried at cost less accumulated impairment losses. On disposal of investments in subsidiaries, joint ventures and associated companies, the difference between disposal proceeds and the carrying amount of investments are recognised in the statements of income.

C GOODWILL

Goodwill arises on business combinations when the cost of acquisition of subsidiaries, joint ventures and associated companies exceeds the fair value of the Group's share of the identifiable net assets at the date of acquisition.

Goodwill on acquisition of associated companies and joint ventures are included in investment in associated companies and joint ventures. Such goodwill is tested for impairment as part of the overall balance.

Goodwill is allocated to cash-generating units ("CGU") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination in which the goodwill arose.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less cost to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

D PROPERTY AND EQUIPMENT AND DEPRECIATION

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statements of income during the financial period in which they are incurred.

Freehold land and capital work-in-progress are not depreciated. Depreciation on capital work-in-progress commences when the assets are ready for their intended use. Depreciation of other property and equipment is calculated to write off the cost of property and equipment to their residual values over the estimated useful lives, summarised as follows:

Leasehold land	Over the remaining period of the lease or 100 years (1%) whichever is shorter
Buildings on leasehold land	Over the remaining period of the lease or 50 years (2%) whichever is shorter
Buildings on freehold land	2%
Equipment, furniture and fittings	10% – 33%
Renovations	10%
Motor vehicles	20% – 25%

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

D PROPERTY AND EQUIPMENT AND DEPRECIATION (CONTINUED)

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

Property and equipment are reviewed for indication of impairment at each statements of financial position date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where an indication of impairment exists, the carrying amount of the asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in non-interest income.

E INVESTMENT PROPERTIES

Investment properties are properties which are held for rentals or for capital appreciation or for both.

Investment properties are stated at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The fair values of investment properties are reviewed annually, and a formal valuation by an independent professional valuer is carried out once in every three years. All gains or losses arising from a change in fair value of an investment property are recognised in the statements of income.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the statements of income in the year in which they arise.

F INTANGIBLE ASSETS

(i) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

(ii) Other intangible assets

Other intangible assets include core deposits and customer relationships. These intangible assets were acquired in a business combination and are valued using income approach methodologies. These intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. The useful lives of the intangible assets are as follows:

Core deposit: 7 years
Customer relationships: 10 years

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

G LEASES

(i) Finance Lease

Assets purchased under lease which in substance transfers the risks and benefits of ownership of the assets to the Group or the Company are capitalised under property and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease term. Such leased assets are subject to depreciation on the same basis as other property and equipment.

Leases which do not meet such criteria are classified as operating lease and the related rentals are charged to statements of income.

(ii) Operating Lease

Leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profits or loss on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

H FINANCIAL ASSETS

(i) Classification

The Group and the Company classify their financial assets into the following categories: at fair value through profit or loss, loans and receivables, financial investments available-for-sale and financial investments held-to-maturity. Management determines the classifications of its securities up-front at the point when transactions are entered into.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise of financial assets held-for-trading and other financial assets designated by the Group and the Company as fair value through profit or loss upon initial recognition.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated and effective as hedging instruments.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(c) Financial investments held-to-maturity

Financial investments held-to-maturity are non-derivative instruments with fixed or determinable payments and fixed maturities that the Group and the Company's management has the positive intent and ability to hold to maturity. If the Group or the Company sell other than an insignificant amount of financial investments held-to-maturity, the entire category will be tainted and reclassified as financial investments available-for-sale.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

H FINANCIAL ASSETS (CONTINUED)

(i) Classification (continued)

(d) Financial investments available-for-sale

Financial investments available-for-sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as financial assets at fair value through profit or loss, loans and receivables and financial investments held-to-maturity.

(ii) Recognition and initial measurement

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs for securities carried at fair value through profit or loss are taken directly to the statements of income.

(iii) Subsequent measurement

Financial assets at fair value through profit or loss and financial investments available-for-sale are subsequently carried at fair value, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured in which case the investments are stated at cost. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the statements of income in the period which they arise. Gains and losses arising from changes in fair value of financial investments available-for-sale are recognised directly in other comprehensive income, until the securities are derecognised or impaired at which time the cumulative gains or loss previously recognised in other comprehensive income are recognised directly in the statements of income. Foreign exchange gains or losses of financial investments available-for-sale are recognised in the statements of income in the period it arises.

Financial investments held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from the de-recognition or impairment of the securities are recognised in the statements of income.

Interest from financial assets held at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity is calculated using the effective interest method and is recognised in the statements of income. Dividends from available-for-sale equity instruments are recognised in the profit or loss when the entity's right to receive payment is established.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including the transaction costs, and measured subsequently at amortised cost using the effective interest rate method. Interest on loans is included in the statements of income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statements of income.

(iv) Reclassification of financial assets

The Group and the Company may choose to reclassify a non-derivative financial assets held-for-trading out of the held-for-trading category if the financial asset is no longer held for the purposes of selling in the near term. Financial assets other than loan and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group and the Company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group and the Company have the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

H FINANCIAL ASSETS (CONTINUED)

(iv) Reclassification of financial assets (continued)

Reclassifications are made at the fair value at the date of the reclassification. The fair values of the securities becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made. The effective interest rates for the securities reclassified to held-to-maturity category are determined at the reclassification date. Further changes in estimates of future cash flows are recognised as an adjustment to the effective interest rates.

I FINANCIAL LIABILITIES

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in statements of income.

(i) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held-for-trading, and financial liabilities designated at fair value through profit or loss upon initial recognition.

A financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated and effective as hedging instruments.

The Group has also designated certain structured deposits at fair value through profit or loss as permitted under MFRS 139 "Financial Instruments: Recognition and Measurement" as it significantly reduces accounting mismatch that would otherwise arise from measuring the corresponding assets and liabilities of different basis.

(ii) Financial liabilities at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost.

J DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral furnished by the Group under standard repurchase agreements transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for de-recognition are therefore not met.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

K OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is presented in the statements of financial position where there is a legally enforceable right to offset the recognised amounts and there is intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

L FORECLOSED PROPERTIES

Foreclosed properties are stated at the lower of carrying amount and fair value less costs to sell.

M DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the statements of income.

The best evidence of fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognise profits immediately.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designated certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge) or (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge) or (3) hedges of a net investment in a foreign operation (net investment hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction, the Group document the relationship between hedging instruments and hedged items, as well as their risk management objective and strategy for undertaking various hedge transactions. The Group also document their assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statements of income, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to statements of income over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained profits until the disposal of the equity security.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

M DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(ii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain and loss relating to the ineffective portion is recognised immediately in the statements of income. Amounts accumulated in equity are recycled to the statements of income in the periods in which the hedged item will affect statements of income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statements of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statements of income.

(iii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statements of income.

Gains and losses accumulated in the equity are included in the statements of income when the foreign operation is partially disposed or sold.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statements of income.

N BILLS AND ACCEPTANCES PAYABLE

Bills and acceptances payable represent the banking subsidiaries' own bills and acceptances rediscounted and outstanding in the market.

O PROVISIONS

Provisions are recognised by the Group and the Company when all of the following conditions have been met:

(i) the Group and the Company have a present legal or constructive obligation as a result of past events;

(ii) it is probable that an outflow of resources to settle the obligation will be required; and

(iii) a reliable estimate of the amount of obligation can be made.

Where the Group and the Company expect a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present values of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

P BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statements of income over the period of the borrowings using the effective interest method.

All other borrowing costs are recognised in statements of income in the period in which they are incurred.

Q UNEARNED CONTRIBUTION RESERVES

Contribution liabilities refer to the higher of:

(i) the aggregate of the unearned contribution reserves ("UCR"); or

(ii) the best estimate value of the takaful's unexpired risk reserves ("URR") at the valuation date and the provision of risk margin for adverse deviation ("PRAD") calculated at the overall takaful subsidiary level. The best estimate value is a prospective estimate of the expected future payments arising from future events insured under certificates in force as at the valuation date and also includes allowance for the takaful operator's expense including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and allows for expected future contribution refunds.

(a) Contribution liabilities

UCR are calculated for direct and reinsurance inwards business. UCR represents the portion of the net contribution of takaful certificates written that relate to the unexpired periods of the certificates at the end of the financial year. In determining the UCR at the statement of financial position date, the method that most accurately reflects the actual unearned contribution is used, as follows:

(i) 25% method for marine and aviation cargo, and transit business;

(ii) 1/365th method for all other classes of general takaful business within Malaysia except for non-annual policies in respect of Malaysian policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM; and

(iii) time apportionment method for non-annual policies (including long-term inwards treaty business) reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

(b) Claims liabilities

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance.

The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the statements of financial position date.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the balance sheet date, based on an actuarial valuation with a PRAD at a 75% confidence level as required by BNM, based on actuarial valuation.

(c) Acquisition costs

The gross cost of acquiring and renewing insurance policies, net of income derived from ceding reinsurance premiums, are recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

R BENEFITS, CLAIMS AND EXPENSES

Benefits and claims that are incurred during the financial year are recognised when a claimable event occurs and/or the insurer/takaful operator is notified.

Recoveries on reinsurance/retakaful claims are accounted for in the same financial year as the original claims are recognised.

Benefits and claims for claims arising on life insurance policies including settlement costs, less reinsurance recoveries, are accounted for using the case basis method and for this purpose, the benefits payable under a life insurance policy are recognised as follows:

(a) maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates; and

(b) death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the assured or occurrence of contingency covered.

S INSURANCE CONTRACT LIABILITIES

These liabilities comprise of claims liabilities, actuarial liabilities, unallocated surpluses, financial investments available-for-sale fair value reserves and net asset value attributable to unitholders.

(i) Actuarial liabilities

Actuarial liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities are measured by a prospective actuarial valuation method. The liability is determined as the sum of the present value of future guaranteed and, in the case of a participating life policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits liabilities of participating life policies, and non-unit liabilities of investment-linked policies.

The liability in respect of policies of a participating insurance contract is taken as the higher of the guaranteed benefit liabilities or the total benefit liabilities at the fund level.

In the case of a life policy where a part of, or the whole of the premiums are accumulated in a fund, the accumulated amount, as declared to the policy owners, are set as the liabilities if the accumulated amount is higher than the figure as calculated using the prospective actuarial valuation method.

Where policies or extensions of a policy are collectively treated as an asset at the fund level under the valuation method adopted, the value of such asset is eliminated through zerorisation.

The liability is derecognised when the contract expires, is discharged or is cancelled.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

S INSURANCE CONTRACT LIABILITIES (CONTINUED)

(ii) Unallocated surplus

Surplus of contracts with DPF is distributable to policyholders and shareholders in accordance with the relevant terms under the Insurance Act, 1996. The Insurance Act, 1996 was repealed and replaced by the Financial Services Act, 2013 which is effective from 30 June 2013, except for certain sections in the Insurance Act, 1996 which continue to remain effective. The insurance subsidiary, however, has discretion over the amount and timing of the distribution of these surpluses to policyholders and shareholders. Surplus of contracts without DPF is attributable wholly to the shareholders and is classified as equity of the Group and the insurance subsidiary. However, the amount and timing of the distribution of surplus of contracts without DPF to the shareholders is subject to the recommendation of the insurance subsidiary's appointed actuary. Unallocated surpluses of DPF, where the amounts of surplus are yet to be allocated or distributed to either policyholders or shareholders by the end of the financial year, are held within the insurance contract liabilities.

(iii) Fair value adjustment on AFS financial asset

Where unrealised gains or losses arise on AFS financial assets of DPF, the adjustment to the insurance contract liabilities, equals to the effect that the realisation of those gains or losses at the end of the reporting periods would have on those liabilities, is recognised directly in the other comprehensive income.

T LIFE INSURANCE CONTRACT

The valuation of the insurance liability arising from policy benefits made under life insurance contracts is the insurance subsidiary's most critical accounting estimate. The assumptions in relation to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates are used for calculating the liabilities during the life of the contract. Such assumptions require a significant amount of professional judgement and therefore, actual experience may be materially different than the assumptions made by the insurance subsidiary. Actual experience is monitored to assess whether the assumptions remain appropriate and assumptions are changed as warranted. Any movement in the key assumptions will have an effect in determining the insurance contract liabilities.

U INSURANCE PRODUCT CLASSIFICATION

An insurance contract is a contract under which the insurance subsidiary (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. The insurance subsidiary defines insurance risk to be significant when the benefits payable on the occurrence of the insured event are 5% or more than the benefits payable if the insured event did not occur at any one point of the insurance contract. Based on this definition, all policy contracts issued by the insurance subsidiary are considered insurance contracts as at the date of this statement of financial position.

Investment contracts are those contracts that do not transfer significant insurance risk, but significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance risk is the risk other than financial risk.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

U INSURANCE PRODUCT CLASSIFICATION (CONTINUED)

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance contracts are further classified as being either with or without DPF. DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- that are contractually based on the:
  - performance of a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - profit or loss of the company, fund or other entity that issues the contract.

Contracts in the participating fund are classified as insurance contracts with DPF and contracts in the non-participating fund are classified as insurance contracts without DPF.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded derivatives separately at fair value through profit or loss. However, bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF, or if the host insurance contract and/or investment contract itself is measured at fair value through profit or loss.

V FAMILY TAKAFUL FUND

The family takaful fund is maintained in accordance with the requirements of the Takaful Act, 1984 and includes the amount attributable to participants. The amount attributable to participants represents the accumulated surplus attributable in accordance with the terms and conditions prescribed by the Shariah Advisory Committee of Hong Leong MSIG Takaful Berhad ("HLMT").

The family takaful fund surplus/deficit is determined by an annual actuarial valuation of the family takaful fund. Any actuarial deficit in the family takaful fund will be made good by the shareholder's fund via a benevolent loan or Qardhul Hassan.

W GENERAL TAKAFUL FUND

The general takaful fund is maintained in accordance with the Takaful Act, 1984 and consists of unearned contribution reserves, and accumulated surplus attributable to participants which represents the participants' share in the net surplus of the general takaful revenue account, distributable in accordance with the terms and conditions prescribed by the Shariah Advisory Committee of HLMT. The general takaful underwriting results are determined for each class of takaful business after taking into account retakaful, unearned contributions and claims incurred. Underwriting deficit will be made good by the shareholders' fund via a benevolent loan or Qardhul Hassan.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

X INCOME AND DEFERRED TAXES

The tax expense for the period comprises current and deferred tax. Tax is recognised in statements of income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and includes all taxes based upon the taxable profits.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is recognised on temporary differences arising on investments in subsidiaries, associated company and joint ventures except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax related to fair value re-measurement of financial investments available-for-sale, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statements of income together with the deferred gain or loss.

Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Y RECOGNITION OF INTEREST/PROFIT INCOME AND INTEREST/PROFIT EXPENSE

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the statements of income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

Y RECOGNITION OF INTEREST/PROFIT INCOME AND INTEREST/PROFIT EXPENSE (CONTINUED)

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

When a loan receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivable are recognised during the original effective interest rate.

Income from Islamic banking business is recognised on an accrual basis in accordance with the principles of Shariah.

Z RECOGNITION OF FEES AND OTHER INCOME

Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled. Guarantee fees which are material are recognised as income based on time apportionment. Service charges and other fee income are recognised as income when the services are rendered.

Commitment fees for loans, advances and financing that are likely to be drawn down and deferred (together with direct costs) and income which forms an integral part of the effective interest rate of a financial instrument is regarded as an adjustment to the effective interest rate of the financial instrument.

Dividends from financial assets held-for-trading, financial investments available-for-sale and subsidiary companies are recognised when the rights to receive payment is established.

Net profit from financial assets held-for-trading and financial investments available-for-sale are recognised upon disposal of the securities, as the difference between net disposal proceeds and the carrying amount of the securities.

Net brokerage income, margin income, rollover fees, nominees service and handling charges are recognised on an accrual basis.

Corporate advisory fees are recognised as income on completion of each stage of the engagement and issuance of invoice.

Rental income is recognised on an accrual basis.

(i) Management expenses, commission expenses and wakalah fees

Acquisition costs, commissions and management fees are borne by the family takaful and general takaful funds respectively in the revenue accounts of Hong Leong MSIG Takaful ("HLMT") at an agreed percentage of the gross contribution, in accordance with the principles of Wakalah as approved by HLMT's Shariah Advisory Committee and agreed between the participants and HLMT.

These are transferred to the shareholders' fund via upfront wakalah fee and deferred wakalah fee.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

Z RECOGNITION OF FEES AND OTHER INCOME (CONTINUED)

(ii) Upfront wakalah fee is recognised as income upon issuance of the certificate

Deferred wakalah fee is allocated to the Shareholders' fund upon monthly allocation of tabarru/donation charge from participants' funds to the risk fund and is deferred as a liability under "deferred wakalah fee reserve". Deferred wakalah fee is recognised as income based on the recommendation by the appointed actuary when the risk fund is in a surplus position after an annual actuarial valuation of the risk fund at the end of the financial year.

(iii) Contribution – general takaful fund

Contributions are recognised in a financial year in respect of risks assumed during that particular financial year. Contribution from direct business are recognised during the financial year upon issuance of debit notes. Contribution in respect of risks incepted for which debit notes have not been raised as of the statements of financial position date are accrued at that date.

(iv) Premium/contribution – life insurance and family takaful fund

Premiums/contributions are recognised as soon as the amount of premiums/contributions can be reliably measured. First premium premium/contribution is recognised from inception date and subsequent premiums/contributions are recognised on due dates.

Inward treaty reinsurance premiums/retakaful contributions are recognised on the basis of periodic advices received from ceding companies.

Outward reinsurance premiums/retakaful contributions are recognised in the same accounting period as the original policies certificates to which the reinsurance/retakaful relates.

AA INSURANCE COMMISSION AND AGENCY EXPENSES

Commission and agency expenses, which costs directly incurred in securing premium on insurance policies, net of income derived from reinsurers in the course of ceding of premium to reinsurers, are charged to the revenue account in the financial year in which they are incurred.

AB IMPAIRMENT OF FINANCIAL ASSETS

(i) Assets carried at amortised cost

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The criteria the Group and the Company use to determine that there is objective evidence of impairment loss include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default of delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

AB IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(i) Assets carried at amortised cost (continued)

The Group and the Company first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group and the Company determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statements of income. If a loan or financial investments held-to-maturity have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Financial assets that have not been individually assessed are grouped together for portfolio impairment assessment. These financial assets are grouped according to their credit risk characteristics for the purposes of calculating an estimated collective loss. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being assessed. Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group and the Company to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written-off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

If in a subsequent period, the amount of impairment losses decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statements of income.

(ii) Assets classified as available-for-sale

The Group and the Company assess at each date of the statements of financial position whether there is objective evidence that a financial investment or a group of financial investment is impaired. The criteria the Group and the Company use to determine that there is objective evidence of impairment loss include indications that the issuer is experiencing significant financial difficulty, the probability that the issuer will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in the market or economic conditions that correlate with defaults on the assets. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

AB IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(ii) Assets classified as available-for-sale (continued)

In the case of equity securities classified as available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in statements of income. The amount of cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in statements of income. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through statements of income.

If any such evidence exists for available-for-sale assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in equity is removed from other comprehensive income and recognised in the statements of income. Impairment losses recognised in the statements of income on equity instruments are not reversed through the statements of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in statements of income, the impairment loss is reversed through the statements of income.

AC EMPLOYEE BENEFITS

(i) Short-term employee benefits

The Group and the Company recognise a liability and an expense for bonuses. The Group and the Company recognise a provision where contractually obliged or where there is a past practice that has created constructive obligation.

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group and the Company.

(ii) Defined contribution plans

A defined contribution plan is a pension plan under which the Group and the Company pays fixed contributions into a fund and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior financial periods.

The Group and the Company contributes to a national defined contribution plan (the Employee Provident Fund) on a mandatory basis and the amounts contributed to the plan are charged to the statements of income in the period to which they relate. Once the contributions have been paid, the Group and the Company has no further payment obligations.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

AC EMPLOYEE BENEFITS (CONTINUED)

(iii) Share-based compensation

The Company operates an equity-settled, share-based compensation plan for the employees of the Company. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the statements of income over the vesting periods of the grant with a corresponding increase in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each statements of financial position date, the Company revises its estimates of the number of share options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the statements of income, with a corresponding adjustment to share options reserve.

A trust has been set up for the Employee Share Option Scheme ("ESOS") and is administered by an appointed trustee. The trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase the Company's stocks from the open market for the purposes of this trust.

In accordance with MFRS 132, the shares purchased for the benefit of the ESOS holders are recorded as "Treasury Shares for ESOS" in equity on the statements of financial position. The cost of operating the ESOS scheme would be charged to the statements of income when incurred in accordance with accounting standards.

When options are not exercised and lapsed, the share options reserve is transferred to retained earnings.

AD CURRENCY TRANSLATIONS

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

(ii) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as financial investments available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statements of income, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets are recognised in income as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in other comprehensive income.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

AD CURRENCY TRANSLATIONS (CONTINUED)

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statements of financial position;
- income and expenses for each statements of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the statements of income as part of the gain or loss on sale.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences relating to that foreign operation recognised in other comprehensive income and accumulated in the separate component of equity are reclassified to statements of income. In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in statements of income. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to statements of income.

AE CASH AND CASH EQUIVALENTS

Cash and cash equivalents are consist of cash and bank balances and short-term funds.

AF IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the statements of income unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the statements of income unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

AG SEGMENT 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. The Group has determined the Board of Directors as the collective body of chief operating decision makers.

Segment revenue, expense, assets and liabilities are those amount resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expense, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

AH NON-CURRENT ASSETS/DISPOSAL GROUPS HELD-FOR-SALE

Non-current assets/disposal groups are classified as assets held-for-sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

AI FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with MFRS 137 "Provision, Contingent Liabilities and Contingent Assets", and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the statements of income.

AJ SHARE CAPITAL

(i) Classification

Ordinary shares are classified as equity. Other shares are classified as equity and/or liability according to the substance of the particular instrument. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

(ii) Share issue costs

Incremental external costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2014
(continued)

AJ SHARE CAPITAL (CONTINUED)

(iii) Dividends

Dividends on ordinary shares are recognised as a liability when the shareholders' right to receive the dividend is established.

(iv) Purchase of own shares

Where the Company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental external costs, net of tax, is included in equity attributable to the Company's equity holders as treasury shares until they are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to the Company's equity holders.

AK SALE AND REPURCHASE AGREEMENTS

Securities purchased under resale agreements ("reverse repurchase agreements") are securities which the Group had purchased with a commitment to re-sell at future dates. The commitment to re-sell the securities is reflected as an asset on the statements of financial position.

Conversely, obligations on securities sold under repurchase agreements ("repurchase agreements") are securities which the Group had sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the statements of financial position.

The difference between sale and repurchase price as well as purchase and resale price is treated as interest and accrued over the life of the resale/repurchase agreement using the effective yield method.

AL CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Group does not recognise contingent assets and liabilities, but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts. A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

AM TRUST ACTIVITIES

The Group acts as trustees in other fiduciary capabilities that result in holding or placing of assets on behalf of individuals, trust and other institutions. These assets and income arising thereon are excluded from the financial statements, as they are not assets of the Group.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014

1 GENERAL INFORMATION

The principal activities of the Company are those of investment holding and provision of services to its subsidiaries to enhance group value.

The Hong Leong Financial Group (the Company and its subsidiaries) is a diversified financial group whose businesses provide a broad range of financial products and services to consumer, corporate and institutional customers.

The principal activities of the subsidiary companies are disclosed in Note 11 to the financial statements. There were no significant changes in the nature of the activities of the Company and its subsidiaries during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Market of Bursa Malaysia Securities Berhad.

The address of the registered office and principal place of business of the Company is Level 8, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur.

2 CASH AND SHORT-TERM FUNDS

	The Group		The Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Cash and balances with banks and other financial institutions	**1,918,824**	1,625,025	**482**	142
Money at call and deposit placements maturing within one month	**15,165,536**	18,172,555	**6,400**	10,520
	17,084,360	19,797,580	**6,882**	10,662

Inclusive in cash and short-term funds of the Group are accounts held in trust for dealer's representative amounting to RM13,777,000 (2013: RM15,482,000).

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Bank Negara Malaysia ("BNM")	**77,830**	2,404,494	**–**	–
Licensed banks	**3,456,216**	2,277,718	**8,762**	11,677
Licensed investment banks	**217,083**	1,362,059	**–**	–
Other financial institutions	**742,968**	1,110,577	**–**	–
	4,494,097	7,154,848	**8,762**	11,677

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

As at 30 June 2014, the Company has placed a fixed deposit of RM9.3 million (2013: RM9.3 million) with a bank for the RM100 million revolving credit facility and RM350 million term loan facility. The Company has agreed not to withdraw the fixed deposits during the tenure of the facility. The bank has a right to set-off any sums placed by the Company in the fixed deposit account.

4 FINANCIAL ASSETS HELD-FOR-TRADING

	The Group	
	2014 RM'000	2013 RM'000
Money market instruments		
Bank Negara Malaysia bills	**848,000**	4,961,614
Government treasury bills	**197,064**	352,727
Malaysian Government securities	**33,224**	725,325
Malaysian Government Investment Certificates	**528,352**	692,661
Bankers' acceptances and Islamic accepted bills	**576,717**	3,456,639
Negotiable instruments of deposit	**9,274,432**	4,629,118
Khazanah bonds	**37,439**	–
Cagamas bonds	**65,787**	21,586
Other government securities	**2,567**	–
	11,563,582	14,839,670
Quoted securities		
Shares in Malaysia	**553,550**	462,830
Shares outside Malaysia	**187,200**	260,463
Unit trust investments	**89,452**	44,496
Foreign currency bonds	**243,175**	229,077
Warrants quoted in Malaysia	**1,012**	29
	12,637,971	15,836,565
Unquoted securities		
Foreign currency bonds	**134,366**	17,813
Private and Islamic debt securities	**484,165**	949,942
Total financial assets held-for-trading	**13,256,502**	16,804,320

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	The Group	
	2014 RM'000	2013 RM'000
Money market instruments		
Government treasury bills	546,703	371,911
Malaysia Government securities	1,645,275	476,040
Malaysia Government Investment Certificates	2,677,845	3,164,237
Other Government securities	1,442,202	587,898
Khazanah bonds	208,615	–
Cagamas bonds	965,610	769,836
Negotiable instruments of deposit	103,384	142,045
	7,589,634	5,511,967
Quoted securities		
Shares in Malaysia	1,360,941	844,392
Shares outside Malaysia	249,075	237,146
Warrants in Malaysia	1,062	93
Loan stocks in Malaysia	23	223
Foreign currency bonds in Malaysia	3,224,143	3,396,120
Foreign currency bonds outside Malaysia	727,868	940,332
Unit trust investments	4,658,678	4,414,545
	17,811,424	15,344,818
Unquoted securities		
Shares in Malaysia	368,571	334,588
Shares outside Malaysia	3,506	3,450
Private debt securities in Malaysia	8,453,727	6,385,193
Foreign currency bonds outside Malaysia	537,320	315,920
Investment-linked funds	300	300
	27,174,848	22,384,269
Allowance for impairment losses	(68,062)	(72,561)
Total financial investments available-for-sale	27,106,786	22,311,708

The table below shows the movements in allowance for impairment losses during the financial year for the Group:

	The Group	
	2014 RM'000	2013 RM'000
As at 1 July	72,561	50,448
Allowance made during the financial year	3,700	22,113
Amount written back in respect of recoveries	(8,199)	–
As at 30 June	68,062	72,561

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	The Group	
	2014 RM'000	2013 RM'000
Money market instruments		
Malaysian Government securities	**3,120,731**	1,616,218
Malaysian Government Investment Certificates	**5,399,565**	2,309,047
Cagamas bonds	**96,455**	86,879
Negotiable instruments of deposit	**55,217**	5,833
Other Government securities	**253,646**	2,541
	8,925,614	4,020,518
Unquoted securities		
Loan stocks	**8,794**	10,899
Private and Islamic debt securities	**678,317**	550,634
Foreign currency bonds outside Malaysia	**194,666**	192,912
Unquoted bonds	**132,726**	155,507
Investment in preference shares	**52,000**	52,000
	9,992,117	4,982,470
Allowance for impairment losses	**(140,985)**	(165,800)
Total financial investments held-to-maturity	**9,851,132**	4,816,670

The table below shows the movements in allowance for impairment losses during the financial year for the Group:

	The Group	
	2014 RM'000	2013 RM'000
As at 1 July	**165,800**	169,133
Amount transferred from individual assessment impairment allowance	**–**	14,211
Amount written back in respect of recoveries	**(24,815)**	(17,544)
As at 30 June	**140,985**	165,800

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

7 LOANS, ADVANCES AND FINANCING

	The Group	
	2014 RM'000	2013 RM'000
Overdrafts	**4,104,535**	4,346,203
Term loans/financing		
– Housing loans/financing	**46,563,762**	41,135,376
– Syndicated term loans/financing	**7,939,722**	6,333,829
– Hire purchase receivables	**17,405,481**	17,408,072
– Other term loans/financing	**8,684,556**	9,829,885
Credit/charge card receivables	**4,192,192**	4,088,083
Bills receivable	**1,116,670**	1,292,482
Trust receipts	**296,587**	302,199
Policy and premium loans	**654,958**	669,807
Claims on customer under acceptance credits	**8,118,324**	7,362,332
Block discounting	**253**	6,030
Revolving credit	**5,545,623**	4,890,538
Staff loans/financing	**172,011**	195,320
Other loans/financing	**461,848**	193,782
Gross loans, advances and financing	**105,256,522**	98,053,938
Fair value changes arising from fair value hedges	**–**	(7,450)
Unamortised fair value changes arising from terminated fair value hedges	**(1,516)**	15,035
Allowance for impaired loans, advances and financing		
– Collective assessment	**(1,077,911)**	(1,260,301)
– Individual assessment	**(511,647)**	(526,270)
Total net loans, advances and financing	**103,665,448**	96,274,952

As at 30 June 2014, the Group do not have any fair value hedges on interest rate risk (2013: RM1,205,000,000) on certain receivables using interest rate swaps. The total fair value loss of the said interest rate swaps related to these hedges at 30 June 2014 amounted to RM Nil at Group (2013: fair value loss of RM1,127,483).

Included in the non-interest income is the net gains and losses arising from fair value hedges during the financial year as follows:

	The Group	
	2014 RM'000	2013 RM'000
Gain on hedging instruments	**1,508**	17,733
Loss on the hedged items attributable to the hedged risks	**(2,520)**	(16,823)

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

(a) The maturity structure of loans, advances and financing is as follows:

	The Group	
	2014 RM'000	2013 RM'000
Maturing within:		
– one year	**27,881,173**	27,661,559
– one year to three years	**8,208,065**	7,418,571
– three years to five years	**9,726,789**	9,087,744
– over five years	**59,440,495**	53,886,064
Gross loans, advances and financing	**105,256,522**	98,053,938

(b) The loans, advances and financing are disbursed to the following types of customers:

	The Group	
	2014 RM'000	2013 RM'000
Domestic non-bank financial institutions other than stockbroking companies	**278,231**	293,310
Domestic business enterprises:		
– small medium enterprises	**16,368,945**	14,543,322
– others	**19,298,810**	19,613,129
Government and statutory bodies	**28,345**	23,538
Individuals	**64,825,999**	59,471,203
Other domestic entities	**158,579**	231,638
Foreign entities	**4,297,613**	3,877,798
Gross loans, advances and financing	**105,256,522**	98,053,938

(c) Loans, advances and financing analysed by their interest rate/profit rate sensitivity are as follows:

	The Group	
	2014 RM'000	2013 RM'000
Fixed rate		
– Housing and shop loans/financing	**2,838,669**	3,124,510
– Hire purchase receivables/financing	**16,949,593**	17,035,642
– Credit card	**4,192,192**	4,088,083
– Other fixed rate loan/financing	**3,367,598**	4,403,003
Variable rate		
– Base lending rate plus	**62,275,657**	56,615,136
– Cost plus	**15,320,089**	12,705,033
– Other variable rates	**312,724**	82,531
Gross loans, advances and financing	**105,256,522**	98,053,938

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

(d) Loans, advances and financing analysed by their economic purposes are as follows:

	The Group	
	2014 RM'000	2013 RM'000
Purchase of securities	**1,054,079**	1,120,307
Purchase of transport vehicles	**17,292,903**	17,345,812
Residential property (housing)	**39,001,679**	34,218,619
Non-residential property	**12,370,123**	10,858,636
Purchase of fixed assets (excluding landed properties)	**530,827**	555,874
Personal use	**3,370,683**	3,502,241
Credit card	**4,192,192**	4,088,083
Purchase of consumer durables	**445**	472
Construction	**1,163,043**	1,163,851
Mergers and acquisition	**303,096**	447,926
Working capital	**22,713,594**	21,803,772
Other purpose	**3,263,858**	2,948,345
Gross loans, advances and financing	**105,256,522**	98,053,938

(e) Loans, advances and financing analysed by their geographical distribution are as follows:

	The Group	
	2014 RM'000	2013 RM'000
In Malaysia	**102,176,684**	95,329,667
Outside Malaysia		
– Singapore	**2,675,129**	2,480,476
– Hong Kong	**4,816**	–
– Vietnam	**312,724**	243,795
– Cambodia	**87,169**	–
Gross loans, advances and financing	**105,256,522**	98,053,938

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

(f) Impaired loans, advances and financing analysed by their economic purposes are as follows:

	The Group	
	2014 RM'000	2013 RM'000
Purchase of securities	**758**	6,895
Purchase of transport vehicles	**225,812**	220,262
Residential property (housing)	**214,321**	246,866
Non-residential property	**47,737**	59,554
Purchase of fixed assets (excluding landed properties)	**37,484**	14,576
Personal use	**34,940**	72,209
Credit card	**53,058**	60,675
Purchase of consumer durables	**4**	4
Construction	**4,379**	9,266
Working capital	**572,014**	635,311
Others	**42,081**	34,948
Impaired loans, advances and financing	**1,232,588**	1,360,566

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

	The Group	
	2014 RM'000	2013 RM'000
As at 1 July	**1,360,566**	1,533,270
Impaired during the financial year	**1,705,583**	1,852,876
Performing during the financial year	**(897,336)**	(966,418)
Amount written back in respect of recoveries	**(507,495)**	(503,594)
Amount written off	**(431,273)**	(555,307)
Exchange differences	**2,543**	(261)
As at 30 June	**1,232,588**	1,360,566
Gross impaired loans as a % of gross loans, advances and financing	**1.2%**	1.4%

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

(h) Impaired loans, advances and financing analysed by their geographical distribution are as follows:

	The Group	
	2014 RM'000	2013 RM'000
In Malaysia	**1,219,374**	1,330,767
Outside Malaysia		
– Singapore operations	**–**	29,438
– Vietnam operations	**13,214**	361
	1,232,588	1,360,566

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

	The Group	
	2014 RM'000	2013 RM'000
Collective assessment allowance		
As at 1 July	**1,260,301**	1,502,452
Net allowance made during the financial year	**255,275**	183,785
Amount transferred to individual assessment	**(1,915)**	(4,800)
Amount written off	**(367,890)**	(402,347)
Unwinding income	**(68,545)**	(18,751)
Exchange differences	**685**	(38)
As at 30 June	**1,077,911**	1,260,301
Individual assessment allowance		
As at 1 July	**526,270**	543,234
Net allowance made during the financial year	**140,025**	190,973
Amount transferred from collective assessment allowance	**1,915**	4,800
Amount transferred to allowance for impairment losses on securities	**–**	(14,211)
Amount written back in respect of recoveries	**(108,868)**	(90,853)
Amount written off	**(41,618)**	(95,906)
Unwinding income	**(7,112)**	(11,524)
Exchange differences	**1,035**	(243)
As at 30 June	**511,647**	526,270

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

8 CLIENTS' AND BROKERS' BALANCES

Clients' and brokers' balances represent amount receivable from outstanding purchase contracts in respect of the Group's stockbroking and futures clients, amount due from brokers and contra losses and trade receivables from insurance clients.

	The Group	
	2014 RM'000	**2013 RM'000**
Performing accounts	**430,233**	256,080
Impaired accounts	**956**	805
	431,189	256,885
Less: Allowances for bad and doubtful debts		
– Individual assessment allowance	**(370)**	(378)
– Collective assessment allowance	**(15)**	(33)
	430,804	256,474

Movements of impaired accounts are as follows:

	The Group	
	2014 RM'000	**2013 RM'000**
As at 1 July	**805**	1,403
Impaired during the financial year	**562**	–
Written back during the financial year	**(411)**	(221)
Amount written off during the financial year	**–**	(377)
As at 30 June	**956**	805

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

8 CLIENTS' AND BROKERS' BALANCES (CONTINUED)

Movements in the allowances for losses on clients' and brokers' balances are as follows:

	The Group	
	2014 RM'000	2013 RM'000
Individual assessment allowance		
As at 1 July	**378**	752
Allowance made during the financial year	**119**	352
Allowance written back during the financial year	**(127)**	(640)
Amount written off during the financial year	**–**	(86)
As at 30 June	**370**	378
Collective assessment allowance		
As at 1 July	**33**	144
Allowance written back during the financial year	**(18)**	(111)
As at 30 June	**15**	33

9 OTHER RECEIVABLES

	The Group		The Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Foreclosed properties	**1,112**	1,112	**–**	–
Sundry debtors and other prepayments	**132,150**	159,995	**932**	883
Treasury related receivables	**242,573**	255,608	**–**	–
Other receivables [net writeback of impairment loss on debts of RM68,000 (2013: net allowance for impairment loss on debts of RM345,000)]	**317,685**	586,854	**1,144**	2,124
	693,520	1,003,569	**2,076**	3,007

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

10 STATUTORY DEPOSITS WITH CENTRAL BANKS

	The Group	
	2014 RM'000	2013 RM'000
Statutory deposits with Bank Negara Malaysia (BNM)*	**3,149,131**	3,445,561
Statutory deposits with the State Bank of Vietnam^	**13,516**	–
Statutory deposits with the National Bank of Cambodia#	**18,745**	11,848
	3,181,392	3,457,409

* The non-interest bearing statutory deposits are maintained with BNM in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amount of which is determined at set percentages of total eligible liabilities.

^ The statutory deposit is maintained by Hong Leong Bank Vietnam Limited ("HLBVN"), a subsidiary of Hong Leong Bank Berhad, with the State Bank of Vietnam ("SBV"). According to Decision 1925/QĐ-NHNN dated 26/8/2011 and Decision 379/QĐ-NHNN dated 24/2/2009 issued by State Bank of Vietnam, HLBVN is required to maintain its monthly average demand deposit balances with SBV at least equal to its obligatory reserve level, which will be informed by SBV to HLBVN on monthly basis.

The statutory deposits maintained by Hong Leong Bank (Cambodia) PLC ("HLBCAM"), subsidiary of Hong Leong Bank Berhad, with the National Bank of Cambodia ("NBC") in compliance with Article 5 of NBC Parkas No. B7-01-136, the amounts of which are determined as set percentages of HLBCAM issued share capital.

11 INVESTMENT IN SUBSIDIARY COMPANIES

(i) Information about principal subsidiaries:

	The Company	
	2014 RM'000	2013 RM'000
Subsidiary companies		
Unquoted shares at cost	**293,025**	411,393
Shares quoted in Malaysia at cost	**14,693,955**	14,693,955
	14,986,980	15,105,348
As at 1 July	**15,105,348**	15,240,532
Add: Subscription of shares in a subsidiary	**–**	9,477
Add: Writeback of impairment losses	**–**	1,056
Add: Subscription of redeemable preference shares	**1,660**	–
Less: Redemption of preference shares	**(120,028)**	(145,717)
As at 30 June	**14,986,980**	15,105,348

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

11 INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

(i) Information about principal subsidiaries: (continued)

The subsidiary companies of the Company are as follows:

		Effective percentage of ownership		
Name of companies	Place of incorporation	2014 %	2013 %	Principal activities
(a) HLA Holdings Sdn Bhd and its subsidiary companies:	Malaysia	**100.00**	100.00	Investment holding
(i) Hong Leong Assurance Berhad	Malaysia	**70.00**	70.00	Life insurance business
– Unincorporated trust for ESOS$^{\Omega}$*	Malaysia	**–**	–	Special purpose vehicle for ESOS
(ii) Hong Leong Insurance (Asia) Limited*	Hong Kong	**100.00**	100.00	General insurance business
(iii) Hong Leong MSIG Takaful Berhad	Malaysia	**65.00**	65.00	Takaful business
(iv) HLAH Assets Sdn Bhd	Malaysia	**–**	100.00	Dissolved
(v) RC Holdings Sdn Bhd	Malaysia	**100.00**	100.00	Investment holding
(vi) HL Assurance Pte. Ltd.	Singapore	**100.00**	100.00	General insurance business
(b) Hong Leong Equities Sdn Bhd	Malaysia	**100.00**	100.00	Investment holding
(c) HLFG Assets Sdn Bhd	Malaysia	**100.00**	100.00	Investment holding
(d) Wing Trade Investments Limited*	British Virgin Islands	**100.00**	100.00	Investment holding
(e) Unincorporated trust for ESOS$^{\Omega}$*	Malaysia	**–**	–	Special purpose vehicle for ESOS
(f) HLFG Principal Investments (L) Limited	Labuan	**100.00**	100.00	Investment holding
(g) Hong Leong Capital Berhad and its subsidiary companies:	Malaysia	**83.84**	84.97	Investment holding
(i) HLG Asset Management Sdn Bhd	Malaysia	**–**	84.97	Dissolved
(ii) HLG Securities Sdn Bhd	Malaysia	**83.84**	84.97	Investment holding
(iii) HLG Capital Markets Sdn Bhd and its subsidiary company:	Malaysia	**83.84**	84.97	Investment holding
– HLG Principal Investments (L) Limited	Labuan	**83.84**	84.97	Dormant

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for the financial year ended 30 June 2014
(continued)

11 INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

(i) Information about principal subsidiaries: (continued)

The subsidiary companies of the Company are as follows: (continued)

Name of companies	Place of incorporation	Effective percentage of ownership 2014 %	Effective percentage of ownership 2013 %	Principal activities
(iv) Hong Leong Investment Bank Berhad and its subsidiary companies:	Malaysia	**83.84**	84.97	Investment banking, stockbroking business, futures broking and related financial services
– HLG Nominee (Tempatan) Sdn Bhd	Malaysia	**83.84**	84.97	In member's voluntary liquidation
– HLG Nominee (Asing) Sdn Bhd	Malaysia	**83.84**	84.97	In member's voluntary liquidation
– RC Research Sdn Bhd	Malaysia	**83.84**	84.97	In member's voluntary liquidation
– RC Nominees (Asing) Sdn Bhd	Malaysia	**83.84**	84.97	In member's voluntary liquidation
– RC Nominees (Tempatan) Sdn Bhd	Malaysia	**83.84**	84.97	In member's voluntary liquidation
– ECS Jaya (1969) Sdn Bhd	Malaysia	**83.84**	84.97	In member's voluntary liquidation
– MIMB Nominees (Tempatan) Sendirian Berhad	Malaysia	**–**	84.97	Dissolved
– MIMB Nominees (Asing) Sendirian Berhad	Malaysia	**–**	84.97	Dissolved
– SSSB Jaya (1987) Sdn Bhd and its subsidiary companies:	Malaysia	**83.84**	84.97	In creditors' voluntary liquidation
• SSSB Nominees (Tempatan) Sdn Bhd	Malaysia	**–**	84.97	Dissolved
• SSSB Nominees (Asing) Sdn Bhd	Malaysia	**–**	84.97	Dissolved
– HLIB Nominees (Tempatan) Sdn Bhd	Malaysia	**83.84**	84.97	Nominee and custodian services for Malaysian clients
– HLIB Nominees (Asing) Sdn Bhd	Malaysia	**83.84**	84.97	Nominee and custodian services for foreign clients
(v) HLG Futures Sdn Bhd	Malaysia	**83.84**	84.97	Investment holding

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for the financial year ended 30 June 2014
(continued)

11 INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

(i) Information about principal subsidiaries: (continued)

The subsidiary companies of the Company are as follows: (continued)

Name of companies	Place of incorporation	Effective percentage of ownership 2014 %	Effective percentage of ownership 2013 %	Principal activities
(vi) Hong Leong Asset Management Bhd and its subsidiary company:	Malaysia	**83.84**	84.97	Unit trust management, fund management and sale of unit trusts
– HL Asset Management Pte Ltd	Singapore	**83.84**	84.97	Dormant
(vii) Unincorporated trust for ESOSΩ*	Malaysia	**–**	–	Special purpose vehicle for ESOS
(viii) Hong Leong Islamic Institutional Income Management FundΩ	Malaysia	**83.84**	–	Unit trust funds
(ix) Hong Leong Islamic Cash FundΩ	Malaysia	**83.84**	–	Unit trust funds
(x) Hong Leong Enhanced Cash FundΩ	Malaysia	**83.84**	–	Unit trust funds
(xi) Hong Leong Islamic Enhanced Cash FundΩ	Malaysia	**83.84**	–	Unit trust funds
(h) Hong Leong Bank Berhad and its subsidiary companies:	Malaysia	**65.65**	65.85	All aspects of commercial banking business and provision of related services
(i) Hong Leong Islamic Bank Berhad	Malaysia	**65.65**	65.85	Islamic banking business and related financial services
(ii) Hong Leong Bank Vietnam Limited*	Vietnam	**65.65**	65.85	Commercial banking business
(iii) Hong Leong Bank (Cambodia) PLC+	Cambodia	**65.65**	65.85	Commercial banking business
(iv) HLF Credit (Perak) Bhd and its subsidiary companies:	Malaysia	**65.65**	65.85	Investment holding
– Gensource Sdn Bhd and its subsidiary company:	Malaysia	**65.65**	65.85	Investment holding
• Pelita Terang Sdn Bhd	Malaysia	**65.65**	65.85	Dormant

NOTES TO THE FINANCIAL STATEMENTS

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11 INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

(i) Information about principal subsidiaries: (continued)

The subsidiary companies of the Company are as follows: (continued)

Name of companies	Place of incorporation	Effective percentage of ownership 2014 %	2013 %	Principal activities
– WTB Corporation Sdn Bhd and its subsidiary companies:	Malaysia	**65.65**	65.85	Investment holding
• Wah Tat Nominees (Tempatan) Sdn Bhd	Malaysia	**65.65**	65.85	Agent and nominee for Malaysian clients
• Wah Tat Nominees (Asing) Sdn Bhd	Malaysia	**65.65**	65.85	Agent and nominee for foreign clients
– Chew Geok Lin Finance Sdn Bhd	Malaysia	**65.65**	65.85	Investment holding
– Hong Leong Leasing Sdn Bhd*	Malaysia	**65.65**	65.85	Investment holding
– HL Leasing Sdn Bhd	Malaysia	**65.65**	65.85	Investment holding
– HLB Realty Sdn Bhd	Malaysia	**65.65**	65.85	Real property investment and investment holding
(v) HLB Nominees (Tempatan) Sdn Bhd	Malaysia	**65.65**	65.85	Agent and nominee for Malaysian clients
(vi) HLB Nominees (Asing) Sdn Bhd	Malaysia	**65.65**	65.85	Agent and nominee for foreign clients
(vii) HL Bank Nominees (Singapore) Pte Ltd+	Singapore	**65.65**	65.85	Agent and nominee for clients
(viii) HLB Trade Services (Hong Kong) Limited+	Hong Kong	**65.65**	65.85	Ceased operations
(ix) HLB Principal Investments (L) Limited and its subsidiary company:	Malaysia	**65.65**	65.85	Holding of or dealings in offshore securities and investment holding
– Promino Sdn Bhd	Malaysia	**65.65**	65.85	Ceased operations
(x) Prominic Berhad	Malaysia	**65.65**	65.85	To issue Subordinated Notes under a Stapled Securities structure and to on-lend the proceeds from the issuance to Hong Leong Bank Berhad, the issuer of the Capital Securities

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

11 INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

(i) Information about principal subsidiaries: (continued)

The subsidiary companies of the Company are as follows: (continued)

Name of companies	Place of incorporation	Effective percentage of ownership 2014 %	2013 %	Principal activities
(xi) Promitol Sdn Bhd	Malaysia	**65.65**	65.85	Ceased operations
(xii) Promilia Berhad	Malaysia	**65.65**	65.85	Dormant
(xiii) EB Nominees (Tempatan) Sendirian Berhad	Malaysia	**65.65**	65.85	Nominee services
(xiv) EB Nominees (Asing) Sendirian Berhad	Malaysia	**65.65**	65.85	Nominee services
(xv) EB Realty Sendirian Berhad	Malaysia	**65.65**	65.85	Property investment
(xvi) OBB Realty Sdn Bhd	Malaysia	**65.65**	65.85	Property investment
(xvii) OFB Berhad	Malaysia	**–**	65.85	Dissolved
(xviii) CFB Asa Berhad	Malaysia	**–**	65.85	Dissolved
(xix) Unincorporated trust for ESOSΩ*	Malaysia	**–**	–	Special purpose vehicle for ESOS
(xx) Famehub Quest Sdn BhdΩ*	Malaysia	**–**	–	Special purpose vehicle
(xxi) Famehub Capital Sdn BhdΩ*	Malaysia	**–**	–	Special purpose vehicle
(xxii) Allegra Capital Investments LtdΩ*	British Virgin Islands	**–**	–	Special purpose vehicle
(xxiii) GoldPearl International LtdΩ*	British Virgin Islands	**–**	–	Special purpose vehicle
(i) Cova Horizon Sdn BhdΩ*	Malaysia	**–**	–	Special purpose vehicle
(j) Halcyon Capital Sdn BhdΩ*	Malaysia	**–**	–	Special purpose vehicle

* Not audited by PricewaterhouseCoopers

\+ Audited by member firms of PricewaterhouseCoopers International which is a separate and independent legal entity from PricewaterhouseCoopers Malaysia

Ω Deemed subsidiary companies pursuant to MFRS 10 "Consolidated Financial Statements"

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

11 INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

(ii) Details of subsidiary companies that have material non-controlling interests:

Set out below are the Group's subsidiary companies that have material non-controlling interests:

	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	2014 %	2013 %	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Hong Leong Bank Berhad	**34.35**	34.15	**721,223**	631,841	**5,039,947**	4,502,065
Hong Leong Capital Berhad	**16.16**	15.03	**18,847**	13,403	**84,620**	63,452
Hong Leong Assurance Berhad	**30.00**	30.00	**69,778**	31,346	**375,366**	332,104
Individually immaterial subsidiaries with non-controlling interests			**631**	494	**30,316**	31,359
			810,479	677,084	**5,530,249**	4,928,980

Summarised financial information for each subsidiary company that has non-controlling interests that are material to the Group is set out below. The summarised financial information below represents amounts before inter-company eliminations.

	Hong Leong Assurance Berhad		Hong Leong Bank Berhad		Hong Leong Capital Berhad	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Total assets	**12,535,822**	10,757,718	**170,350,803**	163,585,697	**4,326,406**	2,935,267
Total liabilities	**(11,285,045)**	(9,651,145)	**(155,820,625)**	(150,549,073)	**(3,724,001)**	(2,453,702)
Net assets	**1,250,777**	1,106,573	**14,530,178**	13,036,624	**602,405**	481,565
Equity attributable to owners of the Company	**(875,411)**	(774,469)	**(9,490,231)**	(8,534,559)	**(517,785)**	(418,113)
Non-controlling interests	**(375,366)**	(332,104)	**(5,039,947)**	(4,502,065)	**(84,620)**	(63,452)

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

11 INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

(ii) Details of subsidiary companies that have material non-controlling interests: (continued)

Summarised financial information for each subsidiary company that has non-controlling interests that are material to the Group is set out below. The summarised financial information below represents amounts before inter-company eliminations. (continued)

	Hong Leong Assurance Berhad		Hong Leong Bank Berhad		Hong Leong Capital Berhad	
	2014 RM'000	**2013 RM'000**	**2014 RM'000**	**2013 RM'000**	**2014 RM'000**	**2013 RM'000**
Revenue	**285,980**	126,133	**5,649,722**	5,529,397	**98,665**	79,776
Profit before taxation	**286,515**	124,435	**2,613,221**	2,392,947	**78,283**	67,933
Taxation	**(53,923)**	(19,949)	**(510,951)**	(536,675)	**40,527**	22,288
Other comprehensive income	**(2,139)**	29,389	**30,975**	(22,716)	**(1,625)**	(5,363)
Total comprehensive income	**230,453**	133,875	**2,133,245**	1,833,556	**117,185**	84,858
Net cash (used in)/ generated from investing activities	**(7,619)**	(3,738)	**(6,934,938)**	(4,037,123)	**(536,709)**	143,317
Net cash (used in)/ generated from financing activities	**(108,852)**	389,876	**(514,304)**	(849,184)	**3,496**	(163,591)
Net cash (used in)/ generated from operating activities	**(486,190)**	(409,515)	**4,076,820**	3,300,053	**649,847**	182,074
Net (decrease)/increase in cash and cash equivalents	**(602,661)**	(23,377)	**(3,372,422)**	(1,586,254)	**116,634**	161,800
Profit allocated to non-controlling interests of the Group	**69,778**	31,346	**721,223**	631,841	**18,847**	13,403
Dividends paid to non-controlling interests of the Group	**25,875**	16,200	**227,128**	188,696	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

12 INVESTMENT IN ASSOCIATED COMPANIES

	The Group	
	2014 RM'000	**2013 RM'000**
Unquoted shares, at cost		
– In Malaysia	**618,646**	618,646
– Outside Malaysia	**946,505**	946,505
Cumulative share of results, net of dividend received	**1,237,023**	893,516
Cumulative share of changes in other comprehensive income	**(5,231)**	(2,069)
	2,796,943	2,456,598

(a) Information about associated companies

Name	Country of incorporation	Principal activities	The Group Percentage (%) of equity held 2014 %	2013 %
Bank of Chengdu Co., Ltd	China	Commercial banking	**20**	20
Community CSR Sdn Bhd	Malaysia	Investment holding	**20**	20
MSIG Insurance (Malaysia) Bhd	Malaysia	Insurance	**30**	30

Nature of relationship

(i) Bank of Chengdu Co., Ltd ("BOCD")

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 Proposed Subscription will enable HLB to enter into a strategic alliance with BOCD to tap the promising and growing financial services sector of China. It will strengthen and diversify the earnings base of HLB.

(ii) Community CSR Sdn Bhd ("CCSR")

In 2011, HLB subscribed to RM50 million Cumulative Redeemable Preference Shares ("CRPS") in Jana Pendidikan Malaysia Sdn Bhd. For every RM1 million subscription of CRPS, HLB is entitled to subscribe for 1 Ordinary Share of RM1 each in CCSR. As such, HLB subscribed for 50 CCSR shares of RM1 each for cash at par which represent 20% equity interest of CCSR.

(iii) MSIG Insurance (Malaysia) Bhd ("MSIM")

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

12 INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

(b) The summarised financial information below represents amounts shown in the material associated company's financial statements which are accounted for using equity method is as follows:

(i) Bank of Chengdu Co., Ltd

	The Group	
	2014 RM'000	2013 RM'000
Total assets	**143,944,995**	121,696,640
Total liabilities	**(133,628,495)**	(112,931,895)
Net assets	**10,316,500**	8,764,745
Interest income	**7,049,249**	5,244,405
Interest expense	**(3,015,749)**	(2,382,400)
Non-interest income	**361,385**	224,455
Profit before taxation	**2,383,505**	1,687,108
Profit after taxation	**1,842,450**	1,320,025
Dividends paid by the associated company during the financial year	**280,430**	256,720

(ii) MSIG Insurance (Malaysia) Bhd

	The Group	
	2014 RM'000	2013 RM'000
Total assets	**3,918,083**	3,740,232
Total liabilities	**(1,472,606)**	(1,394,735)
Net assets	**2,445,477**	2,345,497
Interest income	**65,261**	60,042
Non-interest income	**386,700**	352,707
Profit before taxation	**271,523**	248,207
Profit after taxation	**203,620**	195,124
Dividends paid by the associated company during the financial year	**99,943**	83,287

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

12 INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

(c) Reconciliation of the summarised financial information to the carrying amount of the interest in the material associated company's recognised in the consolidated financial statements:

(i) Bank of Chengdu Co., Ltd

	The Group	
	2014 RM'000	**2013 RM'000**
Opening net assets as at 1 July	**8,764,745**	7,701,440
Profit for the financial year	**1,842,450**	1,320,025
Other comprehensive loss for the financial year	**(10,265)**	–
Dividends	**(280,430)**	(256,720)
Closing net assets as at 30 June	**10,316,500**	8,764,745
Interest in associated company (%)	**20%**	20%
Interest in associated company (RM'000)	**2,063,300**	1,752,949

(ii) MSIG Insurance (Malaysia) Bhd

	The Group	
	2014 RM'000	**2013 RM'000**
Opening net assets as at 1 July	**2,345,497**	2,233,660
Profit for the financial year	**203,620**	195,124
Other comprehensive loss for the financial year	**(3,697)**	–
Dividends	**(99,943)**	(83,287)
Closing net assets as at 30 June	**2,445,477**	2,345,497
Interest in associated company (%)	**30%**	30%
Interest in associated company (RM'000)	**733,643**	703,649

The financial information of CCSR is not significant to the Group.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

13 INVESTMENT IN JOINT VENTURES

	The Group	
	2014 RM'000	2013 RM'000
Unquoted shares, at cost		
– In Malaysia	**1,633**	–
– Outside Malaysia	**76,711**	76,711
Cumulative share of results	**12,568**	3,234
	90,912	79,945

(a) Information about joint ventures

			The Group Percentage (%) of equity held	
Name	Country of incorporation	Principal activities	2014 %	2013 %
Sichuan Jincheng Consumer Finance Limited Company	China	Consumer finance	**49**	49
Bangsar Capital Holdings (L) Limited (Incorporated in the Federal Territory of Labuan)	Malaysia	Investment Holding	**50**	–

Nature of relationship

(i) Sichuan Jincheng Consumer Finance Limited Company ("CFC")

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"), is 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.

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

(ii) Bangsar Capital Holdings (L) Limited ("BCH")

On 28 June 2013, HLFG announced that HLFG Principal Investment (L) Limited ("HLFGPI") had entered into a joint venture agreement with CIMB Strategic Assets Sdn Bhd ("CIMBSA"), a wholly-owned subsidiary of CIMB Group Holdings Berhad, to establish a joint venture investment holding company to be incorporated in Labuan ("Joint Venture Entity"), in which CIMBSA and HLFGPI would each hold 50% of the equity interests respectively. The Joint Venture Entity, BCH, has been incorporated to establish and manage a private equity fund.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

13 INVESTMENT IN JOINT VENTURES (CONTINUED)

(b) The summarised financial information below represents amounts shown in joint venture companies' financial statements which are accounted for using equity method is as follows:

(i) Sichuan Jincheng Consumer Finance Limited Company

	The Group	
	2014 RM'000	**2013 RM'000**
Total assets	**496,506**	282,573
Total liabilities	**(312,669)**	(119,420)
Net assets	**183,837**	163,153
Interest income	**76,104**	10,955
Interest expenses	**14,110**	4,988
Non-interest income	**78**	282
Profit before taxation	**28,348**	9,024
Profit after taxation	**20,684**	6,273

(ii) Bangsar Capital Holdings (L) Limited

	The Group	
	2014 RM'000	**2013 RM'000**
Total assets	**1,774**	–
Total liabilities	**(109)**	–
Net assets	**1,665**	–
Revenue	**–**	–
Loss before taxation	**(1,564)**	–
Loss after taxation	**(1,564)**	–

There are no commitments or contingent liabilities relating to the Group's interest in the joint ventures.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

13 INVESTMENT IN JOINT VENTURES (CONTINUED)

(c) Reconciliation of the summarised financial information to the carrying amount of the interest in joint venture companies recognised in the consolidated financial statements:

(i) Sichuan Jincheng Consumer Finance Limited Company

	The Group	
	2014 RM'000	**2013 RM'000**
Opening net assets as at 1 July	**163,153**	156,880
Profit for the financial year	**20,684**	6,273
Closing net assets as at 30 June	**183,837**	163,153
Interest in joint ventures (%)	**49%**	49%
Interest in joint ventures (RM'000)	**90,080**	79,945

(ii) Bangsar Capital Holdings (L) Limited

	The Group	
	2014 RM'000	**2013 RM'000**
Opening net assets as at 1 July	**–**	–
Issued capital during the year	**3,229**	–
Loss for the financial year	**(1,564)**	–
Closing net assets as at 30 June	**1,665**	–
Interest in joint ventures (%)	**50%**	–
Interest in joint ventures (RM'000)	**832**	–

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

14 PROPERTY AND EQUIPMENT

The Group		Land and building*	Office and computer equipment	Furniture, fittings and renovation	Motor vehicles	Capital work-in-progress	Total
2014	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 July		655,668	187,782	103,870	2,959	89,466	1,039,745
Exchange differences		777	378	90	6	13	1,264
Reclassification to intangible assets	17	–	198	–	–	(1,244)	(1,046)
Additions/transfer		1,501	97,440	47,368	3,449	(28,222)	121,536
Disposals/write-off		(409)	(4,014)	(3,654)	(125)	–	(8,202)
Depreciation charge during the financial year		(11,448)	(71,727)	(38,478)	(1,388)	–	(123,041)
As at 30 June		646,089	210,057	109,196	4,901	60,013	1,030,256
As at 30 June 2014							
Cost		747,835	857,954	399,285	15,050	60,013	2,080,137
Accumulated depreciation		(101,746)	(647,897)	(290,089)	(10,149)	–	(1,049,881)
Net book value as at 30 June 2014		646,089	210,057	109,196	4,901	60,013	1,030,256

* Land and building consists of the following:

The Group	Freehold land	Freehold building	Long-term leasehold land	Long-term leasehold building	Short-term leasehold land	Short-term leasehold building	Total
2014	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 July	153,858	270,015	23,214	203,909	2,625	2,047	655,668
Exchange differences	–	–	–	777	–	–	777
Additions	938	563	–	–	–	–	1,501
Disposals	–	(409)	–	–	–	–	(409)
Depreciation charge during the financial year	–	(3,030)	(449)	(7,753)	(210)	(6)	(11,448)
As at 30 June	154,796	267,139	22,765	196,933	2,415	2,041	646,089
As at 30 June 2014							
Cost	154,796	322,684	26,257	235,883	5,271	2,944	747,835
Accumulated depreciation	–	(55,545)	(3,492)	(38,950)	(2,856)	(903)	(101,746)
Net book value as at 30 June 2014	154,796	267,139	22,765	196,933	2,415	2,041	646,089

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

14 PROPERTY AND EQUIPMENT (CONTINUED)

The Group		Land and building*	Office and computer equipment	Furniture, fittings and renovation	Motor vehicles	Capital work-in-progress	Total
2013	**Note**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
As at 1 July		667,339	188,456	123,072	5,305	53,713	1,037,885
Exchange differences		(286)	(412)	–	–	(92)	(790)
Reclassification to intangible assets	17	–	45	98	–	(1,170)	(1,027)
Additions		–	71,847	19,752	233	37,015	128,847
Disposals/write-off		–	(2,963)	(2,841)	(827)	–	(6,631)
Depreciation charge during the financial year		(11,385)	(69,191)	(36,211)	(1,752)	–	(118,539)
As at 30 June		655,668	187,782	103,870	2,959	89,466	1,039,745
As at 30 June 2013							
Cost		746,155	863,525	396,987	13,640	89,466	2,109,773
Accumulated depreciation		(90,487)	(675,743)	(293,117)	(10,681)	–	(1,070,028)
Net book value as at 30 June 2013		655,668	187,782	103,870	2,959	89,466	1,039,745

* Land and building consists of the following:

The Group	Freehold land	Freehold building	Long-term leasehold land	Long-term leasehold building	Short-term leasehold land	Short-term leasehold building	Total
2013	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
As at 1 July	153,858	273,058	23,649	211,887	2,835	2,052	667,339
Exchange differences	–	–	–	(286)	–	–	(286)
Depreciation charge during the financial year	–	(3,043)	(435)	(7,692)	(210)	(5)	(11,385)
As at 30 June	153,858	270,015	23,214	203,909	2,625	2,047	655,668
As at 30 June 2013							
Cost	153,858	322,766	26,257	235,059	5,271	2,944	746,155
Accumulated depreciation	–	(52,751)	(3,043)	(31,150)	(2,646)	(897)	(90,487)
Net book value as at 30 June 2013	153,858	270,015	23,214	203,909	2,625	2,047	655,668

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

14 PROPERTY AND EQUIPMENT (CONTINUED)

The Company	Office and computer equipment RM'000	Furniture, fittings and renovation RM'000	Motor vehicles RM'000	Total RM'000
2014				
As at 1 July	**50**	**646**	**202**	**898**
Additions	**242**	**27**	**1,060**	**1,329**
Disposals/write-off	**(2)**	**(25)**	**(124)**	**(151)**
Depreciation charge during the financial year	**(48)**	**(129)**	**(101)**	**(278)**
As at 30 June	**242**	**519**	**1,037**	**1,798**
As at 30 June 2014				
Cost	**726**	**1,497**	**3,453**	**5,676**
Accumulated depreciation	**(484)**	**(978)**	**(2,416)**	**(3,878)**
Net book value as at 30 June 2014	**242**	**519**	**1,037**	**1,798**
2013				
As at 1 July	74	643	375	1,092
Additions	16	129	6	151
Disposals/write-off	(4)	–	–	(4)
Depreciation charge during the financial year	(36)	(126)	(179)	(341)
As at 30 June	50	646	202	898
As at 30 June 2013				
Cost	497	1,533	3,072	5,102
Accumulated depreciation	(447)	(887)	(2,870)	(4,204)
Net book value as at 30 June 2013	50	646	202	898

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

15 INVESTMENT PROPERTIES

	The Group	
	2014 RM'000	2013 RM'000
Fair value		
As at 1 July	**1,680**	1,680
Fair value gain	**80**	–
As at 30 June	**1,760**	1,680
The analysis of investment properties is as follows:		
Leasehold land and building	**1,760**	1,680

The fair value of the properties was estimated at RM1,760,000 (2013: RM1,680,000) based on open market valuation by an independent professional valuer, Messrs Rahim & Co International Property Consultants.

The fair value of the properties is based on the highest and best use of the subject property and on the basis of Market Value as defined by the Malaysian Valuation Standards.

The fair value are within Level 2 of the fair value hierarchy.

The following amounts have been reflected in the statements of income:

	The Group	
	2014 RM'000	2013 RM'000
Rental income	**125**	82
Operating expenses arising from investment properties that generated the rental income	**3**	3

16 GOODWILL ARISING ON CONSOLIDATION

	The Group	
	2014 RM'000	2013 RM'000
As at 1 July/30 June	**2,410,644**	2,410,644

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for the financial year ended 30 June 2014
(continued)

16 GOODWILL ARISING ON CONSOLIDATION (CONTINUED)

Allocation of goodwill to cash-generating units

Goodwill has been allocated to the following cash-generating-units ("CGUs"):

	The Group	
	2014 RM'000	2013 RM'000
CGU		
Commercial banking	**2,246,484**	2,246,484
Investment banking and asset management	**99,803**	99,803
Insurance	**64,357**	64,357
	2,410,644	2,410,644

Impairment test for goodwill

The recoverable amount of the CGUs as at 30 June 2014 are determined based on the fair value less cost to sell.

(i) Commercial banking CGU

The recoverable amount of the Banking CGU has been determined using the quoted market prices as at 30 June 2014 by Bursa Malaysia Securities Berhad.

(ii) Investment banking and asset management CGU

The recoverable amount of the investment banking and asset management CGU has been determined using the quoted market prices as at 30 June 2014 by Bursa Malaysia Securities Berhad.

(iii) Insurance CGU

The fair value of the Insurance CGU is derived using the actuarial valuation for the Life insurance business. The actuarial valuation of the Life insurance fund is based on the latest position as at statements of financial position date, using the most recent available assumptions at the point of assessment. Such assumptions are derived from historical experience of the insurer and current industry trends and positions.

The fair value has been calculated based on the set of assumptions outlined below:-

(a) The present value of future shareholders' earnings is discounted at 11% (2013: 11%).

(b) Future earnings are projected based on actuarial assumptions that are determined in accordance with generally accepted actuarial best practice and are appropriate to the business and risk profile of the business.

(c) Allowance for tax of 8% (2013: 8%) has been made on the assumptions that the application of current tax legislation and tax rates will continue unchanged.

(d) The current actuarial reserving methods and bases have been assumed to continue unaltered.

(e) The current Risk-Based Capital requirement has been assumed to continue unaltered.

(f) Required risk based capital are at the management's capital adequacy ratio target level.

It should be recognised that the actual future results will differ from those stated above, from any future changes in the operations and economic environment and natural variation in experience. There is no warranty that the future experience will be in line with the assumptions made.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

17 INTANGIBLE ASSETS

The Group	Note	Core deposit RM'000	Customer relationship RM'000	Computer software RM'000	Total RM'000
2014					
Cost or valuation					
As at 1 July		**152,434**	**127,426**	**532,245**	**812,105**
Additions		**–**	**–**	**88,478**	**88,478**
Disposals/write-off		**–**	**–**	**(84,332)**	**(84,332)**
Exchange fluctuation		**–**	**–**	**183**	**183**
Reclassification from property and equipment	14	**–**	**–**	**1,046**	**1,046**
As at 30 June		**152,434**	**127,426**	**537,620**	**817,480**
Accumulated amortisation and impairment					
As at 1 July		**47,182**	**27,609**	**356,407**	**431,198**
Amortisation during the financial year		**21,776**	**12,743**	**66,625**	**101,144**
Disposals/write-off		**–**	**–**	**(75,764)**	**(75,764)**
Exchange fluctuation		**–**	**–**	**(19)**	**(19)**
As at 30 June		**68,958**	**40,352**	**347,249**	**456,559**
Net book value as at 30 June 2014		**83,476**	**87,074**	**190,371**	**360,921**
2013					
Cost or valuation					
As at 1 July		152,434	127,426	505,918	785,778
Additions		–	–	28,356	28,356
Disposals/write-off		–	–	(2,946)	(2,946)
Exchange fluctuation		–	–	(110)	(110)
Reclassification from property and equipment	14	–	–	1,027	1,027
As at 30 June		152,434	127,426	532,245	812,105
Accumulated amortisation and impairment					
As at 1 July		25,406	14,866	291,448	331,720
Amortisation during the financial year		21,776	12,743	67,378	101,897
Disposals/write-off		–	–	(2,403)	(2,403)
Exchange fluctuation		–	–	(16)	(16)
As at 30 June		47,182	27,609	356,407	431,198
Net book value as at 30 June 2013		105,252	99,817	175,838	380,907

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

17 INTANGIBLE ASSETS (CONTINUED)

	Computer software	
The Company	**2014 RM'000**	**2013 RM'000**
Cost or valuation		
As at 1 July	**519**	518
Additions	**185**	3
Disposals/write-off	**(8)**	(2)
As at 30 June	**696**	519
Amortisation and impairment		
As at 1 July	**508**	503
Amortisation during the financial year	**22**	7
Disposals/write-off	**(6)**	(2)
As at 30 June	**524**	508
Net book value as at 30 June	**172**	11

Customer relationships acquired in a business combination have value when they represent an identifiable and predictable source of future cash flow to the combined business.

The valuation of business banking customer relationships was determined using an income approach, specifically the multi-period excess earning method ("MEEM"). This was done by discounting forecasted incremental customer revenues attributable solely to EON Banking Group's existing business banking customer.

Core deposits comprising savings and current accounts are low cost source of funds. The valuation of core deposits was derived using an income approach, specifically the cost savings method under the incremental cash flow method. This was done by discounting forecast net interest savings from core deposits.

The discount rate used in discounting incremental cash flow was based on the risk associated with the identified intangible assets. The remaining amortisation period of core deposits and customer relationships are 4 to 7 years respectively.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

18 DEPOSITS FROM CUSTOMERS

	The Group	
	2014 RM'000	2013 RM'000
Fixed deposits	**74,243,402**	73,878,772
Negotiable instruments of deposit	**11,598,134**	8,147,193
	85,841,536	82,025,965
Demand deposits	**18,913,794**	17,514,256
Savings deposits	**15,020,628**	14,439,487
Short-term corporate placements	**10,556,968**	9,659,336
Others	**381,524**	319,661
Gross deposits from customers	**130,714,450**	123,958,705
Fair value changes arising from adoption of fair value option*	**(82,164)**	–
Total net deposits from customers	**130,632,286**	123,958,705

* During the financial year, the Group has issued structured deposits (Callable Range Accrual Notes) and designated them at fair value through profit or loss. This designation is permitted under MFRS 139 "Financial Instruments: Recognition and Measurement" as it significantly reduces accounting mismatch. These instruments are managed by the Group on the basis of its fair value and includes terms that have substantive derivative characteristic. The structured deposits are recorded at fair value.

(a) Maturity structure of fixed deposits and negotiable instruments of deposit is as follows:

	The Group	
	2014 RM'000	2013 RM'000
Due within:		
– six months	**65,302,503**	58,101,048
– six months to one year	**16,537,616**	19,875,082
– one year to five years	**3,501,417**	3,939,835
– more than five years	**500,000**	110,000
	85,841,536	82,025,965

(b) The deposits are sourced from the following customers:

	The Group	
	2014 RM'000	2013 RM'000
Government and statutory bodies	**2,299,321**	3,916,254
Business enterprises	**56,739,253**	49,727,955
Individuals	**66,662,907**	66,104,854
Others	**5,012,969**	4,209,642
	130,714,450	123,958,705

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

19 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group	
	2014 RM'000	2013 RM'000
Licensed banks and investment banks	**6,153,972**	10,643,728
Licensed Islamic bank	**901,261**	930,887
Other financial institutions	**2,111,022**	1,535,508
	9,166,255	13,110,123

20 DERIVATIVE FINANCIAL INSTRUMENTS

	The Group		The Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Derivatives at fair value through profit or loss				
– Interest rate swaps	**300,199**	438,462	**788**	218
– Cross currency swaps	**111,919**	83,639	**–**	–
– Foreign currency forwards	**254,129**	276,922	**423**	642
– Foreign currency options	**20,553**	52,592	**–**	–
– Futures	**10,824**	3,775	**–**	–
– Futures options	**953**	–	**–**	–
– Equity options	**5,000**	6,464	**–**	–
– Swaption	**9,406**	38,652	**–**	–
Derivatives designated as fair value hedge				
– Interest rate swaps	**–**	5,977	**–**	–
Total derivative financial instruments assets	**712,983**	906,483	**1,211**	860
Derivatives at fair value through profit or loss				
– Interest rate swaps	**(352,302)**	(454,257)	**(1,253)**	(8,160)
– Cross currency swaps	**(123,647)**	(100,266)	**–**	–
– Foreign currency forwards	**(270,940)**	(345,993)	**–**	–
– Foreign currency options	**(18,329)**	(55,105)	**–**	–
– Futures	**(1,149)**	(1,602)	**–**	–
– Futures options	**(605)**	–	**–**	–
– Equity options	**(13,745)**	(4,732)	**–**	–
– Swaption	**(40,623)**	(40,362)	**–**	–
Derivatives designated as fair value hedge				
– Interest rate swaps	**–**	(7,104)	**–**	–
Total derivative financial instruments liabilities	**(821,340)**	(1,009,421)	**(1,253)**	(8,160)

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

21 PAYABLES AND OTHER LIABILITIES

	The Group		The Company	
	2014 RM'000	**2013 RM'000**	**2014 RM'000**	**2013 RM'000**
Trade payables	**1,325,059**	1,040,074	**–**	–
Amount due to Cagamas Berhad	**84,160**	172,115	**–**	–
Post employment benefits obligation				
– defined contribution plan	**4,236**	4,159	**40**	38
Loan advance payment	**1,882,838**	1,603,098	**–**	–
Treasury clearing	**1,191,406**	113,385	**–**	–
Cheque clearing	**27,650**	74,199	**–**	–
Treasury related payables	**56,425**	21,416	**–**	–
Sundry creditors and accruals	**563,278**	563,290	**3,620**	1,643
Provision for bonus and staff related expenses	**186,621**	208,497	**13,428**	11,564
Advance payments received for corporate exercise	**416,545**	–	**–**	–
Others	**531,101**	773,908	**–**	–
	6,269,319	4,574,141	**17,088**	13,245

22 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statements of financial position:

	The Group		The Company	
	2014 RM'000	**2013 RM'000**	**2014 RM'000**	**2013 RM'000**
Deferred tax assets				
– Unabsorbed tax losses	**98,701**	35,060	**–**	–
– Other temporary differences	**96,166**	131,465	**3,550**	4,977
	194,867	166,525	**3,550**	4,977
Deferred tax liabilities				
– Property and equipment	**(103,739)**	(94,840)	**–**	–
– Financial investments available-for-sale	**(113,346)**	(132,347)	**–**	–
– Intangible assets	**(42,638)**	(51,267)	**–**	–
– Other temporary differences	**(145,161)**	(109,632)	**–**	–
	(404,884)	(388,086)	**–**	–
	(210,017)	(221,561)	**3,550**	4,977

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

22 DEFERRED TAXATION (CONTINUED)

The movements in deferred tax assets and liabilities during the financial year comprise the following:

The Group	Note	Loans, advances and financing RM'000	Property and equipment RM'000	Financial investments available-for-sale RM'000	Intangible assets RM'000	Unabsorbed tax losses RM'000	Other temporary differences RM'000	Total RM'000
2014								
As at 1 July		**–**	**(94,840)**	**(132,347)**	**(51,267)**	**15,097**	**41,796**	**(221,561)**
(Charged)/credited to statements of income	38	**–**	**(8,820)**	**25**	**8,629**	**103,390**	**(86,213)**	**17,011**
Transferred from/(to) Life fund		**–**	**–**	**3,854**	**–**	**–**	**(5,397)**	**(1,543)**
Reversal against taxation payable		**–**	**–**	**–**	**–**	**(19,786)**	**–**	**(19,786)**
Transferred (to)/from equity	29(f)	**–**	**(79)**	**15,122**	**–**	**–**	**819**	**15,862**
As at 30 June		**–**	**(103,739)**	**(113,346)**	**(42,638)**	**98,701**	**(48,995)**	**(210,017)**
2013								
As at 1 July		15,105	(107,891)	(100,764)	(59,897)	25,139	(10,025)	(238,333)
(Charged)/credited to statements of income	38	(15,105)	13,051	516	8,630	9,921	53,024	70,037
Transferred from Life fund		–	–	(3,180)	–	–	(1,203)	(4,383)
Reversal against taxation payable		–	–	–	–	(19,963)	–	(19,963)
Transferred to equity	29(f)	–	–	(28,919)	–	–	–	(28,919)
As at 30 June		–	(94,840)	(132,347)	(51,267)	15,097	41,796	(221,561)

The Company	Note	Loans, advances and financing RM'000	Property and equipment RM'000	Financial investments available-for-sale RM'000	Intangible assets RM'000	Unabsorbed tax losses RM'000	Other temporary differences RM'000	Total RM'000
2014								
As at 1 July		**–**	**–**	**–**	**–**	**–**	**4,977**	**4,977**
Credited to statements of income	38	**–**	**–**	**–**	**–**	**–**	**(1,427)**	**(1,427)**
As at 30 June		**–**	**–**	**–**	**–**	**–**	**3,550**	**3,550**
2013								
As at 1 July		–	–	–	–	–	–	–
Credited to statements of income	38	–	–	–	–	–	4,977	4,977
As at 30 June		–	–	–	–	–	4,977	4,977

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

23 BORROWINGS

		The Group		The Company	
	Note	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Revolving credit	(a)	**65,254**	–	**65,254**	–
Commercial papers	(b)	**584,212**	624,103	**584,212**	624,103
Medium term notes	(b) & (c)	**2,611,879**	2,611,813	**551,824**	551,758
Term loans	(d)	**110,052**	290,245	**110,052**	290,245
Senior bonds	(e)	**1,936,207**	1,902,171	**–**	–
		5,307,604	5,428,332	**1,311,342**	1,466,106
Repayment of revolving credit					
– Less than one year		**65,254**	–	**65,254**	–
Repayment of commercial papers					
– Less than one year		**584,212**	624,103	**584,212**	624,103
Repayment of medium term notes					
– Less than one year		**150,466**	–	**150,466**	–
– One to three years		**2,210,550**	2,211,813	**150,495**	151,758
– Three years and above		**250,863**	400,000	**250,863**	400,000
Repayment of term loans					
– Less than one year		**110,052**	150,164	**110,052**	150,164
– One to three years		**–**	140,081	**–**	140,081
Repayment of senior bonds					
– One to three years		**1,936,207**	1,902,171	**–**	–
		5,307,604	5,428,332	**1,311,342**	1,466,106

(a) The revolving credit facilities carried interest rates ranging from 3.22% to 3.58% (2013: ranging from 3.71% to 4.21%) per annum.

The revolving credit facilities are unsecured and repayable within 12 months.

(b) On 14 October 2011, the Company entered into RM1.8 billion CP/MTNs Programme comprising a seven (7) years Commercial Papers (CP) programmes and a twenty (20) years Medium Term Notes (MTNs) programmes which were constituted by a Trust Deed between the Company and Malaysian Trustees Berhad as trustee. The CPs are issued at a discount and the issue price is calculated in accordance with the Rules on Fully Automated System for Issuing/Tendering ("FAST") issued by Bank Negara Malaysia at the tenure of one (1), two (2), three (3), six (6), nine (9) or twelve (12) months as the Company may select. The CPs carry interest rates ranging from 3.20% to 3.38% (2013: 3.20% to 3.42%).

The MTNs are issued at par and the issue price is calculated in accordance with the FAST Rules, at the tenure which shall be more than one (1) year as the Company may select. The MTNs carry interest rates ranging from 4.05% to 4.50% (2013: 4.05% to 4.50%) per annum.

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

23 BORROWINGS (CONTINUED)

(c) On 14 August 2012, HLAH completed its RM2.0 billion MTN issuance under a proposed MTN Programme to raise funds for investment purpose. The MTN is unsecured and has a maturity of 5 years and a call option to redeem the MTN at anytime.

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

(i) an unsecured short-term loan facility of RM150 million maturing on 11 January 2015. The term loan with one month interest period bears interest rate ranging from 3.62% to 3.65% (2013: 3.61% to 3.63%) per annum.

(ii) an unsecured 1 year term loan of RM200 million maturing on 2 July 2014. The term loan with one month interest period bears interest rate ranging from 3.62% to 3.65% (2013: 3.61% to 3.63%) per annum.

(e) The Group has the following senior bonds for the financial year:

		The Group	
	Note	2014 RM'000	2013 RM'000
USD300 million senior bonds, at par	(i)	**916,350**	916,350
USD300 million senior bonds, at par	(ii)	**919,200**	919,200
Foreign exchange translations		**90,750**	60,150
		1,926,300	1,895,700
Add: Interest payable		**16,454**	16,192
		1,942,754	1,911,892
Less: Unamortised discounts		**(6,547)**	(9,721)
		1,936,207	1,902,171

(i) On 17 March 2011, HLB issued USD300 million in aggregate principal amount of Senior Bonds ("the Bonds"), which will mature in 2016. The Bonds bear interest at the rate of 3.75% is payable semi-annually. The Bonds were issued at a price of 99.761 per cent of the principal amount of the Bonds.

The Bonds will constitute direct general, unsubordinated and (subject to the provisions of Negative Pledge Condition) unsecured obligations of HLB which will at all times rank *parri passu* among themselves and at least *parri passu* with all other present and future unsecured obligations of HLB.

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

24 SUBORDINATED OBLIGATIONS

		The Group	
	Note	2014 RM'000	2013 RM'000
RM700 million Tier 2 subordinated debt, at par	(a)	**685,000**	685,000
Add: Interest payable		**12,535**	11,977
		697,535	696,977
Less: Unamortised discounts		**(207)**	(741)
		697,328	696,236
RM1.0 billion Tier 2 subordinated debt, at par	(b)	**1,000,000**	1,000,000
Add: Interest payable		**6,793**	6,674
		1,006,793	1,006,674
Less: Unamortised discounts		**(570)**	(1,341)
		1,006,223	1,005,333
Subordinated medium term notes, at par	(c)	**750,000**	1,160,000
Add: Interest payable		**1,207**	9,307
		751,207	1,169,307
Less: Unamortised discounts		**(1,138)**	(6,985)
Fair value adjustments on completion of business combination accounting		**210**	3,829
		750,279	1,166,151
RM1.5 billion Tier 2 subordinated debt, at par	(d)	**1,500,000**	1,500,000
Add: Interest payable		**1,479**	1,295
		1,501,479	1,501,295
Less: Unamortised discounts		**(1,590)**	(2,271)
		1,499,889	1,499,024
RM500 million Tier 2 subordinated debt, at par	(e)	**500,000**	500,000
Add: Interest payable		**8,815**	8,815
		508,815	508,815
Less: Unamortised discounts		**(1,974)**	(2,050)
		506,841	506,765

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

24 SUBORDINATED OBLIGATIONS (CONTINUED)

		The Group	
	Note	2014 RM'000	2013 RM'000
RM400 million Tier 2 subordinated Sukuk Ijarah, at par	(f)	400,000	–
Add: Interest payable		736	–
		400,736	–
Less: Unamortised discounts		(658)	–
		400,078	–
RM500 million Tier 2 subordinated notes, at par	(g)	500,000	–
Add: Interest payable		526	–
		500,526	–
Less: Unamortised discounts		(1,550)	–
		498,976	–
		5,359,614	4,873,509

(a) On 10 August 2010, HLB had completed the first issuance of RM700 million nominal value of Tier 2 Subordinated Debt ("Sub Debt") out of its RM1.7 billion Tier 2 Subordinated Notes Programme. The RM700 million Sub Debt will mature in 2020 and is callable at the end of year 5 and on each subsequent coupon payment dates thereafter subject to approval of BNM. The Sub Debt which bears interest of 4.85% per annum is payable semi-annually in arrears.

The Sub Debt constitute unsecured liabilities of HLB, and is subordinated in right of payment to the deposit liabilities and all other liabilities of HLB in accordance with the terms and conditions of the issue and qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of HLB.

(b) On 5 May 2011, HLB issued the remaining RM1.0 billion nominal value of Sub Debt which will mature in 2021 and is callable at the end of year 5 and on each subsequent coupon payment dates thereafter subject to approval of BNM. The second issuance of Sub Debt bears interest at the rate of 4.35% per annum and is payable semi-annually in arrears.

The Sub Debt 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.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

24 SUBORDINATED OBLIGATIONS (CONTINUED)

(c) On 27 February 2009, Promino Sdn Bhd ("Promino") (formerly known as EON Bank Berhad), a wholly-owned subsidiary of HLB, has successfully issued the first tranche of RM410.0 million nominal value of the 10 non-callable 5 years Subordinated Medium Term Notes ("MTN") callable on 27 February 2014 (and thereafter) and due on 27 February 2019 under the RM2.0 billion Subordinated MTN Programme. The coupon rate of the Subordinated MTN is 5.75% per annum, which is payable semi-annually in arrears from the date of the issue. Should Promino decide not to exercise its call option on the fifth (5) year from the issue date, the coupon rate will be revised to be equivalent to 7.75% or the then prevailing 5 years RM swap rate plus 3.70% per annum, whichever is higher, from the beginning of the sixth (6) year to the final maturity date.

Subsequently, on 2 December 2009, Promino issued a second tranche of RM250.0 million nominal value of the 10 non-callable 5 years Subordinated MTN callable on 2 December 2014 (and thereafter) and due on 2 December 2019 under the RM2.0 billion Subordinated MTN Programme. The coupon rate of this second tranche of the Subordinated MTN is 5.75% per annum, which is payable semi-annually in arrears from the date of the issue. Should Promino decide not to exercise its call option on the fifth (5) year from the issue date, the coupon rate of this second tranche will be revised to be equivalent to 7.75% or the then prevailing 5 years RM swap rate plus 3.70% per annum, whichever is higher, from the beginning of the sixth (6) year to the final maturity date; similar to the step-up rates in the first tranche.

Subsequently, on 30 December 2010, Promino issued a third tranche of RM500.0 million nominal value of the 10 non-callable 5 years Subordinated MTN callable on 30 December 2015 (and at each anniversary date thereafter) and due on 30 December 2020 under the RM2.0 billion Subordinated MTN Programme. The coupon rate of this third tranche of the Subordinated MTN is 4.75% per annum, which is payable semi-annually in arrears from the date of the issue. Should Promino decide not to exercise its call option on the fifth (5) year from the issue date, or at each anniversary date thereafter, the coupon rate of this third tranche will be remain at 4.75% per annum, from the beginning of the sixth (6) year to the final maturity date.

On 1 July 2011, the above Subordinated MTN was vested to HLB. The above tranches of Subordinated MTNs constitute unsecured liabilities of HLB and are subordinated to all deposit liabilities and all other liabilities except those liabilities, which by their terms, rank equally in rights of payment with the Subordinated MTNs. The Subordinated MTNs qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of HLB.

On 27 February 2014, HLB had fully redeemed the first tranche of RM410.0 million nominal value of the 10 non-callable 5 years subordinated MTNs bearing coupon rate of 5.75% per annum.

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

The Sub Notes constitute unsecured liabilities of HLB, and is subordinated in right of payment to the deposit liabilities and all other liabilities of HLB in accordance with the terms and conditions of the issue and qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of HLB.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

24 SUBORDINATED OBLIGATIONS (CONTINUED)

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

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

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

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

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

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

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

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

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25 NON-INNOVATIVE TIER 1 STAPLED SECURITIES

	The Group	
	2014 RM'000	**2013 RM'000**
RM1.4 billion Non-innovative Tier 1 stapled securities, at par	**1,400,000**	1,400,000
Add: Interest payable	**11,041**	10,847
	1,411,041	1,410,847
Less: Unamortised discounts	**(789)**	(1,855)
	1,410,252	1,408,992

On 5 May 2011, HLB had completed its issuance of Non-innovative Tier 1 Stapled Securities ("NIT-1 Stapled Securities") of RM1.4 billion. The NIT-1 Stapled Securities comprise of Capital Securities issued by HLB that are stapled with Subordinated Notes issued by Prominic Berhad (a wholly owned subsidiary of HLB). The Subordinated Notes, which will mature in 2051, pays a semi-annual of 5.05% per annum. The Capital Securities is callable at the end of year 5 and on each coupon payment date, pays a semi annual coupon of 5.05% per annum. The call option shall be subject to the approval of BNM.

The NIT-1 Stapled Securities 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 1 capital for the purpose of determining the capital adequacy ratio of HLB.

26 INNOVATIVE TIER 1 CAPITAL SECURITIES

	The Group	
	2014 RM'000	**2013 RM'000**
RM500 million Innovative Tier 1 capital securities, at par	**500,000**	500,000
Add: Interest payable	**12,771**	12,658
	512,771	512,658
Less: Unamortised discounts	**(8,746)**	(10,012)
Fair value adjustments on completion of business combination accounting	**37,742**	53,396
	541,767	556,042

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
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26 INNOVATIVE TIER 1 CAPITAL SECURITIES (CONTINUED)

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

On 1 July 2011, the above IT-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.

27 INSURANCE FUNDS

	The Group	
	2014 RM'000	**2013 RM'000**
Unearned premium reserves	**25,137**	28,940
Life policyholders' fund	**7,067,318**	6,082,190
Fair value reserves – financial investments available-for-sale	**215,989**	216,257
Life investment-linked unitholders' fund	**1,047,313**	859,028
	8,355,757	7,186,415

The main insurance risks that the Group is exposed to are the following:

- Mortality risk – risk of loss arising due to policyholder's death experience being different than expected.
- Morbidity risk – risk of loss arising due to policyholder's health experience being different than expected.
- Longevity risk – risk of loss arising due to the annuitants living longer than expected.
- Investment return/interest rate risk – risk of loss arising from actual returns being different than expected.
- Expense risk – risk of loss arising from expense experience being different than expected.
- Lapse risk – risk of loss arising due to policyholder surrender experience being different than expected.

The risks vary in relation to the location of the risk insured by the Group, type of risk insured or by industry.

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28 SHARE CAPITAL

	The Group and The Company	
	2014 RM'000	**2013 RM'000**
Authorised		
Ordinary shares of RM1.00 each	**2,000,000**	2,000,000
Issued and fully paid capital		
Ordinary shares of RM1.00 each		
As at 1 July/30 June	**1,052,768**	1,052,768

There were no new shares issued by the Company during the financial year ended 30 June 2014 (2013: Nil).

29 RESERVES

		The Group		The Company	
	Note	**2014 RM'000**	**2013 RM'000**	**2014 RM'000**	**2013 RM'000**
Retained profits	(a)	**7,447,552**	6,590,499	**12,332,614**	12,318,619
Share premium	(b)	**117,229**	117,229	**117,229**	117,229
Statutory reserve	(c)	**2,454,525**	1,971,758	**–**	–
Regulatory reserve	(d)	**10,266**	8,527	**–**	–
Other capital reserve	(e)	**134,848**	134,417	**254,991**	254,991
Fair value reserve	(f)	**287,257**	248,221	**–**	–
Share options reserve	(g)	**7,806**	22,768	**4,638**	16,680
Exchange fluctuation reserve	(h)	**(12,347)**	(20,501)	**–**	–
		10,447,136	9,072,918	**12,709,472**	12,707,519

(a) Under the single-tier tax system which came into effect on 1 January 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are single-tier dividends and are tax exempt on the hands of shareholders.

As at 30 June 2014, the Company is already under the single-tier tax system. The Company also has no tax exempt income available for future distribution of tax exempt dividends.

(b) Share premium is used to record premium arising from new shares issued by the Company.

(c) The statutory reserve is maintained by the banking subsidiaries in compliance with Section 47 of the Financial Service Act, 2013 and Section 57 of the Islamic Financial Service Act, 2013 which is not distributable as cash dividend.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

29 RESERVES (CONTINUED)

(d) The regulatory reserve is maintained by the Group's banking subsidiary company in Vietnam in line with the requirements of the State Bank of Vietnam.

(e) The other capital reserve of the Group arose from the capitalisation of bonus issue and gain on disposal of subsidiary company and assets in certain subsidiary companies and capital redemption reserve arising from redemption of RPS. The capital reserve of the Company arose from gain on disposal of a subsidiary company not recognised in the statements of income due to a common control transaction, and investments and proceeds on issuance of replacement warrants used for bond redemption in previous years.

(f) Movement of the fair value reserve is as follows:

		The Group	
	Note	2014 RM'000	2013 RM'000
As at 1 July		**248,221**	179,506
Net gain from change in fair value		**128,253**	215,000
Reclassification adjustments to net profit on disposal and impairment	34	**(101,177)**	(116,716)
Deferred taxation	22	**15,122**	(28,919)
Share of fair value reserve of associated companies	12	**(3,162)**	(650)
Net change in fair value reserve		**39,036**	68,715
As at 30 June		**287,257**	248,221

(g) The share options reserve arose from the employee share option schemes granted to eligible executives of the Company. Terms of the share options and movements in the number of shares held by Trustee for ESOS are disclosed in Note 51 to the financial statements.

(h) Exchange differences arising on translation of foreign subsidiary and associated companies are taken to exchange fluctuation reserve.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
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30 TREASURY SHARES FOR ESOS

The Company has entered into a Trust for ESOS purposes established via the signing of a Trust Deed on 23 January 2006 with AmTrustee Berhad in conjunction with the establishment of Executive Share Option Schemes ("ESOS"). The trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase the Company's shares from the open market for the purposes of this trust.

MFRS132 – Financial Instruments: Presentation requires that if an entity reacquires its own equity instruments, those instruments shall be deducted from equity and are not recognised as a financial asset regardless of the reason for which they are reacquired.

In accordance with MFRS 132 – Financial Instruments: Presentation, the shares purchased for the benefit of the ESOS holders are recorded as "Treasury Shares for ESOS" in the equity on the balance sheet. As at 30 June 2014, the number of shares held by the appointed trustee was 3,000,408 shares (2013: 7,344,408) at an average price of RM5.06 per share (2013: RM5.06). The total consideration paid, including transaction costs was RM15,181,000 (2013: RM37,161,000).

Pursuant to the insurance subsidiary company's ESOS, the insurance subsidiary company also held 2,154,292 (2013: 2,692,192) units of the Company's shares at an average price of RM4.75 (2013: RM4.75) per share with total consideration paid, including transaction costs of RM10,241,000 (2013: RM12,797,000), which have been classified as treasury shares held for ESOS at the Group level.

The main features of the ESOS are disclosed in the Director's Report and details of the ESOS are disclosed in Note 51 to the financial statements.

31 INTEREST INCOME

	The Group		The Company	
	2014 RM'000	**2013 RM'000**	**2014 RM'000**	**2013 RM'000**
Loans, advances and financing	**4,142,097**	4,018,641	**–**	–
Money at call and deposit placements with financial institutions	**457,614**	399,743	**1,053**	947
Securities purchased under resale agreements	**18,404**	28,019	**–**	–
Financial assets held-for-trading	**519,108**	741,624	**–**	–
Financial investments available-for-sale	**424,641**	322,668	**–**	–
Financial investments held-to-maturity	**196,254**	104,525	**–**	–
Others	**4,283**	3,203	**2,292**	2,857
	5,762,401	5,618,423	**3,345**	3,804
Of which:				
Accretion of discount less amortisation of premium	**203,656**	415,813	**–**	–
Interest income earned on impaired loans, advances and financing	**65,356**	26,958	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

32 INTEREST EXPENSE

	The Group		The Company	
	2014 RM'000	**2013 RM'000**	**2014 RM'000**	**2013 RM'000**
Deposits and placements of banks and other financial institutions	**79,546**	108,428	**–**	–
Deposits from other customers	**2,412,772**	2,288,732	**–**	–
Short term corporate placements	**190,579**	304,756	**–**	–
Borrowings	**280,008**	266,516	**49,768**	55,790
Subordinated obligations	**211,462**	194,731	**–**	–
Non-innovative Tier 1 stapled securities	**71,439**	72,215	**–**	–
Innovative Tier 1 capital securities	**26,862**	23,742	**–**	–
Others	**15,324**	5,237	**346**	1,286
	3,287,992	3,264,357	**50,114**	57,076

33 INCOME FROM ISLAMIC BANKING BUSINESS

	The Group	
	2014 RM'000	**2013 RM'000**
Income derived from investment of depositors' funds and others	**835,835**	848,865
Income derived from investment of shareholders' funds	**91,395**	85,520
Income attributable to depositors	**(492,851)**	(479,498)
	434,379	454,887
Of which:		
Financing income earned on impaired financing and advances	**10,301**	3,317

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

34 NON-INTEREST INCOME

		The Group		The Company	
	Note	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Insurance income		308,223	150,954	–	–
Brokerage income		60,576	43,511	–	–
Fee income					
Commissions		138,801	134,001	–	–
Service charges and fees		51,012	46,824	–	–
Guarantee fees		24,132	22,575	–	–
Credit card related fees		240,267	270,152	–	–
Corporate advisory fees		8,712	10,326	–	–
Commitment fees		36,562	34,539	–	–
Fee on loans, advances and financing		65,960	66,359	–	–
Placement fees		24,521	30,861	–	–
Arranger fees		15,295	11,667	–	–
Unit trust fee income		19,437	18,613	–	–
Other fee income		44,085	23,058	9,225	8,379
		668,784	668,975	9,225	8,379
Net income from securities					
Net realised gain/(loss) from sale/(redemption) of financial assets:					
– financial assets held-for-trading		18,852	47,978	(20)	(120)
– financial investments available-for-sale	29(f)	101,177	116,716	–	–
– financial investments held-to-maturity		802	8,437	–	–
– derivative financial instruments		45,090	19,764	(2,586)	7,927
Dividend income from:					
– financial assets held-for-trading		18,928	23,486	640	1,025
– financial investments available-for-sale		252,356	214,866	–	–
– subsidiary companies		–	–	516,469	481,620
Net unrealised gain on revaluation of:					
– financial assets held-for-trading		22,528	21,742	–	–
– derivative financial instruments		10,563	88,703	7,258	8,605
Net realised loss on fair value changes arising from fair value hedges and amortisation of fair value changes arising from terminated fair value hedges		(8,334)	(26,614)	–	–
Net unrealised gain on fair value changes arising from fair value hedges		–	10,917	–	–
		461,962	525,995	521,761	499,057
Other income					
Foreign exchange gain/(loss)		123,432	157,924	492	(411)
Rental income		5,997	5,459	–	–
Gain on sale of property and equipment (net)		6,305	924	196	1
Other non-operating income		19,218	15,876	49	703
		154,952	180,183	737	293
		1,654,497	1,569,618	531,723	507,729

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

35 OVERHEAD EXPENSES

		The Group		The Company	
	Note	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Personnel costs	(a)	**1,077,503**	1,080,257	**27,015**	22,657
Establishment costs	(b)	**518,737**	527,727	**1,387**	1,399
Marketing expenses	(c)	**173,627**	146,423	**–**	–
Administration and general expenses	(d)	**210,338**	282,395	**5,581**	3,380
		1,980,205	2,036,802	**33,983**	27,436

(a) Personnel costs comprise the following:

	The Group		The Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Salaries, bonus and allowances	**977,812**	978,118	**22,027**	17,515
Medical expenses	**24,229**	24,673	**139**	99
Training and convention expenses	**29,972**	31,653	**35**	15
Staff welfare	**12,528**	14,820	**295**	202
Other employees benefits	**32,962**	30,993	**4,519**	4,826
	1,077,503	1,080,257	**27,015**	22,657

(b) Establishment costs comprise the following:

	The Group		The Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Depreciation of property and equipment	**115,492**	110,724	**278**	341
Amortisation of intangible assets	**99,562**	100,483	**22**	7
Rental of premises	**82,773**	87,167	**836**	829
Information technology expenses	**119,520**	122,466	**56**	55
Security services	**31,344**	31,384	**–**	–
Electricity, water and sewerage	**25,676**	28,096	**52**	37
Hire of plant and machinery	**13,689**	13,925	**25**	30
Others	**30,681**	33,482	**118**	100
	518,737	527,727	**1,387**	1,399

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

35 OVERHEAD EXPENSES (CONTINUED)

(c) Marketing expenses comprise the following:

	The Group		The Company	
	2014 RM'000	**2013 RM'000**	**2014 RM'000**	**2013 RM'000**
Advertisement and publicity	**40,859**	52,282	**–**	–
Credit card related fees	**97,263**	61,794	**–**	–
Commission	**14,122**	15,101	**–**	–
Others	**21,383**	17,246	**–**	–
	173,627	146,423	**–**	–

(d) Administration and general expenses comprise the following:

	The Group		The Company	
	2014 RM'000	**2013 RM'000**	**2014 RM'000**	**2013 RM'000**
Teletransmission expenses	**14,417**	17,672	**25**	38
Stationery and printing expenses	**19,428**	19,200	**47**	45
Professional fees	**80,685**	95,700	**4,158**	2,078
Insurance fees	**30,457**	22,177	**–**	–
Stamp, postage and courier	**23,316**	24,698	**4**	5
Travelling and transport expenses	**6,840**	7,534	**353**	261
Registration and license fees	**5,518**	5,849	**–**	–
Brokerage and commission	**6,124**	5,080	**–**	–
Others	**23,553**	84,485	**994**	953
	210,338	282,395	**5,581**	3,380

NOTES TO THE FINANCIAL STATEMENTS

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(continued)

35 OVERHEAD EXPENSES (CONTINUED)

(d) Administration and general expenses comprise the following: (continued)

The above expenditure includes the following statutory disclosures:

	Note	The Group 2014 RM'000	The Group 2013 RM'000	The Company 2014 RM'000	The Company 2013 RM'000
Directors' remuneration	37	**14,203**	17,416	**13,859**	11,778
Hire of equipment		**13,707**	13,936	**25**	30
Auditors' remuneration:					
(i) PwC Malaysia firm					
– statutory audit		**2,895**	2,934	**127**	121
– audit related fees		**760**	661	**22**	14
– other services		**335**	204	**25**	–
– tax compliance		**121**	285	**5**	5
– other tax services		**626**	332	**40**	131
(ii) PwC overseas affiliated firms					
– statutory audit		**375**	289	**–**	–
– other services		**180**	137	**–**	–
Property and equipment written off		**1,325**	219	**5**	–
Intangible assets written off		**8,568**	543	**2**	–
Options charge arising from ESOS		**6,194**	3,401	**4,434**	4,602

36 ALLOWANCE FOR IMPAIRMENT LOSSES ON LOANS, ADVANCES AND FINANCING AND OTHER LOSSES

	The Group 2014 RM'000	The Group 2013 RM'000
Allowance for impairment losses on loans, advances and financing:		
– collective assessment allowance	**255,275**	183,785
– individual assessment allowance	**31,157**	100,120
Writeback of impairment losses on clients' and brokers' balances:		
– collective assessment allowance	**(18)**	(111)
– individual assessment allowance	**(8)**	(288)
(Writeback of)/allowance for impairment losses on other assets:		
– individual assessment allowance	**(68)**	345
Impaired loans and financing:		
– written off	**20,025**	21,523
– recovered	**(253,938)**	(263,753)
	52,425	41,621

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37 DIRECTORS' REMUNERATION

Forms of remuneration in aggregate for all Directors for the financial year are as follows:

	The Group				The Company			
2014	Salaries and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits-in-kind RM'000	Total RM'000	Salaries and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits-in-kind RM'000	Total RM'000
Executive Directors								
Mr Choong Yee How	10,674	–	21	10,695	10,674	–	21	10,695
Mr Quek Kon Sean [Note 1]	2,668	–	–	2,668	2,668	–	–	2,668
	13,342	–	21	13,363	13,342	–	21	13,363
Non-executive Directors								
YBhg Tan Sri Quek Leng Chan	–	–	16	16	–	–	16	16
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	–	286	–	286	–	107	–	107
Ms Lim Lean See	–	281	–	281	–	116	–	116
Mr Saw Kok Wei	–	125	–	125	–	125	–	125
Ms Lim Tau Kien	–	132	–	132	–	132	–	132
	–	824	16	840	–	480	16	496
Total Directors' remuneration	13,342	824	37	14,203	13,342	480	37	13,859

[Note 1] Re-designated as Non-Executive Director on 1 January 2014.

The movement and details of the Directors of the Company in office and interests in shares and share options are reported in the Directors' Report.

NOTES TO THE FINANCIAL STATEMENTS

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(continued)

37 DIRECTORS' REMUNERATION (CONTINUED)

Forms of remuneration in aggregate for all Directors for the financial year are as follows: (continued)

	The Group				The Company			
2013	Salaries and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits-in-kind RM'000	Total RM'000	Salaries and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits-in-kind RM'000	Total RM'000
Executive Directors								
Mr Choong Yee How	8,879	–	20	8,899	8,879	–	20	8,899
Mr Quek Kon Sean	2,413	–	–	2,413	2,413	–	–	2,413
	11,292	–	20	11,312	11,292	–	20	11,312
Non-executive Directors								
YBhg Tan Sri Quek Leng Chan	–	–	16	16	–	–	16	16
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	–	309	–	309	–	130	–	130
Ms Lim Lean See	–	281	–	281	–	90	–	90
Mr Saw Kok Wei	–	115	–	115	–	115	–	115
Ms Lim Tau Kien	–	115	–	115	–	115	–	115
YBhg Datuk Yvonne Chia (Retired on 30 June 2013)	5,245	–	23	5,268	–	–	–	–
	5,245	820	39	6,104	–	450	16	466
Total Directors' remuneration	16,537	820	59	17,416	11,292	450	36	11,778

The movement and details of the Directors of the Company in office and interests in shares and share options are reported in the Directors' Report.

Included in the Non-Executive Directors' remunerations are amounts paid to Directors in their capacities as Executive Directors for certain subsidiary companies.

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38 TAXATION

		The Group		The Company	
	Note	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Malaysian income tax		**583,845**	515,247	**74,967**	102,762
(Over)/under accrual in prior years		**(74,967)**	20,055	**–**	–
Deferred taxation:	22				
– current year		**(38,338)**	(71,628)	**1,427**	1,924
– over/(under) accrual in prior years		**21,327**	1,591	**–**	(6,901)
		(17,011)	(70,037)	**1,427**	(4,977)
Taxation		**491,867**	465,265	**76,394**	97,785

A reconciliation of income tax applicable to profit before taxation at the statutory income tax rate to income tax expenses of the Group and the Company is as follows:

	The Group		The Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Profit before taxation	**3,009,223**	2,630,039	**450,971**	428,077
Tax calculated at a rate of 25% (2013: 25%)	**752,306**	657,510	**112,743**	107,019
Tax effects of:				
– differences in tax rate of foreign inward and offshore insurance	**(433)**	(396)	**–**	–
– income not subject to tax	**(102,042)**	(109,068)	**(43,906)**	(3,898)
– share of net income of associated companies and joint ventures	**(109,928)**	(81,404)	**–**	–
– expenses not deductible for tax purposes	**63,818**	28,950	**7,557**	1,565
– (over)/under accrual (net of deferred tax effects)	**(53,640)**	21,646	**–**	(6,901)
– reversal of temporary differences previously not recognised	**(58,214)**	(51,973)	**–**	–
Taxation	**491,867**	465,265	**76,394**	97,785

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

38 TAXATION (CONTINUED)

	The Group	
	2014 RM'000	2013 RM'000
Tax losses		
Tax losses for which the related tax credit has not been recognised in the financial statements	**62,055**	55,488
Tax credit		
Tax credit which has not been recognised in the financial statements	**174,908**	195,567
Capital allowance		
Deductible temporary differences and unutilised capital allowances for which the related tax credit has not been recognised in the financial statements	**807**	807

The above unabsorbed tax losses of the Group have not been recognised as future realisation is uncertain.

39 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	The Group		The Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Weighted average number of ordinary shares ('000)	**1,047,613**	1,042,731	**1,049,768**	1,045,424
Net profit attributable to equity holders of the Company	**1,706,877**	1,487,690	**374,577**	330,292
Basic earnings per share (sen)	**162.9**	142.7	**35.7**	31.6

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

39 EARNINGS PER SHARE (CONTINUED)

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential ordinary shares. For the share options, calculation is done to determine the number of shares that could been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options. The Group's dilutive potential ordinary shares is share option, of which the impact of dilution is as below:

	The Group		The Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Weighted average number of ordinary shares ('000)	**1,047,613**	1,042,731	**1,049,768**	1,045,424
Adjustment for ESOS shares ('000)	**720**	1,793	**680**	1,542
	1,048,333	1,044,524	**1,050,448**	1,046,966
Net profit attributable to equity holders of the Company	**1,706,877**	1,487,690	**374,577**	330,292
Diluted earnings per share (sen)	**162.8**	142.4	**35.7**	31.5

40 DIVIDENDS

Dividends recognised as distribution to ordinary equity holders of the Company:

	The Group and The Company	
	2014 RM'000	2013 RM'000
First interim single-tier dividend of 13 sen per share (2013: 13 sen per share (single-tier))	**135,905**	135,556
Second interim single-tier dividend of 25 sen per share (2013: 23 sen per share (single-tier))	**262,442**	240,447
	398,347	376,003

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

41 COMMITMENTS AND CONTINGENCIES

(a) Group related commitments and contingencies

In the normal course of business, the Group make various commitments and incur certain contingent liabilities with legal recourse to their 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		The Company	
	2014 RM'000	**2013 RM'000**	**2014 RM'000**	**2013 RM'000**
Direct credit substitutes*	**376,792**	333,012	**–**	–
Certain transaction related contingent items	**1,706,130**	1,629,933	**–**	–
Short-term self liquidating trade related contingencies	**765,904**	891,468	**–**	–
Forward asset purchases	**37,432**	–	**–**	–
Obligations under underwriting agreement	**299,154**	65,000	**–**	–
Commitments that are unconditionally cancellable at any time without prior notice	**627,233**	507,022	**–**	–
Irrevocable commitments to extend credit:				
– maturity more than one year	**17,251,829**	14,108,639	**–**	–
– maturity less than one year	**15,821,707**	17,331,901	**–**	–
Foreign exchange related contracts^:				
– less than one year	**43,902,047**	41,066,842	**110,308**	167,360
– one year to less than five years	**4,369,268**	3,649,055	**–**	–
– five years and above	**598,871**	603,465	**–**	–
Interest rate related contracts^:				
– less than one year	**45,759,521**	17,857,027	**–**	125,000
– one year to less than five years	**51,939,223**	45,275,873	**675,000**	675,000
– five years and above	**8,501,058**	14,773,860	**–**	–
Equity related contracts^:				
– less than one year	**207,936**	54,168	**–**	–
– one year to less than five years	**105,810**	10,000	**–**	–
Unutilised credit card lines	**7,610,596**	8,331,904	**–**	–
Others	**648,999**	636,675	**–**	–
	200,529,510	167,125,844	**785,308**	967,360

* Included in direct credit substitutes are the financial guarantee contracts of RM349,592,110 (2013: RM275,560,736), of which fair value at the time of issuance is zero.

^ These derivatives are revalued as gain position basis and the unrealised gains or losses have been reflected in Note 20 to the financial statements as derivative assets or derivative liabilities.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

41 COMMITMENTS AND CONTINGENCIES (CONTINUED)

(b) Other commitments and contingencies – unsecured

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

The size of the funds was above the minimum of RM1 million as at 30 June 2014.

42 CAPITAL COMMITMENTS

	The Group	
	2014 RM'000	2013 RM'000
Approved and contracted for	**31,764**	73,802
Approved but not contracted for	**113,897**	131,768
	145,661	205,570

The capital commitments are in respect of property and equipment.

43 LEASE COMMITMENTS

The Group has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the future minimum lease payments, under non-cancellable operating lease commitment are as follows:

	The Group	
	2014 RM'000	2013 RM'000
Less than one year	**14,664**	11,045
More than one year but less than five years	**11,686**	18,992
More than 5 years	**2,640**	11,306
	28,990	41,343

44 ULTIMATE HOLDING COMPANY

The ultimate holding company is Hong Leong Company (Malaysia) Berhad, a company incorporated in Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

45 CAPITAL ADEQUACY

The banking subsidiaries' regulatory capital is governed by BNM Capital Adequacy Framework guidelines. With effect from 1 January 2013, the capital adequacy ratios of the banking subsidiaries are computed in accordance with BNM's Capital Adequacy Framework issued on 28 November 2012. The Framework sets out the approach for computing the regulatory capital adequacy ratios, as well as the levels of the ratios at which banking institutions are required to operate. The Framework is to strengthen capital adequacy standards, in line with the requirements set forth under Basel III. In line with the transitional arrangements under the BNM's Capital Adequacy Framework (Capital Components), the minimum capital adequacy requirement for common equity Tier I (CET I) capital ratio and Tier I capital ratio are 4.00% (2013: 3.50%) and 5.50% (2013: 4.50%) respectively, for year 2014. The minimum regulatory capital adequacy requirement remains at 8.00% (2013: 8.00%) for total capital ratio.

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

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

	Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	2014	2013	2014	2013	2014	2013
Before deducting proposed dividends						
CET I capital ratio	**10.903%**	10.627%	**10.172%**	10.156%	**20.108%**	33.077%
Tier I capital ratio	**12.306%**	12.319%	**11.777%**	12.062%	**20.108%**	33.077%
Total capital ratio	**15.072%**	15.179%	**14.657%**	13.592%	**20.259%**	33.172%
After deducting proposed dividends						
CET I capital ratio	**10.480%**	10.236%	**9.689%**	9.715%	**16.401%**	29.982%
Tier I capital ratio	**11.883%**	11.927%	**11.294%**	11.621%	**16.401%**	29.982%
Total capital ratio	**14.649%**	14.787%	**14.173%**	13.150%	**16.552%**	30.076%

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

45 CAPITAL ADEQUACY (CONTINUED)

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

	Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
CET I capital						
Paid up share capital	**1,879,909**	1,879,909	**1,879,909**	1,879,909	**165,000**	165,000
Share premium	**2,832,383**	2,832,383	**2,832,383**	2,832,383	**87,950**	87,950
Retained profit	**7,189,104**	6,197,372	**5,375,070**	4,835,280	**38,903**	(15,241)
Other reserves	**3,171,817**	2,699,050	**2,773,797**	2,360,778	**179,789**	154,051
Less: Treasury shares	**(645,579)**	(661,809)	**(645,579)**	(661,809)	**–**	–
Less: Other intangible assets	**(347,791)**	(369,415)	**(335,319)**	(362,855)	**–**	–
Less: Goodwill	**(1,831,312)**	(1,831,312)	**(1,771,547)**	(1,771,547)	**(29,978)**	(30,040)
Less: Deferred tax assets	**–**	–	**–**	–	**(103,671)**	(61,978)
Less: Investment in subsidiary company/ associated company/ joint ventures	**(430,676)**	–	**(475,075)**	–	**–**	–
Less: Other regulatory adjustments	**–**	–	**–**	–	**(77)**	(525)
Total CET I capital	**11,817,855**	10,746,178	**9,633,639**	9,112,139	**337,916**	299,217
Additional Tier I capital						
Non-innovative Tier-1 stapled securities	**1,120,000**	1,260,000	**1,120,000**	1,260,000	**–**	–
Innovative Tier-1 capital securities	**400,000**	450,000	**400,000**	450,000	**–**	–
Total additional Tier-1 capital	**1,520,000**	1,710,000	**1,520,000**	1,710,000	**–**	–
Total Tier I capital	**13,337,855**	12,456,178	**11,153,639**	10,822,139	**337,916**	299,217

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

45 CAPITAL ADEQUACY (CONTINUED)

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

	Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Tier II Capital						
Redeemable preference shares	**–**	–	**–**	–	**1,631**	1,631
Collective assessment allowance^	**732,980**	800,960	**639,439**	666,131	**1,204**	678
Subordinated obligations	**3,988,000**	3,924,000	**3,988,000**	3,924,000	**–**	–
Tier II capital before regulatory adjustments	**4,720,980**	4,724,960	**4,627,439**	4,590,131	**2,835**	2,309
Less: Regulatory adjustments						
Investment in subsidiary companies	**–**	–	**(1,081,727)**	(2,194,913)	**(306)**	(1,455)
Investment in associated company	**(1,650,640)**	(1,752,949)	**(757,204)**	(946,505)	**–**	–
Investment in joint ventures	**(72,064)**	(79,945)	**(61,369)**	(76,711)	**–**	–
Total Tier II capital	**2,998,276**	2,892,066	**2,727,139**	1,372,002	**2,529**	854
Total capital	**16,336,131**	15,348,244	**13,880,778**	12,194,141	**340,445**	300,071

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

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

	Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Credit risk	**96,729,672**	91,059,541	**84,227,557**	80,746,066	**896,087**	464,961
Market risk	**4,126,372**	3,429,463	**3,912,418**	3,322,591	**571,557**	321,448
Operational risk	**7,532,731**	6,628,544	**6,563,115**	5,649,356	**212,853**	118,189
Total RWA	**108,388,775**	101,117,548	**94,703,090**	89,718,013	**1,680,497**	904,598

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

45 CAPITAL ADEQUACY (CONTINUED)

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

	Hong Leong Islamic Bank	
	2014	**2013**
Before deducting proposed dividends		
CET I capital ratio	**11.829%**	11.070%
Tier I capital ratio	**11.829%**	11.070%
Total capital ratio	**15.587%**	14.153%
After deducting proposed dividends		
CET I capital ratio	**11.392%**	10.720%
Tier I capital ratio	**11.392%**	10.720%
Total capital ratio	**15.150%**	13.804%

46 SEGMENTAL INFORMATION

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.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period.

Business segments

The Group comprises the following main business segments:

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

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for the financial year ended 30 June 2014
(continued)

46 SEGMENTAL INFORMATION (CONTINUED)

(i) Business segment reporting

Set out below is information of the Group by business segments:

The Group 2014	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 sales	4,024,501	188,643	354,302	(4,161)	–	4,563,285
Inter-segment sales	14,558	2,825	2,226	530,597	(550,206)	–
Segment revenue	4,039,059	191,468	356,528	526,436	(550,206)	4,563,285
Overhead expenses of which:	(1,792,213)	(112,233)	(70,122)	(34,262)	28,625	(1,980,205)
Depreciation of property and equipment	(110,193)	(2,028)	(2,993)	(278)	–	(115,492)
Amortisation of intangible assets	(97,502)	(553)	(1,485)	(22)	–	(99,562)
Allowance for impairment losses on loans, advances and financing	(52,065)	(360)	–	–	–	(52,425)
Writeback of/(allowance for) impairment losses	39,815	–	(176)	–	–	39,639
Segment results	2,234,596	78,875	286,230	492,174	(521,581)	2,570,294
Share of results of associated companies	368,490	–	61,086	–	–	429,576
Share of results of joint ventures	10,135	–	–	(782)	–	9,353
Profit before taxation	2,613,221	78,875	347,316	491,392	(521,581)	3,009,223
Taxation						(491,867)
Net profit for the financial year						2,517,356
Non-controlling interests						(810,479)
Profit attributable to owners of the parent						1,706,877
Other information						
Segment assets	170,350,803	4,228,211	15,267,310	15,353,645	(15,022,963)	190,177,006
Segment liabilities	155,820,625	3,625,805	12,758,644	1,420,693	(453,492)	173,172,275
Other significant segment items						
Capital expenditure	190,200	1,447	16,853	1,514	–	210,014

Note:
[1] Total segment revenue comprises of net interest income, income from Islamic banking business and non-interest income.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

46 SEGMENTAL INFORMATION (CONTINUED)

(i) Business segment reporting (continued)

Set out below is information of the Group by business segments: (continued)

The Group 2013	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 sales	3,998,702	186,900	184,823	8,146	–	4,378,571
Inter-segment sales	8,093	3,474	3,158	493,887	(508,612)	–
Segment revenue	4,006,795	190,374	187,981	502,033	(508,612)	4,378,571
Overhead expenses of which:	(1,847,025)	(120,437)	(63,645)	(27,915)	22,220	(2,036,802)
Depreciation of property and equipment	(105,812)	(2,323)	(2,248)	(341)	–	(110,724)
Amortisation of intangible assets	(99,243)	(665)	(568)	(7)	–	(100,483)
Allowance for impairment losses on loans, advances and financing	(41,376)	(245)	–	–	–	(41,621)
Writeback of/(allowance for) impairment losses	7,474	(1,759)	(1,440)	1,056	(1,056)	4,275
Segment results	2,125,868	67,933	122,896	475,174	(487,448)	2,304,423
Share of results of associated companies	264,005	–	58,537	–	–	322,542
Share of results of joint ventures	3,074	–	–	–	–	3,074
Profit before taxation	2,392,947	67,933	181,433	475,174	(487,448)	2,630,039
Taxation						(465,265)
Net profit for the financial year						2,164,774
Non-controlling interests						(677,084)
Profit attributable to owners of the parent						1,487,690
Other information						
Segment assets	163,585,697	2,878,945	13,519,450	15,529,657	(15,040,604)	180,473,145
Segment liabilities	150,549,073	2,397,971	11,287,053	1,657,699	(423,359)	165,468,437
Other significant segment items						
Capital expenditure	145,438	1,954	9,657	154	–	157,203

Note:
[1] Total segment revenue comprises of net interest income, income from Islamic banking business and non-interest income.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

46 SEGMENTAL INFORMATION (CONTINUED)

(ii) Geographical segment reporting

The Group operates in two main geographical areas:

- Malaysia, the home country of the Group, which includes all the areas of operations in the primary business segments.
- Overseas operations, which includes branch, subsidiary, associate and joint ventures operations in Singapore, Hong Kong, China, Vietnam and Cambodia. The overseas operations are mainly in commercial banking and insurance business.

The Group	Revenue RM'000	Non-current assets RM'000	Capital expenditure RM'000
2014			
Malaysia	**4,344,382**	**4,459,254**	**187,534**
Overseas operations	**218,903**	**2,232,182**	**22,480**
	4,563,285	**6,691,436**	**210,014**
2013			
Malaysia	4,152,193	4,466,273	147,239
Overseas operations	226,378	1,903,246	9,964
	4,378,571	6,369,519	157,203

47 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Related parties and relationship

The related parties of and their relationship with the Company are as follows:

Related parties	Relationship
Hong Leong Company (Malaysia) Berhad ("HLCM")	Ultimate holding company
HLCM Capital Sdn Bhd, Hong Leong Share Registration Services Sdn Bhd, HL Management Co Sdn Bhd and GuoLine Capital Assets Limited ("HLCM Group")	Subsidiary companies of ultimate holding company
Guardian Security Consultants Sdn Bhd ("GSC")	Associated company of ultimate holding company
Hong Leong Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements ("HLI Group")	Subsidiary and associated companies of ultimate holding company

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

47 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Related parties and relationship (continued)

The related parties of and their relationship with the Company are as follows: (continued)

Related parties	Relationship
Malaysian Pacific Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements ("MPI Group")	Subsidiary and associated companies of ultimate holding company
Narra Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements ("Narra Group")	Subsidiary and associated companies of ultimate holding company
HLMG Management Co Sdn Bhd (formerly known as HLI-Hume Management Co Sdn Bhd) ("HLMG"), Hume Cement Sdn Bhd, Hume Construction Sdn Bhd, Hume Plastics (Malaysia) Sdn Berhad, Hume Quarry (Sarawak) Sdn Bhd, Hongvilla Development Sdn Bhd, HIMB Overseas Limited, HIMB Trading Limited and Delta Touch Limited	Subsidiary companies of ultimate holding company
Guoco Group Limited and its subsidiary and associated companies as disclosed in its financial statements ("GGL Group")	Subsidiary and associated companies of ultimate holding company
GuocoLand (Malaysia) Berhad and its subsidiary and associated companies as disclosed in its financial statements ("GLM Group")	Subsidiary and associated companies of ultimate holding company
Subsidiary companies of the Company as disclosed in Note 11	Subsidiary companies of the Company
Key management personnel	The key management personnel of the Group and the Company consists of: – All Directors of the Company – Key management personnel of the Company who are in charge of the HLFG Group
Related parties of key management personnel (deemed as related to the Company)	(i) Close family members and dependents of key management personnel (ii) Entities that are controlled, jointly controlled or significant influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

NOTES TO THE FINANCIAL STATEMENTS

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(continued)

47 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions

Transactions with related parties are as follows:

	The Group		
2014	Parent company RM'000	Other related companies RM'000	Key management personnel RM'000
Income			
Interest on loans	–	–	9,419
Brokerage fee received	–	374	702
Insurance premium received	–	1,185	–
Others	–	3,417	4
	–	4,976	10,125
Expenditure			
Rental and maintenance	–	4,465	–
Interest on deposits	–	1,395	423
Management fees	–	34,676	–
Other miscellaneous expenses	–	2,456	–
	–	42,992	423
Amount due from:			
Loans	–	296,057	115
Insurance premium receivable	–	510	–
Credit card	–	–	274
Others	–	512	–
	–	297,079	389
Amount due to:			
Current account and fixed deposits	124	267,182	94,606
Others	–	900	–
	124	268,082	94,606

NOTES TO THE FINANCIAL STATEMENTS

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(continued)

47 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions (continued)

Transactions with related parties are as follows: (continued)

	The Group		
2013	Parent company RM'000	Other related companies RM'000	Key management personnel RM'000
Income			
Interest on loans	–	–	291
Brokerage fee received	–	344	460
Insurance premium received	–	352	–
Others	–	3,035	5
	–	3,731	756
Expenditure			
Rental and maintenance	–	4,223	–
Interest on deposits	–	3,006	651
Management fees	–	35,250	–
Other miscellaneous expenses	–	2,705	–
	–	45,184	651
Amount due from:			
Loans	–	342,306	7,927
Insurance premium receivable	–	64	–
Credit card	–	–	155
Others	–	447	–
	–	342,817	8,082
Amount due to:			
Current account and fixed deposits	93	89,382	37,629
Others	–	1,470	–
	93	90,852	37,629

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(continued)

47 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions (continued)

Transactions with related parties are as follows: (continued)

	The Company			
2014	Parent company RM'000	Subsidiary companies RM'000	Other related companies RM'000	Key management personnel RM'000
Income				
Dividend income	–	516,469	–	–
Interest on deposit	–	24	–	–
Interest on loan	–	2,077	–	–
Interest on derivatives	–	215	–	–
Management fee	–	9,225	–	–
Others	–	–	91	–
	–	528,010	91	–
Expenditure				
Interest on loan	–	318	–	–
Insurance	–	2	22	–
Management fee	–	–	1,368	–
Rental and maintenance	–	837	–	–
Other miscellaneous expenses	–	56	62	–
	–	1,213	1,452	–
Amount due from:				
Money at call and deposit placements	–	476	–	–
Others	–	54,535	104	–
	–	55,011	104	–
Amount due to:				
Others	–	24	–	–
	–	24	–	–

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

47 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions (continued)

Transactions with related parties are as follows: (continued)

	The Company			
2013	Parent company RM'000	Subsidiary companies RM'000	Other related companies RM'000	Key management personnel RM'000
Income				
Dividend income	–	481,620	–	–
Interest on loan	–	2,478	–	–
Interest on derivatives	–	280	–	–
Management fee	–	8,379	–	–
Others	–	1,031	282	–
	–	493,788	282	–
Expenditure				
Interest on loan	–	1,271	–	–
Management fee	–	–	516	–
Rental and maintenance	–	838	–	–
Other miscellaneous expenses	–	70	302	–
	–	2,179	818	–
Amount due from:				
Money at call and deposit placements	–	138	–	–
Others	–	57,656	–	–
	–	57,794	–	–
Amount due to:				
Loans, advances and financing	–	1,823	–	–
Others	–	36	71	–
	–	1,859	71	–

All amount due from subsidiaries are unsecured, non interest bearing and expected to be repaid within 12 months except for amount totalling RM53.8 million (2013: RM57.0 million) which bears interest rate ranging from 3.62% to 3.65% (2013: 3.62% to 3.76%) per annum and is repayable on demand.

All amount due to subsidiaries are unsecured, non interest bearing and expected to be repaid within 12 months.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

47 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions (continued)

Transactions with related parties are as follows: (continued)

All amounts due to subsidiaries are unsecured, non interest bearing and expected to be repaid within 12 months.

	The Group	
	2014 RM'000	2013 RM'000
The approved limit on loans, advances and financing for key management personnel	**8,080**	11,677

(c) Key management personnel

Key management compensation

	The Group		The Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Salaries and other short-term employee	**15,816**	19,864	**15,472**	14,226

	Units 000	Units 000	Units 000	Units 000
Share options balance of the Company	**3,000**	7,344	**3,000**	7,344

Included in the above is the Directors' compensation which is disclosed in Note 37.

Loans made to key management personnel of the Group and the Company are on similar terms and conditions generally available to other employees within the Group. No specific allowances were required in financial years 2014 and 2013 for loans made to key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS

(a) Risk management objectives and policies

The Group's financial risk management policies are adopted from its main operating subsidiary companies which are involved in banking and finance, securities and insurance related business.

The Board of Directors ("The Board") of each main operating subsidiary company has the overall responsibility to ensure there is proper oversight of the management of risks in each of the subsidiary company. The Board sets the risk appetite and tolerance level that are consistent with each subsidiary company's overall business objectives and desired risk profile. A number of committees and dedicated risk management functions have been established to address and manage specific areas of risk and implement various risk management policies and procedures.

Specifically, a Board Audit & Risk Management Committee ("BARMC") comprising members of the Directors, has been set up to oversee that risk management at all levels is being managed effectively. They, in turn, report all the risk management activities to the Directors.

Commercial Banking

Integrated Risk Management ("IRM")

The Banking Group has implemented an integrated risk management framework with the objective to ensure the overall financial soundness and stability of the Banking Group's business operations. The Banking Group's integrated risk management framework outlines the overall governance structure, aspiration, values and risk management strategies that balances between risk profiles and returns objectives. Appropriate methodologies and measurements have been developed to manage uncertainties such that deviations from intended strategic objectives are closely monitored and kept within tolerable levels.

From a governance perspective, the Board has the overall responsibility to define the Banking Group's risk appetite and ensure that a robust risk management and compliance culture prevails. The Board is assisted by the Board Risk Management Committee ("BRMC") in approving the Banking Group's integrated risk management framework as well as the attendant capital management framework, risk appetite statement, risk management strategies and risk policies.

Dedicated management level committees are established by the Banking Group to oversee the development and the assessment of effectiveness of risk management policies, to review risk exposures and portfolio composition as well as to ensure appropriate infrastructures, resources and systems are put in place for effective risk management activities.

The BRMC is assisted by the Group Integrated Risk Management and Compliance ("GIRMC") function, which has been established to provide independent oversight on the adequacy, effectiveness and integrity of risk management practices at all levels within the Bank. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine the optimum capital allocations. The Bank regularly reviews its risk management framework to reflect changes in markets, products, regulatory and emerging best market practice.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Risk management objectives and policies (continued)

Commercial Banking (continued)

Credit Risk Management

Credit risk is risk of financial loss due to a borrower or counterparty being unable or unwilling to deliver on its payment obligations to the Banking Group, which leads to a loss of revenue and the principal sum. It arises principally from lending, trade finance and treasury activities. The Banking Group has established a credit risk management framework to ensure that exposure to credit risk is kept within the Banking Group's financial capacity to withstand potential future losses. Lending activities are guided by the internal credit policies and guidelines that are reviewed and concurred by the Management Credit Committee ("MCC"), endorsed by the BRMC and the Board Credit Supervisory Committee ("BCSC"), and approved by the Board. These policies are subject to review and enhancements, at least on an annual basis.

Credit portfolio strategies and significant exposures are reviewed by both the BRMC and the Board. These portfolio strategies are designed to achieve a desired portfolio risk tolerance level and sector distribution.

The Banking Group's credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. While the business units are responsible for credit origination, the credit approving function rests mainly with the Credit Evaluation Departments, the MCC and the BCSC. The Board delegates approving and discretionary authority to the MCC and the various personnel of the Bank based on job function and designation.

For any new products, credit risk assessment also forms part of the new product sign-off processes to ensure that the new product complies with the appropriate policies and guidelines, prior to the introduction of the product.

The Banking Group's exposure to credit risk is mainly from its retail customers, small and medium enterprise ("SME"), commercial and corporate customers. The credit assessment for retail customers is managed on a portfolio basis and the risk scoring models and lending templates are designed to assess the credit worthiness and the likelihood of the obligors to repay their debts. The SME, commercial and corporate customers are individually assessed and assigned with a credit rating, which is based on the assessment of relevant factors such as the customer's financial position, industry outlook, types of facilities and collaterals offered.

In addition, the Banking Group also conducts periodic stress testing of its credit portfolios to ascertain credit risk impact to capital under the relevant stress scenarios.

Internal Audit conducts independent post approval reviews on sampling basis to ensure that quality of credit appraisals and approval standards are in accordance with the credit standards and the lending policies and directives established and approved by the Banking Group's management.

Market Risk Management

Market risk is the risk of financial loss arising from exposure to adverse changes in values of financial instruments caused by changes in market prices or rates, which include changes to interest rates.

The Banking Group adopts a systematic approach in managing such risks by types of instruments and nature of exposure. Market risk is primarily controlled via a series of cut-loss limits and potential loss limits, i.e. "Value at Risk" ("VaR"), set in accordance with the size of positions and risk tolerance appetites.

Portfolios held under the Banking Group's trading books are tracked using daily mark-to-market positions, which are compared against preset limits. The daily tracking of positions is supplemented by sensitivity analysis and stress tests, using VaR and other measurements.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Risk management objectives and policies (continued)

Commercial Banking (continued)

Market Risk Management (continued)

Foreign exchange risks arising from adverse exchange rate movements, is managed by the setting of preset limits, matching of open positions against these pre-set limits and imposition of cut-loss mechanisms.

Interest rate risk exposure is also identified, measured and controlled through limits and procedures, which includes regularly reviewing the interest rate outlook and developing strategies to protect total net interest income from changes in market interest rates. This applies to both interest rate risk exposure in the trading book and in the banking book. In managing the interest rate risk exposure in the banking book, the Banking Group adopts methodologies that measure exposure in both earnings at risk perspective and economic value or capital at risk perspective.

In addition, the Banking Group also conducts periodic and stress testing of its respective portfolios to ascertain market risk under abnormal market conditions.

Liquidity Risk Management

Liquidity risk is the risk of financial loss arising from the inability to fund increases in assets and/or meet obligations as they fall due. Financial obligations arise from the withdrawal of deposits, funding of loans committed and repayment of borrowed funds. It is the Banking Group's policy to ensure there is adequate liquidity across all business units to sustain ongoing operations, as well as sufficient liquidity to fund asset growth and strategic opportunities.

To manage liquidity risk, the Banking Group adopts the BNM's New Liquidity Framework as one of the liquidity measurement methods. In addition to ensuring compliance with the New Liquidity Framework, the Banking Group maintains a liquidity compliance buffer to meet any unexpected cash outflows.

This is supplemented by the banking subsidiaries' comprehensive liquidity risk management framework consisting of risk appetite, policies, triggers, limits and controls which are reviewed and concurred by the ALCO, endorsed by the BRMC and approved by the Board. The key elements of the framework cover proactive monitoring and management of cash flow, maintenance of high quality long-term and short-term marketable debt securities as well as diversification of funding base.

The banking subsidiaries' have in place liquidity contingency funding plans and stress test programs to minimise the liquidity risk that may arise due to unforeseen adverse changes in the marketplace. Contingency funding plans set out the crisis escalation process and the various strategies to be employed to preserve liquidity including an orderly communication channel during liquidity crisis scenarios. Liquidity stress tests are conducted regularly to ensure there is adequate liquidity contingency fund to meet the shortfalls during liquidity crisis scenarios.

In addition, the banking subsidiaries' also monitor 2 key Basel III liquidity ratios namely, the Liquidity Coverage Ratio and the Net Stable Funding Ratio in line with the observation period reporting to BNM.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Risk management objectives and policies (continued)

Investment Banking

Risk management is one of the core activities of the Investment Banking Group to strike a balance between sound practices and risk-return. An effective risk management is therefore vital to ensure that the Investment Banking Group conducts its business in a prudent manner to ensure that the risk of potential losses is reduced.

Market risk

Market risk is the risk of loss arising from adverse fluctuation in market prices, such as interest rates, equity prices and foreign currency. The Investment Banking Group monitors all such exposures arising from trading activities of the treasury and stockbroking business activities on a daily basis and management is alerted on the financial impact of these risks. To mitigate market risk, the Investment Banking Group also uses derivative financial instruments.

The Investment Banking Group has in place a set of policies, guidelines, measurement methodologies and control limits which includes Value-at-Risk ("VaR"), Present-Value-Basis-Point ("PVBP"), Management Action Trigger ("MAT"), notional limits and concentration limits to mitigating market risk.

Stress testing is also employed to capture the potential market risk exposures from unexpected market movements. Concerns and significant findings are communicated to the senior management at the Assets and Liabilities Management Committee ("ALMCO") and to the Board.

Liquidity risk

Liquidity risk is the risk of financial loss arising from the inability to fund increases in assets and/or meet obligations as they fall due. Financial obligations arises from the withdrawal of deposits, funding of loans committed and repayment of borrowed funds. It is the Investment Banking Group's policy to ensure that there is adequate liquidity across all business units to sustain ongoing operations, as well as sufficient liquidity to fund asset growth and strategic opportunities.

Credit risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, credit limits and monitoring procedures. Credit risk includes settlement risk, default risk and concentration risk. Exposure to credit risk arises mainly from financing, underwriting, securities and derivative exposures of the Investment Banking Group.

The Investment Banking Group has set out Board approved policies and guidelines for the management of credit risk. To oversee all credit related matters of the Investment Banking Group, the Management Credit and Underwriting Committee ("MCUC") was setup in 2011 in addition to an independent Credit Department.

The Board has delegated appropriate Delegation of Authority to the MCUC and senior management for the approval of credit facilities. Credit limit setting for Treasury activities are endorsed by the MCUC and approved by the Board at least annually. Adherence to established credit policies, guidelines and limits is monitored daily by the Credit Control Department, Credit Department and the Risk Management Department.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Risk management objectives and policies (continued)

Insurance

Insurers have to comply with the Malaysian Insurance Act and Regulations, including guidelines on investments. The Board is responsible for formulating policies and overseeing the major risks including those risks associated with the Financial Instruments described below.

The responsibility for the formulation, establishment and approval of the Insurance Group's investment policy rest with the Board as reported in the Corporate Governance Framework in the Directors' Report. The deployment and execution of the investment policies is delegated to the Investment Committee ("IC") in which the members are appointed by the Board. The IC oversees the formulation of investment and risk strategy and asset allocation to determine the optimum risk and return profile.

Risk limits are in place at various levels and monitored by a risk manager to ensure all investment securities are compatible with the Insurance Group's investment principles and philosophy. Sensitivity and stress tests are carried out on a regular basis to assess the resilience of the investment portfolios and the impact on the Insurance Group's solvency. An Asset and Liability Management ("ALM") model is being deployed to address the Insurance Group's assets and liabilities match. The ALM model will enable management to assess the long-term impact of the investment strategy, asset mix and product pricing strategy on the Insurance Group's financial ability to meet its future obligations.

Actuarial and underwriting risk

Actuarial risks relate to the adequacy of insurance premium rate levels to provide for insurance liabilities and solvency margin and takes into consideration the developments in mortality, morbidity, lapses and expenses.

Underwriting risk represents the risk that claims incurred are higher than anticipated. This is attributable to the nature of risk underwritten, random nature of claims frequency and severity of claims.

The Insurance Group manages the risks through strict underwriting guidelines, which include exclusions, cover limits, loadings and reinsurance programmes. New risks are carefully assessed before an insurance policy is underwritten and issued.

Credit risk

Credit risk is the risk of loss due to inability or unwillingness of an counterparty to service its debt obligations. The credit risk and investment activities is monitored regularly with respect to single customer limit, sectorial exposure, credit rating and residual maturity, in accordance with the investment guidelines and limits approved by the Board of Directors and the authorities.

At the date of the statement of financial position, the credit exposure is within the investment guidelines and limits approved by the Board of Directors and the authorities. The maximum exposure to credit risk is the carrying amount as stated in the financial statements.

Interest rate risk

Investment activities and insurance business are inherently exposed to interest rate risk. This risk arises from differences in pricing or tenure of investments and liabilities. Interest rate risk is managed by targeting a desired return, which is reviewed periodically, based on the Insurance Group's long-term view on interest rates. Investment activities are managed by appropriate asset allocation, which is regularly reviewed and changed in relation to the investment climate to meet the Insurance Group's desired return.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Risk management objectives and policies (continued)

Insurance (continued)

Market risk

Adverse changes in the equity market impairs the carrying value of the equity portfolio which could affect the solvency of the Insurance Group. The Board has set internal limits for maximum equity exposure and individual stock exposure, which are consistent with BNM's guidelines and has also imposed daily trading limits. The Insurance Group's investment committee decides on the appropriate asset allocation for equities on a regular basis in line with the investment and economic conditions at time of review.

Liquidity risk

Liquidity risk arises due to inability of the Insurance Group to meet its financial obligations as and when they fall due. The risk is managed via a three-year planning process to ascertain operational cash flow requirements and maintaining a reasonable level of liquid assets to meet any unexpected cash flow.

(b) Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as interest rates, foreign currency rates and equity risk, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Group and the Company as at 30 June 2014.

The scenarios used are simplified whereby it is assumed that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables. In reality, the Group and the Company proactively seeks to ensure that the interest rate risk profile is managed to minimise losses and optimise net revenues.

(i) Interest/profit rate risk sensitivity analysis

The interest/profit rate sensitivity results below shows the impact on profit after tax and equity of financial assets or financial liabilities bearing floating interest/profit rates.

	The Group		The Company	
	Impact on profit after tax RM'000	Impact on equity RM'000	Impact on profit after tax RM'000	Impact on equity RM'000
2014				
+100 basis points ('bps')	**105,986**	**(262,651)**	**9,957**	**–**
–100 bps	**(104,285)**	**267,706**	**(8,256)**	**–**
2013				
+100 bps	69,726	(35,561)	20,023	–
–100 bps	(56,689)	38,847	(6,986)	–

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(ii) Foreign currency risk sensitivity analysis

The Group and the Company take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on their financial position and cash flows.

The table below sets out the principal structure of foreign exchange exposures (net of investment hedges) of the Group and the Company:

	The Group		The Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
United States Dollar ("USD")	**242,327**	381,242	**–**	168,002
Euro ("EUR")	**30,245**	(1,676)	**–**	–
Great Britain Pound ("GBP")	**38,827**	15,167	**–**	–
Singapore Dollar ("SGD")	**96,464**	25,803	**–**	–
Chinese Yuan Renminbi ("CNY")	**348,676**	201,086	**–**	–
Hong Kong Dollar ("HKD")	**86,821**	188,637	**110,843**	–
Japanese Yen ("JPY")	**70,560**	51,229	**–**	–
Australian Dollar ("AUD")	**(113,963)**	72,202	**–**	–
Others	**(34,854)**	8,728	**–**	–
	765,103	942,418	**110,843**	168,002

An analysis of the exposures to assess the impact of a one per cent change in the RM exchange rates to the profit after tax are as follows:

	The Group		The Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
+ 1%				
United States Dollar ("USD")	**(1,722)**	181	**–**	1,680
Euro ("EUR")	**993**	(52)	**–**	–
Great Britain Pound ("GBP")	**416**	(343)	**–**	–
Singapore Dollar ("SGD")	**320**	(735)	**–**	–
Chinese Yuan Renminbi ("CNY")	**1,353**	776	**–**	–
Hong Kong Dollar ("HKD")	**2,196**	2,254	**1,108**	–
Japanese Yen ("JPY")	**7**	7	**–**	–
Australian Dollar ("AUD")	**(2,914)**	475	**–**	–
Others	**(345)**	3	**–**	–
	304	2,566	**1,108**	1,680

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(ii) Foreign currency risk sensitivity analysis (continued)

An analysis of the exposures to assess the impact of a one per cent change in the RM exchange rates to the profit after tax are as follows: (continued)

	The Group		The Company	
	2014 RM'000	**2013 RM'000**	**2014 RM'000**	**2013 RM'000**
– 1%				
United States Dollar ("USD")	**1,722**	(181)	**–**	(1,680)
Euro ("EUR")	**(993)**	52	**–**	–
Great Britain Pound ("GBP")	**(416)**	343	**–**	–
Singapore Dollar ("SGD")	**(320)**	735	**–**	–
Chinese Yuan Renminbi ("CNY")	**(1,353)**	(776)	**–**	–
Hong Kong Dollar ("HKD")	**(2,196)**	(2,254)	**(1,108)**	–
Japanese Yen ("JPY")	**(7)**	(7)	**–**	–
Australian Dollar ("AUD")	**2,914**	(475)	**–**	–
Others	**345**	(3)	**–**	–
	(304)	(2,566)	**(1,108)**	(1,680)

(iii) Equity risk

Equity risk refers to the impact of change in equity positions held by the Group for yield purposes.

	The Group	
	Impact on profit after tax RM'000	**Impact on equity RM'000**
2014		
+ 20% change in equity market price	**2,512**	**131,732**
– 20% change in equity market price	**(2,512)**	**(131,732)**
2013		
+ 20% change in equity market price	7,946	119,171
– 20% change in equity market price	(7,946)	(119,171)

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(iv) Interest/profit rate risk

The tables below summarise the Group's exposure to interest/profit rate risks. Included in the tables are the Group's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest/profit rates and yield curves change over time, the Group may be exposed to loss in earnings due to the effects of interest rates on the structure of the statements of financial position. Sensitivity to interest rate arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding.

	The Group							
	Non-trading book							
2014	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest/ profit rate sensitive RM'000	Trading book RM'000	Total RM'000
Financial assets								
Cash and short-term funds	15,378,919	–	–	–	–	1,705,441	–	17,084,360
Securities purchased under resale agreements	2,465,920	522,676	–	–	–	8,601	–	2,997,197
Deposits and placements with banks and other financial institutions	–	2,057,808	2,420,249	662	–	15,378	–	4,494,097
Financial assets held-for-trading	–	–	–	–	–	–	13,256,502	13,256,502
Financial investments available-for-sale	3,056,531	1,050,674	1,783,847	13,399,454	3,119,622	4,696,658	–	27,106,786
Financial investments held-to-maturity	31,844	66,761	257,699	8,858,824	495,680	140,324	–	9,851,132
Derivative financial instruments – Trading derivatives	–	–	–	–	–	–	712,983	712,983
Loans, advances and financing								
– Performing	82,947,602	59,639	397,255	8,182,416	11,048,424	653,457	–	103,288,793
– Impaired^	112,288	3,605	17,447	85,218	158,097	–	–	376,655
Clients' and brokers' balances	–	–	–	–	–	430,804	–	430,804
Other receivables	–	–	–	–	–	620,021	–	620,021
Statutory deposits with Central Banks	–	–	–	–	18,745	3,162,647	–	3,181,392
Total financial assets	103,993,104	3,761,163	4,876,497	30,526,574	14,840,568	11,433,331	13,969,485	183,400,722

^ This represents outstanding impaired loans after deducting individual assessment impairment allowance and collective assessment impairment allowance.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

The tables below summarise the Group's exposure to interest/profit rate risks. Included in the tables are the Group's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest/profit rates and yield curves change over time, the Group may be exposed to loss in earnings due to the effects of interest rates on the structure of the statements of financial position. Sensitivity to interest rate arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding. (continued)

	The Group							
	Non-trading book							
2014	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest/ profit rate sensitive RM'000	Trading book RM'000	Total RM'000
Financial liabilities								
Deposits from customers	49,798,698	25,228,476	32,606,629	3,459,780	459,007	19,079,696	–	130,632,286
Deposits and placements of banks and other financial institutions	5,688,238	2,554,900	773,269	–	–	149,848	–	9,166,255
Obligations on securities sold under repurchase agreements	3,089,170	1,151,113	50,733	–	–	4,959	–	4,295,975
Bills and acceptance payable	3,278	23,668	22,006	–	–	309,780	–	358,732
Derivative financial instruments								
– Trading derivatives	–	–	–	–	–	–	821,340	821,340
Clients' and brokers' balances	–	–	–	–	–	337,686	–	337,686
Payables and other liabilities	–	–	84,160	–	–	5,778,862	–	5,863,022
Provision for claims	–	–	–	–	–	67,088	–	67,088
Borrowings	705,000	115,055	150,000	4,336,207	–	1,342	–	5,307,604
Subordinated obligations	–	8,815	–	4,868,353	482,446	–	–	5,359,614
Non-innovative Tier 1 stapled securities	–	–	–	1,410,252	–	–	–	1,410,252
Innovative Tier 1 capital securities	–	–	–	–	541,767	–	–	541,767
Insurance funds	–	–	–	–	–	8,355,757	–	8,355,757
Total financial liabilities	59,284,384	29,082,027	33,686,797	14,074,592	1,483,220	34,085,018	821,340	172,517,378
Net interest sensitivity gap	44,708,720	(25,320,864)	(28,810,300)	16,451,982	13,357,348			
Financial guarantees	–	–	–	–	–	791,871		
Credit related commitments and contingencies	–	–	–	–	–	42,259,518		
Net interest sensitivity gap	–	–	–	–	–	43,051,389		

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

The tables below summarise the Group's exposure to interest/profit rate risks. Included in the tables are the Group's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest/profit rates and yield curves change over time, the Group may be exposed to loss in earnings due to the effects of interest rates on the structure of the statements of financial position. Sensitivity to interest rate arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding. (continued)

	The Group							
	Non-trading book							
2013	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest/ profit rate sensitive RM'000	Trading book RM'000	Total RM'000
Financial assets								
Cash and short-term funds	18,263,981	–	–	360	–	1,533,239	–	19,797,580
Securities purchased under resale agreements	80,271	1,201,897	–	–	–	17,473	–	1,299,641
Deposits and placements with banks and other financial institutions	–	5,755,716	1,378,848	3,577	–	16,707	–	7,154,848
Financial assets held-for-trading	–	–	–	–	–	–	16,804,320	16,804,320
Financial investments available-for-sale	1,695,682	597,022	1,119,918	12,458,769	2,057,350	4,382,967	–	22,311,708
Financial investments held-to-maturity	587,442	30,022	25,380	3,697,550	375,834	100,442	–	4,816,670
Derivative financial instruments								
– Trading derivatives	–	–	–	–	–	–	900,506	900,506
– Hedging derivatives	–	–	–	3,486	2,491	–	–	5,977
Loans, advances and financing								
– Performing	74,130,306	871,778	629,655	8,121,423	11,507,700	669,806	–	95,930,668
– Impaired^	142,870	800	18,198	74,748	107,668	–	–	344,284
Clients' and brokers' balances	–	–	–	–	–	256,474	–	256,474
Other receivables	–	–	–	–	–	801,369	–	801,369
Statutory deposit with Central Banks	–	–	–	–	11,848	3,445,561	–	3,457,409
Total financial assets	94,900,552	8,457,235	3,171,999	24,359,913	14,062,891	11,224,038	17,704,826	173,881,454

^ This represents outstanding impaired loans after deducting individual assessment impairment allowance and collective assessment impairment allowance.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

The tables below summarise the Group's exposure to interest/profit rate risks. Included in the tables are the Group's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest/profit rates and yield curves change over time, the Group may be exposed to loss in earnings due to the effects of interest rates on the structure of the statements of financial position. Sensitivity to interest rate arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding. (continued)

	The Group							
	Non-trading book							
2013	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest/profit rate sensitive RM'000	Trading book RM'000	Total RM'000
Financial liabilities								
Deposits from customers	47,340,085	21,548,843	33,347,144	3,904,041	110,000	17,708,592	–	123,958,705
Deposits and placements of banks and other financial institutions	7,978,376	5,002,172	120,039	–	–	9,536	–	13,110,123
Obligations on securities sold under repurchase agreements	–	1,860,937	47,408	–	–	17,432	–	1,925,777
Bills and acceptance payable	39,176	225,736	28,614	–	–	507,154	–	800,680
Derivative financial instruments								
– Trading derivatives	–	–	–	–	–	–	1,002,317	1,002,317
– Hedging derivatives	–	–	578	6,526	–	–	–	7,104
Clients' and brokers' balances	–	–	–	–	–	140,353	–	140,353
Payables and other liabilities	–	–	87,287	84,828	–	3,938,595	–	4,110,710
Provision for claims	–	–	–	–	–	85,255	–	85,255
Borrowings	915,000	–	–	4,262,226	250,000	1,106	–	5,428,332
Subordinated obligations	–	–	–	2,883,579	1,989,930	–	–	4,873,509
Non-innovative Tier 1 stapled securities	–	–	–	1,408,992	–	–	–	1,408,992
Innovative Tier 1 capital securities	–	–	–	–	556,042	–	–	556,042
Insurance funds	–	–	–	–	–	7,186,415	–	7,186,415
Total financial liabilities	56,272,637	28,637,688	33,631,070	12,550,192	2,905,972	29,594,438	1,002,317	164,594,314
Net interest sensitivity gap	38,627,915	(20,180,453)	(30,459,071)	11,809,721	11,156,919			
Financial guarantees	–	–	–	–	–	808,390		
Credit related commitments and contingencies	–	–	–	–	–	40,966,891		
Net interest sensitivity gap	–	–	–	–	–	41,775,281		

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

The tables below summarise the Company's exposure to interest/profit rate risks. Included in the tables are the Company's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest/profit rates and yield curves change over time, the Company may be exposed to loss in earnings due to the effects of interest rates on the structure of the statements of financial position. Sensitivity to interest rate arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding.

	The Company							
	Non-trading book							
2014	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
Financial assets								
Cash and short-term funds	6,882	–	–	–	–	–	–	6,882
Deposits and placements with banks and other financial institutions	–	–	8,100	662	–	–	–	8,762
Derivative financial instruments								
– Trading derivatives	–	–	–	–	–	–	1,211	1,211
Other receivables	–	–	–	–	–	2,076	–	2,076
Amount due from subsidiaries	53,779	–	–	–	–	756	–	54,535
Total financial assets	60,661	–	8,100	662	–	2,832	1,211	73,466
Financial liabilities								
Derivative financial instruments								
– Trading derivatives	–	–	–	–	–	–	1,253	1,253
Payables and other liabilities	–	–	–	–	–	17,088	–	17,088
Amount due to subsidiaries	–	–	–	–	–	24	–	24
Borrowings								
– Term loans	110,000	–	–	–	–	52	–	110,052
– Revolving credit	10,000	55,000	–	–	–	254	–	65,254
– Commercial papers	585,000	–	–	–	–	(788)	–	584,212
– Medium term notes	–	–	150,000	400,000	–	1,824	–	551,824
Total financial liabilities	705,000	55,000	150,000	400,000	–	18,454	1,253	1,329,707
Net interest sensitivity gap	(644,339)	(55,000)	(141,900)	(399,338)	–			

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

The tables below summarise the Company's exposure to interest/profit rate risks. Included in the tables are the Company's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest/profit rates and yield curves change over time, the Company may be exposed to loss in earnings due to the effects of interest rates on the structure of the statements of financial position. Sensitivity to interest rate arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding. (continued)

	The Company							
	Non-trading book							
2013	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
Financial assets								
Cash and short-term funds	10,520	–	–	–	–	142	–	10,662
Deposits and placements with banks and other financial institutions	–	–	8,100	3,577	–	–	–	11,677
Derivative financial instruments								
– Trading derivatives	–	–	–	–	–	–	860	860
Other receivables	–	–	–	–	–	3,007	–	3,007
Amount due from subsidiaries	57,025	–	–	–	–	631	–	57,656
Total financial assets	67,545	–	8,100	3,577	–	3,780	860	83,862
Financial liabilities								
Derivative financial instruments								
– Trading derivatives	–	–	–	–	–	–	8,160	8,160
Payables and other liabilities	–	–	–	–	–	13,245	–	13,245
Amount due to subsidiaries	1,823	–	–	–	–	36	–	1,859
Borrowings								
– Term loans	290,000	–	–	–	–	245	–	290,245
– Commercial papers	625,000	–	–	–	–	(897)	–	624,103
– Medium term notes	–	–	–	300,000	250,000	1,758	–	551,758
Total financial liabilities	916,823	–	–	300,000	250,000	14,387	8,160	1,489,370
Net interest sensitivity gap	(849,278)	–	8,100	(296,423)	(250,000)			

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk

Liquidity risk is defined as the current and prospective risk arising from the inability of the Group and the Company to meet its contractual or regulatory obligations when they become due without incurring substantial losses. The liquidity risk is identified based on concentration, volatility of source of fund and funding maturity structure and it is measured primarily using Bank Negara Malaysia's New Liquidity Framework and depositor's concentration ratios. The Group and the Company seek to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) as at 30 June 2014 based on the remaining contractual maturity:

	The Group							
2014	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash and short-term funds	9,394,760	7,689,600	–	–	–	–	–	17,084,360
Deposits and placements with banks and other financial institutions	–	–	2,065,860	2,410,457	17,118	662	–	4,494,097
Securities purchased under resale agreements	330,766	2,141,298	525,133	–	–	–	–	2,997,197
Financial assets held-for-trading	1,240,971	2,089,677	4,910,910	2,845,565	216,067	1,122,052	831,260	13,256,502
Financial investments available-for-sale	2,164,454	894,902	1,056,874	524,646	1,266,783	16,616,690	4,582,437	27,106,786
Financial investments held-to-maturity	8,171	25,427	66,761	–	260,015	9,490,758	–	9,851,132
Derivative financial instruments	61,348	50,852	86,884	32,168	63,623	418,108	–	712,983
Loans, advances and financing	9,538,558	9,009,580	4,291,123	1,587,252	3,350,335	75,888,600	–	103,665,448
Clients' and brokers' balances	287,756	–	–	–	143,048	–	–	430,804
Other receivables	73,867	10,787	64,007	7,538	99,700	14,723	422,898	693,520
Statutory deposits with Central Banks	–	–	–	–	–	–	3,181,392	3,181,392
Tax recoverable	–	–	–	–	–	–	11,349	11,349
Investment in associated companies	–	–	–	–	–	–	2,796,943	2,796,943
Investment in joint ventures	–	–	–	–	–	–	90,912	90,912
Property and equipment	–	–	–	–	–	–	1,030,256	1,030,256
Investment properties	–	–	–	–	–	–	1,760	1,760
Intangible assets	–	–	–	–	–	–	360,921	360,921
Goodwill	–	–	–	–	–	–	2,410,644	2,410,644
Total assets	23,100,651	21,912,123	13,067,552	7,407,626	5,416,689	103,551,593	15,720,772	190,177,006

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) as at 30 June 2014 based on the remaining contractual maturity: (continued)

	The Group							
2014	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Deposits from customers	47,643,731	21,103,168	25,231,546	15,023,419	17,670,231	3,960,191	–	130,632,286
Deposits and placements of banks and other financial institutions	3,183,223	2,653,017	2,556,003	625,055	148,957	–	–	9,166,255
Obligations on securities sold under repurchase agreements	609,567	2,484,235	1,151,440	50,733	–	–	–	4,295,975
Bills and acceptances payable	137	3,142	23,668	20,530	1,476	–	309,779	358,732
Derivative financial instruments	43,110	38,442	55,725	59,447	127,959	496,657	–	821,340
Clients' and brokers' balances	337,686	–	–	–	–	–	–	337,686
Payables and other liabilities	3,957,783	1,849	184	87,138	2,104,794	5,552	112,019	6,269,319
Provision for claims	–	–	–	–	67,088	–	–	67,088
Provision for taxation	–	–	–	–	–	–	38,583	38,583
Deferred tax liabilities	–	–	–	–	–	–	210,017	210,017
Borrowings	–	704,340	115,233	1,824	150,000	4,336,207	–	5,307,604
Subordinated obligations	–	–	8,815	–	–	5,350,799	–	5,359,614
Non-innovative Tier 1 stapled securities	–	–	–	–	–	1,410,252	–	1,410,252
Innovative Tier 1 capital securities	–	–	–	–	–	541,767	–	541,767
Insurance funds*	–	–	–	–	1,192,213	6,949,853	–	8,142,066
Total liabilities	55,775,237	26,988,193	29,142,614	15,868,146	21,462,718	23,051,278	670,398	172,958,584
Total equity	–	–	–	–	–	–	17,004,731	17,004,731
Total liabilities and equity	55,775,237	26,988,193	29,142,614	15,868,146	21,462,718	23,051,278	17,675,129	189,963,315
Net liquidity gap	(32,674,586)	(5,076,070)	(16,075,062)	(8,460,520)	(16,046,029)	80,500,315		

* Excluding AFS Reserve

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) as at 30 June 2013 based on the remaining contractual maturity:

	The Group							
2013	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash and short-term funds	10,698,811	9,098,769	–	–	–	–	–	19,797,580
Deposits and placements with banks and other financial institutions	–	–	5,770,530	1,016,952	363,789	3,577	–	7,154,848
Securities purchased under resale agreements	–	80,271	1,219,370	–	–	–	–	1,299,641
Financial assets held-for-trading	745,605	4,557,266	5,927,859	1,983,841	485,204	2,336,682	767,863	16,804,320
Financial investments available-for-sale	24,994	1,670,871	600,314	153,326	980,708	14,611,637	4,269,858	22,311,708
Financial investments held-to-maturity	317	595,927	30,579	–	26,827	4,163,020	–	4,816,670
Derivative financial instruments	63,575	77,780	77,183	76,627	56,211	555,107	–	906,483
Loans, advances and financing	9,044,520	8,482,790	5,033,857	1,541,320	4,054,792	68,117,673	–	96,274,952
Clients' and brokers' balances	150,509	–	–	–	105,965	–	–	256,474
Other receivables	408,664	4,533	63,061	6,103	58,034	9,489	453,685	1,003,569
Statutory deposits with Central Banks	–	–	–	–	–	–	3,457,409	3,457,409
Tax recoverable	–	–	–	–	–	–	19,972	19,972
Investment in associated companies	–	–	–	–	–	–	2,456,598	2,456,598
Investment in joint ventures	–	–	–	–	–	–	79,945	79,945
Property and equipment	–	–	–	–	–	–	1,039,745	1,039,745
Investment properties	–	–	–	–	–	–	1,680	1,680
Goodwill	–	–	–	–	–	–	2,410,644	2,410,644
Intangible assets	–	–	–	–	–	–	380,907	380,907
Total assets	21,136,995	24,568,207	18,722,753	4,778,169	6,131,530	89,797,185	15,338,306	180,473,145

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) as at 30 June 2013 based on the remaining contractual maturity: (continued)

	The Group							
2013	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Deposits from customers	48,468,953	19,150,533	20,760,989	13,011,396	19,152,329	3,414,505	–	123,958,705
Deposits and placements of banks and other financial institutions	3,849,678	4,135,026	5,005,214	120,205	–	–	–	13,110,123
Obligations on securities sold under repurchase agreements	–	–	1,878,369	47,408	–	–	–	1,925,777
Bills and acceptances payable	261	38,915	225,736	28,566	47	–	507,155	800,680
Derivative financial instruments	82,510	144,408	129,330	32,453	31,521	589,199	–	1,009,421
Clients' and brokers' balances	140,353	–	–	–	–	–	–	140,353
Payables and other liabilities	2,722,517	19,741	85	2,780	1,495,163	96,554	237,302	4,574,141
Provision for claims	–	–	–	–	85,255	–	–	85,255
Provision for taxation	–	–	–	–	–	–	189,131	189,131
Deferred tax liabilities	–	–	–	–	–	–	221,561	221,561
Borrowings	–	914,348	–	1,758	–	4,512,226	–	5,428,332
Subordinated obligations	–	–	–	–	–	4,873,509	–	4,873,509
Non-innovative Tier 1 stapled securities	–	–	–	–	–	1,408,992	–	1,408,992
Innovative Tier 1 capital securities	–	–	–	–	–	556,042	–	556,042
Insurance funds*	–	–	–	20,076	925,787	6,024,295	–	6,970,158
Total liabilities	55,264,272	24,402,971	27,999,723	13,264,642	21,690,102	21,475,322	1,155,149	165,252,180
Total equity	–	–	–	–	–	–	15,004,708	15,004,708
Total liabilities and equity	55,264,272	24,402,971	27,999,723	13,264,642	21,690,102	21,475,322	16,159,857	180,256,888
Net liquidity gap	(34,127,277)	165,236	(9,276,970)	(8,486,473)	(15,558,572)	68,321,863		

* Excluding AFS Reserve

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) as at 30 June 2014 based on the remaining contractual maturity:

	The Company							
2014	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash and short-term funds	6,882	–	–	–	–	–	–	6,882
Deposits and placements with banks and other financial institutions	–	–	–	7,200	900	662	–	8,762
Derivative financial instruments	–	423	–	–	–	788	–	1,211
Other receivables	–	–	–	–	–	–	2,076	2,076
Amount due from subsidiaries	–	–	–	–	–	–	54,535	54,535
Tax recoverable	–	–	–	–	–	–	10,800	10,800
Investment in subsidiary companies	–	–	–	–	–	–	14,986,980	14,986,980
Deferred tax assets	–	–	–	–	–	–	3,550	3,550
Property and equipment	–	–	–	–	–	–	1,798	1,798
Intangible assets	–	–	–	–	–	–	172	172
Total assets	6,882	423	–	7,200	900	1,450	15,059,911	15,076,766
Liabilities								
Payables and other liabilities	–	–	–	–	–	–	17,088	17,088
Derivative financial instruments	–	–	–	–	–	1,253	–	1,253
Amount due to subsidiaries	–	–	–	–	–	–	24	24
Borrowings								
– Term loans	–	110,052	–	–	–	–	–	110,052
– Revolving credits	–	10,076	55,178	–	–	–	–	65,254
– Commercial papers	–	584,212	–	–	–	–	–	584,212
– Medium term notes	–	–	–	1,824	150,000	400,000	–	551,824
Total liabilities	–	704,340	55,178	1,824	150,000	401,253	17,112	1,329,707
Net liquidity gap	6,882	(703,917)	(55,178)	5,376	(149,100)	(399,803)		

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) as at 30 June 2013 based on the remaining contractual maturity:

	The Company							
2013	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash and short-term funds	10,662	–	–	–	–	–	–	10,662
Deposits and placements with banks and other financial institutions	–	–	–	7,200	900	3,577	–	11,677
Derivative financial instruments	642	–	–	–	218	–	–	860
Other receivables	–	–	–	–	–	–	3,007	3,007
Amount due from subsidiaries	–	–	–	–	–	–	57,656	57,656
Tax recoverable	–	–	–	–	–	–	17,400	17,400
Investment in subsidiary companies	–	–	–	–	–	–	15,105,348	15,105,348
Deferred tax assets	–	–	–	–	–	–	4,977	4,977
Property and equipment	–	–	–	–	–	–	898	898
Intangible asset	–	–	–	–	–	–	11	11
Total assets	11,304	–	–	7,200	1,118	3,577	15,189,297	15,212,496
Liabilities								
Payables and other liabilities	–	–	–	–	–	–	13,245	13,245
Amount due to subsidiaries	–	–	–	–	–	–	1,859	1,859
Derivative financial instruments	–	–	–	–	–	8,160	–	8,160
Borrowings								
– Term loans	–	290,245	–	–	–	–	–	290,245
– Commercial papers	–	624,103	–	–	–	–	–	624,103
– Medium term notes	–	–	–	1,758	–	550,000	–	551,758
Total liabilities	–	914,348	–	1,758	–	558,160	15,104	1,489,370
Net liquidity gap	11,304	(914,348)	–	5,442	1,118	(554,583)		

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The following table shows the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

	The Group					
2014	Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities						
Deposits from customers	68,693,038	25,502,886	33,253,419	4,626,050	550,110	132,625,503
Deposits and placements of banks and other financial institutions	7,147,426	3,059,959	728,812	–	–	10,936,197
Obligations on securities sold under repurchase agreements	3,100,908	1,171,322	51,368	–	–	4,323,598
Bills and acceptances payable	313,526	704	187	–	–	314,417
Derivative financial instruments						
– Gross settled derivatives						
– Inflow	(7,555,370)	(3,584,232)	(8,527,501)	(431,906)	(1,475)	(20,100,484)
– Outflow	7,572,476	3,583,877	8,586,026	406,147	1,876	20,150,402
– Net settled derivatives	30,575	26,925	82,156	264,289	66,189	470,134
Clients' and brokers' balances	337,686	–	–	–	–	337,686
Payables and other liabilities	3,779,716	3,515	2,075,853	5,559	(1,405)	5,863,238
Provision for claims	–	–	67,088	–	–	67,088
Borrowings	2,428	122,820	452,812	5,546,842	–	6,124,902
Subordinated obligations	–	25,650	479,410	5,210,270	609,740	6,325,070
Non-innovative Tier 1 stapled securities	–	–	70,700	1,470,894	–	1,541,594
Innovative Tier 1 capital securities	–	20,795	20,455	165,226	520,682	727,158
Insurance funds*	–	–	1,179,485	975,493	16,522,247	18,677,225
Total financial liabilities	83,422,409	29,934,221	38,520,270	18,238,864	18,267,964	188,383,728

* Excluding AFS Reserve

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The following table shows the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows. (continued)

	The Group					
2013	Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities						
Deposits from customers	63,996,155	22,014,115	34,560,416	5,099,709	116,018	125,786,413
Deposits and placements of banks and other financial institutions	10,629,828	5,896,142	156,075	–	–	16,682,045
Obligations on securities sold under repurchase agreements	–	1,916,383	–	–	–	1,916,383
Bills and acceptances payable	549,619	207,754	14,319	–	–	771,692
Derivative financial instruments						
– Gross settled derivatives						
– Inflow	(13,371,018)	(6,142,092)	(2,547,841)	(249,941)	(41,492)	(22,352,384)
– Outflow	13,353,588	6,114,668	2,538,696	294,549	43,521	22,345,022
– Net settled derivatives	36,009	15,518	117,718	291,043	127,364	587,652
Clients' and brokers' balances	140,353	–	–	–	–	140,353
Payables and other liabilities	2,646,175	3,300	1,358,612	104,572	511	4,113,170
Provision for claims	–	–	85,255	–	–	85,255
Borrowings	2,103	82,197	397,410	5,124,535	886,789	6,493,034
Subordinated obligations	–	37,341	615,393	3,022,460	2,177,331	5,852,525
Non-innovative Tier 1 stapled securities	–	–	70,700	1,541,594	–	1,612,294
Innovative Tier 1 capital securities	–	20,682	20,455	165,339	561,818	768,294
Insurance funds*	–	–	934,452	445,077	15,937,522	17,317,051
Total financial liabilities	77,982,812	30,166,008	38,321,660	15,838,937	19,809,382	182,118,799

* Excluding AFS Reserve

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

Hedging derivatives are disclosed based on remaining contractual maturities as the contractual maturities of such contracts are essential for an understanding of the timing of the cash flows. The amounts disclosed in respect of such contracts are the contractual undiscounted cash flows.

The following table shows the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

	The Company					
	Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2014						
Liabilities						
Payables and other liabilities	**3,122**	**666**	**13,287**	**–**	**40**	**17,115**
Amount due to subsidiaries	**24**	**–**	**–**	**–**	**–**	**24**
Derivative financial instruments						
– Gross settled derivatives						
– Inflow	**(110,843)**	**–**	**–**	**–**	**–**	**(110,843)**
– Outflow	**110,420**	**–**	**–**	**–**	**–**	**110,420**
– Net settled derivatives	**157**	**460**	**934**	**1,055**	**–**	**2,606**
Borrowings						
– Term loans	**369**	**682**	**32,493**	**80,016**	**–**	**113,560**
– Revolving credit	**455**	**733**	**67,213**	**–**	**–**	**68,401**
– Commercial papers	**1,604**	**3,253**	**14,323**	**655,325**	**–**	**674,505**
– Medium term notes	**–**	**–**	**170,746**	**449,061**	**–**	**619,807**
Total financial liabilities	**5,308**	**5,794**	**298,996**	**1,185,457**	**40**	**1,495,595**
2013						
Liabilities						
Payables and other liabilities	2,595	550	11,434	–	38	14,617
Amount due to subsidiaries	5	12	1,872	–	–	1,889
Derivative financial instruments						
– Gross settled derivatives						
– Inflow	(168,002)	–	–	–	–	(168,002)
– Outflow	167,360	–	–	–	–	167,360
– Net settled derivatives	197	708	1,627	3,780	–	6,312
Borrowings						
– Term loans	762	1,476	154,088	140,089	–	296,415
– Commercial papers	1,341	2,748	12,102	64,764	631,184	712,139
– Medium term notes	–	–	23,710	364,290	255,517	643,517
Total financial liabilities	4,258	5,494	204,833	572,923	886,739	1,674,247

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The following table presents the contractual expiry by maturity of the Group's commitments and contingencies:

	The Group		
	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
2014			
Direct credit substitutes	**167,245**	**209,547**	**376,792**
Obligations under underwriting agreement	**299,154**	**–**	**299,154**
Commitments that are unconditionally cancellable at any time without prior notice	**627,233**	**–**	**627,233**
Short-term self liquidating trade related contingencies	**405,768**	**9,311**	**415,079**
Irrevocable commitments to extend credit	**15,821,707**	**17,251,829**	**33,073,536**
Unutilised credit card lines	**7,610,596**	**–**	**7,610,596**
Others	**648,999**	**–**	**648,999**
Total commitments and contingencies	**25,580,702**	**17,470,687**	**43,051,389**
2013			
Direct credit substitutes	234,251	98,761	333,012
Commitments that are unconditionally cancellable at any time without prior notice	507,022	–	507,022
Short-term self liquidating trade related contingencies	526,128	–	526,128
Irrevocable commitments to extend credit	17,331,901	14,108,639	31,440,540
Unutilised credit card lines	8,331,904	–	8,331,904
Others	636,606	69	636,675
Total commitments and contingencies	27,567,812	14,207,469	41,775,281

Undrawn loan commitments are recognised at activation stage and include commitments which are unconditionally cancellable by the Group. The Group expect that not all of the contingent liabilities and undrawn loan commitments will be drawn before expiry.

(d) Credit risk

(i) Maximum exposure to credit risk

The maximum exposure to credit risk for financial assets recognised in the statements of financial position is their carrying amounts. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and the Company would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(i) Maximum exposure to credit risk (continued)

The table below shows the maximum exposure to credit risk for the Group and the Company:

	The Group		The Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Credit risk exposure relating to:				
Short-term funds and placements with banks and other financial institutions (exclude cash in hand)	**20,638,179**	25,891,932	**15,162**	22,197
Securities purchased under resale agreement	**2,997,197**	1,299,641	**–**	–
Financial assets and investments portfolios (exclude shares)				
– Financial assets held-for-trading	**12,425,242**	16,036,523	**–**	–
– Financial investments available-for-sale	**20,527,518**	16,539,033	**–**	–
– Financial investments held-to-maturity	**9,798,597**	4,764,064	**–**	–
Loans, advances and financing	**103,665,448**	96,274,952	**–**	–
Clients' and brokers' balances	**430,804**	256,474	**–**	–
Other receivables	**619,089**	806,890	**2,076**	3,007
Amount due from subsidiaries	**–**	–	**54,535**	57,656
Derivative financial instruments	**712,983**	906,483	**1,211**	860
Commitments and contingencies	**43,051,389**	41,775,281	**–**	–
Total maximum credit risk exposure	**214,866,446**	204,551,273	**72,984**	83,720

(ii) Collaterals

The main type of collaterals obtained by the Group are as follows:

(a) Fixed deposits, Mudharabah General Investment Account, negotiable instrument of deposits, foreign currency deposits and cash deposits/margins
(b) Land and buildings
(c) Aircrafts, vessels and automobiles
(d) Quoted shares, unit trust, Malaysian Governments Bonds and securities and private debt securities
(e) Endowment life policies with cash surrender value
(f) Other tangible business assets, such as inventory and equipment

The Group also accept non-tangible securities such as support, guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract payments, which are subject to internal guidelines on eligibility.

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for loans, advances and financing for the Group is 88.60% (2013: 85.34%). The financial effects of collateral held for the remaining financial assets are insignificant.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit Quality

The Group assess credit quality of loans and advances using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officers judgement.

The credit quality of financial assets other than loans, advances and financing are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other internationals rating agencies as defined below:

– AAA to AA3
– A1 to A3
– Baa1 to Baa3
– P1 to P3

(a) Loans, advances and financing

Loans, advances and financing are summarised as follows:

	The Group	
	2014 RM'000	**2013 RM'000**
Neither past due nor impaired	**95,187,756**	86,358,863
Past due but not impaired	**8,836,178**	10,334,509
Individually impaired	**1,232,588**	1,360,566
Gross loans, advances and financing	**105,256,522**	98,053,938
Fair value changes arising from fair value hedges	**–**	(7,450)
Unamortised fair value changes arising from terminated fair value hedges	**(1,516)**	15,035
Less: Allowance for impaired loans, advances and financing		
– Individual assessment allowance	**(511,647)**	(526,270)
– Collective assessment allowance	**(1,077,911)**	(1,260,301)
Net loans, advances and financing	**103,665,448**	96,274,952

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(a) Loans, advances and financing (continued)

(i) Loans, advances and financing neither past due nor impaired

Analysis of loans, advances and financing that are neither past due nor impaired analysed based on the Group's credit grading system is as follows:

		2014 RM'000	2013 RM'000
Hong Leong Bank Group			
Consumer loans/financing			
Risk Grade			
Good		**63,113,664**	55,825,107
Weakest		**619,854**	585,284
		63,733,518	56,410,391
Corporates loans/financing			
Risk Grade	Credit Quality		
A	Exceptional	**892,667**	472,917
B+	Superior	**3,300,839**	3,184,551
B	Excellent	**5,777,197**	5,957,259
B-	Strong	**4,881,363**	4,888,015
C+	Good	**4,871,072**	4,838,214
C	Satisfactory	**6,207,560**	4,765,395
C-	Fair	**3,189,640**	3,603,788
D+	Adequate	**784,535**	705,416
D	Marginal	**159,531**	347,411
Un-graded		**302,814**	341,648
		30,367,218	29,104,614
Hong Leong Capital Group			
Risk Grade			
Good		**432,062**	174,051
HLA Holdings Group			
Risk Grade			
Ungraded		**654,958**	669,807
The Group total neither past due nor impaired		**95,187,756**	86,358,863

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(a) Loans, advances and financing (continued)

(ii) Loans, advances and financing past due but not impaired

A financial asset is defined as "past due" when the counterparty has failed to make a principal or interest payment when contractually due.

Loans, advances and financing less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans, advances and financing by class to customers that were past due but not impaired were as follows:

	The Group	
	2014 RM'000	2013 RM'000
Past due less than 30 days	**6,118,113**	7,149,476
Past due 30 to less than 60 days	**1,953,269**	2,268,750
Past due 60 to less than 90 days	**764,796**	916,283
Past due but not impaired	**8,836,178**	10,334,509

(iii) Loans, advances and financing that are determined to be impaired as at 30 June 2014 and 30 June 2013 are as follows:

	The Group	
	2014 RM'000	2013 RM'000
Gross amount of impaired loans	**1,232,588**	1,360,566
Less: Individual assessment impairment allowance	**(511,647)**	(526,270)
Less: Collective assessment impairment allowance	**(343,625)**	(458,603)
Total net amount of impaired loans	**377,316**	375,693

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(b) Other financial assets

Analysis of other financial assets by rating agency designation (where applicable) as at 30 June 2014, based on Moody's ratings or its equivalent are as follows:

	The Group							
2014	Short-term funds and deposits and placements with banks and other financial institutions* RM'000	Securities purchased under resale agreements^ RM'000	Financial assets held-for-trading# RM'000	Financial investments available-for-sale# RM'000	Financial investments held-to-maturity# RM'000	Clients' and brokers' balances RM'000	Other receivables RM'000	Derivative financial instruments RM'000
Neither past due nor impaired								
AAA to AA3	3,154,268	–	915,643	8,976,597	584,651	–	–	152,205
A1 to A3	6,516,792	–	447,459	3,078,729	103,895	–	2,125	335,519
Baa1 to Baa3	326,743	–	22,415	444,580	142,272	–	–	36,184
P1 to P3	992,996	–	327,622	–	–	–	1,068	–
Non-rated	9,647,380	2,997,197	10,712,103	8,027,612	8,967,779	430,804	615,896	189,075
	20,638,179	2,997,197	12,425,242	20,527,518	9,798,597	430,804	619,089	712,983
Individually impaired	–	–	–	–	–	–	–	–
	20,638,179	2,997,197	12,425,242	20,527,518	9,798,597	430,804	619,089	712,983

The amount of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investment portfolios, other receivables, clients' and brokers' balances and derivative financial instruments that are past due but not impaired is not material.

* Placements with banks and other financial institutions with no ratings comprise of mainly placements with BNM.

^ Comprises of securities purchased under resale agreements with local financial institutions.

\# Securities with no ratings consists of government securities.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(b) Other financial assets (continued)

Analysis of other financial assets by rating agency designation (where applicable) as at 30 June 2013, based on Moody's ratings or its equivalent are as follows:

	The Group							
2013	Short-term funds and deposits and placements with banks and other financial institutions* RM'000	Securities purchased under resale agreements^ RM'000	Financial assets held-for-trading# RM'000	Financial investments available-for-sale# RM'000	Financial investments held-to-maturity# RM'000	Clients' and brokers' balances RM'000	Other receivables RM'000	Derivative financial instruments RM'000
Neither past due nor impaired								
AAA to AA3	3,298,693	–	1,081,560	7,156,266	617,322	–	1,572	184,170
A1 to A3	4,636,736	–	250,044	2,946,770	52,205	–	1,594	496,710
Baa1 to Baa3	19,870	–	59,280	591,939	140,707	–	–	35,818
P1 to P3	720,475	–	230,413	–	–	–	171	–
Non-rated	17,216,158	1,299,641	14,415,226	5,844,058	3,953,830	256,474	803,553	189,785
	25,891,932	1,299,641	16,036,523	16,539,033	4,764,064	256,474	806,890	906,483
Individually impaired	–	–	–	–	–	–	–	–
	25,891,932	1,299,641	16,036,523	16,539,033	4,764,064	256,474	806,890	906,483

The amount of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investment portfolios, other receivables, clients' and brokers' balances and derivative financial instruments that are past due but not impaired is not material.

* Placements with banks and other financial institutions with no ratings comprise of mainly placements with BNM.

^ Comprises of securities purchased under resale agreements with local financial institutions.

\# Securities with no ratings consists of government securities.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(b) Other financial assets (continued)

Analysis of other financial assets by rating agency designation (where applicable) as at 30 June 2014 and 30 June 2013, based on Moody's ratings or its equivalent are as follows:

	The Company			
	Short-term funds and deposits and placements with banks and others financial institutions RM'000	Other receivables RM'000	Amount due from subsidiaries RM'000	Derivative financial instruments RM'000
2014				
Neither past due nor impaired				
AAA to AA3	**15,162**	**–**	**–**	**–**
A1 to A3	**–**	**–**	**–**	**–**
Baa1 to Baa3	**–**	**–**	**–**	**–**
P1 to P3	**–**	**–**	**–**	**–**
Non-rated	**–**	**2,076**	**54,535**	**1,211**
	15,162	**2,076**	**54,535**	**1,211**
Individually impaired	**–**	**–**	**–**	**–**
	15,162	**2,076**	**54,535**	**1,211**
2013				
Neither past due nor impaired				
AAA to AA3	22,197	–	–	–
A1 to A3	–	–	–	–
Baa1 to Baa3	–	–	–	–
P1 to P3	–	–	–	–
Non-rated	–	3,007	57,656	860
	22,197	3,007	57,656	860
Individually impaired	–	–	–	–
	22,197	3,007	57,656	860

(iv) Collateral and other credit enhancements obtained

	The Group	
	2014 RM'000	2013 RM'000
Properties	**79,852,505**	73,339,375

Repossessed properties are made available-for-sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The Group generally does not occupy the premises repossessed for its business use.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(v) Credit risk exposure analysed by industry in respect of the Group's financial assets are set out below:

	The Group												
2014	Short-term funds and placements with banks and other financial institutions RM'000	Securities purchased under resale agreements RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Loans, advances and financing RM'000	Clients' and brokers' balances RM'000	Other receivables RM'000	Derivative financial instruments RM'000	Total credit risk exposures RM'000	Credit related commitments and contingencies RM'000	Undrawn loan commitments and other facilities RM'000	Guarantees, endorsements and other contingent items RM'000
Agriculture	-	-	-	115,690	10,035	2,621,329	-	-	-	2,747,054	-	861,764	3,370
Mining and quarrying	-	-	-	-	-	417,630	-	-	-	417,630	-	160,837	93
Manufacturing	-	-	-	53,463	5,055	8,547,955	-	635	-	8,607,108	700	5,726,186	160,628
Electricity, gas and water	-	-	20,034	1,437,203	-	271,981	-	26,015	-	1,755,233	140,000	99,216	15,097
Construction	-	-	70,315	736,769	-	1,872,203	-	4,814	-	2,684,101	68,321	1,332,313	10,152
Wholesale and retail	-	-	19,419	29,938	15,261	9,393,081	-	-	-	9,457,699	-	5,419,058	221,979
Transport, storage and communications	-	-	15,632	456,505	-	1,632,185	-	-	-	2,104,322	-	577,140	14,082
Finance, insurance, real estate and business services	11,392,027	-	10,514,907	10,836,162	594,686	10,914,921	143,048	564,240	712,983	45,672,974	781,096	4,163,916	305,637
Government and government agencies	9,246,152	2,997,197	1,659,257	6,042,521	8,773,943	-	-	15,145	-	28,734,215	-	-	645
Education, health and others	-	-	-	-	-	1,134,035	-	44	-	1,134,079	591,635	558,456	34,078
Household	-	-	-	-	-	65,442,891	-	-	-	65,442,891	-	21,384,602	5,485
Others	-	-	125,678	819,267	399,617	1,417,237	287,756	8,196	-	3,057,751	14,259	400,644	-
	20,638,179	2,997,197	12,425,242	20,527,518	9,798,597	103,665,448	430,804	619,089	712,983	171,815,057	1,596,011	40,684,132	771,246

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(v) Credit risk exposure analysed by industry in respect of the Group's financial assets are set out below: (continued)

	The Group												
2013	Short-term funds and placements with banks and other financial institutions RM'000	Securities purchased under resale agreements RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Loans, advances and financing RM'000	Clients' and brokers' balances RM'000	Other receivables RM'000	Derivative financial instruments RM'000	Total credit risk exposures RM'000	Credit related commitments and contingencies RM'000	Undrawn loan commitments and other facilities RM'000	Guarantees, endorsements and other contingent items RM'000
Agriculture	–	–	16,227	76,282	10,040	2,423,985	–	–	–	2,526,534	–	1,046,250	4,058
Mining and quarrying	–	–	–	–	–	278,258	–	–	–	278,258	–	63,712	703
Manufacturing	–	–	40,697	136,772	10,158	8,722,256	–	207	–	8,910,090	96	6,211,574	214,797
Electricity, gas and water	–	–	76,383	981,874	25,913	227,924	–	2,010	–	1,314,104	–	91,812	–
Construction	–	–	50,586	181,769	–	1,674,929	–	379	4,862	1,912,525	53,267	1,478,798	16,152
Wholesale and retail	–	–	45,632	20,150	15,383	8,812,149	–	–	–	8,893,314	–	5,926,243	286,905
Transport, storage and communications	–	–	32,617	155,007	5,065	1,534,920	–	140	–	1,727,749	–	848,799	56,783
Finance, insurance, real estate and business services	9,390,690	–	13,939,674	10,131,712	392,365	10,190,780	105,965	783,349	901,621	45,836,156	669,746	4,202,001	44,556
Government and government agencies	16,501,242	1,299,641	1,775,576	4,601,735	4,005,547	–	–	18,319	–	28,202,060	–	–	–
Education, health and others	–	–	–	–	–	626,851	–	–	–	626,851	–	267,376	151,944
Household	–	–	–	–	–	60,039,456	–	–	–	60,039,456	458,226	19,434,420	7,465
Others	–	–	59,131	253,732	299,593	1,743,444	150,509	2,486	–	2,508,895	13,112	201,459	25,027
	25,891,932	1,299,641	16,036,523	16,539,033	4,764,064	96,274,952	256,474	806,890	906,483	162,775,992	1,194,447	39,772,444	808,390

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(v) Credit risk exposure analysed by industry in respect of the Company's financial assets are set out below:

	The Company				
	Short-term funds and placements with banks and other financial institutions RM'000	Other receivables RM'000	Amount due from subsidiaries RM'000	Derivative financial instruments RM'000	Total credit risk exposures RM'000
2014					
Finance, insurance, real estate and business services	**15,162**	**2,076**	**54,535**	**1,211**	**72,984**
2013					
Finance, insurance, real estate and business services	22,197	3,007	57,656	860	83,720

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

49 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 statement of financial position date.

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

(a) Determination of fair value and fair value hierarchy

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

	The Group			
	Fair value			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2014				
Recurring fair value measurements				
Financial assets				
Financial assets held-for-trading				
– Money market instruments	**–**	**11,563,582**	**–**	**11,563,582**
– Quoted securities	**1,074,389**	**–**	**–**	**1,074,389**
– Unquoted securities	**–**	**618,531**	**–**	**618,531**
Financial investments available-for-sale				
– Money market instruments	**–**	**7,589,634**	**–**	**7,589,634**
– Quoted securities	**10,161,271**	**–**	**–**	**10,161,271**
– Unquoted securities	**–**	**8,986,173**	**369,708**	**9,355,881**
Derivative financial instruments	**1,417**	**711,566**	**–**	**712,983**
	11,237,077	**29,469,486**	**369,708**	**41,076,271**
Financial liabilities				
Derivative financial instruments	**13,827**	**807,513**	**–**	**821,340**
	13,827	**807,513**	**–**	**821,340**
2013				
Recurring fair value measurements				
Financial assets				
Financial assets held-for-trading				
– Money market instruments	–	14,839,670	–	14,839,670
– Quoted securities	996,895	–	–	996,895
– Unquoted securities	–	967,755	–	967,755
Financial investments available-for-sale				
– Money market instruments	–	5,511,967	–	5,511,967
– Quoted securities	9,776,032	–	–	9,776,032
– Unquoted securities	–	6,690,913	332,796	7,023,709
Derivative financial instruments	1,536	904,947	–	906,483
	10,774,463	28,915,252	332,796	40,022,511
Financial liabilities				
Derivative financial instruments	3,790	1,005,631	–	1,009,421
	3,790	1,005,631	–	1,009,421

The Group recognise 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 (2013: RM Nil).

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

	The Company			
	Fair value			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2014				
Recurring fair value measurements				
Financial assets				
Derivative financial instruments	**–**	**1,211**	**–**	**1,211**
	–	**1,211**	**–**	**1,211**
Financial liabilities				
Derivative financial instruments	**–**	**1,253**	**–**	**1,253**
	–	**1,253**	**–**	**1,253**
2013				
Recurring fair value measurements				
Financial assets				
Derivative financial instruments	–	860	–	860
	–	860	–	860
Financial liabilities				
Derivative financial instruments	–	8,160	–	8,160
	–	8,160	–	8,160

The Company recognise 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 (2013: RM Nil).

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

	The Group	
	Financial investments available-for-sale	
	2014 RM'000	2013 RM'000
As at 1 July	**332,796**	315,577
Net fair value changes recognised in other comprehensive income	**37,353**	18,978
Redeemed during the year	**(441)**	–
Impaired during the year	**–**	(1,759)
As at 30 June	**369,708**	332,796
Total gain recognised in other comprehensive income relating to assets held at the end of financial year	**37,353**	18,978

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Financial instruments carried at fair value

The Group				
Description	Fair value assets	Valuation technique	Unobservable input	Inter-relationship between significant unobservable inputs and fair value measurement
Financial investments available-for-sale				
Unquoted shares	369,708	Net tangible assets	Net tangible assets	Higher net tangible asset results in higher fair value

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair values of financial instruments not carried at fair value

Set out below is the comparison of the carrying amount and fair value of those financial instruments of the Group and the Company which are not carried at fair value in the financial instruments, but for which fair value is disclosed. It does not include those short term/on demand financial assets and financial liabilities where the carrying amount are reasonable approximation of their fair values:

	The Group			
	Carrying amount 2014 RM'000	Fair value 2014 RM'000	Carrying amount 2013 RM'000	Fair value 2013 RM'000
Financial assets				
Financial investments held-to-maturity				
– Money market instruments	**8,925,614**	**8,841,131**	4,020,518	3,996,390
– Unquoted securities	**925,518**	**928,930**	796,152	832,768
Loans, advances and financing	**103,665,448**	**104,050,578**	96,274,952	96,627,429
	113,516,580	**113,820,639**	101,091,622	101,456,587
Financial liabilities				
Deposits from customers	**130,632,286**	**130,951,096**	123,958,705	124,361,851
Borrowings	**5,307,604**	**5,121,512**	5,428,332	5,272,651
Subordinated obligations	**5,359,614**	**5,305,330**	4,873,509	4,802,635
Non-innovative Tier 1 stapled securities	**1,410,252**	**1,430,658**	1,408,992	1,449,858
Innovative Tier 1 capital securities	**541,767**	**589,894**	556,042	613,534
	143,251,523	**143,398,490**	136,225,580	136,500,529

	The Company			
	Carrying amount 2014 RM'000	Fair value 2014 RM'000	Carrying amount 2013 RM'000	Fair value 2013 RM'000
Financial liabilities				
Borrowings	**1,311,342**	**1,286,869**	1,466,106	1,469,461
	1,311,342	**1,286,869**	1,466,106	1,469,461

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair values of financial instruments not carried at fair value (continued)

The following table analyses within the fair value hierarchy of the Group's and the Company's assets and liabilities not measured at fair value at 30 June 2014 but for which fair value is disclosed:

The Group					
2014	Carrying amount RM'000	Fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets					
Financial investments held-to-maturity					
– Money market instruments	8,925,614	–	8,841,131	–	8,841,131
– Unquoted securities	925,518	–	928,442	488	928,930
Loans, advances and financing	103,665,448	–	104,050,578	–	104,050,578
	113,516,580	–	113,820,151	488	113,820,639
Financial liabilities					
Deposits from customers	130,632,286	–	130,951,096	–	130,951,096
Borrowings	5,307,604	–	5,121,512	–	5,121,512
Subordinated obligations	5,359,614	–	5,305,330	–	5,305,330
Non-innovative Tier 1 stapled securities	1,410,252	–	1,430,658	–	1,430,658
Innovative Tier 1 capital securities	541,767	–	589,894	–	589,894
	143,251,523	–	143,398,490	–	143,398,490

The Company					
2014	Carrying amount RM'000	Fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial liabilities					
Borrowings	1,311,342	–	1,286,869	–	1,286,869
	1,311,342	–	1,286,869	–	1,286,869

The fair values of financial instruments not carried at fair value are not required to be disclosed retrospectively.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value methodologies and assumptions

Short-term funds and placements with financial institutions

For short-term funds and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For short-term funds and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

Securities purchased under resale agreements

The fair values of securities purchased under resale agreements with maturities of less than six months approximate the carrying values. For securities purchased under resale agreements with maturities of six months and above, the estimated fair values are based on discounted cash flows using market rates for the remaining term to maturity.

Securities held at fair value through profit or loss, available-for-sale and held-to-maturity

The estimated fair value is generally based on quoted and observable market prices. Where there is no ready market in certain securities, the Group and the Company establishes the fair value by using valuation techniques.

Loans, advances and financing

For floating rate loans, the carrying value is generally a reasonable estimate of fair value. For fixed rate loans, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risks and maturities.

Deposits from customers

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposit with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

Deposits and placements of banks and other financial institutions, bills and acceptances payable

The estimated fair values of deposits and placements of banks and other financial institutions and bills and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities six months and above, the fair values are estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturities.

Subordinated obligations, senior bonds, stapled securities and capital securities

The fair value of subordinated obligations, senior bonds, stapled securities and capital securities are based on quoted market prices where available.

Other financial assets and liabilities

The carrying value less any estimated allowance for financial assets and liabilities included in “other assets and liabilities” are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value methodologies and assumptions (continued)

Borrowings

The estimated fair values of borrowings with maturities of less than six months approximate the carrying values. For other borrowings with maturities six months or more, the fair values are estimated based on discounted cash flows using prevailing market rates for borrowings with similar risk profile.

Credit related commitment and contingencies

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received, less associated costs.

Foreign exchange and interest rate related contracts

The fair values of foreign exchange and interest rate related contracts are the estimated amounts the Group or the Company would receive or pay to terminate the contracts at the statements of financial position date.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

50 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

	The Group						The Company					
				Related amounts not set off in the statements of financial position						Related amounts not set off in the statements of financial position		
2014	Gross amounts recognised in the statements of financial position RM'000	Gross amount offset in the statement of financial position RM'000	Net amount presented in the statements of financial position RM'000	Values of the financial instruments RM'000	Cash collateral received/ pledged RM'000	Net amount RM'000	Gross amounts recognised in the statements of financial position RM'000	Gross amount offset in the statement of financial position RM'000	Net amount presented in the statements of financial position RM'000	Values of the financial instruments RM'000	Cash collateral received/ pledged RM'000	Net amount RM'000
Financial assets												
Clients' and brokers' balances	790,342	(359,538)	430,804	-	-	430,804	-	-	-	-	-	-
Derivative financial assets	805,383	(92,400)	712,983	(446,544)	(25,639)	240,800	2,176	(965)	1,211	-	-	1,211
Securities purchased under resale agreements	3,807,143	(809,946)	2,997,197	(3,001,444)	-	(4,247)	-	-	-	-	-	-
Total	5,402,868	(1,261,884)	4,140,984	(3,447,988)	(25,639)	667,357	2,176	(965)	1,211	-	-	1,211
Financial liabilities												
Clients' and brokers' balances	604,302	(266,616)	337,686	-	-	337,686	-	-	-	-	-	-
Derivative financial liabilities	912,775	(91,435)	821,340	(446,544)	(192,646)	182,150	1,253	-	1,253	-	-	1,253
Obligations on securities sold under repurchase agreements	5,105,921	(809,946)	4,295,975	(4,289,335)	(12,678)	(6,038)	-	-	-	-	-	-
Payables and other liabilities	6,362,241	(92,922)	6,269,319	-	-	6,269,319	17,088	-	17,088	-	-	17,088
Total	12,985,239	(1,260,919)	11,724,320	(4,735,879)	(205,324)	6,783,117	18,341	-	18,341	-	-	18,341

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

50 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows: (continued)

	The Group						The Company					
				Related amounts not set off in the statements of financial position						Related amounts not set off in the statements of financial position		
2013	Gross amounts recognised in the statements of financial position RM'000	Gross amount offset in the statement of financial position RM'000	Net amount presented in the statements of financial position RM'000	Values of the financial instruments RM'000	Cash collateral received/ pledged RM'000	Net amount RM'000	Gross amounts recognised in the statements of financial position RM'000	Gross amount offset in the statement of financial position RM'000	Net amount presented in the statements of financial position RM'000	Values of the financial instruments RM'000	Cash collateral received/ pledged RM'000	Net amount RM'000
Financial assets												
Clients' and brokers' balances	535,399	(278,925)	256,474	–	–	256,474	–	–	–	–	–	–
Derivative financial assets	906,483	–	906,483	(640,088)	(6,783)	259,612	860	–	860	–	–	860
Securities purchased under resale agreements	1,299,641	–	1,299,641	(1,289,374)	–	10,267	–	–	–	–	–	–
Total	2,741,523	(278,925)	2,462,598	(1,929,462)	(6,783)	526,353	860	–	860	–	–	860
Financial assets												
Clients' and brokers' balances	361,957	(221,604)	140,353	–	–	140,353	–	–	–	–	–	–
Derivative financial liabilities	1,009,594	(173)	1,009,421	(640,088)	(44,399)	324,934	8,333	(173)	8,160	–	–	8,160
Obligations on securities sold under repurchase agreements	1,925,777	–	1,925,777	(1,927,434)	(1,408)	(3,065)	–	–	–	–	–	–
Payables and other liabilities	4,631,462	(57,321)	4,574,141	–	–	4,574,141	13,245	–	13,245	–	–	13,245
Total	7,928,790	(279,098)	7,649,692	(2,567,522)	(45,807)	5,036,363	21,578	(173)	21,405	–	–	21,405

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for the financial year ended 30 June 2014
(continued)

51 EQUITY COMPENSATION BENEFITS

Executive Share Option Scheme And Executive Share Scheme

The Company has concurrently established and implemented an Executive Share Option Scheme and an Executive Share Scheme.

(a) Executive Share Option Scheme 2006/2016 ("ESOS 2006/2016")

The ESOS 2006/2016 of up to fifteen percent (15%) of the issued and paid-up ordinary share capital of the Company, which was approved by the shareholders of the Company on 8 November 2005, was established on 23 January 2006 and would be in force for a period of ten (10) years.

On 18 January 2006, the Company announced that Bursa Malaysia Securities Berhad had approved-in-principle the listing of new ordinary shares of the Company to be issued pursuant to the exercise of options under the ESOS 2006/2016 at any time during the existence of the ESOS 2006/2016.

The ESOS 2006/2016 would provide an opportunity for eligible executives who had contributed to the growth and development of the Company and its subsidiaries ("the Group") to participate in the equity of the Company.

The main features of the ESOS 2006/2016 are, inter alia, as follows:

1. Eligible executives are persons as defined by the ESOS 2006/2016 Bye-Laws.
2. The maximum allowable allotments for the full time Executive Directors had been approved by the shareholders of the Company in a general meeting. The Board, as defined by the ESOS 2006/2016 Bye-Laws, may from time to time at its discretion select and identify suitable eligible executives to be offered options.
3. The aggregate number of shares to be issued under the ESOS 2006/2016 shall not exceed 15% of the issued and paid-up ordinary share capital of the Company for the time being.
4. The ESOS 2006/2016 shall be in force for a period of ten (10) years from 23 January 2006.
5. The option price shall not be at a discount of more than ten percent (10%) (or such discount as the relevant authorities shall permit) from the 5-day weighted average market price of the shares of the Company preceding the Date of Offer as defined by the ESOS 2006/2016 Bye-Laws, and shall in no event be less than the par value of the shares of the Company.
6. The options granted to an option holder under the ESOS 2006/2016 is exercisable by the option holder only during his employment with the Group and upon meeting the vesting conditions of each of the ESOS plan as stated in the following pages, subject to any maximum limit as may be determined by the Board under the Bye-Laws of the ESOS 2006/2016.
7. The exercise of the options may, at the absolute discretion of the Board, be satisfied by way of issuance of new shares; transfer of existing shares purchased by a trust established for the ESOS 2006/2016; or a combination of both new shares and existing shares.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

51 EQUITY COMPENSATION BENEFITS (CONTINUED)

Executive Share Option Scheme And Executive Share Scheme (continued)

(b) Executive Share Scheme ("ESS")

The ESS of up to ten percent (10%) of the issued and paid-up ordinary share capital (excluding treasury shares) of the Company comprises the Executive Share Option Scheme 2013/2023 ("ESOS 2013/2023") and the Executive Share Grant Scheme ("ESGS").

(i) ESOS 2013/2023

The ESOS 2013/2023 which was approved by the shareholders of the Company on 30 October 2012, was established on 12 March 2013 and would be in force for a period of ten (10) years.

On 18 September 2012, the Company announced that Bursa Malaysia Securities Berhad had resolved to approve the listing of new ordinary shares of the Company to be issued pursuant to the exercise of options under the ESOS 2013/2023.

The ESOS 2013/2023 would provide an opportunity for eligible executives who had contributed to the growth and development of the Group to participate in the equity of the Company.

(ii) ESGS

The ESGS which was approved by the shareholders of the Company on 29 October 2013, was established on 28 February 2014 and would end on 11 March 2023.

On 6 September 2013, the Company announced that Bursa Malaysia Securities Berhad had resolved to approve-in-principle the listing of new ordinary shares of the Company to be issued pursuant to the ESGS.

The ESGS would provide the Company with the flexibility to reward the eligible executives of the Group for their contribution with awards of the Company's shares without any consideration payable by the eligible executives.

The main features of the ESS are, inter alia, as follows:

1. Eligible executives are persons as defined by the ESS Bye-Laws.
2. The maximum allowable allotments for the full time Executive Directors had been approved by the shareholders of the Company in a general meeting. The Board, as defined by the ESS Bye-Laws, may from time to time at its absolute discretion select and identify suitable eligible executives to be offered options or grants.
3. At any point of time during the existence of the ESS, the aggregate number of shares comprised in the options and grants under the ESS and any other executive share schemes established by the Company which are still subsisting shall not exceed 10% of the issued and paid-up ordinary share capital (excluding treasury shares) of the Company at any one time.
4. The option price for the options to be granted under the ESOS 2013/2023 shall not be at a discount of more than ten percent (10%) (or such discount as the relevant authorities shall permit) from the 5-day weighted average market price of the shares of the Company preceding the Date of Offer as defined by the ESS Bye-Laws, and shall in no event be less than the par value of the shares of the Company.
5. The options granted to an option holder under the ESOS 2013/2023 is exercisable by the option holder during his employment or directorship with the Group and upon meeting the vesting conditions of each ESOS plan as stated in the following pages, subject to any maximum limit as may be determined by the Board under the Bye-Laws of the ESS.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

51 EQUITY COMPENSATION BENEFITS (CONTINUED)

Executive Share Option Scheme And Executive Share Scheme (continued)

(b) Executive Share Scheme ("ESS") (continued)

The main features of the ESS are, inter alia, as follows: (continued)

6. The shares to be vested to a grant holder under the ESGS will be vested to the grant holder only during his employment or directorship with the HLFG Group and subject to any other terms and conditions as may be determined by the Board.
7. The exercise of the options under the ESOS 2013/2023 or the vesting of shares under the ESGS may, at the absolute discretion of the Board, be satisfied by way of issuance of new shares; transfer of existing shares purchased by a trust established for the ESS; or a combination of both new shares and existing shares.

A trust has been set up for the ESOS 2006/2016 and ESS (collectively "Schemes") and it is administered by an appointed trustee. This trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase the Company's shares from the open market for the purposes of this trust. In accordance with MFRS 132, the shares purchased for the benefit of the Schemes holdings are recorded as "Treasury Shares for ESOS" in the shareholders' equity on the statements of financial position. The cost of operating the Schemes is charged to the statements of income.

The number and market values of the ordinary shares held by the Trustee are as follows:

	The Group			
	2014		2013	
	Number of trust shares held '000	Cost RM'000	Number of trust shares held '000	Cost RM'000
As at 1 July	**10,036**	**49,958**	13,008	62,705
Purchase of treasury shares	**–**	**–**	310	3,676
Exercise of ESOS	**(4,882)**	**(24,536)**	(3,282)	(16,423)
As at 30 June	**5,154**	**25,422**	10,036	49,958

	The Company			
	2014		2013	
	Number of trust shares held '000	Cost RM'000	Number of trust shares held '000	Cost RM'000
As at 1 July	**7,344**	**37,161**	9,722	47,085
Purchase of treasury shares	**–**	**–**	310	3,676
Exercise of ESOS	**(4,344)**	**(21,980)**	(2,688)	(13,600)
As at 30 June	**3,000**	**15,181**	7,344	37,161

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

51 EQUITY COMPENSATION BENEFITS (CONTINUED)

Executive Share Option Scheme And Executive Share Scheme (continued)

The current ESOS options granted have performance and/or service based vesting conditions. Generally, the share options granted can be classified into 2 categories:-

(i) An award that is conditional upon achieving agreed key performance indicators and milestones; and/or

(ii) An award for the recognition of material and positive accomplishments towards building a strong and sustainable underlying business value, preserving and enhancing the quality of assets and for shareholders wealth creation.

The ordinary share options of the Company granted under the ESOS are as follows:

(a) 12,500,000 share options at an exercise price of RM5.92:

2014

Grant date	Expiry date	As at 1 July 2013	Granted	Forfeited	Expired	Exercised	Outstanding As at 30 June 2014	Exercisable As at 30 June 2014
16-Mar-07	October 2014	**1,344,000**	**–**	**–**	**–**	**(1,344,000)**	**–**	**–**
		1,344,000	**–**	**–**	**–**	**(1,344,000)**	**–**	**–**

2013

Grant date	Expiry date	As at 1 July 2012	Granted	Forfeited	Expired	Exercised	Outstanding As at 30 June 2013	Exercisable As at 30 June 2013
16-Mar-07	October 2013	2,688,000	–	–	–	(2,688,000)	–	–
16-Mar-07	October 2014	1,344,000	–	–	–	–	1,344,000	–
		4,032,000	–	–	–	(2,688,000)	1,344,000	–

The vesting conditions for the above share options are based on the achievement of pre-agreed key performance indicators and milestones, and service (time) based periods. The vesting period of the options range from 2 to 6 years from grant date.

The weighted average share price of the options at the time of exercise was RM15.82 (2013: RM14.37).

The weighted average remaining contractual life for the share is Nil years (2013: 1.32 years).

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

51 EQUITY COMPENSATION BENEFITS (CONTINUED)

Executive Share Option Scheme And Executive Share Scheme (continued)

The ordinary share options of the Company granted under the ESOS are as follows: (continued)

(b) 6,000,000 share options at an exercise price of RM11.77:

2014

Grant date	Expiry date	As at 1 July 2013	Granted	Forfeited	Expired	Exercised	Outstanding As at 30 June 2014	Exercisable As at 30 June 2014
2-Apr-12	July 2014	3,000,000	–	–	–	(3,000,000)	–	–
2-Apr-12	July 2015	3,000,000	–	–	–	–	3,000,000	3,000,000
		6,000,000	–	–	–	(3,000,000)	3,000,000	3,000,000

2013

Grant date	Expiry date	As at 1 July 2012	Granted	Forfeited	Expired	Exercised	Outstanding As at 30 June 2013	Exercisable As at 30 June 2013
2-Apr-12	July 2014	3,000,000	–	–	–	–	3,000,000	3,000,000
2-Apr-12	July 2015	3,000,000	–	–	–	–	3,000,000	3,000,000
		6,000,000	–	–	–	–	6,000,000	6,000,000

The vesting conditions for the above share options is based on service (time) based periods. The vesting period of the options range from 2 to 3 years from grant date.

The weighted average share price at the time of exercise was RM15.81. The weighted average remaining contractual life for the share is 1.00 years (2013: 1.50 years).

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

52 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(a) On 11 October 2013, Hong Leong Capital Berhad ("HLCB"), a subsidiary of HLFG, announced that disposal of 100% equity interest in Promilia Berhad ("Promilia") to Hong Leong Bank Berhad ("HLB"), a subsidiary of HLFG, had been completed.

(b) On 25 July 2013, HLB proposed to establish an executive share grant scheme to provide HLB with the flexibility to reward the eligible executives and/or Directors of HLB and its subsidiaries ("HLB Group") ("HLB Eligible Executives") for their contribution to the HLB Group with awards of HLB shares without any contribution payable by the HLB Eligible Executives ("HLB Grants") ("HLB ESGS").

Bursa Malaysia Securities Berhad ("Bursa Securities") had, via its letter dated 10 September 2013, resolved to approve in-principle the listing of and quotation for the new HLB shares to be issued pursuant to the vesting of HLB Grants under the HLB ESGS and the shareholders of HLB had, at the Annual General Meeting held on 23 October 2013, approved the HLB ESGS.

The HLB ESGS was established on 28 February 2014.

(c) On 29 July 2013, HLFG proposed to establish an executive share grant scheme to provide HLFG with the flexibility to reward the eligible executives and/or Directors of HLFG and its subsidiaries ("HLFG Group") ("HLFG Eligible Executives") for their contribution to the HLFG Group with awards of HLFG shares without any contribution payable by the HLFG Eligible Executives ("HLFG Grants") ("HLFG ESGS").

Bursa Securities had, via its letter dated 5 September 2013, resolved to approve in-principle the listing of and quotation for the new HLFG shares to be issued pursuant to the vesting of HLFG Grants under the HLFG ESGS and the shareholders of HLFG had, at the Annual General Meeting held on 29 October 2013, approved the HLFG ESGS.

The HLFG ESGS was established on 28 February 2014.

(d) On 25 April 2014, HLB announced that Securities Commission Malaysia had vide its letter dated 23 April 2014 approved and authorised a proposed Multi-Currency Subordinated Notes Programme of up to RM10.0 billion (or its equivalent in other currencies) in nominal value (the "Programme").

The proceeds from the Programme will be utilised for working capital, general banking and other corporate purposes, and the refinancing of any existing borrowings incurred, subordinated debt issued by HLB and/or any existing Sub-Notes issued under the Programme.

(e) Pursuant to the first tranche of RM410.0 million nominal value of the 10 non-callable 5 years Subordinated Medium Term Notes callable on 27 February 2014, HLB had received prior written consent from BNM for the exercise of the call option. On 3 January 2014, HLB had issued a redemption notice to exercise the call option and will redeem the full nominal amount of RM410.0 million together with all accrued coupon on 27 February 2014.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

53 SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

There were no material events subsequent to the financial year that require disclosure or adjustment to the financial statements.

54 INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	The Group		
	Before tax RM'000	Tax benefits RM'000	Net of tax amount RM'000
2014			
Financial investments available-for-sale – net fair value gain/(loss)	**64,036**	**(16,009)**	**48,027**
2013			
Financial investments available-for-sale – net fair value gain/(loss)	93,060	(25,816)	67,244

55 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group and the Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Group's and the Company's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below:

(a) Allowance for impairment losses on loans, advances and financing

The Group review their loan portfolios to assess impairment at least on a quarterly basis. It is the policy of the Group to establish, through charges against profit, individual and collective assessment impairment allowances in respect of estimated and inherent credit losses in their portfolio.

In determining individual assessment impairment allowances for loans/financing above the set threshold, management considers objective evidence of impairment and exercises judgement in estimating cash flows and collateral value. Whilst, management's judgement is guided by the relevant BNM guidelines, judgement is made in estimation of the amount and timing of future cash flows in assessing allowance for impairment of financial assets. Among the factors considered are the net realisable value of the underlying collateral value, the viability of the customer's business model and the capacity to generate sufficient cash flows to service debt obligations.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

55 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

(b) Life policyholders' fund

Material judgement is required in determining the liabilities and in the choice of assumptions.

Assumptions in use are based on the past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals.

Assumption are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

(c) Impairment of goodwill

The goodwill impairment assessment involves a significant amount of estimation. This includes identification of independent cash-generating units ("CGUs") and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition.

In estimating the value-in-use, the Group is required to make an estimate of the expected future cash flows from the CGUs. Management are exercises judgement in determining both the growth rate and the discount rate used to discount future expected cash flows to the CGUs.

56 CLIENT TRUST ACCOUNTS

As at 30 June 2014, cash held in trust for the clients by the Group amounted to RM648,976,000 (2013: RM636,606,000). These amounts are not recognised in the financial statements as they are held by the Group in its fiduciary capacity.

57 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorised for issue by the Board of Directors of the Company in accordance with a resolution of the Directors on 23 July 2014.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014
(continued)

58 REALISED AND UNREALISED PROFIT

On 25 March 2010, Bursa Malaysia issued a directive that requires all listed issuer to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period into realised and unrealised profits or losses.

The breakdown of realised and unrealised profit is derived based on the Guidance on Special Note No.1 Determination of Realised and Unrealised Profit or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirement, issued by the Malaysian Institute of Accountants on 20 December 2010.

The unrealised retained profits of the Group and the Company as disclosed below excludes translation gains and losses on monetary items denominated in a currency other than the functional currency and foreign exchange contracts, as these translation gains and losses are incurred in the ordinary course of business of the Group and are deemed realised.

The breakdown of the retained profits of the Group and the Company are as follows:

	The Group	
	2014 RM'000	**2013 RM'000**
Total retained profits of the Group and subsidiaries		
– Realised	**18,663,319**	17,652,955
– Unrealised	**1,325,961**	1,389,428
Total share of retained profits from associated companies		
– Realised	**1,513,429**	1,084,930
– Unrealised	**1,574**	497
Total share of retained profits from joint ventures		
– Realised	**12,587**	3,234
	21,516,870	20,131,044
Less: Consolidation adjustments	**(14,069,318)**	(13,540,545)
Total Group's retained profits	**7,447,552**	6,590,499

	The Company	
	2014 RM'000	**2013 RM'000**
Total retained profits of the Company		
– Realised	**12,331,403**	12,317,759
– Unrealised	**1,211**	860
Total Company's retained profits	**12,332,614**	12,318,619

STATEMENT BY DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965

We, Choong Yee How and Quek Kon Sean, being two of the Directors of Hong Leong Financial Group Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on page 50 to 222 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2014 and of the results and the cash flows of the Group and the Company for the year then ended on that date, in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

On behalf of the Board.

CHOONG YEE HOW
Director

QUEK KON SEAN
Director

Kuala Lumpur
18 September 2014

STATUTORY DECLARATION

pursuant to Section 169(16) of the Companies Act, 1965

I, Chew Seong Aun, the Officer primarily responsible for the financial management of Hong Leong Financial Group Berhad, do solemnly and sincerely declare that the financial statements set out on pages 50 to 222 are to the best of my knowledge and belief correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by	)	
the above named Chew Seong Aun at	)	
Kuala Lumpur in Wilayah Persekutuan on	)	
18 September 2014	)	**CHEW SEONG AUN**

Before me,

TAN SEOK KETT
Commissioner for Oaths

INDEPENDENT AUDITORS' REPORT

to the members of Hong Leong Financial Group Berhad
(Company no: 8024-W)
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Hong Leong Financial Group Berhad on pages 50 to 222, which comprise the statements of financial position as at 30 June 2014 of the Group and of the Company, and the statements of income, comprehensive income, changes in equity and cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 58.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements have been properly drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 30 June 2014 and of their financial performance and cash flows for the financial year then ended.

INDEPENDENT AUDITORS' REPORT

to the members of Hong Leong Financial Group Berhad
(Company no: 8024-W)
(Incorporated in Malaysia)
(continued)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965, in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 11 to the financial statements.

(c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 58 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

ONG CHING CHUAN
(No. 2907/11/15 (J))
Chartered Accountant

Kuala Lumpur
18 September 2014

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Forty-fifth Annual General Meeting of Hong Leong Financial Group Berhad ("Company") will be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Thursday, 30 October 2014 at 11.30 a.m. in order:

1. To lay before the meeting the audited financial statements together with the reports of the Directors and Auditors thereon for the financial year ended 30 June 2014.

2. To approve the payment of Directors' fees of RM320,000 for the financial year ended 30 June 2014 (2013: RM320,000), to be divided amongst the Directors in such manner as the Directors may determine. **(Resolution 1)**

3. To re-elect the following retiring Directors:-

   (a) Mr Quek Kon Sean **(Resolution 2)**

   (b) Mr Saw Kok Wei **(Resolution 3)**

4. To pass the following motions as Ordinary Resolutions:-

   (a) "**THAT** YBhg Tan Sri Quek Leng Chan, a Director who retires in compliance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed a Director of the Company to hold office until the conclusion of the next Annual General Meeting." **(Resolution 4)**

   (b) "**THAT** YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, a Director who retires in compliance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed a Director of the Company to hold office until the conclusion of the next Annual General Meeting." **(Resolution 5)**

5. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration. **(Resolution 6)**

SPECIAL BUSINESS

As special business, to consider and, if thought fit, pass the following motions:-

6. **Ordinary Resolution**
   Authority to Directors to Issue Shares

   "**THAT** pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue shares in the Company, at any time and from time to time, and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company." **(Resolution 7)**

NOTICE OF ANNUAL GENERAL MEETING
(continued)

7. **Ordinary Resolution**
Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature with Hong Leong Company (Malaysia) Berhad ("HLCM") and Persons Connected with HLCM

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries (excluding Hong Leong Bank Berhad and Hong Leong Capital Berhad and their respective subsidiaries) to enter into any of the transactions falling within the types of recurrent related party transactions of a revenue or trading nature as disclosed in Section 2.3(A) and (C) of the Company's Circular to Shareholders dated 8 October 2014 ("the Circular") with HLCM and persons connected with HLCM ("Hong Leong Group"), as set out in Appendix II of the Circular provided that such transactions are undertaken in the ordinary course of business, on arm's length basis and on commercial terms which are not more favourable to Hong Leong Group than those generally available to and/or from the public and are not, in the Company's opinion, detrimental to the minority shareholders;

AND THAT such approval shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or

(c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution." **(Resolution 8)**

8. **Ordinary Resolution**
Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature with Tower Real Estate Investment Trust ("Tower REIT")

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries (excluding Hong Leong Bank Berhad and Hong Leong Capital Berhad and their respective subsidiaries) to enter into any of the transactions falling within the types of recurrent related party transactions of a revenue or trading nature as disclosed in Section 2.3(B) of the Company's Circular to Shareholders dated 8 October 2014 with Tower REIT provided that such transactions are undertaken in the ordinary course of business, on arm's length basis and on commercial terms which are not more favourable to Tower REIT than those generally available to and/or from the public and are not, in the Company's opinion, detrimental to the minority shareholders;

NOTICE OF ANNUAL GENERAL MEETING
(continued)

AND THAT such approval shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or

(c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution." **(Resolution 9)**

9. To consider any other business of which due notice shall have been given.

By Order of the Board

CHRISTINE MOH SUAT MOI
(MAICSA 7005095)
Group Company Secretary

Kuala Lumpur
8 October 2014

NOTES:

1. For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record of Depositors as at 24 October 2014 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.

2. Save for a member who is an exempt authorised nominee, a member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. A member who is an authorised nominee may appoint not more than two (2) proxies in respect of each securities account it holds. A member who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.

3. Where two (2) or more proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which the appointment shall be invalid.

4. The Form of Proxy must be deposited at the Registered Office of the Company at Level 8, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than 48 hours before the time and date of the meeting or adjourned meeting.

NOTICE OF ANNUAL GENERAL MEETING
(continued)

EXPLANATORY NOTES ON SPECIAL BUSINESS

1. **Resolution 7 on Authority to Directors to Issue Shares**

   The proposed Ordinary Resolution, if passed, will give a renewed mandate to the Directors of the Company to issue ordinary shares of the Company from time to time provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company for the time being ("Renewed Mandate"). The Renewed Mandate, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting ("AGM") of the Company.

   As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the last AGM held on 29 October 2013 and which will lapse at the conclusion of the Forty-fifth AGM.

   The Renewed Mandate will enable the Directors to take swift action in case of, inter alia, a need for corporate exercises or in the event business opportunities or other circumstances arise which involve the issue of new shares and to avoid delay and cost in convening general meetings to approve such issue of shares.

2. **Resolutions 8 and 9 on Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of A Revenue or Trading Nature**

   The proposed Ordinary Resolutions, if passed, will empower the Company and its subsidiaries (excluding Hong Leong Bank Berhad and Hong Leong Capital Berhad and their respective subsidiaries) ("HLFG Group") to enter into recurrent related party transactions of a revenue or trading nature which are necessary for HLFG Group's day-to-day operations, subject to the transactions being in the ordinary course of business and on terms which are not more favourable to the related parties than those generally available to the public and are not, in the Company's opinion, detrimental to the minority shareholders of the Company ("Proposed Renewal of Shareholders' Mandate").

   Detailed information on the Proposed Renewal of Shareholders' Mandate is set out in the Circular to Shareholders dated 8 October 2014 which is despatched together with the Company's 2014 Annual Report.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING
(Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad)

- **Details of individuals who are standing for election as Directors**
  No individual is seeking election as a Director at the forthcoming Forty-fifth Annual General Meeting of the Company.

OTHER INFORMATION

1. MATERIAL CONTRACTS

There are no material contracts (not being contracts entered into in the ordinary course of business) which had been entered into by the Company and its subsidiaries involving the interest of Directors and major shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year pursuant to Item 21, Part A, Appendix 9C of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

2. ANALYSIS OF SHAREHOLDINGS AS AT 29 AUGUST 2014

Authorised share capital	:	RM2,000,000,000
Issued & paid-up capital	:	RM1,052,767,789
Class of shares	:	Ordinary shares of RM1.00 each
Voting rights		
• on show of hands	:	1 vote
• on a poll	:	1 vote for each share held

Distribution Schedule of Shareholders as at 29 August 2014

Size of Holdings	No. of Shareholders	%	No. of Shares	%
Less than 100	160	4.45	4,984	0.00
100 – 1,000	737	20.51	565,763	0.05
1,001 – 10,000	1,649	45.88	7,035,449	0.67
10,001 – 100,000	793	22.06	26,017,057	2.47
100,001 – less than 5% of issued shares	253	7.04	205,291,236	19.50
5% and above of issued shares	2	0.06	813,853,300	77.31
	3,594	**100.00**	**1,052,767,789**	**100.00**

List of Thirty Largest Shareholders as at 29 August 2014

Name of Shareholders	No. of Shares	%
1. Assets Nominees (Tempatan) Sdn Bhd *– Hong Leong Company (Malaysia) Berhad*	546,773,354	51.94
2. Assets Nominees (Asing) Sdn Bhd *– Guoco Assets Sdn Bhd*	267,079,946	25.37
3. HSBC Nominees (Asing) Sdn Bhd *– Exempt AN for The Bank Of Nova Scotia Asia Limited*	27,195,500	2.58
4. Assets Nominees (Tempatan) Sdn Bhd *– Soft Portfolio Sdn Bhd*	6,057,000	0.57
5. Citigroup Nominees (Asing) Sdn Bhd *– CBNY for The Bank Of Nova Scotia*	6,020,200	0.57
6. Citigroup Nominees (Asing) Sdn Bhd *– Exempt AN for UBS AG Singapore (Foreign)*	5,926,582	0.56
7. Khalid Ahmad Bin Sulaiman	5,544,000	0.53
8. Cartaban Nominees (Asing) Sdn Bhd *– Exempt AN for State Street Bank & Trust Company (West Clt OD67)*	5,364,033	0.51

OTHER INFORMATION
(continued)

2. ANALYSIS OF SHAREHOLDINGS AS AT 29 AUGUST 2014 (CONTINUED)

List of Thirty Largest Shareholders as at 29 August 2014 (continued)

Name of Shareholders	No. of Shares	%
9. Citigroup Nominees (Tempatan) Sdn Bhd – *Employees Provident Fund Board*	5,234,299	0.50
10. Tan Sri Quek Leng Chan	4,989,600	0.47
11. Chua Holdings Sdn Bhd	4,814,549	0.46
12. Hong Bee Hardware Company, Sdn. Berhad	4,523,400	0.43
13. Cartaban Nominees (Tempatan) Sdn Bhd – *Exempt AN for Eastspring Investments Berhad*	4,281,700	0.41
14. HSBC Nominees (Asing) Sdn Bhd – *BBH And Co Boston for Vanguard Emerging Markets Stock Index Fund*	4,102,700	0.39
15. HSBC Nominees (Asing) Sdn Bhd – *Exempt AN for JPMorgan Chase Bank, National Association (Norges Bk)*	3,285,500	0.31
16. HSBC Nominees (Asing) Sdn Bhd – *Exempt AN for The Bank Of New York Mellon (Mellon Acct)*	3,262,845	0.31
17. AMSEC Nominees (Tempatan) Sdn Bhd – AmBank (M) Berhad (Hedging)	3,250,900	0.31
18. RHB Capital Nominees (Tempatan) Sdn Bhd – *Pledged Securities Account for Choong Yee How*	3,100,000	0.29
19. Citigroup Nominees (Tempatan) Sdn Bhd – *Employees Provident Fund Board (HDBS)*	3,036,100	0.29
20. AmTrustee Berhad – *Exempt AN for Hong Leong Financial Group Berhad (HLFG-ESOS)*	3,000,408	0.28
21. HSBC Nominees (Asing) Sdn Bhd – *Exempt AN for JPMorgan Chase Bank, National Association (U.A.E.)*	2,742,195	0.26
22. Citigroup Nominees (Tempatan) Sdn Bhd – *Employees Provident Fund Board (Nomura)*	2,630,300	0.25
23. Citigroup Nominees (Asing) Sdn Bhd – *CBNY for Dimensional Emerging Markets Value Fund*	2,590,151	0.25
24. HSBC Nominees (Asing) Sdn Bhd – *Exempt AN for JPMorgan Chase Bank, National Association (U.S.A.)*	2,386,469	0.23
25. Kheng Lim Holdings Sdn Bhd	2,312,130	0.22
26. Quek Kon Sean	2,175,000	0.21
27. AmTrustee Berhad – *Exempt AN for Hong Leong Financial Group Berhad (HLA-ESOS)*	2,103,992	0.20
28. RHB Capital Nominees (Tempatan) Sdn Bhd – *Pledged Securities Account for Poh Soon Sim (CEB)*	2,065,000	0.20
29. Citigroup Nominees (Tempatan) Sdn Bhd – *Employees Provident Fund Board (Aberdeen)*	2,060,000	0.19
30. Citigroup Nominees (Tempatan) Sdn Bhd – *Employees Provident Fund Board (Amundi)*	2,000,000	0.19
	939,907,853	**89.28**

OTHER INFORMATION

(continued)

2. ANALYSIS OF SHAREHOLDINGS AS AT 29 AUGUST 2014 (CONTINUED)

Substantial Shareholders

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 29 August 2014 are as follows:-

	Direct		Indirect	
Shareholders	**No. of Shares**	**%**	**No. of Shares**	**%**
Hong Leong Company (Malaysia) Berhad	546,773,354	51.94	267,083,546	25.37[A]
Tan Sri Quek Leng Chan	4,989,600	0.47	824,437,300	78.31[B]
HL Holdings Sdn Bhd	–	–	813,856,900	77.31[C]
Kwek Holdings Pte Ltd	–	–	818,380,300	77.74[B]
Kwek Leng Beng	1,241,321	0.12	818,380,300	77.74[B]
Hong Realty (Private) Limited	–	–	818,380,300	77.74[B]
Hong Leong Investment Holdings Pte Ltd	–	–	818,380,300	77.74[B]
Davos Investment Holdings Private Limited	–	–	818,380,300	77.74[B]
Kwek Leng Kee	–	–	818,380,300	77.74[B]
Quek Leng Chye	1,925,100	0.18	818,380,300	77.74[B]
Guoco Assets Sdn Bhd	267,079,946	25.37	–	–
GuoLine Overseas Limited	–	–	267,079,946	25.37[D]
Guoco Group Limited	–	–	267,079,946	25.37[D]
GuoLine Capital Assets Limited	–	–	267,079,946	25.37[D]

Notes:

[A] Held through subsidiary(ies)

[B] Held through Hong Leong Company (Malaysia) Berhad ("HLCM") and company(ies) in which the substantial shareholder has interest

[C] Held through HLCM

[D] Held through Guoco Assets Sdn Bhd

3. DIRECTORS' INTERESTS AS AT 29 AUGUST 2014

Subsequent to the financial year end, there is no change, as at 29 August 2014, to the Directors' interests in the ordinary shares, preference shares and/or options over ordinary shares of the Company and/or its related corporations (other than wholly-owned subsidiaries), appearing in the Directors' Report on pages 52 to 55 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965 except for the changes set out below:

Indirect Interest	**No. of ordinary shares/ preference shares**	**%**
YBhg Tan Sri Quek Leng Chan in:		
Narra Industries Berhad ("Narra")	17,387,700[1]	55.92
Continental Estates Sdn Bhd		
– Ordinary shares	30,691,583[2]	60.66
– Redeemable preference shares	110,694,889[2]	63.48

Notes:

[1] Pursuant to the capital reduction of the issued and paid-up share capital of Narra via cancellation of RM0.50 of the par value of every existing ordinary share of RM1.00 each in Narra and thereafter, consolidation of 2 ordinary shares of RM0.50 each into 1 ordinary share of RM1.00 each

[2] Became a related corporation

OTHER INFORMATION
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4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2014

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
1	1, Light Street, Georgetown 10200 Pulau Pinang	Freehold	Branch premises	20,594	80	7,463	30/12/1986
2	15-G-1, 15-1-1 & 15-2-1 Medan Kampung Relau Bayan Point 11900 Pulau Pinang	Freehold	Branch premises	9,968	15	2,527	26/06/1997
3	42, Jalan Pending 93450 Kuching Sarawak	Leasehold – 999 years (31/12/2779)	Branch premises	4,425	32	1,803	27/12/1983
4	133, 135 & 137 Jalan Kampong Nyabor 96000 Sibu Sarawak	Freehold	Branch premises	4,871	22	2,978	28/12/1992
5	Jungle land at Sungai Lisut Rejang Sarawak Occupation Ticket 612 of 1931	Leasehold – 99 years (31/12/2026)	Jungle land	1,217,938	n/a	1	31/12/1938
6	25 & 27, Jalan Tun Ismail 25000 Kuantan Pahang Darul Makmur	Freehold	Branch premises	1,600	23	1,469	29/06/1996
7	69, 70 & 71 Jalan Dato' Bandar Tunggal 70000 Seremban Negeri Sembilan Darul Khusus	Freehold	Branch premises	6,000	Pre-war	1,256	27/12/1994
8	26, Lorong Rahim Kajai 14 Taman Tun Dr Ismail 60000 Kuala Lumpur	Freehold	Branch premises	3,750	28	522	30/12/1986
9	120-122, Jalan Mersing 86000 Kluang Johor Darul Takzim	Leasehold – 99 years (22/08/2063)	Branch premises	3,355	48	613	31/05/1990
10	100, Jalan Gurney 72100 Bahau Negeri Sembilan Darul Khusus	Freehold	Branch premises	5,107	28	2,297	25/06/1992
11	12, 14 & 16, Jalan Wong Ah Fook 80000 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	4,174	23	3,637	25/06/1992

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2014 (CONTINUED)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
12	6, Jalan Merdeka 96100 Sarikei Sarawak	Leasehold – 60 years (31/12/2029)	Branch premises	2,240	45	77	18/10/1969
13	63 & 65, Jalan SS 23/15 47400 Petaling Jaya Selangor Darul Ehsan	Freehold	Branch premises	4,760	19	3,824	28/04/1997
14	24, Medan Taming 2 Taman Taming Jaya 43300 Balakong Selangor Darul Ehsan	Freehold	Branch premises	3,037	18	1,314	28/04/1997
15	1, Jalan Takal 15/21 Seksyen 15 40000 Shah Alam Selangor Darul Ehsan	Leasehold – 99 years (29/06/2086)	Branch premises	2,625	27	1,076	26/06/1997
16	Lots 3594 & 3595 Jalan Baru Pak Sabah 23000 Dungun Terengganu Darul Iman	Leasehold – 84 years (02/02/2079)	Branch premises	3,199	20	193	26/06/1997
17	Lot 3073 & 3074 Jalan Abang Galau 97000 Bintulu Sarawak	Leasehold – 60 years (12/02/2056)	Branch premises	2,582	17	1,097	26/06/1997
18	Lot 34, Putra Industrial Park 47000 Sungai Buloh Selangor Darul Ehsan	Freehold	Warehouse	96,219	18	2,505	26/01/1995
19	1540, Jalan Sultan Badlishah 05000 Alor Setar Kedah Darul Aman	Leasehold – 55 years (28/02/2028)	Vacant	10,619	39	38	30/06/1977
20	9A & 9B, Jalan Kampong Baru 08000 Sungai Petani Kedah Darul Aman	Freehold	Branch premises	9,320	21	840	01/01/1994
21	45, Jalan Burma 10500 Pulau Pinang	Freehold	Branch premises	14,277	36	2,001	24/11/1978
22	33A-C, Lintang Angsana Bandar Baru Air Hitam 11500 Pulau Pinang	Leasehold – 83 years (08/04/2082)	Branch premises	4,394	19	486	26/12/1995

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2014 (CONTINUED)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
23	55-57, Jalan Yang Kalsom 30250 Ipoh Perak Darul Ridzuan	Freehold	Branch premises	11,720	35	1,052	01/10/1984
24	27, Jalan Dewangsa 31000 Batu Gajah Perak Darul Ridzuan	Leasehold – 79 years (26/02/2078)	Branch premises	4,694	19	259	24/11/1995
25	75, Jalan Sultan Idris Shah 30000 Ipoh Perak Darul Ridzuan	Freehold	Branch premises	1,900	17	582	15/06/1998
26	80 & 82, Jalan Othman 1/14 46000 Petaling Jaya Selangor Darul Ehsan	Leasehold – 90 years (15/06/2089)	Branch premises	9,062	24	1,180	01/06/1994
27	36, Jalan Midah 1 Taman Midah, Cheras 56000 Kuala Lumpur	Freehold	Branch premises	2,700	27	198	30/11/1984
28	19, Jalan 54, Desa Jaya 52100 Kepong Selangor Darul Ehsan	Leasehold – 99 years (08/03/2081)	Branch premises	5,859	32	341	29/11/1985
29	55, Jalan Pasar 55100 Kuala Lumpur	Freehold	Branch premises	4,313	34	311	01/04/1980
30	Lot 111, Jalan Mega Mendung Kompleks Bandar Off Jalan Klang Lama 58200 Kuala Lumpur	Leasehold – 99 years (11/10/2076)	Branch premises	4,978	34	448	31/07/1988
31	161, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	2,454	18	2,487	14/02/1996
32	8A-C, Jalan Station 80000 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	12,854	21	406	22/10/1977
33	109, Main Road 83700 Yong Peng Johor Darul Takzim	Freehold	Branch premises	2,740	26	207	01/09/1988
34	31 & 32, Jalan Kundang Taman Bukit Pasir 83000 Batu Pahat Johor Darul Takzim	Freehold	Branch premises	8,932	22	479	05/03/1996

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2014 (CONTINUED)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
35	26 & 28, Jalan Mersing 80050 Johor Bahru Johor Darul Takzim	Freehold	Vacant	7,040	30	1,255	22/05/1995
36	21, Jalan Tun Razak 27600 Raub Pahang Darul Makmur	Freehold	Branch premises	4,480	28	410	26/06/1986
37	1, Bentong Heights 28700 Bentong Pahang Darul Makmur	Freehold	Branch premises	5,432	46	35	30/06/1977
38	36, Main Road Tanah Rata 39000 Cameron Highland Pahang Darul Makmur	Leasehold – 99 years (24/11/2039)	Branch premises	1,728	74	118	30/08/1982
39	W-1-0, W-2-0 & W-1-1 Subang Square Business Centre Jalan SS15/4G 47500 Subang Jaya Selangor Darul Ehsan	Freehold	Branch premises	4,545	15	1,908	18/12/1999
40	2828-G-02 & 2828-1-02 Jalan Bagan Luar 12000 Butterworth Pulau Pinang	Freehold	Branch premises	12,173	15	3,618	18/12/1999
41	Lots 568-G-17 & 568-1-17 Kompleks Mutiara 3 1/2 Mile Jalan Ipoh 51200 Kuala Lumpur	Freehold	Self service terminal (ATM area)	4,945	15	3,330	23/11/1999
42	Plot No. 20, Jalan Bidor Raya 35500 Bidor Perak Darul Ridzuan	Freehold	Branch premises	3,243	15	556	23/11/1999
43	1, Persiaran Greentown 2 Greentown Business Centre 30450 Ipoh Perak Darul Ridzuan	Leasehold – 99 years (21/11/2094)	Branch premises	7,870	14	1,723	23/11/1999
44	Lots 39 & 40 Kompleks Munshi Abdullah 75100 Melaka	Leasehold – 99 years (24/02/2084)	Branch premises	5,988	15	1,402	31/05/1991
45	No. 1 & 2 Jalan Raya 09800 Serdang Kedah Darul Aman	Freehold	Branch premises	5,840	13	423	20/09/2000

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2014 (CONTINUED)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
46	133 & 135, Jalan Gopeng 31900 Kampar Perak Darul Ridzuan	Freehold	Branch premises	4,700	13	320	13/12/2000
47	65-67, Jalan Tun HS Lee 50000 Kuala Lumpur	Freehold	Vacant	2,223	18	4,952	14/10/1996
48	34, Jalan Yong Shook Lin 46200 Petaling Jaya Selangor Darul Ehsan	Leasehold – 99 years (09/09/2059)	Branch premises	1,875	21	473	26/11/1993
49	64, Jalan Tun Mustapha 87007 Labuan	Leasehold – 99 years (31/12/2775)	Branch premises	1,370	23	624	30/05/1991
50	159, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	1,688	9	2,578	25/11/2005
51	163, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	1,688	9	2,637	25/10/2005
52	114 & 116, Jalan Cerdas Taman Connaught 56000 Kuala Lumpur	Leasehold – 99 years (16/10/2078)	Branch premises	12,200	8	3,757	07/06/2006
53	Lot A08-A09 Jalan SS 6/5A Dataran Glomac Pusat Bandar Kelana Jaya 47301 Petaling Jaya	Freehold	Branch premises	9,800	8	2,760	06/07/2006
54	No. 2 Jalan Puteri 2/4 Bandar Puteri Puchong 47100 Selangor Darul Ehsan	Freehold	Branch premises	11,850	7	5,220	26/06/2007
55	Tower A PJ City Development 46100 Petaling Jaya, Selangor	Leasehold – 99 years (14/08/2094)	Branch premises	194,489	6	79,598	21/07/2008
56	OUG No. 2, Lorong 2/137C Off Jalan Kelang Lama 58200 Kuala Lumpur	Leasehold – 99 years (year 2088)	Branch premises	17,300	4	5,330	01/04/2011
57	KEP Lot No. 77C & 77D Lot No. 58529 Jalan Kepong 52100 Kuala Lumpur	Leasehold – 99 years (07/01/2101)	Branch premises	30,613	4	9,199	01/05/2011

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2014 (CONTINUED)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
58	No. 122, Kapit By-Pass 96807 Kapit Sarawak	Leasehold – 60 years 29/04/2045	4 storey building	1,200	21	169	30/04/1985
59	No. 12A, Block B Level 2, Fraser's Hill Condominium 49000 Bukit Fraser's Pahang Darul Makmur	Leasehold – 99 years 23/05/2082	1 unit apartment	1,792	27	141	24/05/1983
60	No. 288 Jalan Raja Laut 50350 Kuala Lumpur Wilayah Persekutuan	Freehold	Ex EBB Head Office	839,574	21	170,038	31/01/2005
61	No. 9, Jalan Cheng Lock 50000 Kuala Lumpur Wilayah Persekutuan	Freehold	Branch premises	2,199	41	306	18/09/1972
62	No. 3, Jalan Bandar Satu Pusat Bandar Puchong 47100 Puchong Selangor Darul Ehsan	Freehold	Branch premises	4,687	19	1,969	04/03/1997
63	No. 32 & 34, Jalan 21/19 Sea Park 46300 Petaling Jaya Selangor Darul Ehsan	Freehold	Branch premises	3,080	51	2,220	19/08/1997
64	No. 1, Jalan Goh Hock Huat 41400 Klang Selangor Darul Ehsan	Freehold	Branch premises	2,776	31	1,794	07/09/1998
65	No. 26 & 27, Jalan Kenari 1 Bandar Puchong Jaya 47100 Puchong Selangor Darul Ehsan	Freehold	Branch premises	3,600	18	1,687	22/01/1999
66	No. 2, Jalan PJU 5/8 Dataran Sunway, Kota Damansara 47810 Petaling Jaya Selangor Darul Ehsan	Leasehold – 99 years 23/11/2100	Branch premises	12,892	10	3,416	02/12/2005
67	No. J09-6 and J02-06 Paradise Lagoon Holiday Apartment, Batu 3½ Jalan Pantai 70100 Port Dickson Negeri Sembilan Darul Khusus	Leasehold – 99 years 06/07/2087	2 units apartment	2,088	18	218	21/04/1994

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2014 (CONTINUED)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
68	No. S-3, Kompleks Negeri Jalan Dr. Krishnan 70000 Seremban Negeri Sembilan Darul Khusus	Leasehold – 99 years 30/01/2078	Storage for branches	1,680	30	284	29/06/1981
69	Lot 4 & 5, Jalan TMR 1 Taman Melaka Raya 75000 Melaka	Leasehold – 99 years 20/03/2094	Branch premises	3,132	18	563	17/04/1998
70	No. 67 & 69, Jalan Merdeka 75000 Taman Merdeka Raya Melaka	Leasehold – 99 years 07/07/2093	Branch premises	3,080	19	708	15/08/1999
71	No. 21 & 23, Jalan Indah 15/1 Bukit Indah, 81200 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	5,090	12	1,742	27/05/2002
72	No. 35, 37 & 39, Jalan Johor Satu Taman Desa Cemerlang 81800 Ulu Tiram Johor Darul Takzim	Freehold	Branch premises	13,965	11	2,257	02/12/2003
73	No. 21, Jalan Permas 10/1 Bandar Baru Permas Jaya 81750 Masai Johor Darul Takzim	Freehold	Branch premises	2,624	17	1,279	04/05/1999
74	No. C05-07 Genting Permai Park & Resort 6th Mile 69000 Genting Highland Pahang Darul Makmur	Freehold	1 unit apartment	1,029	15	193	02/09/1996
75	No. B-278 & B-280 Jalan Beserah 25300 Kuantan Pahang Darul Makmur	Freehold	Branch premises	3,208	13	1,546	08/04/1999
76	No. 31, 33, 35 & 37 Jalan Usahaniaga 1 Taman Niagajaya 14000 Bukit Mertajam Seberang Perai Tengah, Penang	Freehold	Branch premises	15,844	11	1,132	07/10/2003
77	No. 26 & 27 Jalan Permatang Gedong Taman Sejati Indah 08000 Sungai Petani	Freehold	Branch premises	2,800	17	694	03/09/1999

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2014 (CONTINUED)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
78	Lot 171, Jalan Council 95000 Bandar Sri Aman Sarawak	Leasehold 60 years 20/06/2050	Branch premises	1,740	18	163	21/06/1990
79	Lot No. 2013, Jalan Pisang Barat 93150 Kuching Sarawak	Leasehold – 99 years 31/12/2038	Branch premises	1,390	21	–	23/09/1992
80	No: 3/G14, 3/G15 & 3/G16 Block 3, Lorong Api-Api 2 Api-Api Centre 88000 Kota Kinabalu Sabah	Leasehold – 99 years 31/12/2086	Branch premises	4,141	19	1,929	02/04/1997
81	No. 177, Limbok Hill 70000 Seremban Negeri Sembilan Darul Khusus	Freehold	Single-storey Detached house	6,730	41	12	16/08/1972
82	Lot 942 Jalan Parry 98000 Miri Sarawak	Leasehold – 60 years (06/04/2057)	Branch premises	5,496	17	905	31/01/1997
83	Lot 1, 2 & 3, Block 18, Bandar Indah Mile 4, North Road Bandar Indah Sandakan, Sabah	Freehold	Branch premises	6,760	14	1,680	08/11/2001
84	No. 3 Persiaran Greentown 4 Greentown Business Centre 30450 Ipoh	Leasehold – 99 years (21/11/2094)	Branch premises	8,846	19	503	04/12/1995
85	Bangunan HLA 7 Jalan Yayasan 86000 Kluang	Leasehold – 99 years (23/03/2084)	Branch premises	6,019	25	422	30/12/1989
86	Wisma Hong Leong 18 Jalan Perak 50450 Kuala Lumpur	Freehold	Office premises	333,594	13	230,000	13/11/2001
87	Unit 2.5.1, 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold – 99 years (17/07/2083)	Condominium	1,904	21	549	30/06/1993
88	Unit 2.1.2, 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold – 99 years (17/07/2083)	Condominium	1,904	21	549	30/06/1993

OTHER INFORMATION

(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2014 (CONTINUED)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
89	Unit 1.1.5, 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold – 99 years (17/07/2083)	Condominium	1,815	21	517	30/06/1993
90	Unit 1.1.3, 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold – 99 years (17/07/2083)	Condominium	1,288	21	367	30/06/1993
91	14-23 Darul Aman Jalan Tun Ismail 25000 Kuantan Pahang Darul Makmur	Freehold	Branch premises	5,610	21	478	21/02/1993
92	No. 1 Persiaran Greentown 4 Pusat Perdagangan Greentown 30450 Ipoh Perak Darul Ridzuan	Leasehold – 99 years (21/11/2094)	Branch premises	5,246	19	532	04/12/1995
93	13-2B 2nd Floor Jalan Perdana 6/6 Pandan Perdana 55300 Kuala Lumpur	Leasehold – 99 years (11/12/2088)	Apartment	468	10	60	2004
94	Block B, PJ City Jalan 219 Seksyen 51A 46100 Petaling Jaya Selangor Darul Ehsan	Leasehold – 99 years (12/12/2107)	Office premises	202,194	6	67,497	29/04/2008
95	31 & 32 Jalan Kundang Taman Bukit Pasir 83000 Batu Pahat Johor Darul Takzim	Freehold	Branch premises	8,932	22	479	05/03/1996
96	51-53, Persiaran Greenhill 30450 Ipoh Perak Darul Ridzuan	Freehold & leasehold – 999 years	Branch premises	4,793	20	1,903	31/12/1993
97	Unit 1-10, 8th Floor Island Place Tower, Island Place No. 510 King's Road Hong Kong	Leasehold – 55 years (30/06/2047)	Office	20,000	19	45,120	22/02/2010

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Hong Leong Financial Group Berhad (8024-W)

FORM OF PROXY

I/We ____

NRIC/Passport/Company No. ____

of ____

being a member of HONG LEONG FINANCIAL GROUP BERHAD (the "Company"), hereby appoint ________________________

____

____

NRIC/Passport No. ____

of ____

____

or failing him/her ____

____

____

NRIC/Passport No. ____

of ____

____

or failing him/her, the Chairman of the meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Forty-fifth Annual General Meeting of the Company to be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Thursday, 30 October 2014 at 11.30 a.m. and at any adjournment thereof.

My/Our proxy/proxies is/are to vote either on a show of hands or on a poll as indicated below with an "X":

RESOLUTIONS		FOR	AGAINST
1.	To approve the payment of Directors' fees		
2.	To re-elect Mr Quek Kon Sean as a Director		
3.	To re-elect Mr Saw Kok Wei as a Director		
4.	To re-appoint YBhg Tan Sri Quek Leng Chan as a Director pursuant to Section 129 of the Companies Act, 1965		
5.	To re-appoint YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman as a Director pursuant to Section 129 of the Companies Act, 1965		
6.	To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration		
Special Business			
7.	To approve the ordinary resolution on authority to Directors to issue shares		
8.	To approve the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Hong Leong Company (Malaysia) Berhad ("HLCM") and persons connected with HLCM		
9.	To approve the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Tower Real Estate Investment Trust		

Dated this .... day of 2014

_______________________ Number of shares held

_______________________ Signature(s) of Member

Notes:-

1. For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record of Depositors as at 24 October 2014 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.
2. If you wish to appoint other person(s) to be your proxy, insert the name(s) and address(es) of the person(s) desired in the space so provided.
3. If there is no indication as to how you wish your vote(s) to be cast, the proxy will vote or abstain from voting at his/her discretion.
4. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
5. Save for a member who is an exempt authorised nominee, a member shall not be entitled to appoint more than two (2) proxies to attend and vote at the same meeting. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account. A member who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.
6. Where two (2) or more proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which the appointments shall be invalid (please see note 9 below).
7. In the case where a member is a corporation, this Form of Proxy must be executed under its Common Seal or under the hand of its Attorney.
8. All Forms of Proxy must be duly executed and deposited at the Registered Office of the Company at Level 8, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than 48 hours before the time and date of the meeting or adjourned meeting.
9. In the event two (2) or more proxies are appointed, please fill in the ensuing section:

Name of Proxies	% of shareholdings to be represented

Fold This Flap For Sealing

Then Fold Here

AFFIX
STAMP

The Group Company Secretary

HONG LEONG FINANCIAL GROUP BERHAD
(Company No. 8024-W)

Level 8, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Malaysia

1st Fold Here

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Level 8, Wisma Hong Leong
18 Jalan Perak, 50450 Kuala Lumpur
Tel : 03-2164 8228
Fax : 03-2164 2503

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