Hong Leong Financial Group Berhad

ANNUAL REPORT 2017


HongLeong Bank

Vision

To be an integrated financial services group that consistently meets our customers' needs

Contents

Introduction

Introduction

Hong Leong Financial Group Berhad, the holding company for Hong Leong Group's banking and financial services, has been consistently progressing through the years guided by focused business strategies supported by strong management and financial discipline.

Hong Leong Financial Group Berhad ("HLFG" or "the Group") offers an integrated suite of conventional and Islamic financial products and services which enables it to reach out and connect with customers not only in Malaysia, but throughout the region.

Through Hong Leong Bank Berhad ("HLB"), the Group provides comprehensive offerings in personal financial services, business banking, treasury, transaction banking, and wealth management. With an extensive distribution network of 285 branches and over 1,350 self-service terminals throughout Malaysia, HLB is well positioned to offer effective, sound and responsible financial solutions to Malaysians from all walks of life.

HLB's regional footprint is marked by branches in Singapore and Hong Kong, wholly owned subsidiaries in Vietnam and Cambodia, as well as a representative office in Nanjing. Additionally, HLB has a 20% shareholding in the Bank of Chengdu Co., Ltd., in China and is also a joint venture partner with the Bank of Chengdu in operating a licensed consumer finance company in central and western China. Islamic banking and wealth management services are offered through Hong Leong Islamic Bank Berhad ("HLISB"), a full-fledged Islamic bank and wholly-owned subsidiary of HLB. By leveraging on HLB's extensive network, as well as its own dedicated branches, HLISB provides easy access to customers seeking Shariah compliant alternatives to conventional banking products and services. A full suite of products on offer includes investment banking, business banking, personal financial services and wealth management, all of which encapsulate the tenets and principles of Shariah Law.

HL Bank Singapore ("HLBS") transitioned from a pure private banking institution and has successfully extended its services to include consumer financing following its business transformation initiated three years ago. HLBS has today become a preferred bank within the health banking and auto financing niches in the country with a significant market share.

HLA Holdings Sdn Bhd ("HLAH") is the insurance holding company of the Group. HLAH's subsidiary Hong Leong Assurance Berhad ("HLA") is a leading Malaysian life insurance company backed by a strong and competent agency force. To expand its influence, HLA merged its general insurance business with that of MSIG Insurance (Malaysia) Bhd in a strategic partnership. Today, General and Family Takaful is provided through Hong Leong MSIG Takaful Berhad. HLAH is also present in Hong Kong and Singapore through its subsidiaries, Hong Leong Insurance (Asia) Limited and HL Assurance Pte Ltd.

In addition to banking and insurance, HLFG provides investment banking, stock broking and fund management services through Hong Leong Capital Berhad ("HLCB") Group. Hong Leong Investment Bank Berhad, a subsidiary of HLCB, offers relevant and effective solutions to institutional clients seeking to access capital markets, as well as utilise innovative trading products and services across treasury, equities, derivatives and foreign exchange.

Another key subsidiary, Hong Leong Asset Management Berhad ("HLAM"), was the result of a merger between HLG Unit Trust Berhad, a pioneer in the Malaysian unit trust industry, and HLG Asset Management Sdn Bhd. Today, HLAM offers a comprehensive range of managed solutions across equity and debt asset classes, along with efficient customer support and communications, to help its customers achieve superior long-term risk-adjusted returns.

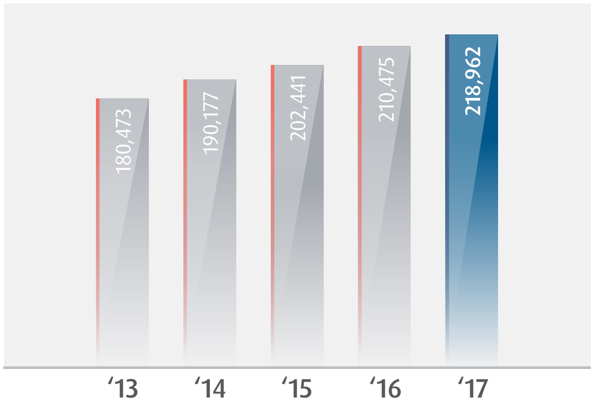
Five Year Group Financial Highlights

The Group	2013 RM'Million	2014 RM'Million	2015 RM'Million	2016 RM'Million	2017 RM'Million
Statements of Financial Position					
Total assets	180,473	190,177	202,441	210,475	**218,962**
Net loans	96,275	103,665	113,112	120,445	**124,812**
Total liabilities	165,468	173,172	182,976	187,297	**193,930**
Deposits from customers	123,959	130,632	140,955	149,491	**154,458**
Shareholders' funds	10,076	11,474	13,111	15,341	**16,609**
Commitments and contingencies	167,126	199,881	157,622	159,473	**171,332**
Statements of Income					
Revenue	4,379	4,549	4,491	4,543	**5,035**
Profit before tax	2,630	3,009	3,023	2,565	**3,090**
Net profit	2,165	2,517	2,460	2,064	**2,317**
Profit attributable to owners of the parent	1,488	1,707	1,621	1,359	**1,507**
Key Performance Indicators					
Share price (RM)	14.46	16.14	15.16	14.68	**16.80**
Book value per share (RM)	9.66	10.95	12.48	13.42	**14.52**
Basic earnings per share (sen)	142.7	162.9	154.3	123.2	**131.8**
Net dividend per share (sen)	36.0	38.0	38.0	38.0	**38.0**
Financial Ratios (%)					
Profitability Ratios					
Return on equity	15.7%	15.8%	13.2%	9.6%	**9.4%**
Return on average assets	0.8%	0.9%	0.8%	0.7%	**0.7%**
Cost/income ratio	46.5%	43.2%	44.5%	50.3%	**44.1%**
Asset Quality/Loan Ratios					
Gross loans to deposits ratio	79.1%	80.6%	81.2%	81.3%	**81.6%**
Gross impaired loans ratio	1.4%	1.2%	0.8%	0.8%	**1.0%**

Five Year Group Financial Highlights

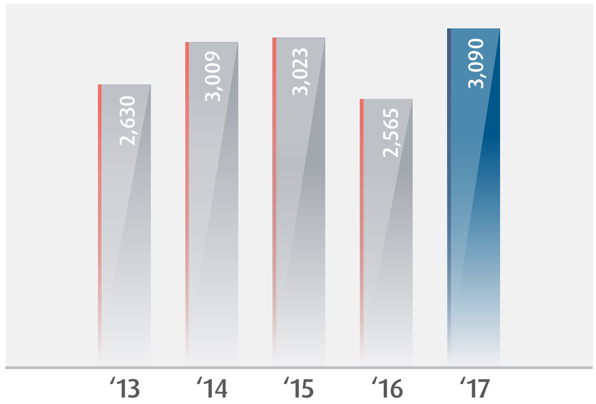
Group Total Assets
(RM'Million)

YoY +4.0%
CAGR = 5.2%



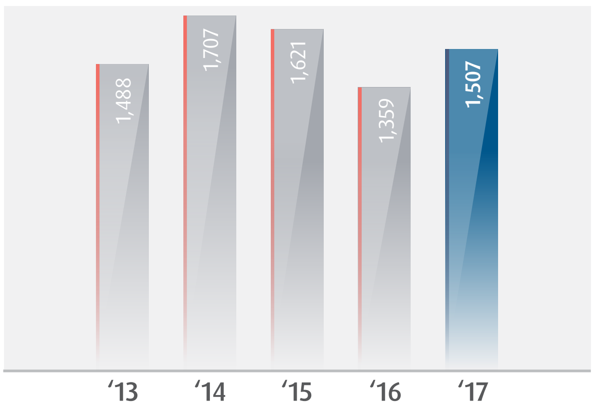
Group Profit Before Taxation
(RM'Million)

YoY +20.5%
CAGR = 5.2%



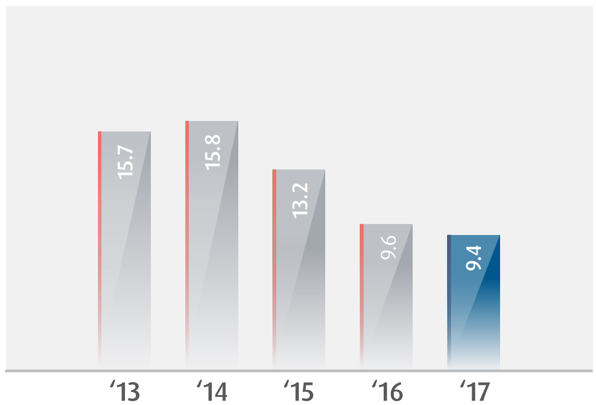
Group Profit Attributable to Owners of the Parent
(RM'Million)

YoY +10.9%
CAGR = 4.1%



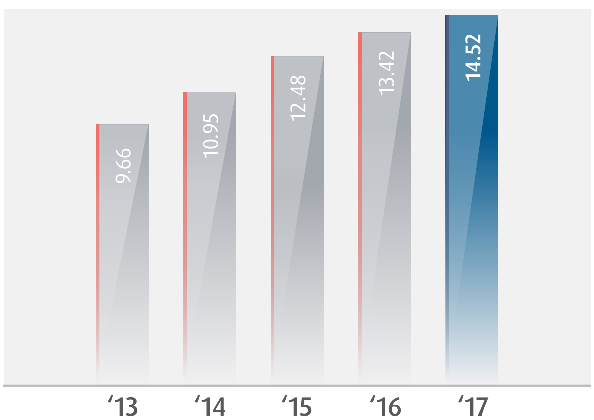
Group Return on Equity
(%)

YoY -0.2%



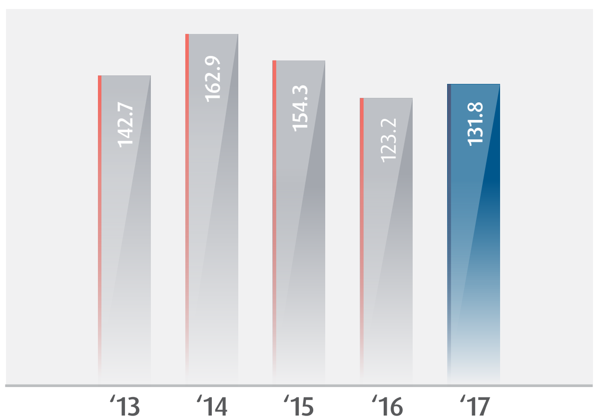
Group Book Value per Share
(RM)

YoY +8.2%
CAGR = 11.2%



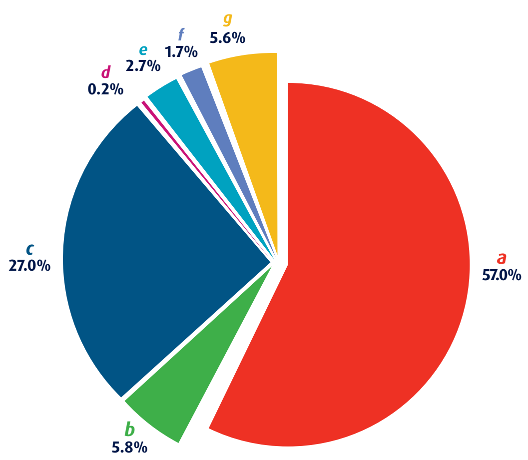
Group Earnings per Share
(Sen)

YoY +7.0%

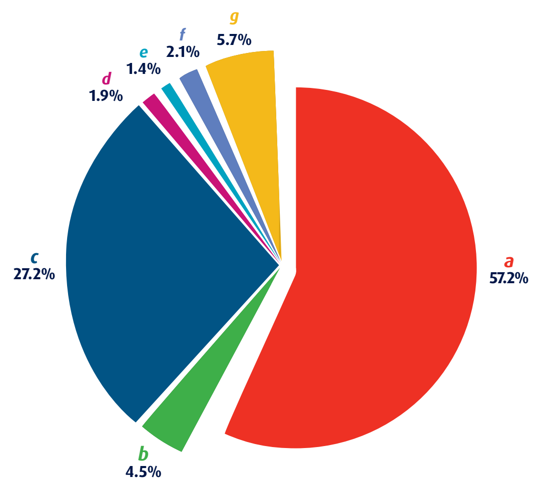


Simplified Group Statements of Financial Position

Assets



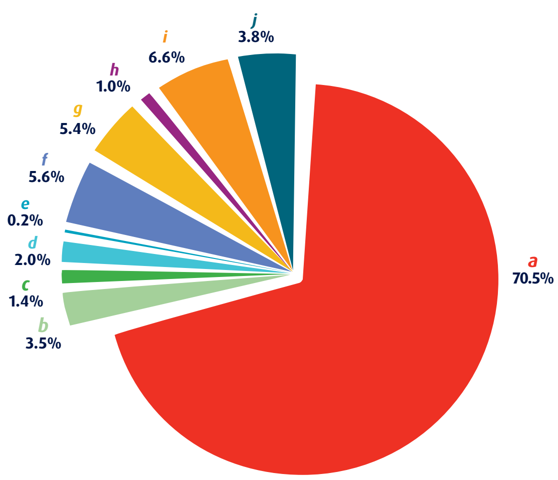
2017



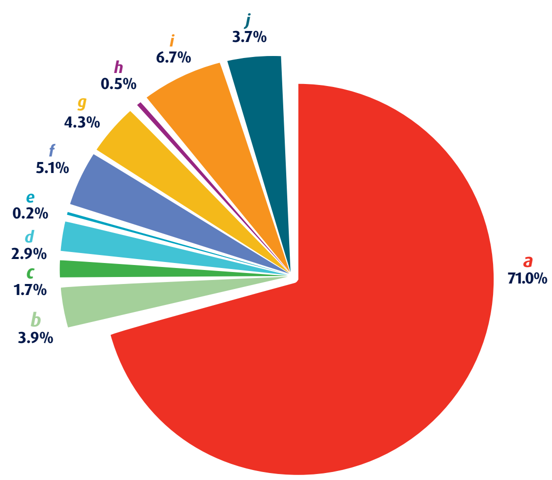
2016

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

Liabilities & Equity



2017



2016

- *a* Deposits from customers
- *b* Deposits and placements of banks and other FI
- *c* Obligations on securities sold under repurchase agreements
- *d* Borrowings and subordinated obligations
- *e* Innovative and Non-Innovative Tier 1 securities
- *f* Insurance funds
- *g* Other liabilities
- *h* Share capital
- *i* Reserves (net of treasury shares for ESOS)
- *j* Non-controlling interests

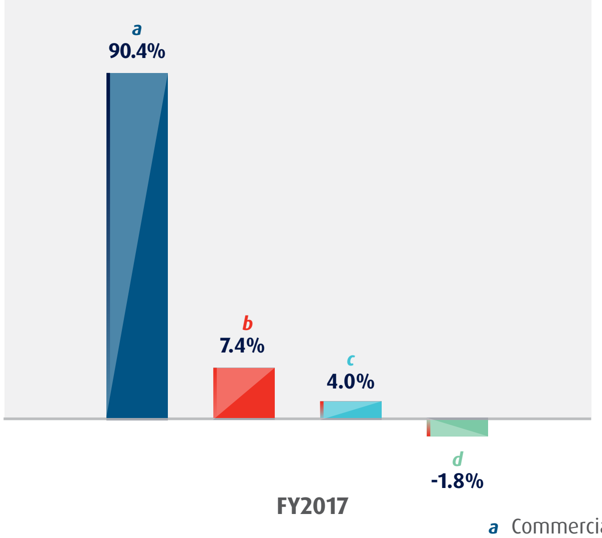
Group Quarterly Financial Performance

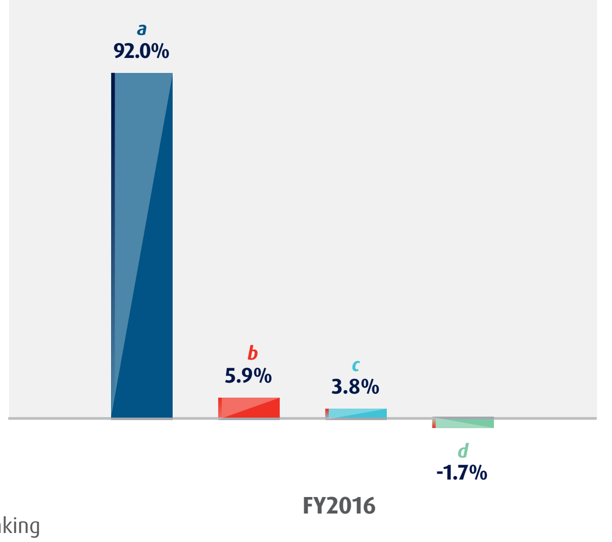
RM'Million	Q1	Q2	2017 Q3	Q4	Year
Statements of Income					
Revenue	**1,182**	**1,354**	**1,226**	**1,273**	**5,035**
Profit before tax	**726**	**832**	**764**	**768**	**3,090**
Net profit	**583**	**664**	**627**	**443**	**2,317**
Profit attributable to owners of the parent	**386**	**443**	**419**	**259**	**1,507**
Key Performance Indicators					
Share price (RM)	**15.4**	**14.2**	**15.9**	**16.8**	**16.8**
Book value per share (RM)	**13.9**	**14.1**	**14.5**	**14.5**	**14.5**
Basic earnings per share (sen)	**33.8**	**38.7**	**36.6**	**22.6**	**131.8**
Dividend per share (sen)	**–**	**13.0**	**–**	**25.0**	**38.0**

RM'Million	Q1	Q2	2016 Q3	Q4	Year
Statements of Income					
Revenue	1,147	1,165	1,025	1,206	4,543
Profit before tax	697	487	592	789	2,565
Net profit	582	396	485	601	2,064
Profit attributable to owners of the parent	387	264	315	393	1,359
Key Performance Indicators					
Share price (RM)	13.8	14.0	15.5	14.7	14.7
Book value per share (RM)	13.2	13.1	13.2	13.4	13.4
Basic earnings per share (sen)	36.9	24.5	27.6	34.4	123.2
Dividend per share (sen)	–	13.0	–	25.0	38.0

Segmental Information

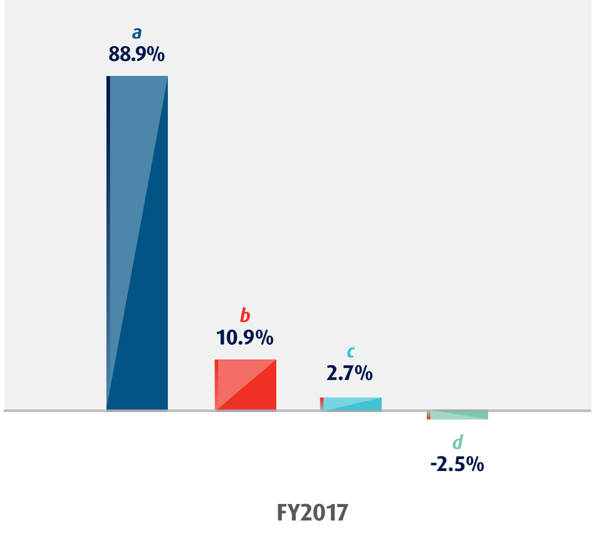
OPERATING REVENUE
By Business Segment

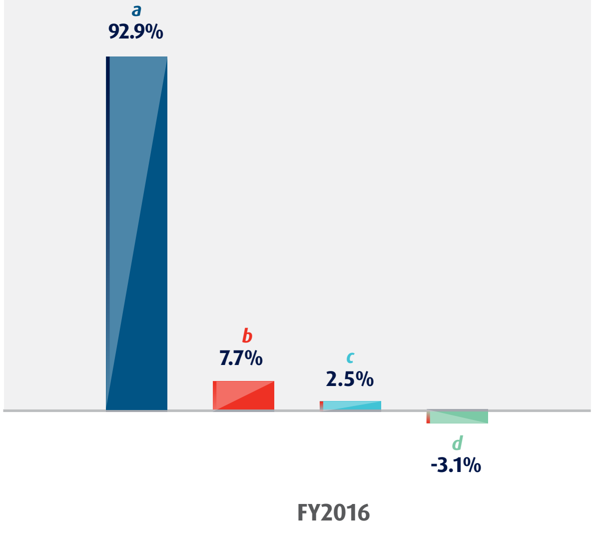




a Commercial Banking
b Insurance
c Investment Banking
d Other Operations/Consolidation Adj

PROFIT BEFORE TAX
By Business Segment





a Commercial Banking
b Insurance
c Investment Banking
d Other Operations/Consolidation Adj

Hong Leong Financial Group Share Price

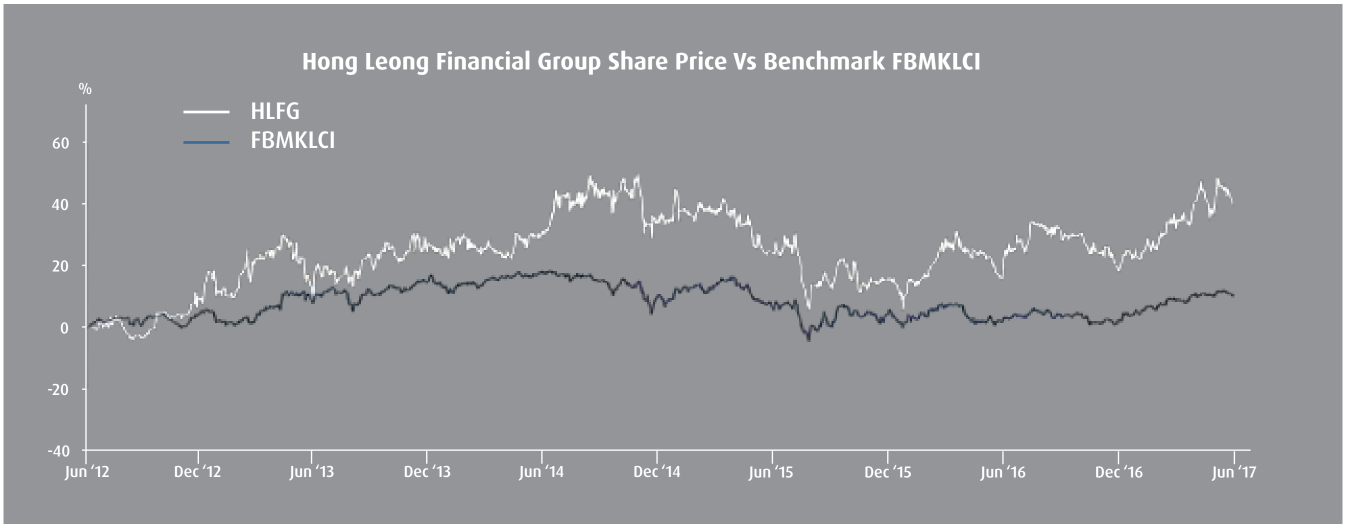
Dividend Per Share		
FY2017	38.0 sen	YoY SAME
FY2016	38.0 sen	

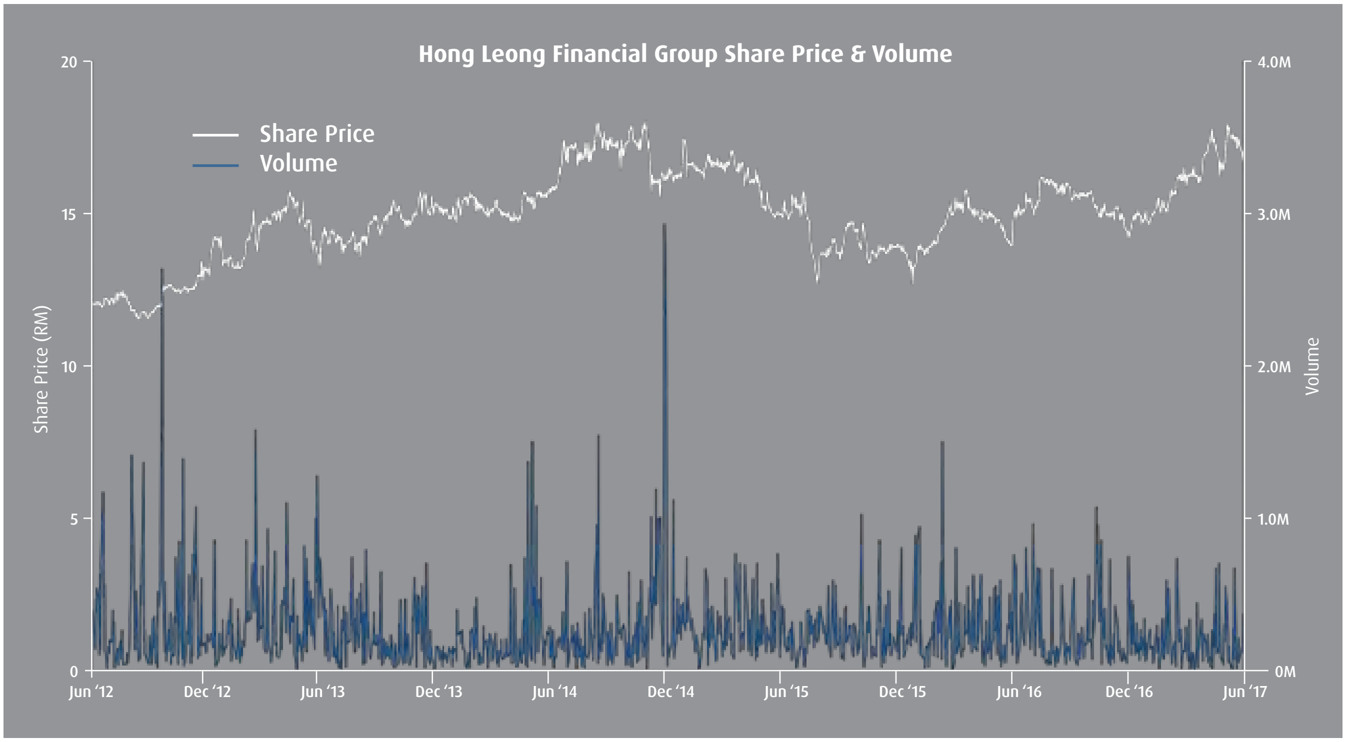
Share Price		
FY2017	RM16.80	YoY 14.4%
FY2016	RM14.68	

Market Capitalisation		
FY2017	RM19.3 bil	YoY 14.9%
FY2016	RM16.8 bil	

Earning Per Share		
FY2017	131.8 sen	YoY 7.0%
FY2016	123.2 sen	

Total Shareholder Return		
FY2017	9.4%	YoY -0.2%
FY2016	9.6%	





Financial Calendar

Annual General Meeting

26 October 2017 (Thursday)
48th Annual General Meeting

DIVIDENDS

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

Notice	Entitlement	Payment
22 November 2016	8 December 2016	23 December 2016

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

Notice	Entitlement	Payment
29 May 2017	14 June 2017	23 June 2017

ANNOUNCEMENT OF CONSOLIDATED RESULTS

22 NOVEMBER 2016
TUESDAY

unaudited results for 1st quarter ended 30 September 2016

21 FEBRUARY 2017
TUESDAY

unaudited results for 2nd quarter ended 31 December 2016

29 MAY 2017
MONDAY

unaudited results for 3rd quarter ended 31 March 2017

24 AUGUST 2017
THURSDAY

unaudited results for 4th quarter and financial year ended 30 June 2017

Corporate Milestones

March 2005
HLISB incorporated

June 2006
Hong Leong Tokio Marine Takaful Bhd incorporated

July 2006
Changed name to 'Hong Leong Financial Group Bhd'

October 2007
HLIB proposed to acquire the identified assets and liabilities of Southern Investment Bank Bhd

April 2008
HLA proposed to acquire PJ City premises

July 2008
HLB acquired 20% equity interest in the Bank of Chengdu

October 2008
HLIB acquired SBB Securities Sdn Bhd

January 2009
1. HLIB obtained investment bank status
2. HLB granted Vietnam banking license

Corporate Milestones

February 2009
Insurance holding company, HLAH, was incorporated

October 2009
HLCB 1:1 Rights Issue completed

February 2010
Sichuan Jincheng consumer finance JV incorporated

October 2010
MSIG Strategic Partnership completed

May 2011
HLB acquired EON Capital Bhd's assets and liabilities

September 2012
Merger of HLIB & MIMB Investment Bank completed

June 2013
HLAS obtained Singapore general insurance license

July 2013
HLB Cambodia commenced operations

October 2013
HLIB awarded 'Best Investment Bank Malaysia' (World Finance Awards)

November 2013
HLB established a Representative Office in Nanjing, China

June 2014
HLFG Group FY14 pretax profit surpassed the RM3b mark

December 2015
HLFG and HLB completed Rights Issues raising RM1.1 billion and RM3.0 billion respectively

Awards & Accolades

HONG LEONG BANK BERHAD

Asiamoney Fixed Income Poll 2016 (Asiamoney)
Category:
- Interest Rates Research #1 (Malaysia & Local Currency)
- Overall Best For Interest Rates #1
- Interest Rates Product & Sales #1
- Interest Rates Derivatives #1

Asiamoney FX Poll 2016 (Asiamoney)
Category:
- Best Domestic FX Providers #2
- Best of FX Products and Services #2
- Best of FX Options #2
- Best of FX Research & Market Coverage #2

HONG LEONG BANK BERHAD

Awards & Accolades

Financial Insights Innovation Awards 2017 (IDC Financial Insights)
Category: Asia/Pacific's Leader in Cashless Collaboration

Awards for Excellence 2017: Asia Results (EuroMoney)
Category: Malaysia's Best Bank 2017

Malaysian e-Payment Excellence Award 2017 (MyClear)
Category: Best FPX Bank

Malaysian e-Payment Excellence Award 2017 (MyClear)
Category: Best Instant Transfer Bank

Malaysian e-Payment Excellence Award 2017 (MyClear)
Category: Outstanding Contribution to MyDebit

HONG LEONG BANK BERHAD

Global Business Outlook Awards 2016 (Global Business Outlook)
Category: Best Islamic Bank Malaysia

Global Brands Magazine Awards 2016 (Global Brands Magazine)
Category: Best CSR Islamic Bank, Malaysia

HONG LEONG ISLAMIC BANK BERHAD

Awards & Accolades

HONG LEONG ISLAMIC BANK BERHAD

HR Excellence in CSR Strategy (Human Resource Magazine)
Category: Excellence in CSR Strategy

The Asset Triple A Digital Awards 2016 (The Asset)
Category: Most Innovative ATM Project, Malaysia

12th Employer Branding Awards (CHRO Asia)
Category: 8th Edition Asia Best Employer Brand Awards

The BrandLaureate BestBrands Awards 2016-2017
Category: The Most Valuable Brand Award of The Year

Asian Banking and Finance's inaugural Insurance Asia Awards 2016
Category: Domestic Life Insurer of the Year

HONG LEONG ASSURANCE BERHAD

Awards & Accolades

HONG LEONG INVESTMENT BANK BERHAD

KLIFF Islamic Finance Award 2016 (Kuala Lumpur Islamic Finance Forum)
Category: The Most Outstanding ABS Sukuk Product

Alpha Southeast Asia Deal & Solution Awards 2016 (Alpha Southeast Asia)
Category: Best Murabahah Deal of the Year in Southeast Asia

Awards For Deal Innovation and Top Lead Manager

Islamic Finance News Awards 2016 (Islamic Finance News)
Category: Commodity Murabahah Deal of the Year

The Asset Triple A Country Awards 2016 (The Asset)
Category: Best Rights Issue of the Year

RAM League Award 2016 (RAM)
Category: Lead Manager Award 2016 by Number of Issue - Joint 2nd Ranking

RAM League Award 2016 (RAM)
Category: Lead Manager Award (Sukuk) 2016 by Number of Issues – Joint 2nd Ranking

BURSA Excellence Awards 2016 (BURSA)
Category: 2nd runner up for the Best Retail Equities Participation Organization – Investment Bank

The Edge / Thomson Reuters Lipper Malaysia Fund Awards 2017 (Thomson Reuters)
Category: Group Award: Best Equity Award – Malaysia Provident – Hong Leong Asset Management Bhd

The Edge / Thomson Reuters Lipper Malaysia Fund Awards 2017 (Thomson Reuters)
Category: Individual Award: Best Equity Malaysia – Malaysia Provident, 3 Years – Hong Leong Penny Stock Fund

HONG LEONG INVESTMENT BANK BERHAD

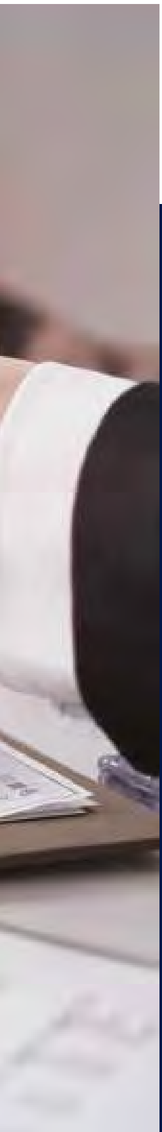
HONG LEONG ASSET MANAGEMENT

Chairman's Statement

A Commitment to Enhancing Value For All

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 2017 ("FY17").

Chairman's Statement



RM3,090 MILLION
profit before taxation

131.8 SEN
earnings per share

RM14.52
net assets per share

We believe that the key to ensuring sustainability is the continued co-existence of entrepreneurialism together with professional business management, discipline and governance.

FINANCIAL RESULTS – REVIEW OF THE YEAR'S PERFORMANCE

Despite a subdued business environment and amidst a more cautious consumer sentiment, HLFG increased its pretax profit by 20.5% year-on-year ("yoy") to a new high of RM3,090 million, with steady business momentum across all our core operating businesses. Hong Leong Bank Berhad's ("HLB") pretax profit increased 15.4% yoy to RM2,748 million whilst Hong Leong Assurance Berhad's ("HLA") pretax profits rose 58.3% yoy to RM245 million. Our investment banking and asset management businesses under Hong Leong Capital Berhad also had its pretax profit increased by 30.3% yoy to RM84 million.

The Group's key balance sheet and risk metrics remain strong. HLB's gross impaired loan ratio stayed sound at 0.96% whilst its loan impairment coverage was at 96.0% as at 30 June 2017. HLB's liquidity ratio remains prudent with a loan/deposit ratio of 80.6%. HLB's capital position further improved with its total capital ratio increasing from 14.7% last year to 15.8% as at 30 June 2017.

Earnings per share increased by 7.0% yoy from 123.2 sen in FY16 to 131.8 sen in FY17, from a higher weighted share base arising from the completion of our Rights Issue in December 2015. Net assets per share rose from RM13.42 as at 30 June 2016 to RM14.52 as at 30 June 2017.

In advance of the full implementation of the Basel III Capital Adequacy Framework in 2019, we have maintained our net dividend per share at 38 sen in FY17 as we seek to balance improving our capital position with providing a reasonable return for our shareholders.

STRATEGIC OVERVIEW

The Group's philosophy continues to embody an entrepreneurial vision focused on building long-term sustainable value for all its stakeholders. This vision guides our operating businesses to remain relevant, to be trustworthy, progressive, competitive and sustainable in pursuit of growth and the creation of business value. We believe that the key to ensuring sustainability is the continued co-existence of entrepreneurialism together with professional business management, discipline and governance.

BANKING

As the fifth largest commercial bank in Malaysia by assets, HLB has a strong market presence in mortgages, deposits, cards and wealth management. The management team ensures that HLB maintains asset quality metrics that are amongst the best in the industry, where its liquidity ratios remain prudent and its capital position kept comfortably above regulatory requirements. Going forward, we will execute our business plans by advancing on multiple fronts towards achieving long-term sustainable growth. In this period, we will continue to exercise vigilance on both credit initiation parameters and the health of our existing loan books.

We also acknowledge that developing the right human resources is critical to our long-term efforts. We believe that our businesses are best served by having and developing the right talent for the right jobs, while at the same time balancing other key business metrics such as our cost income ratio.

In more recent times, the financial sector has increasingly been challenged by continued advances in technology, in particular in the way that business and operations are conducted. We expect this trend to continue. To this end, we have made digitalisation a core part of the bank's strategy and have been

Chairman's Statement

keeping abreast of new developments, investing in technology, as well as consciously positioning ourselves, where possible, to benefit from this digital wave. We believe that we are on the right path and as such, have been refreshing the technology platforms through which we interact with our customers. The "Malaysia's Best Bank" Euromoney award which HLB won this year mentioned below, lends credence to our efforts.

We remain committed to expand and grow our Islamic banking business with Hong Leong Islamic Bank Berhad ("HLISB") playing the leading role in coordinating efforts across the banking group. For the year, HLISB's gross Islamic financing assets grew by 12% to RM20.8 billion, comprising 18% of the wider Hong Leong Bank Group's total gross financing assets. HLISB will continue its efforts towards the development of Islamic banking business by strengthening digital capabilities, upholding high Shariah standards and encouraging diversified and innovative product offerings.

INSURANCE

Our life insurance business under HLA has come a long way over the last decade. We have almost quadrupled our agency force from below 3,000 ten years ago to around 11,000 today. Strong and consistent contributions from our agency force, combined with higher Bancassurance sales, have propelled HLA to the No. 1 position within the Ordinary Life segment in 2016, as measured by new business annualised regular premiums, with a market share of 18.2%.

After establishing ourselves within the Ordinary Life segment and having built up a sizeable distribution capability, our focus has been on driving and improving the profitability levers of the company. This strategy is being executed via a greater focus on Non-Participating policies as well as concentrating on the Investment-Linked segment, which has yielded positive results. Within the Investment-Linked segment, we maintained our No. 4 position in 2016, by the same metric.

Overall, HLA is presently the largest domestic insurer as well as the No. 4 insurer amongst all local and foreign life insurers in Malaysia, as measured by new business annualised regular premiums. We are the fifth placed life insurer for Bancassurance, by the same metric.

Going forward, our focus will remain on growing our business embedded value on a sustainable basis. This would be achieved by driving continued improvements in our new business embedded value, coupled with judicious management of our existing in-force business. However, the digital revolution seen in the insurance sector is no less than that experienced in banking. Accordingly, HLA has already started its digital journey across multiple fronts. With a new data warehouse having been set up, we can better utilise analytics capabilities to mine data from our growing customer base to enhance effectiveness of both cross-selling and up-selling activities. Apart from this, we are also utilising technology to enhance our customer service and experience. For instance, in July 2016, we launched our HLA Customer 360 Portal which allows our customers to have instant, seamless and convenient access to their policy information. We will continue to enhance all our distribution channels, in particular those relating to Bancassurance, by tapping on HLB's wide network of around 300 branches.

We also remain focused on promoting and growing our Takaful general and family insurance businesses with Hong Leong MSIG Takaful Berhad spear-heading efforts across our insurance group. We believe the potential for Islamic insurance is significant and our plans are to build a holistic business operations platform on which sustainable growth can be achieved.

INVESTMENT BANKING

Our investment banking arm, Hong Leong Investment Bank Berhad ("HLIB")

Chairman's Statement

has made substantial progress since being awarded investment bank status in 2009. We now have good visibility in the league tables as well as a share of notable deals in segments where we operate, especially in our niche of serving small and medium sized corporates. Within the stockbroking space, we have a steady medium sized brokerage which services both institutional and retail clients. Our asset management business under Hong Leong Asset Management Bhd ("HLAM") has also showed good results and currently manages assets of about RM11 billion.

We will continue to nurture our investment banking relationships by focusing on providing innovative business solutions, while our stockbroking outfit will continue to leverage on technology towards better serving our customers.

RECOGNITION

I am pleased to report this year that we have received a number of awards across all our operating businesses in recognition of our efforts in the industry.

This year, HLB was awarded 'Malaysia's Best Bank' at the Euromoney Awards for Excellence 2017, in recognition of the bank's ongoing transformation towards being a highly digital and innovative ASEAN financial services company. HLB also won two awards at The Edge Billion Ringgit Club Corporate Awards 2017 in the Finance sector for companies with market capitalisation above RM10bn. These were for:

- Highest Return to Shareholders (3 Years) – Gold; and
- Highest Return on Equity (3 Years) – Silver.

In recognition of its performance, HLA has been awarded the prestigious Domestic Life Insurer of the Year at Asian Banking and Finance's inaugural Insurance Asia Awards 2016. As the first recipient of this award, it is an affirmation of the hard work and dedication of HLA's staff and management over the years.

Chairman's Statement

HLIB has won several awards within the investment bank space over the years in various categories. This year, I am pleased to report that HLIB was the 2nd runner up for Best Retail Equities at the Bursa Excellence Awards 2016. Within the asset management space, HLAM has been steadily improving its investment performance over the last few years which culminated in it receiving two awards at The Edge Thomson Reuters Lipper Malaysia Fund Awards 2017, namely:

- Best Group in Equity; and
- Best RM Equity Fund (3 Years) for the Hong Leong Penny Stock Fund.

SUSTAINABILITY

Building a sustainable Group is about how, at the core of everything we do, we are guided by our principles to make the right decisions that will hold us in good stead today and in the future. We think about this in a variety of ways. First, it is important to maintain focus on operational excellence and on the momentum we have built in managing operating expenses. We have made continued progress towards improving the efficiencies of our Group operating expenses whilst investing in new business initiatives and technologies.

Sustainability also includes having the right governance. We have a diverse and experienced Board of Directors that provides independent oversight. Our Board constantly looks for ways to ensure its diversity and strength and monitors corporate governance best practices to adapt and improve when necessary.

Our approach to sustainability also comes through in our commitment to ensure our policies, practices, products and programs collectively align to our purpose. We have done this in part by creating simple, safe, transparent and easy-to-use financial solutions that give people greater control of their finances. Another way we think about sustainability is the work we do to strengthen our local economies, by working with and investing in them.

Finally, to be a sustainable company, we must value our people and give all employees the support they need to build their careers and achieve their goals. We have a diverse and inclusive workplace that reflects the diversity of the communities in which we serve. Through our recruitment programs and partnerships, we are investing in the future by bringing the best and brightest to work at Hong Leong. As we think about all the ways we pursue sustainability, our focus is to use our size and scale in ways that contribute positively to our communities, create opportunities for our customers and employees and to grow our company responsibly.

APPRECIATION

Last but not least, 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 2017

Management Discussion and Analysis

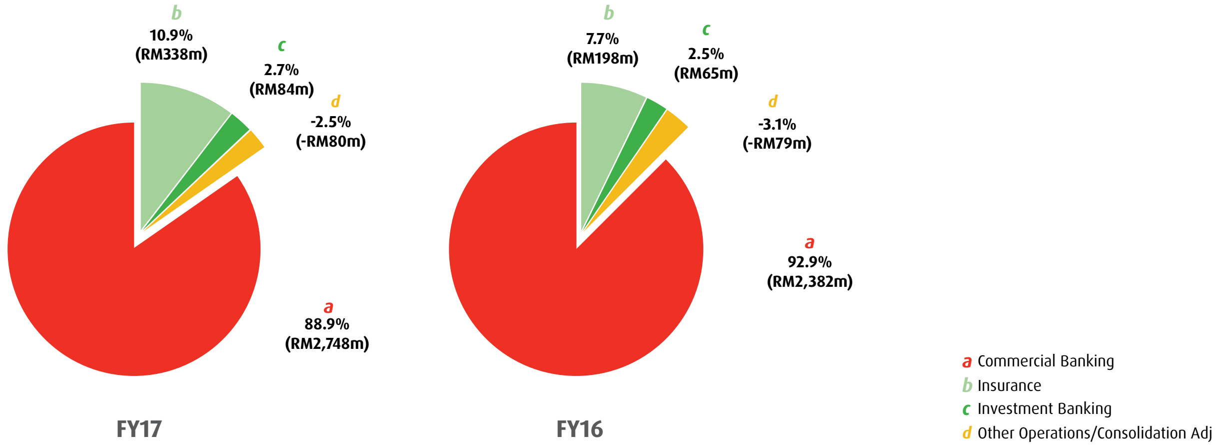
We are pleased to present the Management Discussion and Analysis ("MD&A") for the financial year ended 30 June 2017 ("FY17"). In this report, we would like to provide a review of our Group's business operations and financial performance during FY17.

In summary, for FY17, the Group achieved a commendable financial result surpassing RM3bn in pretax profits from growth across all three business divisions. We have prudent operating metrics and also made progress in strengthening our various business franchises towards the objective of achieving long-term sustainable growth.

HLFG GROUP PERFORMANCE HIGHLIGHTS

Hong Leong Financial Group Berhad ("HLFG") is an investment holding company. HLFG has three core businesses in the group:
- Commercial banking under Hong Leong Bank Berhad ("HLB").
- Insurance/takaful, housed under our insurance holding company HLA Holdings Sdn Bhd ("HLAH"); and
- Investment banking, housed under Hong Leong Capital Berhad ("HLCB").

HLFG Segmental Pretax Profit



HLFG's pretax profit increased 20.5% year-on-year ("yoy") in FY17 to another record of RM3.09bn. As depicted in the segmental chart, this was due to growth in all three core divisions. Profit after tax increased by a smaller quantum of 10.9% yoy to RM1.51bn arising from a higher effective tax rate of 25.0% in FY17. The higher effective tax rate was due to one-off additional tax assessments totalling RM206.3m, attributable to both HLB and HLAH.

In FY16, HLB booked a RM172.0m charge related to its Mutual Separation Scheme ("MSS"). Excluding this charge, HLFG's normalised pretax profit grew by 12.9% yoy to RM3.09bn. Without the MSS charge in FY16 and the one-off tax assessments in FY17, Profit Attributable to Owners of the Parent increased 16.2% yoy to RM1.68bn.

Return on equity ("ROE") decreased slightly from 9.6% in FY16 to 9.4% in FY17. HLFG's ROE has been impacted by a higher shareholders' funds base, following the implementation of our RM1.1bn rights issue in December 2015.

Company level borrowings decreased from RM1.64bn (30 June 2016) to RM1.53bn as at 30 June 2017, as surplus dividends received were used to pay down borrowings. Gearing remains very comfortable at 9.9% as at 30 June 2017. Book value per share increased from RM13.42 as at 30 June 2016 to RM14.52 as at 30 June 2017.

Malaysian Rating Corporation Berhad ("MARC") in August 2017 affirmed the short-term and long-term credit ratings of HLFG's Commercial Paper/ Medium Term Notes Programme at AA/MARC-1, while at the same time revising our outlook to positive from stable.

Management Discussion and Analysis

HLFG GROUP PERFORMANCE HIGHLIGHTS (CONTINUED)

Net dividend per share was maintained at 38 sen, as we strive to balance immediate returns to shareholders with managing our capital position in anticipation of the full implementation of the Basel III Capital Adequacy Framework for Financial Holding Companies in 2019.

COMMERCIAL BANKING FINANCIAL & OPERATIONAL REVIEW

HLB Financial Highlights

		FY2017	FY2016	Change %
Profitability & Efficiency (RM million)	Total Income	**4,551**	4,178	8.9
	Operating Profit	**2,543**	2,091	21.6
	Profit Before Tax	**2,748**	2,382	15.4
	Profit After Tax	**2,145**	1,903	12.7
	Earnings Per Share (sen)	**105**	100	5.1
	Net Interest Margin (%)	**2.09%**	1.94%	0.15 #
	Cost-to-Income Ratio (%)	**44.1%**	49.9%	(5.8) #
	Return on Assets (%)	**1.11%**	1.02%	0.09 #
	Return on Equity (%)	**9.8%**	10.0%	(0.2) #
Balance Sheet (RM million)	Total Assets	**195,553**	189,828	3.0
	Gross Loans, Advances and Financing	**125,147**	120,605	3.8
	Customer Deposits	**155,233**	148,524	4.5
Asset Quality	Gross Impaired Loan Ratio	**0.96%**	0.79%	0.17 #
	Loan Impairment Coverage Ratio	**96%**	120%	(24) #
	Loan Impairment Coverage Ratio (including Regulatory Reserve)	**151%**	181%	(30) #
Liquidity and Capital	Loan-to-Deposit Ratio	**80.6%**	81.2%	(0.6) #
	Common Equity Tier 1 Capital Ratio	**13.3%**	12.7%	0.6 #
	Tier 1 Capital Ratio	**13.7%**	13.1%	0.6 #
	Total Capital Ratio	**15.8%**	14.7%	1.1 #

Quantum of change is depicted

Management Discussion and Analysis

COMMERCIAL BANKING FINANCIAL & OPERATIONAL REVIEW (CONTINUED)

HLB provides full-fledged commercial banking services including personal financial services, corporate banking and treasury solutions. Islamic financial services are provided via HLB's 100%-owned subsidiary Hong Leong Islamic Bank Berhad ("HLISB"). HLB's regional financial services are provided via:

- A branch in Singapore;
- A branch in Hong Kong;
- 100%-owned commercial bank Hong Leong Bank Vietnam Limited;
- 100%-owned commercial bank Hong Leong Bank (Cambodia) PLC;
- 49%-owned consumer finance joint venture Sichuan Jincheng Consumer Finance Limited Company;
- 20% equity interest in the Bank of Chengdu Co., Ltd; and
- A representative office in Nanjing, China.

HLB's pretax profit increased 15.4% yoy to RM2.75bn in FY17. The main contributing factors to the profit growth were a recovery in total income growth, which increased 8.9% yoy, as well as a recovery in associate contribution from the Bank of Chengdu, where its contribution rose RM30.7m yoy.

HLB's total income growth was broad based, emanating from:

- Higher net interest income, which rose RM199.3m yoy, driven by a 15bps increase in net interest margin ("NIM"), as well as a 3.8% yoy increase in gross loans.
- Higher non-interest income, which increased RM90.8m yoy.
- Higher Islamic Banking income, which increased RM82.6m yoy.

Net interest income expanded 9.1% yoy to RM3.36bn in FY17, aided by both loan growth and an improvement in NIM. NIM improved 15bps yoy to 2.09%, despite the 25bps cut in the Overnight Policy Rate in July 2016, reflecting prudent loan pricing and funding cost management. Non interest income improved by 8.4% yoy to RM1.20bn in FY17, mainly due to higher wealth management and treasury income.

Cost/Income ratio decreased from 45.8% in FY16 (excluding the MSS cost) to 44.1% in FY17, at the lower end of the industry range. The full year impact of the MSS exercise implemented last year was felt in FY17.

Core business performance indicators remained positive, with gross loans growing by 3.8% yoy to RM125bn as at 30 June 2017 alongside continued stringent credit initiation controls. Residential mortgages increased 10.4% yoy to RM56.9bn. Loans to SMEs continued to grow at a healthy pace, increasing 6.0% yoy to RM20.4bn.

Customer deposits increased by 4.5% yoy to RM155bn as at 30 June 2017, achieved amidst an increasingly competitive environment for deposits. This translates to a Loan/Deposit ("L/D") ratio of 80.6% and a loan to fund ratio of 82.1%, which places HLB in a comfortable liquidity position.

Asset quality and provisioning remained sound, with a gross impaired loan ("GIL") ratio of 0.96% and loan impairment coverage at 96.0% as at 30 June 2017. Inclusive of additional regulatory reserves set aside, HLB's coverage ratio increased to 151% as at 30 June 2017.

HLB's capital position remained robust, especially after the completion of HLB's RM3 billion Rights Issue in FY16, with Common Equity Tier 1, Tier 1 and Total Capital Ratios at 13.3%, 13.7% and 15.8% respectively as at 30 June 2017. HLB completed its Rights Issue, raising RM3 billion in December 2015, positioning us well for the full implementation of the Basel lll capital adequacy framework in 2019.

HLB has raised its total dividend from 41.0 sen per share last year to 45.0 sen per share in FY17, and this will translate to better cash flows for HLFG. HLB's dividend payout ratio remained stable at 43%.

Management Discussion and Analysis

COMMERCIAL BANKING FINANCIAL & OPERATIONAL REVIEW (CONTINUED)

Personal Financial Services ("PFS")

PFS remained the largest contributor to HLB, making up 56% and 41% of its revenue and pretax profit, respectively. For the year, retail loans and deposits grew 5% and 6% respectively whilst asset quality remained solid as reflected by its low GIL ratio of 0.6% achieved on the back of disciplined lending and prudent risk management.

Despite a slower property market in FY17, HLB's mortgages under PFS outperformed the industry by growing 9% yoy which allowed HLB to maintain its position as one of the top three lenders in this segment.

Retail deposits grew 6% yoy driven largely by the focused offering of deposit products such as BizOne Account for the Community Banking Business (Micro SMEs) and the Harvest Savings Account for the Grey Hair (customers aged 50 years and above) segments. Both products were well received and recorded double digit growth as we continue to deepen our reach and penetration in these segments.

Business & Corporate Banking ("BCB")

FY17 has been a challenging year for HLB's BCB division amidst a more cautious approach adopted by businesses in view of the fairly muted business sentiment affected by uncertainties in the external macro environment.

Despite a 2% yoy decline in loan base as a result of unscheduled corporate repayments, BCB still managed to achieve improved revenue of RM1.1bn for FY17 attributed to improved NIMs on disciplined loan pricing and a reduction in expensive corporate deposits. BCB remains a significant contributor to HLB, representing 24% and 26% of revenue and pretax profit before tax respectively.

As part of its overall business expansion strategy, BCB will be looking to further expand into key sectors such as the healthcare industry, manufacturing, wholesale and retail trade, construction and selective participation in suitable contract financing projects to boost loan growth and fee income in FY18.

Global Markets ("GM")

The GM treasury business operates across five markets - Malaysia, Singapore, Hong Kong, Vietnam and Cambodia. GM is a key product partner for PFS and BCB clients in its core products of Foreign Exchange ("FX"), Fixed Income, Derivatives and Structured Products. GM also manages HLB's excess liquidity and capital through its various investments in fixed income and money market instruments.

GM ended the year with revenue and pretax profit of RM520m and RM406m respectively for FY17 which represents an 11% and 15% contribution to HLB's revenue and pretax profit. This was achieved on the back of strong momentum from PFS, Islamic and GLC/FI franchise sales and improved return on the MYR investment book. Heightened market volatility in the last quarter of 2016 helped drive revenues as well.

The team spent FY17 helping clients execute more treasury products through e-channels. GM worked jointly with the PFS team to enable FX remittance via the internet and publishing of FX rates on a mobile platform. HLB's new cash management system, Connect First, will also have FX execution and Short Term Corporate Placements capabilities.

Islamic Banking

HLISB achieved an ROE of 11.6% in FY17, which corresponds to a 10% yoy increase in pretax profit and 12% yoy financing growth. Operating expenses rose 8% versus an 18% increase in net income which led to a positive JAWS ratio.

The meaningful relationships that HLISB has built and nurtured with government-related clients have paved the way for HLISB to embark on innovative products that address their specific needs. HLISB has seized opportunities to expand its customer base by providing cashless ATM facilities to several states in Malaysia.

Management Discussion and Analysis

COMMERCIAL BANKING FINANCIAL & OPERATIONAL REVIEW (CONTINUED)

Islamic Banking (continued)

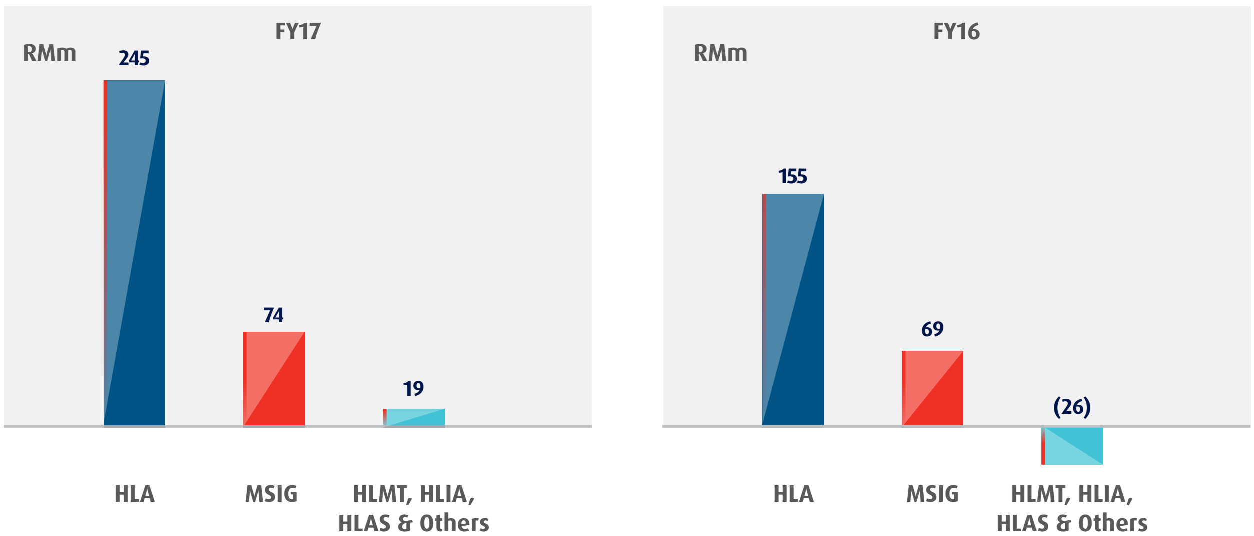
HLISB has made significant progress in its digitalisation journey throughout FY17. In the third quarter of FY17, the product Commodity Trading for Personal Financing-i was automated to improve the efficiency of its processes. HLISB also launched online Current Account and Savings Account ("CASA") applications via Connect Pre-Login that digitalised the CASA application process. In FY17, HLISB initiated an online application process for Personal Financing-i via the HLISB website.

INSURANCE/TAKAFUL FINANCIAL & OPERATIONAL REVIEW

HLFG's 100%-owned subsidiary HLA Holdings Sdn Bhd ("HLAH") is the insurance holding company of the Group. HLAH holds:

- 70% equity interest in life insurance company Hong Leong Assurance Berhad ("HLA");
- 30% equity interest in general insurance company MSIG Insurance (Malaysia) Bhd ("MSIG");
- 65% equity interest in composite takaful operator Hong Leong MSIG Takaful Berhad ("HLMT");
- 100% equity interest in Hong Kong general insurance company Hong Leong Insurance (Asia) Limited ("HLIA"); and
- 100% equity interest in Singapore general insurance company HL Assurance Pte. Ltd. ("HLAS").

HLAH Pretax Profit Composition



HLAH's pretax profit increased by 71.0% yoy from RM197.5m in FY16 to RM337.8m in FY17.

This was mainly due to a 58.2% yoy increase in HLA's pretax profit to RM245.0m in FY17. HLAH also benefited from a higher contribution from HLIA, whose pretax profit increased by RM26.3m yoy. This was mainly due to higher market gains on its investment portfolio and foreign exchange.

Our full year share of MSIG's profit after tax increased by 6.6% yoy from RM68.9m in FY16 to RM73.5m in FY17. MSIG is currently the second largest general insurance company in Malaysia as measured by gross premiums.

HLA is the largest business within our insurance division, comprising 78% of total HLAH insurance pretax profits. HLA's higher pretax profit was mainly due to higher non-par surpluses, which increased RM49.7m yoy, assisted by higher long-term Malaysian Government Securities interest rates and lower allowance for impairment on securities of RM40.5m.

Management Discussion and Analysis

INSURANCE/TAKAFUL FINANCIAL & OPERATIONAL REVIEW (CONTINUED)

The results also reflect the continued execution of our strategy to enhance our agency and bancassurance distribution channels, higher gross premiums as well as targeting a more profitable product mix via higher sales of Non-Participating and Investment-Linked policies.

HLA's gross premiums surpassed the RM3bn mark for the first time, increasing 8.1% yoy to another record of RM3.01bn in FY17, achieved amidst an environment of muted economic growth as well as a greater focus on Non-Participating policies. HLA's new business regular premiums ("NBRP") increased 8.3% yoy to RM585.7m in FY17.

HLA regained the No. 1 position within the Ordinary Life segment in 2016, as measured by new business annualised regular premiums, with a market share of 18.2%, catapulting ourselves from a No. 4 position in 2015. Within the Investment-Linked segment, HLA maintained its No. 4 position in 2016 by the same metric.

After making significant headway in growing the volume of our business over the past five years, in recent years we have focused on growing the profitability of new business by improving our "Non-Participating" portion of new business. To this end, HLA has increased its market share of Investment-Linked NBRP by 4x in the last 5 years and now holds the No. 4 position in terms of Investment-Linked NBRP with 8.1% market share.

Overall, HLA is the largest domestic insurer as well as the No. 4 insurer amongst all local and foreign life insurers, as measured by new business annualised regular premiums.

In terms of distribution, we continued to execute our Bancassurance Plan, which aims to leverage off the distribution network of sister company HLB's circa 300 branches. Over the last 5 years, HLA has increased its Non-Agency (Bancassurance) market share of NBRP from 4.9% in 2010 to 9.8% in 2016 and now holds the No. 5 position within this distribution segment.

HLA's management expense ratio was 5.5% in FY17, the lowest among the major domestic life insurers.

We are pleased to have launched our HLA Customer 360 Portal in July 2016. Through this portal, all HLA customers will now have instant and seamless access to their policy information, at their convenience.

In recognition of its performance, HLA has also been awarded the prestigious Domestic Life Insurer of the Year by Asian Banking and Finance's inaugural Insurance Asia Awards 2016. HLA is the first insurance company to be awarded the Domestic Life Insurer of the Year in Malaysia. This is an affirmation of all the hard work that the management team and staff have put in over the years.

INVESTMENT BANKING FINANCIAL & OPERATIONAL REVIEW

HLCB Segmental Pretax Profit

HLCB Group RMm	FY17	% contribution	FY16	% contribution	yoy (%)
Investment banking	**38.8**	**46**	32.9	51	18
Stockbroking	**29.2**	**35**	24.7	38	18
Asset management	**8.1**	**10**	2.2	3	260
Others	**8.0**	**9**	4.6	7	73
Pretax Profit	**84.0**	**100**	64.5	100	30

HLCB provides investment banking and stockbroking services through 100%-owned subsidiary Hong Leong Investment Bank Berhad ("HLIB"). HLIB provides the full range of investment banking services encompassing debt capital markets, equity capital markets and Treasury & Markets. Stockbroking services are provided from a network of 3 branches and 6 Hong Leong Hubs within Malaysia. Asset management services are provided through 100%-owned subsidiary Hong Leong Asset Management Bhd ("HLAM").

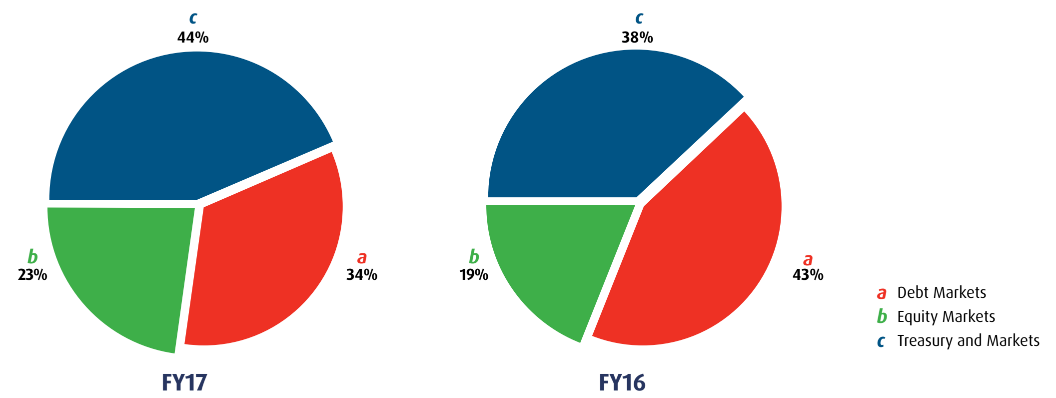
Management Discussion and Analysis

INVESTMENT BANKING FINANCIAL & OPERATIONAL REVIEW (CONTINUED)

HLCB has had a strong year despite a background of weak capital markets and muted corporate activities. Pretax profit grew 30.2% yoy from RM64.5m in FY16 to RM84.0m in FY17. Consistent growth was achieved in all three divisions of investment banking, stockbroking and asset management. In particular, our asset management business made significant progress, with pretax contribution rising from RM2.2m in FY16 to RM8.1m in FY17.

Investment Banking ("IB")

IB Revenue Contribution by Business Segment



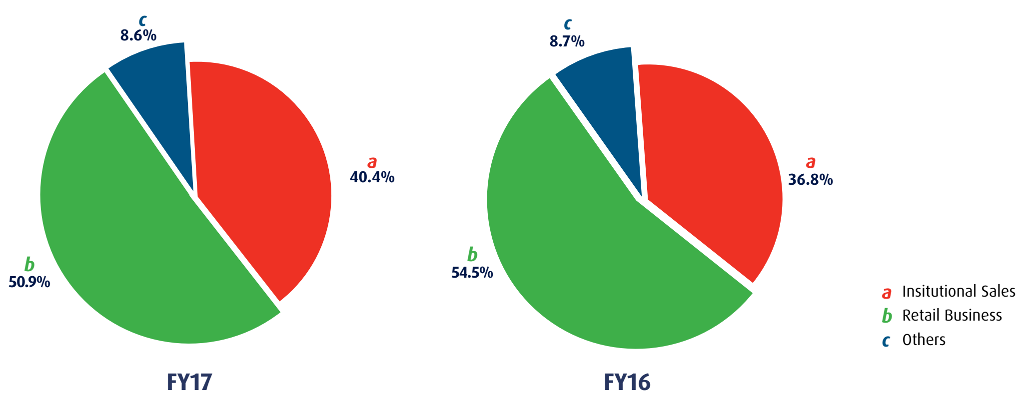
Treasury and Markets was the largest revenue contributor to the IB Division in FY17, contributing 44% of total IB Division revenue, ahead of Debt Markets, which contributed 34% of division revenue. The higher revenue generated by Treasury & Markets was mainly due to better trading performance and higher net interest income. In particular, trading revenue rose 56% yoy mainly due to the trading of fixed income instruments.

Fee income generated from Debt Markets in FY17 decreased slightly due to the deferment of certain customer mandates.

Equity Markets delivered commendable results with 53.0% yoy revenue growth from RM11.7m in FY16 to RM17.9m in FY17, in a competitive market environment. The strategy has been to focus on leveraging their structuring and execution expertise to develop innovative advisory solutions for our clients. Equity Markets revenue also benefited from higher capital market activity, enabling us to post higher underwriting fee income, while advisory fee income slipped marginally in accordance with a lower number of corporate transactions.

Stockbroking ("SB")

SB Revenue Contribution by Business Segment



Management Discussion and Analysis

INVESTMENT BANKING FINANCIAL & OPERATIONAL REVIEW (CONTINUED)

Stockbroking ("SB") (continued)

The stockbroking business of HLIB recorded a revenue of RM79.6m (FY16: RM74.0m) and a higher pretax profit of RM29.2m, a 18.2% yoy increase. This was attributed to higher trade volumes on Bursa Malaysia of RM554.4bn in FY17 compared to RM507.4bn recorded in FY16, an increase of 9.3% yoy. HLIB also recorded higher traded volumes of RM46.6bn in FY17 compared to RM40.0bn in FY16, an increase of 16.5% yoy which outperformed the increase in Bursa volume.

The Retail Business segment remains the main revenue contributor in the Stockbroking Division representing 50.9% and 54.5% in FY17 and FY16 respectively of stockbroking revenue. Net brokerage income for both Retail Business and Institutional Sales recorded an overall increase of 12.4% yoy due to higher market share of 4.2% in FY17 as compared to 3.9% in FY16. Margin income has also recorded a slight increase due to higher drawdown of margin facilities during the year.

HLIB was awarded the 2nd runner up for Best Retail Equities Participation Organisation – Investment Bank in the Bursa Excellence Award 2016.

Asset Management

HLAM's higher pretax profit was achieved on the back of improved fund investment performance and stable assets under management of RM11.1bn. HLAM won 2 awards at The Edge Thomson Reuters Lipper Malaysia Fund Awards 2017:

- Group Award: Best Equity Award – Malaysia Provident; and
- Individual Award: Best Equity Malaysia – Malaysia Provident, 3 Years – Hong Leong Penny Stock Fund.

RISKS

The Group is exposed to credit, market, operational, liquidity and reputational risks. We have processes and controls in place to ensure these risks are adequately managed. These risks and our controls are spelt out in the Statement on Corporate Governance, Risk Management and Internal Control of this annual report.

PROSPECTS

Recent economic indicators have been more supportive of the economy, and this may provide a more conducive operating environment for the financial services industry.

We will continue to pursue our plans to grow our core businesses of Commercial Banking, Islamic Financial Services, Insurance, Investment Banking, Stockbroking and Asset Management whilst taking appropriate steps to control our expenses. Our key strategic objective is the pursuit of long-term sustainable growth. We will also continue to seek suitable acquisition opportunities to complement our financial services group.

In December 2015, HLFG completed a Rights Issue which raised RM1.1bn of capital to bolster our shareholders' funds. In the next financial year, we will consider raising alternative forms of capital, which will place us in a strong position when the full implementation of the Basel III Capital Adequacy Framework for Financial Holding Companies kicks in on 1 Jan 2019.

Management Discussion and Analysis

FURTHER INFORMATION

For further information on our subsidiaries, please refer to:

- HLB's FY17 MD&A in their FY17 annual report at www.hlb.com.my or www.bursamalaysia.com; and
- HLAH and HLA's financial statements at www.hla.com.my; and
- HLCB's FY17 MD&A in their FY17 annual report at www.hlcap.com.my or www.bursamalaysia.com.

APPRECIATION

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

Our 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.

Sustainability Statement

for the financial year ended 30 June 2017

A. INTRODUCTION

This is the first Sustainability Statement issued by Hong Leong Financial Group Berhad ("HLFG") covering the financial year ended 30 June 2017 ("FY17").

This year's report includes the economic, environmental, social risks and opportunities ("sustainability matters") of our subsidiaries including our banking businesses under Hong Leong Bank Berhad ("HLB") and the investment banking businesses under Hong Leong Capital Berhad ("HLCB") in Malaysia. It also includes selected initiatives undertaken at the Company level of HLFG.

For further information on sustainability matters on our subsidiaries which includes selected indicators, please refer to the sustainability reports of:
- HLB at www.hlb.com.my or www.bursamalaysia.com; and
- HLCB at www.hlcap.com.my or www.bursamalaysia.com.

B. HONG LEONG GROUP VALUES

The Hong Leong Group is built on the strong heritage of value creation for our stakeholders and communities within which we operate. Over the years, we have taken a progressive approach in integrating sustainability into our businesses, towards becoming a stronger, more resilient Group. We are committed to growing our businesses responsibly, balancing environmental with economic considerations, as well as creating a positive impact for our stakeholders and contributing to our communities. This is reflected in our core values that serve as a compass in all that we do:

Honour	To conduct business with honour.
Human Resources	To enhance the quality of human resources – as the essence of management excellence.
Entrepreneurship	To pursue management vision and foster entrepreneurship.
Innovation	To nurture and be committed to innovation.
Quality	To consistently provide goods and services of the highest quality at competitive prices.
Progress	To continuously improve existing operations and to position for expansion and new opportunities.
Unity	To ensure oneness in purpose, harmony and friendship in the pursuit of prosperity for all.
Social responsibility	To create wealth for the betterment of society.

C. SUSTAINABILITY GOVERNANCE

HLFG's sustainability strategy is determined by our Board who provides oversight of our corporate sustainability performance. HLFG's Board is assisted by its Board Audit & Risk Management Committee. Senior Management, namely our President/CEO, oversees the implementation of our sustainability approach and ensures that key targets are being met with the support of the Group CFO.

D. MATERIAL SUSTAINABILITY MATTERS

1. Identifying our material sustainability matters

In order to present a report that is meaningful to our stakeholders, we conducted a materiality assessment to determine those issues that are important to HLFG as well as our stakeholders. The assessment comprised four steps:

- Identification – Referencing the list of material sustainability matters identified by HLB and HLCB.
- Prioritisation – The list of material sustainability matters were prioritised during a materiality assessment workshop with the Sustainability Reporting Team and through interviews with senior management.

Sustainability Statement

for the financial year ended 30 June 2017

D. MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

1. Identifying our material sustainability matters (continued)

- Validation – The material sustainability matters were then validated with the Group CFO and approved by the Board of Directors.
- Review - This final step encompasses feedback from all our stakeholders. From your feedback, we will be able to further refine our sustainability approach so as to present even more meaningful reports in the future.

2. Material Sustainability Matters

The nine material issues identified are also aligned with the Hong Leong Group's mission:

- Helping Clients Succeed
- Providing Our People with the Best Opportunities
- Creating Stakeholder Value

The nine material issues identified are as follows.

Material Matters	Definition of Material Matters
Helping Clients Succeed	
1 Digital Innovation	• Innovation of our digital products and services by our subsidiaries is critical to increase accessibility and convenience.
2 Customer Experience	• Efforts taken to enhance HLFG subsidiaries' products and services for customers, including improvement efforts taken to meet our customers' preferences and needs.
3 Cyber Security and Data Privacy	• Initiatives taken to protect HLFG from unauthorised access or attacks that are aimed for exploitation of the information. • Efforts taken by HLFG to implement processes and measures that prevent, identify and address vulnerabilities and threats to personal and confidential data of our customers.
Providing Our People with the Best Opportunities	
4 Employee Experience	• Employee wellbeing, benefits, rewards and recognition based on their contribution to HLFG, which can influence HLFG's ability to attract and retain talent.
Creating Stakeholder Value	
5 Good governance	• HLFG's values, principles, standards and norms of behaviour, such as our code of conduct and codes of ethics that have been developed, approved and implemented. • Level of compliance to local regulations and other core operational regulations that help indicate the ability of management and HLFG's subsidiaries to ensure that operations conform to certain performance parameters.
6 Community Banking	• Local community engagement through development programmes based on the needs of the communities. • Economic wellbeing of employees as part of the community.
7 Product Responsibility	• HLFG's efforts to ensure fair design and sale of HLFG's subsidiaries' products and services that directly affect stakeholders and customers.

Sustainability Statement

for the financial year ended 30 June 2017

D. MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

2. Material Sustainability Matters (continued)

The nine material issues identified are as follows. (continued)

Material Matters		Definition of Material Matters
Creating Stakeholder Value		
8	Managing the Environmental Footprint	• HLFG's efforts to reduce usage of paper, including initiatives that involve employees and HLFG's subsidiaries' products and services. • Energy management to minimise environmental impact from HLFG's operations such as energy efficiency. • Efforts taken to reduce GHG emissions from HLFG's activities. • Waste management that is in compliance with international and national standards. It includes actions taken to minimise waste throughout its operations.
9	Environmental and Social Assessment of Products and Services	• Consideration of environmental and social aspects during the assessment of HLFG's subsidiaries' products and services.

3. Importance and Management of Sustainability Matters

HELPING CLIENTS SUCCEED

i. Digital Innovation

Digital innovation is the application of new technologies, both in hardware and software, to existing business practices. It allows us to better serve our customers, as well as to reduce our and our customers' operating costs.

Major initiatives from HLB:

- Revamp of the Connect App with a simpler and more straightforward interface, available in multiple languages.
- Placing online Islamic Fixed Deposit ("FD-I") and eFD-i via the Financial Process Exchange ("FPX") (Hong Leong Connect Mobile) for greater convenience.
- Only local bank offering FPX 24/7 service via Hong Leong Connect Biz to corporate customers.
- Launch of Connect Biz Vietnam for Hong Leong Bank Vietnam customers to access online banking facilities.

ii. Customer Experience

We recognise that in order to grow sustainably, we need to ensure our customers are satisfied, not only with our products and services but also the way in which these are delivered. Enhancing our customer experience with user-friendly, relevant products and services is important to maintaining a reputable financial services brand and standing in the market.

Major initiatives/policies from HLB:

- HLB launched real-time survey feedback using the Enterprise Feedback Management platform across all channels (branches, contact centres, digital banking and self-service terminals) and across all HLB retail products via the product owners. With this platform, HLB is now able to measure the end-to-end customer journey, gauge their feedback in real time and close the loop quickly through proactive or reactive servicing. Customers are polled within two hours of their interaction with the Bank and the results are collected and collated in real time.

Sustainability Statement

for the financial year ended 30 June 2017

D. MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

3. Importance and Management of Sustainability Matters (continued)

ii. Customer Experience (continued)

Major initiatives/policies from HLB: (continued)

- Officially launched a Customer Experience Council, chaired by the GMD and attended by all senior management, anchored on HLB's vision of 'We are digital at the core. It is that simple'. The voice of customers from HLB's real-time customer feedback system, HLB's Real Time Team, customer complaints data and social media reports are regularly reviewed in this forum and feedback is embedded into HLB's existing processes on an ongoing basis. This forum also drives the direction and progress of HLB's innovation efforts for all channels and products.
- Customer Satisfaction Leaderboards help challenge team performance by encouraging front-liners to outdo each other.

Major initiatives/policies from HLCB:

- HLCB conducts regular face-to-face meetings and calls with clients and investors to continue providing reliable services and positive experiences to their customers.

iii. Cyber Security and Data Privacy

As the world becomes more digitised, there is an increasing threat of important data being accessed via unauthorised means, generally with malicious intent. High-profile security breaches have pushed the need for cyber security to be a top priority to protect the data integrity of our organisation.

At the corporate level, in addition to commercial losses and public relations issues, disruption of operations and the possibility of extortion, cyberattacks expose an organisation to regulatory action, negligence claims, loss of trust among customers and suppliers, and pose a reputational risk to the company. We recognise this threat, and have implemented various measures to safeguard our corporate as well as customers' data.

Major initiatives/policies from HLB:

- Compliance with the Personal Data Protection Act 2010 ("PDPA") and Financial Services Act 2013 ("FSA"). New managers are required to attend PDPA and FSA training sessions. Existing staff are required to complete PDPA and FSA e-Learning modules.
- Implemented Anti-Persistent Threat mitigation platform to understand, detect, and mitigate malicious behaviour.
- Engaged expert in Security Operations Centre to perform cyber security monitoring.

Major initiatives/policies from HLCB:

- It is a mandatory requirement for all employees to attend internal training to ensure employees are aware of the requirements of the PDPA and are constantly reminded of their obligation to maintain the confidentiality and secrecy of client information. We have also communicated our Privacy Notice to our customers through various modes of communication, including posting the Privacy Notice on our website.
- Installed antivirus on each workstation/device to prevent an uninvited threat from accessing our data.
- Implemented file encryption protection on all files retrieved from our workstations.
- Constantly provide updates and send out alerts to users on security threats. Introduced IT Security E-learning program and cyber security awareness program. Cyber Security Policy and security incident response procedures are in place.

D. MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

3. Importance and Management of Sustainability Matters (continued)

PROVIDING OUR PEOPLE WITH THE BEST OPPORTUNITIES

iv. Employee Experience

Creating a positive employee experience helps us to attract and retain the best talent, which is essential in any services business.

HLFG (Company level)

Gender	Number	%
Male	13	33
Female	26	67
Total	39	100

HLFG strives to create an equal opportunity workplace for all employees. We believe we have succeeded to some extent at this, as two-thirds of our employees are female. In order to retain talent, we provide suitable career progression and we encourage employees to maintain a reasonable work-life balance. Employees are encouraged to develop their skill sets with the aid of training opportunities which the Company provides.

HLB

Employees form the bedrock of Hong Leong Bank. The Group's culture of dynamism and entrepreneurial vigour is supported by their energy and determination. Our successes are determined to a large extent by their performance. The value we place in our people is reflected in the fact that 'enhancing the quality of our human resources' represents one of the Group's guiding principles.

We take seriously our human resources policies in relation to hiring, training and developing our people. We seek to hire the best talent available and provide them with a conducive, stimulating work environment to encourage them to grow with us.

HLCB

The employees of HLCB are the key driving force of the company in achieving its goals. We aim to build a competitive, engaged, knowledgeable and professional workforce. We aim to cultivate a high performing team to drive and deliver world-class business outcomes.

In 2016, we introduced the High Performance program as one of our initiatives under our talent management strategy. Our goal is to further shape HLCB into a high performing, innovative, passionate and sustainable organisation that strives to achieve its strategic and operational goals. The program aims to build a strong succession pipeline of bright and skilled future leaders in the company.

A fast-changing environment in the financial industry stemming from digitalisation, technological advancements and challenging market conditions has impacted the traditional business model. As such, we continue to invest in fostering a continuous learning culture to ensure HLCB's workforce stays relevant and competent to tackle the dynamic environment we work in.

Sustainability Statement

for the financial year ended 30 June 2017

D. MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

3. Importance and Management of Sustainability Matters (continued)

CREATING STAKEHOLDER VALUE

v. Good Governance

Good governance is essential to ensure that the operations of the Group are managed in a manner where all stakeholders are treated fairly.

Major initiatives/policies from HLB:

- Corporate-wide approach to managing compliance through HLB's Operational Risk Management and Compliance Committee, which works to ensure HLB's compliance to its Whistleblowing Policy, PDPA, Customer Data Secrecy Policy, Shariah rules and requirements, and other regulations related to marketing communications for HLB's products and services.
- Code of Conduct and Ethics that the Bank expects all HLB staff to adhere to. The Code is available on HLB's Online Knowledge Portal. HLB is currently working on an e-Learning module for the Code of Conduct.

Major initiatives/policies from HLCB:

- Training provided to employees on Anti Money Laundering and Counter Financing of Terrorism.
- HLCB's Code of Conduct and Ethics provides guidance on the policy on Entertainment & Gifts to address risks related to corruption.

vi. Community Banking

As a financial services provider, the most significant way in which we can make a positive social impact is by the provision of quality service that helps our local communities better manage and enhance their financial well-being. To this end, we are conscious of having products that meet the needs of customers from all income brackets and to provide access to our banking services to less served segments of the community, as well as in supporting under-served entrepreneurs, particularly start-ups.

Beyond access to our products and services, we feel it is our duty as a responsible corporate organisation to play a role in elevating the standard of living of more marginalised segments of our community. This is achieved through various philanthropic and social outreach programmes supported by our Group philanthropic arm, Hong Leong Foundation. Through these initiatives, we also provide our employees an avenue to contribute in a meaningful way to the community.

Major initiatives/policies from HLB:

- Currently, we have 33 Retail Community Business Managers located at selected HLB and Hong Leong Islamic Bank Berhad branches to serve SMEs with financing, deposit and wealth management solutions. This is to be further strengthened with the deployment of 150 Community Banking Managers at HLB branches nationwide, which will also increase our coverage by approximately 5x.
- Conscious of the need to make available financial services to under-served segments of society, we have set up branches and self-service terminals in low populated as well as economically disadvantaged areas.
- HLB LaunchPad: Under HLB LaunchPad, five start-ups will be selected to undergo an intensive three-month programme focusing on digital innovation within three pillars: Simplifying Banking Today, Digitising Customer Journeys & Experience; and Re-Imagining Banking for tomorrow.

Sustainability Statement

for the financial year ended 30 June 2017

D. MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

3. Importance and Management of Sustainability Matters (continued)

vii. Product Responsibility

Product responsibility and fair banking are about the responsible development and marketing of financial products. This involves thorough evaluation of products before they are brought to market and proper communication to consumers of what these products entail. We educate the public and business enterprises about the products that are available in the market so they are aware of their options and are able to make informed choices in selecting products that will enhance their financial well-being.

Major initiatives/policies from HLB:

- Any new product or product variant that we introduce has to be approved by our Product and Evaluation Approval Committee ("PEAC"), members of which refer to our Product Evaluation and Approval Guidelines. They are also applicable to products developed for or on behalf of a third party (e.g. unit trust funds and insurance products), or for remittance service providers, or in relation to outsourced services in which HLB is the service provider.

viii. Environmental and Social Assessment of Products and Services

We strive to ensure that all our Group products and services have a balanced impact on the environment and the societies we operate within. One of our major thrusts within this area is responsible lending.

Responsible lending is about ensuring we only support socially, financially and environmentally responsible business behaviour. It also means considering the social implications of our products and services and not financing individuals or organisations whose actions create negative impacts on society.

Major initiatives/policies from HLB:

- Through responsible lending we reinforce our support of national and global Anti-Money Laundering and Counter Financing of Terrorists efforts to address risks and vulnerabilities associated with money laundering and terrorist financing.
- Responsible Personal Financing: We help customers consolidate debts into friendlier term loans, initiate financial planning and education workshops targeting teenagers and we provide an option to bypass keying in their Personal Identification Number at point of sale transactions for customers with disabilities.

ix. Managing the Environmental Footprint

We are concerned about environmental issues such as pollution and climate change which affects everyone's quality of life today and in the future. Although the financial services industry does not have a significant direct impact on the environment, we believe in playing our part in minimising as far as possible our environmental footprint by adopting a responsible approach in terms of resource use. We also seek to ensure that our employees are aware of the role every individual can play towards protecting and enhancing the environment. Our efforts to operate in an environmentally sustainable manner not only serve to protect our natural resources but also provide a channel through which our employees can work together for a common good, thus enhancing team spirit and a sense of pride in belonging to HLFG.

Sustainability Statement
for the financial year ended 30 June 2017

D. MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

3. Importance and Management of Sustainability Matters (continued)

ix. Managing the Environmental Footprint (continued)

Major initiatives from HLFG (Company level):

- HLFG Group annual reports are produced in compact disc ("CD") format. The annual reports for HLFG, HLB and HLCB are produced in CD format, except for a small number of copies to cater to shareholders who specifically request a printed hard copy. This saves the printing of several thousand copies of annual reports.
- Recycled paper initiative: From December 2016, we have embarked on an initiative to replace the use of virgin pulp paper with 100% recycled paper, where practical, bank-wide, saving more than an estimated 1,930 trees a year. The FY17 hard copy annual reports of HLFG, HLB and HLCB will be produced using recycled Forestry Stewardship Council ("FSC") certified paper. All our corporate profile brochures are also being printed on recycled FSC certified paper.
- Recycling initiative: Paper and plastic products consumed within our office premises are placed in recycling bins. At the end of the month, the offices/floors within our building are ranked in terms of volumes recycled.
- To promote energy conservation and efficiency, our staff are encouraged to conserve electricity wherever possible.

Major initiatives/policies from HLB:

- As part of the recycling initiative, HLB used a total of 46,502kg of recycled paper.
- To promote energy conservation and efficiency, our staff are encouraged to conserve electricity wherever possible.

Major initiatives/policies from HLCB:

- To promote energy conservation and efficiency, our staff are encouraged to conserve electricity wherever possible.

Sustainability Statement

for the financial year ended 30 June 2017

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for the financial year ended 30 June 2017

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Corporate Information

Corporate Information

DIRECTORS

YBhg Tan Sri Quek Leng Chan *(Chairman)*	Mr Tan Kong Khoon *(President & Chief Executive Officer)*	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 Rakyat
Kuala Lumpur Sentral
50706 Kuala Lumpur
Tel: 03-2173 1188
Fax: 03-2173 1288

REGISTRAR

Hong Leong Share Registration
Services Sdn Bhd
Level 5, Wisma Hong Leong
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

YBHG TAN SRI QUEK LENG CHAN

Chairman/Non-Executive/
Non-Independent

Age 74, Male, Malaysian

YBhg Tan Sri Quek Leng Chan 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, both public companies.

MR TAN KONG KHOON

President & Chief Executive Officer/
Non-Independent

Age 60, Male, Singaporean

Mr Tan Kong Khoon holds a Bachelor of Business Administration degree from Bishop's University, Canada and is an alumnus of the Harvard Business School Advance Management Program.

Mr Tan is the President & Chief Executive Officer of HLFG. He was the Group Managing Director/Chief Executive Officer of HLB from 1 July 2013 to 4 February 2016. Prior to joining HLB, Mr Tan was the Group Executive, Consumer Banking Group of the Development Bank of Singapore ("DBS") from 1 December 2010 to 15 April 2013 where he led and managed strategy formulation and execution for consumer banking globally across the DBS Group.

Mr Tan began his banking career with DBS in 1981. Since then, he has successfully built consumer banking franchises across multiple markets in Asia for Citibank, Standard Chartered Bank and ANZ Bank.

From March 2007 to December 2009, Mr Tan was President and Chief Executive Officer of Bank of Ayudhya, the fifth largest bank in Thailand listed on the Thailand Stock Exchange.

Mr Tan was appointed to the Board of HLFG on 5 February 2016.

Mr Tan is a Director of HLB and HLCB, both companies listed on the Main Market of Bursa Securities. He is also a Director of HLA and Hong Leong Investment Bank Berhad ("HLIB"), both public companies.

YBHG TAN SRI DATO' SERI KHALID AHMAD BIN SULAIMAN

Non-Executive Director/
Non-Independent

Age 81, Male, Malaysian

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman was educated in England and was called to the English Bar at Middle Temple in 1964. He was admitted to the Malaysian Bar in 1965 and Singapore Bar in 1970. He was a founding partner of K Ahmad & Yong, a legal firm in Penang in 1970 and was a Senior Partner till June 2008. He was a Consultant with K Ahmad & Yong from 2008 to June 2016. He was the Chairman of the Advocates and Solicitors Disciplinary Board from 2005 to 2013. He was the Penang State Executive Councilor from 1974 to 1982 and was the acting Penang Chief Minister in 1979 and has also 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 also a Director of HLCB, a company listed on the Main Market of Bursa Securities, and the Chairman of HLIB, a public company.

Board of Directors

MS LIM TAU KIEN
Non-Executive Director/Independent

Age 61, Female, Malaysian

Ms Lim Tau Kien 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 began her career with Ernst & Young, United Kingdom, before serving the Ministry of Finance and Prime Minister's Department as a Federal Accountant. She subsequently joined the Royal Dutch Shell Group where she held various senior finance positions over a period of 25 years in Malaysia, Australia and China, her last position being the Country Chief Financial Officer/Finance Director/Country Controller of the Shell Companies of China from 2004 to 2008.

Ms Lim has been a director of listed and non-listed companies since 1997 and 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 and Hengyuan Refining Company Berhad, both companies listed on the Main Market of Bursa Securities and UEM Group Berhad, a public company.

MS LIM LEAN SEE
Non-Executive Director/Independent

Age 64, Female, Malaysian

Ms Lim Lean See 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 Asian Institute of Chartered Bankers.

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

Age 54, Male, Malaysian

Mr Saw Kok Wei 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 RC of HLFG.

Noted:

1. Family Relationship with Director and/or Major Shareholder
   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 (excluding traffic offences) in the past 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2017.

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.

Key Senior Management

MR CHEW SEONG AUN

Group Chief Financial Officer of Hong Leong Financial Group ("HLFG")

Age 53, Male, Malaysian

Mr Chew Seong Aun obtained a Bachelor of Science (Eng) in Civil Engineering (Honours) degree in 1986 from Imperial College, University of London and is an ICAEW qualified Chartered Accountant (FCA) which he obtained subsequently via training and working with KPMG London.

Mr Chew joined HLFG on 1 November 2006 as its Chief Financial Officer ("CFO") and is presently the Group CFO of HLFG.

Mr Chew has over 30 years of experience in finance and banking. He spent 5½ years with KPMG London and then worked with Gulf International Bank in their London and Bahrain offices for approximately 6 years of which his last position was the Head of Financial Audit. Mr Chew then returned to Malaysia working in Citibank's Consumer Business as its Business Controller before being its Consumer CFO. He spent 8 years with Citibank Malaysia. He then spent about a year as a General Manager at Vsource Asia Berhad, a business process outsourcing firm before returning to banking as UOB Malaysia's CFO in September 2005.

Mr Chew is the Chairman of Hong Leong Asset Management Berhad, a public company.

MR DOMENIC FUDA

Group Managing Director/ Chief Executive Officer of Hong Leong Bank Berhad ("HLB"), a subsidiary of HLFG

Age 50, Male, Australian

Mr Domenic Fuda holds a Bachelor of Economics from Macquarie University, Sydney, as well as a Master of Business (Banking & Finance) and a Master of Business Administration (M.B.A.), both from University of Technology, Sydney.

Mr Domenic Fuda was appointed as the Group Managing Director/Chief Executive Officer of HLB on 5 February 2016. Mr Domenic Fuda is a member of the Executive Committee and Credit Supervisory Committee of HLB. He is also a Director of Hong Leong Islamic Bank Berhad ("HLISB"), a wholly-owned subsidiary of HLB.

Prior to HLB, Mr Domenic Fuda was the Managing Director and Deputy Group Head, Consumer Banking & Wealth Management of DBS Bank Ltd ("DBS"), Singapore. He joined DBS in March 2010 as Chief Financial Officer of Regional Consumer Banking & Wealth Management. During his tenure with DBS, Mr Domenic Fuda was responsible for the formulation and execution of a multi-year growth strategy for the 6 Asian markets in which DBS operates its consumer and wealth management businesses.

Prior to his position in DBS, he spent 16 years at Citigroup where he served in various senior management roles across Asia, the latest being Chief Operating Officer for South East Asia Pacific, Australia and New Zealand, where he helped to drive execution of Citi's strategy across 10 countries, launched Citi's Consumer Banking business in Vietnam and helped to manage the banking operations during the 2008/2009 financial crises.

Key Senior Management

MS LEE JIM LENG

Group Managing Director/Chief Executive Officer of Hong Leong Investment Bank Berhad ("HLIB"), a subsidiary of HLFG

Age 54, Female, Malaysian

Ms Lee Jim Leng obtained a Bachelor of Business Administration degree in 1984 from the Acadia University and a Master of Business Administration in 1987 from the Dalhousie University, Canada.

Ms Lee is the Group Managing Director/Chief Executive Officer of HLIB since 24 November 2009.

Ms Lee has more than 20 years of experience in the financial industry, specialising mainly in investment banking. Prior to joining HLIB, she was the Managing Director of a local investment bank where she was responsible for the overall development of the bank's investment business in Malaysia. From 1999 to 2007, she was attached to a Singapore based regional bank and was tasked to spearhead their investment banking division in Malaysia and the ASEAN region.

MS LOH GUAT LAN

Group Managing Director/Chief Executive Officer of Hong Leong Assurance Berhad ("HLA"), a subsidiary of HLFG

Age 52, Female, Malaysian

Ms Loh Guat Lan holds a Bachelor of Science in Nutrition Science and is the fellow member of Life Management Institute (FLMI), Customer Service Management (CSM) and Life Office Management (LOMA). She is also a Certified Financial Planner (CFP) and Registered Financial Planner (RFP).

Ms Loh joined HLA as the Chief Operating Officer (Life Division) on 6 August 2007 and was appointed as the Group Managing Director/Chief Executive Officer of HLA on 1 September 2009.

Ms Loh has extensive experience in the insurance industry, including agency management, branch management, and agency development and training. Prior to joining HLA, she was in the employment of American International Assurance Company Limited where her last position was Vice President & Senior Director of Agency (Malaysia).

Ms Loh is the Chairman of HL Assurance Pte Ltd and a Director of MSIG Insurance (Malaysia) Bhd, Hong Leong MSIG Takaful Berhad and Hong Leong Insurance (Asia) Limited, all public companies.

Notes:

1. **Family Relationship with Director and/or Major Shareholder**
   None of the Key Senior Management has any family relationship with any Director and/or major shareholder of HLFG.

2. **Conflict of Interest**
   None of the Key Senior Management has any conflict of interest with HLFG.

3. **Conviction of Offences**
   None of the Key Senior Management has been convicted of any offences (excluding traffic offences) in the past 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2017.

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)

SECRETARY

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

TERMS OF REFERENCE

The terms of reference of the BARMC are published on the Company's website at www.hlfg.com.my.

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 executive officer, group chief financial officer, chief risk officer, chief internal auditor, chief compliance officer, other senior management and external auditors may be 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.

The BARMC will also engage privately with the chief compliance officer, chief internal auditor and chief risk officer on a regular basis to provide the opportunity for the chief compliance officer, chief internal auditor and chief risk officer to discuss issues faced by compliance, internal audit and risk management functions.

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 shall abstain from reviewing and deliberating on the subject matter.

Two (2) members of the BARMC, who shall be independent and non-executive, 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 2017 ("FY17"), four (4) BARMC meetings were held and the attendance of the BARMC members was as follows:-

Member	Attendance
Ms Lim Tau Kien	4/4
Mr Saw Kok Wei	4/4
Ms Lim Lean See	4/4

Board Audit & Risk Management Committee Report

HOW THE BARMC DISCHARGES ITS RESPONSIBILITIES

Financial Reporting

The BARMC reviewed the quarterly reports and financial statements of the Company and of the Group focusing particularly on:-

(i) any changes in accounting policies and practices;
(ii) significant adjustments arising from the audit;
(iii) the going concern assumptions; and
(iv) compliance with accounting standards and other legal requirements.

The legal and regulatory environment was monitored and consideration given to changes in law, regulation, accounting policies and practices including the new Auditor Reporting Standards – ISA 701 on key audit matters and the additional disclosure requirements under the amended Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

External Audit

The external auditors of the Group for the FY17 is Messrs PricewaterhouseCoopers ("PwC"). The BARMC discussed and reviewed with the external auditors, before the audit commences for the financial year:

(i) the audit plan and timetable for the financial audit of the Group including the focus areas and approach to the current financial year's audit and any significant issues that can be foreseen, either as a result of the past year's experience or due to new accounting standards or other changes in statutory or listing requirements; and

(ii) the methodology and timetable of the Statement on Internal Control and Risk Management.

The BARMC reviewed the report and audit findings of the external auditors and considered management's responses to the external auditor's audit findings and investigations. The BARMC also had two (2) separate sessions with the external auditors without the presence of Executive Directors and management whereby matters discussed include key reservations noted by the external auditors during the course of their audit; whilst the BARMC Chairman maintained regular contact with the audit partner throughout the year.

The BARMC reviewed the external audit fees and their scope of services. The fees paid to PwC for the FY17 amounted to RM5,179,484 of which RM2,115,373 was payable in respect of non-audit services. Non-audit services accounted for 40.8% of the total fees payable. The BARMC assessed the objectivity and independence of the external auditors prior to the appointment of the external auditors for ad-hoc non-audit services.

The BARMC also evaluated the performance of PwC in the following areas in relation to its re-appointment as auditors for the financial year ended 30 June 2017 and considered PwC to be independent:-

(a) level of knowledge, capabilities, experience and quality of previous work;
(b) level of engagement with BARMC;
(c) ability to provide constructive observations, implications and recommendations in areas which require improvements;
(d) adequacy in audit coverage, effectiveness in planning and conduct of audit;
(e) ability to perform the audit work within the agreed timeframe;
(f) non-audit services rendered by PwC does not impede independence;
(g) ability to demonstrate unbiased stance when interpreting the standards/policies adopted by the licensed institutions; and
(h) risk of familiarity in respect of PwC's appointment as external auditors.

PwC, in accordance with professional ethical standards, have provided the BARMC with confirmation of their independence for the duration of the FY17 and the measures used to control the quality of their work.

The BARMC has therefore recommended to the Board that PwC be re-appointed as the auditors. Resolutions concerning the re-appointment of PwC will be proposed to shareholders at the 2017 Annual General Meeting.

Related Party Transactions

The BARMC conducted quarterly review of the recurrent related party transactions ("RRPT") entered into by the Group to ensure that such transactions are undertaken on commercial terms and on terms not more favourable to the related parties than those generally available to and/or from the public.

The Group had put in place the procedures and processes to monitor, track and identify the RRPT as well as to ensure that the RRPT are conducted on commercial terms consistent with the Group's usual business practices and policies and on terms not more favourable to the related parties than those generally available to and/or from the public, where applicable.

Board Audit & Risk Management Committee Report

The BARMC reviewed the said procedures and processes on an annual basis and as and when required, to ensure that the said procedures are adequate to monitor, track and identify RRPT in a timely and orderly manner, and are sufficient to ensure that the RRPT will be carried out on commercial terms consistent with the Group's usual business practices and policies and on terms not more favourable to the related parties than those generally available to and/or from the public.

Internal Audit

The BARMC reviewed the adequacy of internal audit scope, internal audit plan and resources of the various internal audit functions within the respective business units under the Group.

During the financial year, BARMC noted that the various internal audits had effectively carried out audits to their respective business entities in the Group, and reviewed the updates on the audits performed on the banking business, investment banking business and insurance business as set out in the Internal Audit Function section of this report.

The review of BARMC on the audit findings and recommendations had focused on the adequacy and integrity of internal control systems, business and compliance audits on the respective business units. The management's responses to internal audits' findings were also presented for the BARMC's consideration. The BARMC also reviewed at every BARMC meetings the status update of management's corrective action plans for the resolution of internal audit's findings and recommendations. Recommendations were made by BARMC to ensure that the root causes raised by internal audits in their audit reports were effectively resolved and that any outstanding audit findings be tracked for timely resolution.

Risk Management and Internal Control System

The BARMC considered reports on risk management for the purpose of overseeing and reporting to the Board, on the proper functioning of Risk Management as part of its responsibilities to monitor the Group's compliance with the business objectives, policies, reporting standards and control procedures of the Group.

The Chief Risk Officers of the respective business units under the Group were invited to present to the BARMC their respective Risk Management Dashboards covering among others Credit Risk, Market Risk, Liquidity Risk, Operational Risk, IT Risk and Regulatory Risk.

The BARMC also considered and reviewed the processes put in place to identify, evaluate and manage significant risks encountered by the Group as well as the adequacy and integrity of internal control systems, including risk management and relevant management information system.

COMPLIANCE

The Chief Compliance Officer was appointed and compliance function was established with effect from 1 January, 2017.

The BARMC considered reports on compliance for the purpose of overseeing and reporting to the Board on the compliance functions of the Group as part of its responsibilities to monitor the Group's compliance with regulatory requirements and internal policies.

The Chief Compliance Officer was invited to present to the BARMC the compliance reports and deliberations on significant compliance issues were made.

INTERNAL AUDIT FUNCTION

The various internal audit functions within the Group entities employ 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 to the potential risk exposure and impact. These audits are performed in line with the Bank Negara Malaysia Guidelines on Internal Audit Function.

During the FY17, the following internal audits were carried out:

- Banking: audits on operations, information technology system, treasury, credit, head office, branches, business centre, mortgage sales centre, loan centre, overseas branches and subsidiaries, investigation and other assignments as required by regulatory bodies. Shariah audits were performed on Islamic banking business as well.
- Investment Banking: audits on operations, supervisory functions, information technology systems, treasury, investment banking, stockbroking, fund management, unit trusts, branches and other assignments as required by regulatory bodies.
- Insurance: audits on operations, compliance, actuarial, investment, financial, information technology system, branches, and other assignments as required by regulatory bodies.

The cost incurred for the various internal audit functions within the Group for the FY17 was RM15 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.

The Board took cognisance of the new Malaysian Code on Corporate Governance published in April 2017 ("MCCG 2017") which is applicable to annual reports published from 2018 onwards.

The Board also reviewed the manner in which the Bank Negara Malaysia's ("BNM") policy document on Corporate Governance ("BNM CG") is applied in the Group, where applicable, as set out below.

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.

In discharging its responsibilities, the Board established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which is reviewed periodically by the Board and published on the Company's website at 'www.hlfg.com.my'. The last review of the Board Charter was carried out in September 2017. The key roles and responsibilities of the Board 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 BNM as specified in guidelines and circulars issued by BNM from time to time.

Corporate Governance, Risk Management & Internal Control

A. ROLES AND RESPONSIBILITIES OF THE BOARD (CONTINUED)

The day-to-day business of the Company is managed by the President & Chief Executive Officer ("CEO") who is assisted by the management team. The CEO and his management team are accountable to the Board for the performance of the Company. In addition, the Board has established Board Committees which operate within clearly defined TOR primarily to support the Board in the execution of its duties and responsibilities.

To discharge its oversight roles and responsibilities more effectively, the Board has delegated the independent oversight over, inter alia, internal and external audit functions and internal controls; and risk management to the Board Audit and Risk Management Committee ("BARMC"). The Nomination Committee ("NC") is delegated the authority to inter alia, assess and review Board, Board Committees and CEO appointments and re-appointments and oversee management succession planning. Although the Board has granted such authority to Board Committees, the ultimate responsibility and the final decision rest with the Board. The chairmen of Board Committees report to the Board on matters dealt with at their respective Board Committee meetings. Minutes of Board Committee meetings are also tabled at Board meetings.

There is a clear division of responsibilities between the Chairman of the Board and the CEO. This division 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 formulating the vision and recommending policies and the 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.

Independent Non-Executive Directors ("INEDs") are responsible for providing insights, unbiased and independent views, advice and judgment to the Board and bring impartiality to Board deliberations and decision-making. They also ensure effective checks and balances on the Board. There are no relationships or circumstances that could interfere with or are likely to affect the exercise of INEDS' independent judgment or their ability to act in the best interest of the Company and its shareholders.

The Group continues to operate in a sustainable manner and seeks to contribute positively to the well-being of stakeholders. The Group takes a progressive approach in integrating sustainability into its businesses as set out in the Sustainability Statement in the Annual Report.

The Board observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia ("CCM") which is available at CCM's website at 'www.ssm.com.my'. In addition, the Company also has a Code of Conduct and Ethics that sets out sound principles and standards of good practice which are to be observed by the employees. A Whistleblowing Policy has also been established by the Company and it provides a structured channel for all employees of the Company and any other persons providing services to, or having a business relationship with the Company, to report any concerns about any improper conducts, wrongful acts or malpractice committed within the Company.

B. BOARD COMPOSITION

The Board comprises six (6) directors, five (5) 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 is guided by BNM CG and Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa") 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 their duties and responsibilities effectively.

The Board has in place a Board Diversity Policy. 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 will work towards increasing women participation on the Board in line with MCCG 2017.

Corporate Governance, Risk Management & Internal Control

B. BOARD COMPOSITION (CONTINUED)

Based on the review of the Board composition in July 2007, 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 strategy and 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) BARMC

The composition of the BARMC and a summary of its activities in the discharge of its functions and duties for the financial year and explanation on how the BARMC had met its responsibilities are set out in the BARMC Report in this Annual Report.

The BARMC's functions and responsibilities are set out in the TOR which is published on the Company's website (www.hlfg.com.my).

(b) NC

The NC was established on 30 October 2008. The composition of the NC is as follows:

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

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

Ms Lim Tau Kien
(Independent Non-Executive Director)

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman
(Non-Independent Non-Executive Director)
(Resigned from the NC with effect from 25 January 2017)

Mr Saw Kok Wei
(Independent Non-Executive Director)
(Resigned from the NC with effect from 25 January 2017)

The NC's functions and responsibilities are set out in the TOR which is published on the Company's website ('www.hlfg.com.my').

The Company has in place Fit and Proper ("F&P") Policy as a guide for the following process and procedure for assessment of (i) new appointment, re-appointment, re-election and retention of directors, (ii) the appointment of Board Committee members, and (iii) the appointment and re-appointment of CEO, and the criteria used for such assessments. Upon the approval of the Board, an application on the prescribed forms will be submitted to BNM for approval in respect of new appointments and re-appointments.

Corporate Governance, Risk Management & Internal Control

C. BOARD COMMITTEES (CONTINUED)

(b) NC (continued)

(i) New Appointments

The nomination, assessment and approval process for new appointments is as follows:

Identification of candidates	Meeting with candidates	• Assessment against Assessment Criteria and BNM Guidelines • F&P Declaration by candidates • Relevant Credit Bureau Checks • CTOS (Bankruptcy) search • Recommendation by the NC	Deliberation by the Board and decision thereof

In assessing the candidates for Board appointments, the NC will take into account, inter alia, the strategic and effective fit of the candidates for the Board, the overall desired composition and the mix of expertise and experience of the Board as a whole and having regard to the candidates' attributes, qualifications, management, leadership, business experience and their F&P Declarations in respect of their probity, competence, qualifications, skills, experience and financial integrity in line with the standards required under the BNM Guidelines. The Company has taken steps to build and maintain a pool of potential Board candidates from internal and external introductions, recommendations and director databases in its search for suitable Board candidates.

In the case of CEO, the NC will take into account the candidate's knowledge and experience in the industry, market and segment. The NC will also consider the candidate's F&P Declaration in line with the standards required under the relevant BNM Guidelines.

(ii) Re-Appointments

The assessment and approval process for re-appointments is as follows:

CTOS (Bankruptcy) search	• Assessment against Assessment Criteria and BNM Guidelines • F&P Declaration • Recommendation by the NC	Deliberation by the Board and decision thereof

For re-appointments, the Directors/CEOs will be evaluated on their performance in the discharge of duties and responsibilities effectively, including, inter alia, contribution to Board deliberations, time commitment as well as the Annual Board Assessment (as defined below) results, contributions during the term of office, attendance at Board meetings, F&P Declarations and for independent directors, their continued independence.

Corporate Governance, Risk Management & Internal Control

C. BOARD COMMITTEES (CONTINUED)

(b) NC (continued)

(iii) Board Committee Appointments

The nomination, assessment and approval process for appointments to Board Committees ("Board Committee Appointments") is as follows:

Identification of Directors for Board Committees membership	• Assessment against Assessment Criteria and BNM Guidelines • Recommendation by the NC	Deliberation by the Board and decision thereof

The assessment for Board Committee Appointments will be based on the Directors' potential contributions and value-add to the Board Committees with regard to Board Committees' roles and responsibilities.

In addition, 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 on an annual basis ("Annual Board Assessment") in conjunction with the annual F&P assessment of Directors and CEO per BNM Guidelines. The NC will deliberate on the results of the Annual Board Assessment and submit its recommendation to the Board for consideration and approval. For newly appointed director/CEO, the Annual Board Assessment will be conducted at the next annual assessment exercise following the completion of one year of service.

Assessment criteria for Board as a whole include, inter alia, the effectiveness of the Board composition in terms of size and structure vis-à-vis the complexity, size, scope and operations of the Company; the core skills, competencies and experience of the Directors; and the Board's integrity, competency, responsibilities and performance. The assessment criteria for Board Committees include the effectiveness of the respective Board Committees' composition in terms of mix of skills, knowledge and experience to carry out their respective roles and responsibilities per the Board Committees' TOR and the contributions of Board Committees members. Each individual director is assessed on, inter alia, the effectiveness of his/her competency, expertise and contributions. The skills, experience, soundness of judgment as well as contributions towards the development of business strategies and direction of the Company and analytical skills to the decision-making process are also taken into consideration.

For management succession planning, it has been embedded in the Group's process over the years to continuously identify, groom and develop key talents from within the Group. The Group also has a talent development programme to identify, retain and develop young high potential talents.

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 financial year ended 30 June 2017 ("FY17"), four (4) NC meetings were held and the attendance of the NC members was as follows:

Member	Attendance
Ms Lim Lean See	4/4
YBhg Tan Sri Quek Leng Chan	4/4
Ms Lim Tau Kien	4/4
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman(1)	2/2
Mr Saw Kok Wei(2)	2/2

Notes:
(1) Resigned from the NC with effect from 25 January 2017.
(2) Resigned from the NC with effect from 25 January 2017.

Corporate Governance, Risk Management & Internal Control

C. BOARD COMMITTEES (CONTINUED)

(b) NC (continued)

The NC carried out the following activities in the discharge of its duties in accordance with its TOR during the FY17:

- Reviewed and recommended to the Board for approval the rationalisation on Board Committees composition in line with BNM CG and MMLR;
- Reviewed the re-appointments of Directors in accordance with the F&P Policy, BNM CG and MMLR and recommended to the Board for consideration and approval;
- Considered and recommended to the Board for approval the appointment of the Chief Compliance Officer;
- Considered and recommended to the Board for approval the appointment of the Chief Internal Auditor;
- Carried out the Annual Board Assessment and was satisfied that the Board as a whole, Board Committees and individual directors have continued to effectively discharge their duties and responsibilities in accordance with their respective TORs, and that the current Board composition in terms of Board balance, size and mix of skills is appropriate and effective for the discharge of its functions. The NC took cognizance of the merits of Board diversity including women participation on the Board, in adding value to the Company. The NC will work towards increasing women participation on the Board in line with the MCCG 2017.;
- Considered and assessed the position of independent directors of the Company and was satisfied that the independent directors met the regulatory requirements for independent directors;
- Reviewed the F&P Declarations by Directors in line with the BNM Policy Document on F&P Criteria and was satisfied that the Directors met the requirements as set out in BNM Policy Document on F&P Criteria;
- Reviewed and recommended to the Board for adoption the revisions to the F&P Policy on new appointments and re-appointments of directors and CEO; Board Committees appointments and Annual Board Assessment;
- Refined the assessment process for new Board appointments in the assessment process to include a credit bureau check to improve the effectiveness of the evaluation of Board candidates on financial probity;
- Reviewed and recommended to the Board for approval to include an additional function of the NC to review annually the term of office and performance of the BARMC and each of its members to determine whether the BARMC and its members have carried out their duties in accordance with the TOR of the BARMC in compliance with the MMLR;
- Reviewed the term of office and performance of the BARMC and each of its members in accordance with the TOR of BARMC and was of the view that the BARMC and each of its members had carried out their duties in accordance with the BARMC TOR for the periods under review.

(c) Remuneration Committee ("RC")

The RC was established on 30 October 2008. The composition of the RC is 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)
(Resigned from the RC with effect from 25 January 2017)

Corporate Governance, Risk Management & Internal Control

C. BOARD COMMITTEES (CONTINUED)

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

Mr Saw Kok Wei
(Independent Non-Executive Director)
(Appointed with effect from 25 January 2017)

The RC's functions and responsibilities are set out in the TOR which is published on the Company's website ('www.hlfg.com.my').

During the FY17, two (2) RC meetings were held and the attendance of the RC 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[(1)]	1/1
Mr Saw Kok Wei[(2)]	1/1

Notes:
(1) Resigned from the RC with effect from 25 January 2017.
(2) Appointed to the RC with effect from 25 January 2017 after the RC meeting.

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.

The level of remuneration of non-executive directors reflects the scope of responsibilities and commitment 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 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 FY17 is as follows:

	Fees (RM)		Salaries & Other Emoluments (RM)		Total (RM)	
	Company	Group	Company	Group	Company	Group
Executive Directors	–	–	6,194,960	6,194,960	6,194,960	6,194,960
Non-Executive Directors	555,701	1,109,319	28,000	28,000	583,701	1,137,319

Corporate Governance, Risk Management & Internal Control

C. BOARD COMMITTEES (CONTINUED)

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

The number of directors whose remuneration (including remuneration earned as director of subsidiaries) falls into the following bands is as follows:

Range of Remuneration (RM)	Executive		Non-Executive	
	Company	Group	Company	Group
1 – 50,000	–	–	1	1
100,001 – 150,000	–	–	3	–
150,001 – 200,000	–	–	1	1
200,001 – 250,000	–	–	–	1
300,001 – 350,000	–	–	–	1
350,001 – 400,000	–	–	–	1
6,150,001 – 6,200,000	1	1	–	–

Remuneration

Hong Leong Financial Group's (HLFG) rewards strategy is in alignment with the Hong Leong Group's total compensation philosophy which supports and promotes a high performing culture to deliver HLFG's business objectives. The rewards strategy focuses on providing a competitive remuneration and benefits package, as well as ample career progression opportunities for employees.

HLFG's rewards framework focuses on a balanced and right pay mix to achieve the desired long term business performance. The framework includes base pay, fixed cash allowances, performance-based variable pay, sales incentive, long term incentives, benefits and other employee programs.

The rewards framework ensures that employees are paid competitively against the industry and talent market HLFG is operating in; delivered via a combination of cash and non-cash elements such as shares or share-linked instruments.

HLFG also adopts a rigorous and robust key performance indicators ("KPIs") setting process that incorporates risk management (to fulfill risk control objectives) as part of the scorecards for each department (in particular each Head of Department). This is to ensure excessive risk taking behaviour of staff is minimized and sufficient control mechanisms are in place.

KPIs and key results areas of employees are measured and tracked diligently to ensure strong alignment of employee output to the overall business strategy and direction of HLFG.

Remuneration Process

The remuneration of senior management and material risk takers are presented and approved by the Board annually. HLFG is enhancing the process of annual review of Management scorecards to include formal review by Risk and Compliance to ensure adequate weightages are placed on risk and compliance related KPIs. Risk control objectives that are not met and any non-compliance will have significant consequence to remuneration decisions.

Role of BARMC in remuneration matters

BARMC is tasked to review Management's implementation of the remuneration system on whether incentives provided by the remuneration system take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the Board RC.

Corporate Governance, Risk Management & Internal Control

C. BOARD COMMITTEES (CONTINUED)

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

Deferred Compensation and Clawbacks

The deferred compensation is applicable to some of the incentive schemes introduced in HLFG. These are mostly for sales-type roles with built-in clawback mechanism. The clawback mechanism is introduced to ensure excessive risk taking behavior of staff is minimized and that the system does not induce excessive risk taking and sufficient control is in place. Periodic reviews as well as post-implementation reporting to the BARMC are carried out to examine the effectiveness of the schemes in driving the right behaviors in achieving business goals and that there are no adverse risk elements in the approved schemes. The clawbacks mechanism is triggered when there are non-compliances to regulations and policies.

The remuneration of Senior Management and other Material Risk Takers for FY17 is shown in the table below:

	Unrestricted (RM)	Deferred (RM)
Fixed Remuneration	4,719,000	–
• Cash-based	4,719,000	–
• Shares and share-linked instruments	–	–
• Other	–	–
Variable Remuneration	4,230,000	–
• Cash-based	4,230,000	–
• Shares and share-linked instruments	–	–
• Other	–	–

D. INDEPENDENCE

The Board takes cognisance of Recommendations 3.2 and 3.3 of the Code. Recommendation 3.2 states that the tenure of an independent director should not exceed a cumulative term of 9 years and upon completion of the 9 years, an independent director may continue to serve on the Board subject to the director's re-designation as a non-independent director. Recommendation 3.3 states that in the event the Company wishes to retain an independent director who has served a cumulative term of 9 years and above, shareholders' approval shall be sought at the AGM every year with justification.

The tenure of all independent directors on the Board of the Company does not exceed 9 years. 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 Company has in place a policy in relation to the tenure for independent directors of the Company ("Tenure Policy") under the F&P Policy of the Company. Pursuant to the Tenure Policy, an independent director who has served on the Board of any company under the Hong Leong Financial Group for a period of 9 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) the expiry of his term of office approved by BNM; or
(b) the due date for his retirement by rotation pursuant to the Constitution of the Company.

Corporate Governance, Risk Management & Internal Control

D. INDEPENDENCE (CONTINUED)

If the intention is to continue in office, the NC shall consider based on the assessment criteria and guidelines set out in the F&P Policy and make the appropriate recommendation to the Board. If the intention is to retire from office, an application shall be made to BNM to seek clearance in accordance with BNM Guidelines. For public listed bank/companies under the Hong Leong Financial Group, shareholders' approval at AGMs shall be sought in accordance with the relevant requirements under the Code and the MMLR subject to favourable assessment of the NC and the Board.

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.

E. COMMITMENT

The directors are aware of their responsibilities and 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 of 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. Additional meetings may be convened on an adhoc basis as and when necessary. Where appropriate, decisions are also taken by way of Directors' Circular Resolutions. Directors are required to attend at least 75% of Board meetings held in each financial year pursuant to the BNM CG.

All Board members are supplied with information in a timely manner. The Company has moved towards electronic Board reports. Board reports are circulated electronically prior to Board and Board Committee 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 to facilitate the discharge of their duties effectively. The Company Secretary is qualified to act under Section 235 of the Companies Act 2016. She supports the effective functioning of the Board, provides advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and govenance functions and facilitates effective information flow amongst the Board, Board Committees and senior management. All directors also have access to the advice and services of the internal auditors and in addition, to independent professional advice, where necessary, 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 deliberating and voting on the same during the meetings.

The Board met five (5) times for the FY17 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 Tan Kong Khoon	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 and Continuing Professional Development ("CPD") for directors of the Company. The Induction Programme is organised 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. The CPD encompasses areas related to the industry or business of the Company, governance, risk management and regulations through a combination of courses and conferences. A training budget is allocated for Directors' training programmes.

Corporate Governance, Risk Management & Internal Control

E. COMMITMENT (CONTINUED)

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.

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

During the FY17, 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 FY17, the directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- BNM – Future Finance Conference FIDE Forum – FinTech: Business Opportunity of Disruptor
- FIDE Forum – Technology-based Innovation that Counts
- MINDA & Bursa Malaysia – Sustainability Forum for Directors/CEOs: The Velocity of Global Change & Sustainability – The New Business Model
- ICLIF & MINDA – Breakfast Talk with Asian Corporate Governance Association: Corporate Governance Watch 2016 – Ecosystems Matter
- MINDA & Association of Chartered Certified Accountants (ACCA) – ACCA Malaysia Sustainability Awards (MaSRA) 2016: Luncheon and Awards Presentation Ceremony
- ICLIF – FIDE Elective Programme: Understanding Liquidity Risk Management in Banking
- The Institute of Internal Auditors Malaysia (IIAM) & Malaysian Institute of Corporate Governance (MICG) – The Evolving Role of Audit Committee in Governance, Risk & Control Forum
- Suruhanjaya Syarikat Malaysia – Briefing on Companies Act 2016
- Bursatra – Changes Affecting Directors Under The Companies Act 2016: What Every Director Needs To Know
- Companies Act 2016 Update
- 4th Industrial Revolution: Impact and Opportunities for Manufacturing and Financial Services
- Securities Industry Development Corporation – Capital Market Director Programme
- Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001: The Law & Compliance
- Briefing Session on Shariah Compliance Trading Window
- An Overview of Latest Development of Shariah Standards issued by Bank Negara Malaysia – Investment Account & Investment Account Platform
- Sustainability Reporting: Awareness Session
- Clarification of Audit Rating Methodology

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.

Corporate Governance, Risk Management & Internal Control

F. ACCOUNTABILITY AND AUDIT (CONTINUED)

II Risk Management and 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.

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. In this regard, an annual assessment is conducted by the BARMC to evaluate the performance, independence and objectivity of the external auditors prior to making any recommendation to the Board on the re-appointment of the external auditors.

The Company also has a Policy on the Use of External Auditors for Non-Audit Services to govern the professional relationship with the external auditors in relation to non-audit services. Assessment will be conducted by the BARMC for non-audit services to ensure that the provision of non-audit services does not interfere with the exercise of independent judgment of the external auditors.

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's website, in the media and by post to shareholders. This allows shareholders to make the necessary arrangements to attend and participate in general meetings either in person, by corporate representative, by proxy or by attorney.

The Company has a website at 'www.hlfg.com.my' which the shareholders can access for information which includes the Board Charter, TORs of Board Committees, corporate information, announcements/ press releases/briefings, financial information and investor relations. A summary of the key matters discussed at the AGM is published on the Company's website.

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 Group Chief Financial Officer to direct queries and provide feedback to the Group.

Corporate Governance, Risk Management & Internal Control

H. SHAREHOLDERS (CONTINUED)

Queries may be conveyed to the Group 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. All directors and CEO attended the last AGM held on 27 October 2016.

Pursuant to Paragraph 8.29A(1) of the MMLR, all resolutions tabled at general meetings will be put to a vote by way of a poll and the voting results will be announced at the meetings and through Bursa.

I. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

I The responsibility 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 Group 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 FY17 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.

Corporate Governance, Risk Management & Internal Control

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

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.

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 have 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.

As required by Paragraph 15.23 of the MMLR, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised) issued by the Malaysian Institute of Accountants. RPG 5 (Revised) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

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 state of affairs of the Group and of the Company as at the end of the financial year and of its financial results and cash flows 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 FY17, 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 2017

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 2017.

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	1,506,765	581,370
- Non-controlling interests	810,119	–
	2,316,884	581,370

DIVIDENDS

The dividends on ordinary shares paid or declared by the Company since the previous financial year ended 30 June 2016 were as follows:

(a) A first interim single-tier dividend of 13 sen per share, amounting to RM149,177,196 in respect of the financial year ended 30 June 2017, was paid on 23 December 2016.

(b) A second interim single-tier dividend of 25 sen per share, amounting to RM286,879,223 in respect of the financial year ended 30 June 2017, was paid on 23 June 2017.

The Directors do not recommend the payment of any final dividend for the financial year ended 30 June 2017.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 51 to the financial statements.

SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

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

Directors' Report

for the financial year ended 30 June 2017

CREDIT RATING

On 17 August 2017, Malaysian Rating Corporation Berhad ("MARC") has reaffirmed a MARC-1/AA ratings to Hong Leong Financial Group Berhad ("HLFG")'s 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 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
August 2017	Affirmed	Short-term rating: MARC-1	Highest category; indicates a very high likelihood that principal and interest will be paid on a timely basis.
August 2017	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.

CORPORATE GOVERNANCE

The corporate governance disclosures are set out in the Corporate Governance, Risk Management and Internal Control Statement.

DIRECTORS

The Directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

YBhg Tan Sri Quek Leng Chan	(Chairman, Non-Executive Non-Independent)
Mr Tan Kong Khoon	(President & Chief Executive Officer, Non-Independent)
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)
Mr Quek Kon Sean (Resigned with effect from 9 July 2016)	(Non-Independent Non-Executive Director)

The directors' names and their remuneration details are set out in the subsidiaries' statutory accounts and the said names and details are deemed incorporated herein by such reference and made a part hereof.

Details of subsidiaries are set out in Note 11 to the financial statements.

Directors' Report

for the financial year ended 30 June 2017

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act, 2016, 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 loan stocks 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/ordinary shares issued or to be issued or acquired arising from the exercise of options*/ conversion of redeemable convertible unsecured loan stocks** or redeemable convertible cumulative preference shares***			
	Nominal value per share RM (unless indicated)	**As at 01.07.2016**	**Acquired**	**Sold**	**As at 30.06.2017**
Interests of YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	(1)	390,000	–	–	390,000
Hong Leong Financial Group Berhad	(1)	5,438,664	–	–	5,438,664
Guoco Group Limited	USD0.50	1,056,325	–	–	1,056,325
GuocoLand Limited	(2)	13,333,333	–	–	13,333,333
GuocoLand (Malaysia) Berhad	(1)	19,506,780	–	–	19,506,780
GL Limited	USD0.20	735,000	–	–	735,000
The Rank Group Plc	GBP13 8/9 p	285,207	–	–	285,207
Interests of YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman in:					
Hong Leong Financial Group Berhad	(1)	5,544,000	–	–	5,544,000
Hong Leong Bank Berhad	(1)	400,000	–	–	400,000
Hong Leong Industries Berhad	(1)	52,800	–	–	52,800
Malaysian Pacific Industries Berhad	(1)	20,800	–	–	20,800
Hume Industries Berhad	(1)	57,024	–	–	57,024

		Shareholdings in which Directors have deemed interests Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising from the exercise of options*/ conversion of redeemable convertible unsecured loan stocks** or redeemable convertible cumulative preference shares***			
	Nominal value per share RM (unless indicated)	**As at 01.07.2016**	**Acquired**	**Sold**	**As at 30.06.2017**
Interests of YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	(1)	13,233,455 (7)	–	(5,532,000) (13)	7,701,455 (7)
Hong Leong Financial Group Berhad	(1)	898,436,732	2,452,500 (12)	(4,730,506) (13)	896,158,726 (7)
Hong Leong Capital Berhad	(1)	200,805,058	–	–	200,805,058
Hong Leong Bank Berhad	(1)	1,346,237,169	–	–	1,346,237,169
Hong Leong MSIG Takaful Berhad	(1)	65,000,000	–	–	65,000,000
Hong Leong Assurance Berhad	(1)	140,000,000	–	–	140,000,000
Hong Leong Industries Berhad	(1)	245,435,003 (7)	–	(2,019,333) (13)	243,415,670 (7)
		200,000 *(7)	–	–	200,000 *(7)
Hong Leong Yamaha Motor Sdn Bhd	(1)	17,352,872	–	–	17,352,872
Guocera Tile Industries (Meru) Sdn Bhd	(1)	19,600,000	–	–	19,600,000

Directors' Report

for the financial year ended 30 June 2017

DIRECTORS' INTERESTS (CONTINUED)

	Nominal value per share RM (unless indicated)	Shareholdings in which Directors have deemed interests Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising from the exercise of options*/ conversion of redeemable convertible unsecured loan stocks** or redeemable convertible cumulative preference shares*** As at 01.07.2016	Acquired	Sold	As at 30.06.2017
Interests of YBhg Tan Sri Quek Leng Chan in: (continued)					
Hong Leong Maruken Sdn Bhd (In members' voluntary liquidation)	(1)	1,750,000	–	(1,750,000) (10)	–
Century Touch Sdn Bhd (In members' voluntary liquidation)	(1)	6,545,001	–	–	6,545,001
Varinet Sdn Bhd (In members' voluntary liquidation)	(1)	10,560,627	–	–	10,560,627
Malaysian Pacific Industries Berhad	(1)	112,217,857 (7)	–	(2,509,850) (7) (757,250) (13)	108,950,757
Carter Resources Sdn Bhd	(1)	5,640,607	–	–	5,640,607
Carsem (M) Sdn Bhd	(1)	84,000,000	–	–	84,000,000
		22,400 (8)	–	–	22,400 (8)
Hume Industries Berhad	(1)	353,447,487 (7)	–	(1,029,950) (11) (2,185,879) (13)	350,231,658 (7)
		100,000 *(7)	–	–	100,000 *(7)
Guoco Group Limited	USD0.50	237,124,930	–	–	237,124,930
GuocoLand Limited	(2)	817,911,030	–	–	817,911,030
		100,000 *(7)	320,000 *(7)	–	420,000 *(7)
Southern Steel Berhad ("SSB")	(1)	299,541,202	–	(7,371,493) (13)	292,169,709
	(1)	141,627,296 **	–	(1,550,959) **	140,076,337 **
Southern Pipe Industry (Malaysia) Sdn Bhd	(1)	118,822,953	4,550,000	–	123,372,953
	(1)	20,000,000 ***(9)	–	(20,000,000) ***(9)&(16)	–
TPC Commercial Pte. Ltd. (formerly known as Belmeth Pte. Ltd.)	(2)	40,000,000	149,600,000	–	189,600,000
TPC Hotel Pte. Ltd. (formerly known as Guston Pte. Ltd.)	(2)	8,000,000	–	–	8,000,000
Wallich Residence Pte. Ltd. (formerly known as Perfect Eagle Pte. Ltd.)	(2)	24,000,000	–	–	24,000,000
GLL Chengdu Pte Ltd	(2)	149,597,307 (14)	–	–	149,597,307 (15)
Beijing Minghua Property Development Co., Ltd (In members' voluntary liquidation)	(3)	150,000,000	–	–	150,000,000
Shanghai Xinhaojia Property Development Co., Ltd	(3)	3,150,000,000	–	–	3,150,000,000
Shanghai Xinhaozhong Property Development Co., Ltd	(4)	19,600,000	–	–	19,600,000
Lam Soon (Hong Kong) Limited	(6)	140,008,659	–	–	140,008,659
Guangzhou Lam Soon Food Products Limited	(5)	6,570,000	–	–	6,570,000
GuocoLand (Malaysia) Berhad	(1)	455,698,596	376,200	(500,000) (13)	455,574,796
Guoman Hotel & Resort Holdings Sdn Bhd	(1)	277,000,000	–	–	277,000,000
JB Parade Sdn Bhd	(1)	28,000,000	–	–	28,000,000
	(1)	68,594,000 (8)	–	–	68,594,000 (8)
Continental Estates Sdn Bhd	(1)	34,408,000	–	–	34,408,000
	(1)	123,502,605 (8)	–	–	123,502,605 (8)

Directors' Report

for the financial year ended 30 June 2017

DIRECTORS' INTERESTS (CONTINUED)

	Nominal value per share RM (unless indicated)	Shareholdings in which Directors have deemed interests Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising from the exercise of options*/ conversion of redeemable convertible unsecured loan stocks** or redeemable convertible cumulative preference shares*** As at 01.07.2016	Acquired	Sold	As at 30.06.2017
Interests of YBhg Tan Sri Quek Leng Chan in: (continued)					
GL Limited	USD0.20	933,073,825	4,258,300	(11,578,991) (13)	925,753,134
		100,000 *(7)	–	–	100,000 *(7)
The Rank Group Plc	GBP13 8/9 p	219,282,221	–	–	219,282,221
Interests of YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman in:					
Hong Leong Financial Group Berhad	(1)	3,600 (12)	–	–	3,600 (12)
Hong Leong Bank Berhad	(1)	68,000 (12)	–	–	68,000 (12)

Notes:

(1) Concept of par value was abolished with effect from 31 January 2017 pursuant to the Companies Act, 2016
(2) Concept of par value was abolished with effect from 30 January 2006 pursuant to the Singapore Companies (Amendment) Act, 2005
(3) Capital contribution in RMB
(4) Capital contribution in USD
(5) Capital contribution in HKD
(6) Concept of par value was abolished with effect from 3 March 2014 pursuant to the New Companies Ordinance (Chapter 622), Hong Kong
(7) Inclusive of interest pursuant to Section 59(11)(c) of the Companies Act, 2016 in shares held by family member
(8) Redeemable Preference Shares
(9) The redeemable convertible cumulative preference shares ("RCCPS") are convertible into ordinary shares at the option of the holder of RCCPS on the basis of 400 ordinary shares for every RCCPS
(10) Dissolved during the financial year
(11) Transfer of free ordinary shares in HIB to the grant holders upon vesting
(12) Interest pursuant to Section 59(11)(c) of the Companies Act, 2016 in shares held by family member
(13) Cessation of deemed interest pursuant to Section 8(4) of the Companies Act, 2016
(14) A wholly owned subsidiary
(15) Became a non-wholly owned subsidiary during the financial year
(16) Redemption of RCCPS

Directors' Report

for the financial year ended 30 June 2017

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 the benefits shown under Directors' Remuneration in Note 36 to the financial statements, included in the aggregate amount of remuneration 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 Scheme.

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 ("ESOS") and the Executive Share Grant Scheme ("ESGS").

(a) ESOS

The ESOS 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.

The ESOS 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.

(b) 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 ("Aggregate Maximum Allocation").

Directors' Report

for the financial year ended 30 June 2017

EXECUTIVE SHARE SCHEME ("ESS") (CONTINUED)

There were no options granted under the ESS of the Company during the financial year ended 30 June 2017.

As at 30 June 2017, a total of 12,389,819 options had been granted under the ESS, with 10,570,183 options remaining outstanding. The aggregate options granted to directors and chief executives of the Group under the ESS amounted to 5,081,823, all of which remain outstanding.

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

As at 30 June 2017, the actual percentage of total options granted to directors and senior management of the Group under the ESS was 0.84% of the issued and paid-up ordinary share capital of the Company.

A trust has been set up for the ESS 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 ESS holdings are recorded as "Treasury Shares for ESOS" in the shareholders' equity on the statements of financial position. The cost of operating the ESS is charged to the statements of income.

For further details on the ESS, refer to Note 50 on Equity Compensation Benefits.

SHARE CAPITAL

During the financial year, there was no issuance of new ordinary shares. As at 30 June 2017, the issued and paid-up share capital of the Company comprise of 1,147,516,890 ordinary shares.

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

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 provision for doubtful debts and financing and had satisfied themselves that all known bad debts and financing had been written off and that adequate provision had been made for doubtful debts and financing; and

- to ensure that any current assets, which were unlikely to be realised in the ordinary course of business including the value of current assets as shown in the accounting records of the Group and of the Company had been written down to an amount which the current assets might be expected so to realise.

(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.

Directors' Report

for the financial year ended 30 June 2017

STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY (CONTINUED)

(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 provision 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.

(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 2017 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.

Directors' Report

for the financial year ended 30 June 2017

ULTIMATE HOLDING COMPANY

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

SUBSIDIARIES

Details of subsidiaries are set out in Note 11 to the financial statements.

DIRECTORS' REMUNERATION

Details of Directors' remuneration and the total amount of indemnity given are set out in Note 36 to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 34 to the financial statements.

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 18 September 2017.

Tan Kong Khoon
Director

Lim Tau Kien
Director

Kuala Lumpur
18 September 2017

Statements of Financial Position

as at 30 June 2017

		The Group		The Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Assets					
Cash and short-term funds	2	**12,772,343**	9,429,592	**7,721**	9,620
Deposits and placements with banks and other financial institutions	3	**6,013,958**	3,033,666	**8,400**	8,400
Securities purchased under resale agreements		**336,003**	4,056,670	**–**	–
Financial assets held-for-trading	4	**9,453,437**	8,524,673	**–**	–
Financial investments available-for-sale	5	**35,163,362**	35,767,092	**–**	–
Financial investments held-to-maturity	6	**14,581,030**	12,911,318	**–**	–
Derivative financial instruments	20	**977,604**	1,062,358	**–**	80
Loans, advances and financing	7	**124,812,079**	120,444,892	**–**	–
Clients' and brokers' balances	8	**508,070**	395,884	**–**	–
Other receivables	9	**1,527,755**	1,816,828	**575**	639
Amount due from subsidiaries	46	**–**	–	**38,646**	48
Statutory deposits with Central Banks	10	**3,796,330**	4,328,519	**–**	–
Tax recoverable		**1,909**	29,011	**1,685**	2,729
Investment in subsidiary companies	11	**–**	–	**16,909,723**	16,915,160
Investment in associated companies	12	**4,321,625**	3,982,091	**–**	–
Investment in joint ventures	13	**169,185**	145,183	**–**	–
Deferred tax assets	22	**–**	–	**36**	330
Property and equipment	14	**1,884,451**	1,849,202	**1,418**	1,729
Investment properties	15	**2,030**	1,940	**–**	–
Goodwill arising on consolidation	16	**2,410,644**	2,410,644	**–**	–
Intangible assets	17	**230,588**	284,971	**13**	106
Total assets		**218,962,403**	210,474,534	**16,968,217**	16,938,841

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

Statements of Financial Position

as at 30 June 2017

		The Group		The Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Liabilities					
Deposits from customers	18	**154,458,017**	149,490,533	**–**	–
Deposits and placements of banks and other financial institutions	19	**7,734,425**	8,106,000	**–**	–
Obligations on securities sold under repurchase agreements		**2,978,728**	3,494,903	**–**	–
Bills and acceptances payable		**364,675**	350,455	**–**	–
Derivative financial instruments	20	**1,479,564**	1,654,225	**874**	1,455
Clients' and brokers' balances		**271,738**	279,919	**–**	–
Payables and other liabilities	21	**8,531,035**	6,237,822	**9,489**	9,351
Recourse obligations on loans sold to Cagamas Berhad		**202,926**	–	**–**	–
Provision for claims		**147,767**	141,175	**–**	–
Provision for taxation		**235,309**	39,357	**–**	–
Deferred tax liabilities	22	**302,517**	202,237	**–**	–
Borrowings	23	**1,526,222**	3,191,919	**1,526,222**	1,641,717
Subordinated obligations	24	**2,959,779**	2,958,641	**–**	–
Innovative Tier 1 capital securities	25	**515,623**	521,512	**–**	–
Insurance funds	26	**12,221,565**	10,628,680	**–**	–
Total liabilities		**193,929,890**	187,297,378	**1,536,585**	1,652,523
Equity attributable to owners of the parent					
Share capital	27	**2,267,008**	1,147,517	**2,267,008**	1,147,517
Reserves	28	**14,377,641**	14,229,330	**13,164,627**	14,138,804
Treasury shares for ESOS	29	**(35,712)**	(35,712)	**(3)**	(3)
		16,608,937	15,341,135	**15,431,632**	15,286,318
Non-controlling interests		**8,423,576**	7,836,021	**–**	–
Total equity		**25,032,513**	23,177,156	**15,431,632**	15,286,318
Total equity and liabilities		**218,962,403**	210,474,534	**16,968,217**	16,938,841
Commitments and contingencies	40	**171,332,247**	159,472,609	**100,000**	200,000

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

Statements of Income

for the financial year ended 30 June 2017

		The Group		The Company	
		2017	2016	2017	2016
	Note	RM'000	RM'000	RM'000	RM'000
Interest income	30	**6,316,503**	6,448,483	**1,309**	5,017
Interest expense	31	**(3,494,848)**	(3,807,541)	**(59,086)**	(54,357)
Net interest income/(expense)		**2,821,655**	2,640,942	**(57,777)**	(49,340)
Income from Islamic banking business	32	**550,099**	467,466	**–**	–
		3,371,754	3,108,408	**(57,777)**	(49,340)
Non-interest income	33	**1,662,808**	1,434,920	**662,513**	524,905
		5,034,562	4,543,328	**604,736**	475,565
Overhead expenses	34	**(2,222,231)**	(2,284,381)	**(21,327)**	(15,204)
Operating profit before allowances		**2,812,331**	2,258,947	**583,409**	460,361
Allowance for impairment losses on loans, advances and financing and other losses	35	**(161,226)**	(52,537)	**–**	–
Writeback of/(allowance for) impairment losses on financial investments available-for-sale and held-to-maturity		**1,330**	(43,480)	**–**	–
Allowance for impairment loss on subsidiary		**–**	–	**–**	(9,714)
		2,652,435	2,162,930	**583,409**	450,647
Share of results of associated companies	12	**416,361**	381,057	**–**	–
Share of results of joint ventures	13	**21,153**	21,051	**–**	–
Profit before taxation		**3,089,949**	2,565,038	**583,409**	450,647
Taxation	37	**(773,065)**	(501,494)	**(2,039)**	(4,958)
Net profit for the financial year		**2,316,884**	2,063,544	**581,370**	445,689
Attributable to:					
Owners of the parent		**1,506,765**	1,358,895	**581,370**	445,689
Non-controlling interests		**810,119**	704,649	**–**	–
		2,316,884	2,063,544	**581,370**	445,689
Earnings per share attributable to equity holders of the Company (sen)					
- Basic	38	**131.8**	123.2	**50.7**	40.3
- Diluted	38	**131.8**	123.2	**50.7**	40.3

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 2017

		The Group		The Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Net profit for the financial year		**2,316,884**	2,063,544	**581,370**	445,689
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Currency translation differences		**236,493**	181,580	**–**	–
Share of other comprehensive (loss)/income of associated companies		**(12,556)**	7,426	**–**	–
Net fair value changes in cash flow hedge	53	**856**	(2,477)	**–**	–
Net fair value changes on financial investments available-for-sale	53	**64,925**	113,416	**–**	–
Income tax relating to components of other comprehensive income	53	**(16,186)**	(21,614)	**–**	–
Other comprehensive income for the financial year, net of tax		**273,532**	278,331	**–**	–
Total comprehensive income for the financial year, net of tax		**2,590,416**	2,341,875	**581,370**	445,689
Attributable to:					
Owners of the parent		**1,688,064**	1,547,606	**581,370**	445,689
Non-controlling interests		**902,352**	794,269	**–**	–
		2,590,416	2,341,875	**581,370**	445,689

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 2017

The Group	Note	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Regulatory reserves* RM'000	Fair value reserve RM'000	Cash flow hedge reserve RM'000	Other capital reserve RM'000	Share options reserve RM'000	Exchange fluctuation reserve RM'000	Retained profits RM'000	Treasury shares for ESOS RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
		Attributable to owners of the parent													
As at 1 July 2016		1,147,517	1,119,491	3,310,501	602,335	237,252	(1,129)	134,870	10,205	587,368	8,228,437	(35,712)	15,341,135	7,836,021	23,177,156
Comprehensive income															
Net profit for the financial year		–	–	–	–	–	–	–	–	–	1,506,765	–	1,506,765	810,119	2,316,884
Currency translation differences		–	–	–	–	–	–	–	–	158,490	–	–	158,490	78,003	236,493
Share of other comprehensive loss of associated companies		–	–	–	–	(7,572)	–	–	–	–	–	–	(7,572)	(4,984)	(12,556)
Net fair value changes in financial investments available-for-sale, net of tax	53	–	–	–	–	29,955	–	–	–	–	–	–	29,955	18,990	48,945
Net fair value changes in cash flow hedge, net of tax	53	–	–	–	–	–	426	–	–	–	–	–	426	224	650
Total comprehensive income		–	–	–	–	22,383	426	–	–	158,490	1,506,765	–	1,688,064	902,352	2,590,416
Transaction with owners															
Transfer to retained profits		–	–	(3,310,501)	–	–	–	–	–	–	3,310,501	–	–	–	–
Transfer to regulatory reserve		–	–	–	78,652	–	–	–	–	–	(78,652)	–	–	–	–
Allocation of other reserves to non-controlling interests		–	–	–	–	–	–	–	–	–	(4,284)	–	(4,284)	4,284	–
Dividends paid:															
- first interim dividend for the financial year ended 30 June 2017	39	–	–	–	–	–	–	–	–	–	(149,177)	–	(149,177)	–	(149,177)
- second interim dividend for the financial year ended 30 June 2017	39	–	–	–	–	–	–	–	–	–	(286,879)	–	(286,879)	–	(286,879)
Non-controlling interests share of dividend		–	–	–	–	–	–	–	–	–	–	–	–	(320,160)	(320,160)
Non-controlling interests share of subsidiary treasury shares		–	–	–	–	–	–	–	–	–	–	–	–	1,079	1,079
Options charge arising from ESOS		–	–	–	–	–	–	–	21,157	–	–	–	21,157	–	21,157
Exercise of ESOS		–	–	–	–	–	–	–	(1,933)	–	854	–	(1,079)	–	(1,079)
Transfer to other capital reserve		–	–	–	–	–	–	87	–	–	(87)	–	–	–	–
Transfer pursuant to the Companies Act, 2016 **		1,119,491	(1,119,491)	–	–	–	–	–	–	–	–	–	–	–	–
Total transaction with owners		1,119,491	(1,119,491)	(3,310,501)	78,652	–	–	87	19,224	–	2,792,276	–	(420,262)	(314,797)	(735,059)
As at 30 June 2017		2,267,008	–	–	680,987	259,635	(703)	134,957	29,429	745,858	12,527,478	(35,712)	16,608,937	8,423,576	25,032,513

* Comprise regulatory reserves maintained by the Group's banking subsidiary companies in Malaysia of RM669,742,000 (2016: RM591,090,000) in accordance to BNM's Policy Document on Classification and Impairment Provisions for Loans/Financing and the banking subsidiary company in Vietnam with the State Bank of Vietnam of RM11,245,000 (2016: RM11,245,000).

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

The 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 2017

The Group	Note	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Regulatory reserves* RM'000	Fair value reserve RM'000	Cash flow hedge reserve RM'000	Other capital reserve RM'000	Share options reserve RM'000	Exchange fluctuation reserve RM'000	Retained profits RM'000	Treasury shares for ESOS RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
		Attributable to owners of the parent													
As at 1 July 2015		1,052,768	117,229	2,964,899	402,388	170,409	106	134,868	–	464,265	7,816,792	(12,698)	13,111,026	6,353,277	19,464,303
Comprehensive income															
Net profit for the financial year		–	–	–	–	–	–	–	–	–	1,358,895	–	1,358,895	704,649	2,063,544
Currency translation differences		–	–	–	–	–	–	–	–	123,103	–	–	123,103	58,477	181,580
Share of other comprehensive income of associated companies		–	–	–	–	5,869	–	–	–	–	–	–	5,869	1,557	7,426
Net fair value changes in financial investments available-for-sale, net of tax	53	–	–	–	–	60,974	–	–	–	–	–	–	60,974	30,231	91,205
Net fair value changes in cash flow hedge, net of tax	53	–	–	–	–	–	(1,235)	–	–	–	–	–	(1,235)	(645)	(1,880)
Total comprehensive income/(loss)		–	–	–	–	66,843	(1,235)	–	–	123,103	1,358,895	–	1,547,606	794,269	2,341,875
Transaction with owners															
Transfer to statutory reserve		–	–	345,602	–	–	–	–	–	–	(345,602)	–	–	–	–
Transfer to regulatory reserve		–	–	–	199,947	–	–	–	–	–	(199,947)	–	–	–	–
Allocation of other reserves to non-controlling interests		–	–	–	–	–	–	–	–	–	22,040	–	22,040	(22,040)	–
Dividends paid:															
- first interim dividend for the financial year ended 30 June 2016	39	–	–	–	–	–	–	–	–	–	(136,860)	–	(136,860)	–	(136,860)
- second interim dividend for the financial year ended 30 June 2016	39	–	–	–	–	–	–	–	–	–	(286,879)	–	(286,879)	–	(286,879)
Non-controlling interests share of dividend		–	–	–	–	–	–	–	–	–	–	–	–	(267,593)	(267,593)
Non-controlling interests share of subsidiary treasury shares		–	–	–	–	–	–	–	–	–	–	–	–	(26,517)	(26,517)
Non-controlling interests subscription of rights shares		–	–	–	–	–	–	–	–	–	–	–	–	1,004,625	1,004,625
Options charge arising from ESOS		–	–	–	–	–	–	–	10,205	–	–	–	10,205	–	10,205
Purchase of treasury shares		–	–	–	–	–	–	–	–	–	–	(19,612)	(19,612)	–	(19,612)
Transfer to other capital reserve		–	–	–	–	–	–	2	–	–	(2)	–	–	–	–
Issue of share pursuant to rights issue exercise		94,749	1,002,262	–	–	–	–	–	–	–	–	(3,402)	1,093,609	–	1,093,609
Total transaction with owners		94,749	1,002,262	345,602	199,947	–	–	2	10,205	–	(947,250)	(23,014)	682,503	688,475	1,370,978
As at 30 June 2016		1,147,517	1,119,491	3,310,501	602,335	237,252	(1,129)	134,870	10,205	587,368	8,228,437	(35,712)	15,341,135	7,836,021	23,177,156

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 2017

The Company	Note	Non-distributable Share capital RM'000	Share premium RM'000	Other capital reserve RM'000	Share options reserve RM'000	Treasury shares for ESOS RM'000	Distributable Retained profits RM'000	Total equity RM'000
As at 1 July 2016		**1,147,517**	**1,119,491**	**254,991**	**–**	**(3)**	**12,764,322**	**15,286,318**
Net profit for the financial year		**–**	**–**	**–**	**–**	**–**	**581,370**	**581,370**
Dividends paid								
- first interim dividend for the financial year ended 30 June 2017	39	**–**	**–**	**–**	**–**	**–**	**(149,177)**	**(149,177)**
- second interim dividend for the financial year ended 30 June 2017	39	**–**	**–**	**–**	**–**	**–**	**(286,879)**	**(286,879)**
Transfer pursuant to the Companies Act, 2016 **		**1,119,491**	**(1,119,491)**	**–**	**–**	**–**	**–**	**–**
As at 30 June 2017		**2,267,008**	**–**	**254,991**	**–**	**(3)**	**12,909,636**	**15,431,632**
As at 1 July 2015		1,052,768	117,229	254,991	–	(2)	12,742,372	14,167,358
Net profit for the financial year		–	–	–	–	–	445,689	445,689
Dividends paid								
- first interim dividend for the financial year ended 30 June 2016	39	–	–	–	–	–	(136,860)	(136,860)
- second interim dividend for the financial year ended 30 June 2016	39	–	–	–	–	–	(286,879)	(286,879)
Subscription of rights shares		–	–	–	–	(1)	–	(1)
Issue of share pursuant to rights issue exercise		94,749	1,002,262	–	–	–	–	1,097,011
As at 30 June 2016		1,147,517	1,119,491	254,991	–	(3)	12,764,322	15,286,318

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

The 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 2017

	The Group	
	2017 RM'000	2016 RM'000
Cash flows from operating activities		
Profit before taxation	3,089,949	2,565,038
Adjustments for:		
Unearned premium reserves	12,150	16,077
Life fund - underwriting surplus	1,837,866	1,350,914
Depreciation of property and equipment	101,045	93,119
Amortisation of intangible assets	81,351	78,308
Intangible assets written off	57	3,386
Property and equipment written off	808	834
Gain on sale of property and equipment	(1,295)	(1,967)
Gain on revaluation of investment properties	(90)	(92)
Gain from disposal of financial assets held-for-trading	(19,033)	(54,224)
Gain from disposal of financial investments available-for-sale	(74,568)	(103,435)
Gain from redemption of financial investments held-to-maturity	(226)	(31)
(Gain)/loss arising from derivative financial instruments	(49,482)	19,444
Net unrealised (gain)/loss on revaluation of financial assets held-for-trading and derivative financial instruments	(80,544)	100,450
Net realised loss on fair value changes arising from fair value hedges and amortisation of fair value changes arising from terminated fair value hedges	115	519
Net unrealised loss on fair value changes arising from fair value hedges	3	–
Unrealised exchange loss	114,707	176,516
(Writeback of)/allowance for impairment losses on financial investments	(1,330)	43,480
Allowances for impairment losses on loans, advances and financing and other losses	399,862	259,147
Impaired loans and financing written off	22,520	22,048
Interest expense on borrowings	91,488	126,718
Interest expense on subordinated obligations	117,473	171,079
Interest expense on Non-Innovative Tier 1 stapled securities	–	60,024
Interest expense on Innovative Tier 1 capital securities	35,362	32,652
Interest expense on recourse obligations on loans sold to Cagamas	6,727	–
Interest income from financial assets held-for-trading	(423,645)	(554,361)
Interest income from financial investments available-for-sale	(687,883)	(548,827)
Interest income from financial investments held-to-maturity	(382,722)	(325,274)
Dividend income from financial assets held-for-trading and financial investments available-for-sale	(296,763)	(233,667)
Options charge arising from ESOS	21,157	10,205
Surplus transferred from life insurance business	(246,920)	(185,586)
Share of results of associated companies	(416,361)	(381,057)
Share of results of joint ventures	(21,153)	(21,051)
	140,676	155,348
Operating profit before working capital changes	3,230,625	2,720,386

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 2017

	The Group	
	2017 RM'000	2016 RM'000
Decrease/(increase) in operating assets		
Cash and short-term funds and deposits and placements with banks and other financial institutions with original maturity of more than three months	**(4,203,157)**	2,833,896
Securities purchased under resale agreements	**3,720,667**	8,106,582
Financial assets held-for-trading	**(487,745)**	1,225,298
Loans, advances and financing	**(4,789,630)**	(7,614,419)
Clients' and brokers' balances	**(112,186)**	(58,253)
Other receivables	**233,388**	267,749
Statutory deposits with Central Banks	**532,189**	(796,147)
Increase/(decrease) in operating liabilities		
Deposits from customers	**5,087,205**	8,535,068
Deposits and placements of banks and other financial institutions	**(371,575)**	(837,622)
Obligations on securities sold under repurchase agreements	**(516,175)**	(196,435)
Bills and acceptances payable	**14,220**	(1,550,512)
Payables and other liabilities	**2,339,870**	377,602
Provision for claims	**6,592**	12,270
Clients' and brokers' balances	**(8,181)**	87,191
Recourse obligations on loans sold to Cagamas Berhad	**200,050**	–
	1,645,532	10,392,268
Cash generated from operating activities	**4,876,157**	13,112,654
Income tax paid	**(532,149)**	(636,093)
Interest received	**1,309**	5,017
	(530,840)	(631,076)
Net cash generated from operating activities	**4,345,317**	12,481,578
Cash flows from investing activities		
Net sales/(purchases) of financial investments available-for-sale	**754,173**	(5,972,198)
Net purchases of financial investments held-to-maturity	**(1,669,486)**	(1,959,611)
Interest received on financial investments available-for-sale and financial investments held-to-maturity	**1,070,605**	874,101
Dividends received on financial assets held-for-trading and financial investments available-for-sale	**296,763**	233,667
Dividends received from associated and joint ventures companies	**210,367**	131,626
Net proceeds from disposal of property and equipment	**4,301**	3,313
Purchase of property and equipment	**(169,710)**	(350,598)
Purchase of intangible assets	**(22,912)**	(25,223)
Net cash generated from/(used in) investing activities	**474,101**	(7,064,923)

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 2017

	Note	The Group 2017 RM'000	The Group 2016 RM'000
Cash flows from financing activities			
Interest paid on subordinated obligations		**(116,335)**	(188,840)
Interest paid on borrowings		**(97,707)**	(129,859)
Interest paid on Non-Innovative Tier 1 stapled securities		**–**	(70,893)
Interest paid on Innovative Tier 1 capital securities		**(33,727)**	(31,143)
Interest expense on recourse obligations on loans sold to Cagamas		**(3,851)**	–
Drawdown of revolving credit		**65,000**	305,000
(Redemption)/issuance of medium term notes and commercial papers		**(300,000)**	375,000
Drawdown of term loans		**170,000**	120,000
Repayment of term loans		**(384,730)**	(25,000)
Repayment of senior bonds		**(1,323,150)**	(1,241,100)
Repayment of Non-Innovative Tier 1 stapled securities		**–**	(1,400,000)
Repayment of subordinated obligations		**–**	(2,185,000)
Purchase of treasury shares		**–**	(19,612)
Net proceeds from rights issue		**–**	1,093,609
Non-controlling interests subscription of rights shares		**–**	1,004,625
Dividends paid to			
- owners of the parent		**(436,056)**	(423,739)
- non-controlling interest		**(320,160)**	(267,593)
Net cash used in financing activities		**(2,780,716)**	(3,084,545)
Net increase in cash and cash equivalents		**2,038,702**	2,332,110
Effects of exchange rate changes		**81,184**	176,721
Cash and cash equivalents at beginning of financial year		**10,528,517**	8,019,686
Cash and cash equivalents at end of financial year		**12,648,403**	10,528,517
Analysis of cash and cash equivalents			
Cash and short-term funds	2	**12,772,343**	9,429,592
Deposits and placements with banks and other financial institutions	3	**6,013,958**	3,033,666
		18,786,301	12,463,258
Less: deposits and placements with banks and other financial institutions with original maturity of more than three months and restricted cash		**(6,137,898)**	(1,934,741)
		12,648,403	10,528,517

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 2017

	The Company 2017 RM'000	The Company 2016 RM'000
Cash flows from operating activities		
Profit before taxation	**583,409**	450,647
Adjustments for:		
Depreciation of property and equipment	**650**	656
Amortisation of intangible assets	**95**	108
Gain from disposal of financial assets held-for-trading	**–**	(16)
Loss arising from derivative financial instruments	**80**	1,237
Net unrealised (gain)/loss on revaluation of derivative financial instruments	**(581)**	1,038
Allowance for impairment loss on subsidiary	**–**	9,714
Interest expense	**59,086**	54,357
Interest income	**(1,309)**	(5,017)
Dividend income from financial assets held-for-trading	**–**	(3,031)
Dividend income from subsidiary companies	**(655,150)**	(513,534)
	(597,129)	(454,488)
Operating loss before working capital changes	**(13,720)**	(3,841)
Decrease/(increase) in operating assets		
Other receivables	**(38,534)**	(1,831)
Deposits and placements with banks and other financial institutions with original maturity of more than three months	**–**	488
Financial assets held-for-trading	**–**	16
Increase/(decrease) in operating liabilities		
Other payables	**138**	(1,752)
	(38,396)	(3,079)
Cash used in operating activities	**(52,116)**	(6,920)
Income tax (paid)/refunded	**(700)**	3,924
Interest received	**1,309**	5,017
	609	8,941
Net cash (used in)/generated from operating activities	**(51,507)**	2,021
Cash flows from investing activities		
Dividends received on financial assets held-for-trading	**–**	3,031
Dividends received from subsidiary companies	**655,150**	513,534
Purchase of property and equipment	**(339)**	(10)
Purchase of intangible assets	**(2)**	(1)
Proceeds from redemption of redeemable preference shares	**5,437**	1,920
Subscription of ordinary shares in subsidiary	**–**	(1,903,501)
Subscription of redeemable preference shares	**–**	(15,684)
Net cash generated from/(used in) investing activities	**660,246**	(1,400,711)

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 2017

	Note	The Company 2017 RM'000	The Company 2016 RM'000
Cash flows from financing activities			
Interest paid on borrowings		**(59,582)**	(48,306)
Drawdown of revolving credit		**65,000**	305,000
(Redemption)/issuance of medium term notes and commercial papers		**(350,000)**	375,000
Drawdown of term loans		**170,000**	120,000
Repayment of term loans		**–**	(25,000)
Proceeds from issuance of rights issue		**–**	1,097,010
Dividends paid to shareholders of the Company		**(436,056)**	(423,739)
Net cash (used in)/generated from financing activities		**(610,638)**	1,399,965
Net (decrease)/increase in cash and cash equivalents		**(1,899)**	1,275
Cash and cash equivalents at beginning of financial year		**8,720**	7,445
Cash and cash equivalents at end of financial year		**6,821**	8,720
Analysis of cash and cash equivalents			
Cash and short-term funds	2	**7,721**	9,620
Deposits and placements with banks and other financial institutions	3	**8,400**	8,400
		16,121	18,020
Less: deposits and placements with banks and other financial institutions with original maturity of more than three months and restricted cash		**(9,300)**	(9,300)
		6,821	8,720

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 2017

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, 2016 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 at fair value through profit or loss (including derivative financial instruments).

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 financial year. 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 54.

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

The Group has applied the following amendments for the first time for the financial year beginning on 1 July 2016:

- Amendments to MFRS 11 "Joint Arrangements" - Accounting for Acquisition of Interests in Joint Operations
- Amendments to MFRS 101 "Presentation of Financial Statements" - Disclosure Initiative
- Amendments to MFRS 127 "Equity Method in Separate Financial Statements"
- Amendments to MFRS 10, 12 & 128 "Investment Entities – Applying the Consolidation Exception"
- Annual Improvements to MFRSs 2012 – 2014 Cycle

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

(b) 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 financial year beginning after 1 July 2017. The Group and the Company will apply these standards, amendments to published standards and interpretations from:

(i) Financial year beginning on/after 1 July 2017

- Amendments to MFRS 107 "Statement of Cash Flows - Disclosure Initiative" (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

(i) Financial year beginning on/after 1 July 2017 (continued)

- Amendments to MFRS 112 "Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses" (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

  In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

  The amendments shall be applied retrospectively.

(ii) Financial year beginning on/after 1 July 2018

- Amendments to MFRS 140 "Classification on 'Change in Use' – Assets Transferred to, or from, Investment Properties" (effective from 1 January 2018) clarify that to transfer to, or from investment properties there must be a change in use. A change in use would involve an assessment of whether a property meets, or has ceased to meet, the definition of investment property. The change must be supported by evidence that the change in use has occurred and a change in management's intention in isolation is not sufficient to support a transfer of property.

  The amendments also clarify the same principle applies to assets under construction.

- IC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

  IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

  The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

  If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

  An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

- MFRS 9 "Financial Instruments" (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). 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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

(ii) Financial year beginning on/after 1 July 2018 (continued)

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 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

- MFRS 15 "Revenue from Contracts with Customers" (effective from 1 January 2018) replaces MFRS 118 "Revenue" and MFRS 111 "Construction Contracts" and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers;
- Identify the separate performance obligations;
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.

- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.

- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.

- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.

- As with any new standard, there are also increased disclosures.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

(iii) Financial year beginning on/after 1 July 2019

- MFRS 16 "Leases" (effective from 1 January 2019) supersedes MFRS 117 "Leases" and the related interpretations.

  Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

  The right-of-use asset is depreciated in accordance with the principle in MFRS 116 "Property, Plant and Equipment" and the lease liability is accreted over time with interest expense recognised in the income statement.

  For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

None of the standards, amendments and interpretations that are effective for the respective financial years is expected to have a significant effect on the financial statements of the Group and the Company, except for MFRS 9.

The Group and the Company is in the midst of reviewing the requirements of MFRS 9, as it introduces significant changes in the way the Group and the Company account for financial instruments. Due to the complexity of these standards and its proposed changes, the financial effects of its adoption are still being assessed by the Group and the Company.

(c) Changes in regulatory requirements

(i) Companies Act, 2016

The Companies Act, 2016 was enacted to replace the Companies Act, 1965 with the objective of creating a regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The Companies Act, 2016 was passed on 4 April 2016 by Dewan Rakyat and on 29 April 2016 by Dewan Negara and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the date on which the Companies Act, 2016 comes into operation (except Section 241 and Division 8 of Part III of the Companies Act, 2016) would be 31 January 2017.

Amongst the key changes introduced in the Companies Act, 2016 which will affect the financial statements of the Group and of the Company upon the commencement of the Companies Act, 2016 on 31 January 2017 are:

(1) removal of the authorised share capital;
(2) shares of the Group and the Company will cease to have par or nominal value; and
(3) the Group and the Company's share premium account will become part of the Group's and Company's share capital.

During the financial year, the Company had transferred a total of RM1,119,491,000 from its share premium account to the share capital pursuant to the Companies Act, 2016.

The adoption of the Companies Act, 2016 does not have any financial impact on the Group and the Company for the current financial year as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption mainly will be on disclosures to the annual report and financial statements for the year ended 30 June 2017.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(c) Changes in regulatory requirements (continued)

(ii) BNM guideline on capital funds

Bank Negara Malaysia ("BNM") has issued the policy document on Capital Funds which came into effect on 3 May 2017. The policy document has been updated to remove the requirement for a banking institution to maintain a reserve fund.

BNM expects banking institutions to exercise prudence before submitting an application to distribute the reserves as dividends. BNM in considering the dividend application, shall consider, among others, the banking institution's ability to comply with the fully phased-in capital conservation buffer requirement and any other buffers that BNM may specify.

During the financial year, the Group had transferred RM3,310,501,000 from its statutory reserve to retained profits in accordance with BNM's requirements.

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 to direct the relevant activities of 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.

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 and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, 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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

B CONSOLIDATION (CONTINUED)

(i) Subsidiaries (continued)

If the business combination is achieved in stages, the carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date any gains or losses arising from such remeasurement are recognised in 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 in statements of 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 unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(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 transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Group.

(iii) Disposal of subsidiaries

When the Group ceases to consolidate because of a loss of control any retained interest in the entity is remeasured to its fair value, 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.

Gains or losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the subsidiaries sold.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

B CONSOLIDATION (CONTINUED)

(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 interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated statement of financial position. Under the equity method, the investment in a joint venture is initially recognised at cost, and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the joint venture in profit or loss, and the Group's share of movements in other comprehensive income of the joint venture in other comprehensive income. Dividends received or receivable from a joint venture are recognised as a reduction in the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture, including any long-term interests that, in substance, form part of the Group's net investment in the joint venture, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. An impairment loss is recognised for the amount by which the carrying amount of the joint venture exceeds its recoverable amount. The Group presents the impairment loss to 'share of results of joint venture' in the statements of income.

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.

If the ownership interest in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

(v) Associated companies

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment in an associate is initially recognised at cost, and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the associate in profit or loss, and the Group's share of movements in other comprehensive income of the associate in other comprehensive income. Dividends received or receivable from an associate are recognised as a reduction in the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interests in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. The Group's investment in associates includes goodwill identified on acquisition.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. An impairment loss is recognised for the amount by which the carrying amount of the associate exceeds its recoverable amount. The Group presents the impairment loss adjacent to 'share of results of associated company' in the statements of income.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

B CONSOLIDATION (CONTINUED)

(v) Associated companies (continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 profit or loss where appropriate.

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

(vi) Loss of significant influence or joint control

When the Group ceases to equity account its joint venture or associate because of a loss of 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 profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a financial asset. In addition, any amount previously recognised in other comprehensive income in respect of the entity is 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 profit or loss.

(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 any 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.

The amounts due from subsidiaries of which the Company does not expect repayment in foreseeable future are considered as part of the Company investment in subsidiaries.

C GOODWILL

Goodwill arises on the acquisition of subsidiaries and represents the excess of the aggregate of fair value consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired and liabilities assumed on the acquisition date. If the fair value of consideration transferred, the amount of non-controlling interest and the fair value of previously held interest in the acquiree are less than the fair value of the net identifiable assets of the acquiree, the resulting gain is recognised in the statements of income.

Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the CGU level. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

D PROPERTY AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are initially stated at cost, net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the government. When the amount of GST incurred is not recoverable from the government, the GST is recognised as part of the cost of acquisition of the property, plant and equipment.

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. 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 is not depreciated as it has an infinite life. Other property, plant and equipment are depreciated on the straight-line method to allocate the cost or the revalued amounts, to their residual values over their 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%
Office furniture, fittings, equipment and renovations and computer equipment	10% - 33%
Motor vehicles	20% - 25%

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

Depreciation on capital work-in-progress commences when the assets are ready for their intended use.

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, comprising principally land and office buildings, are held for long term rental yields or for capital appreciation or both, and are not occupied by the Group.

Investment property is measured initially at its cost, including related transaction costs. Costs of the investment property are net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the government. When the amount of GST incurred is not recoverable from the government, the GST is recognised as part of the cost of acquisition of the investment property.

After initial recognition, investment property is carried 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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

E INVESTMENT PROPERTIES (CONTINUED)

The fair value of investment property reflects, among other things, rental income from current leases and other assumptions that market participants would make when pricing the property under current market conditions.

Subsequent expenditure is recognised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Changes in fair values are recognised in profit or loss. Investment properties are derecognised either when 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.

Where the Group disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in profit or loss as a net gain/loss from fair value adjustment on investment property.

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 3 years to 8 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 any accumulated impairment losses. The useful lives of the intangible assets are as follows:

Core deposit: 7 years
Customer relationships: 10 years

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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

G LEASES

(ii) Operating Lease

Leases of assets under which all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statements of income 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. The classification depends on the purpose for which the financial assets are acquired. Management determines the classifications at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

(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.

(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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

H FINANCIAL ASSETS (CONTINUED)

(ii) Recognition and initial measurement

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset 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.

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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

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.

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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

L FORECLOSED PROPERTIES

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

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

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 at the end of each reporting period. 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.

Cash collateral held in relation to derivative transactions are carried at amortised cost.

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 have been and will continue to be 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 using a recalculated effective interest rate.

(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 terminated, 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 reclassified to the statements of income.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

M DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(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 reclassified to 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.

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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

Q GENERAL TAKAFUL CONTRACT LIABILITIES

(a) Contribution liabilities

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.

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.

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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

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.

(ii) Unallocated surplus

Surplus of contracts with DPF is distributable to policyholders and shareholders in accordance with the relevant terms under the insurance contracts. 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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

T LIFE INSURANCE CONTRACT (CONTINUED)

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.

U INSURANCE PRODUCT CLASSIFICATION

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.

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 shareholders' fund via a benevolent loan or Qardhul Hassan.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

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.

X INCOME AND DEFERRED TAXES

The tax expense for the period comprises current and deferred tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. 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. The liability in relation to tax penalties is included within the taxation liability on the statement of financial position and any associated change within the tax expense in the statements of income as under accrual of prior year tax.

Current income tax expense is determined according to the tax laws enacted or substantially enacted at the end of the reporting period of each jurisdiction in which the Group operates and generates taxable income 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 provided 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 tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred 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 tax liability is recognised on temporary differences arising on investments in subsidiaries, associates 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. Generally the Group is unable to control the reversal of the temporary difference for associates and joint ventures. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference, a deferred tax liability is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the deductible temporary difference can be utilised.

Deferred income tax related to fair value remeasurement 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 substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

X INCOME AND DEFERRED TAXES (CONTINUED)

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 and financing income and expense for all interest/profit-bearing financial instruments are recognised within "interest income" and "interest expense" and income from Islamic banking business respectively in the statements of income using the effective interest/profit method.

The effective interest/profit method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest and financing income or 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/profit 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/profit rate, but not future credit losses.

Interest/profit on impaired financial assets is recognised using the rate of interest/profit 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/financing 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/profit rate of the instrument, and continues unwinding the discount as interest/profit income. Interest/profit income on impaired loan/financing are recognised during the original effective interest/profit rate.

Z RECOGNITION OF FEES AND OTHER INCOME

(i) 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.

(ii) 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.

(iii) 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. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

(iv) 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.

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

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

Z RECOGNITION OF FEES AND OTHER INCOME (CONTINUED)

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

(vii) Rental income is recognised on an accrual basis.

(viii) 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.

(ix) Contribution - general takaful fund

Contributions are recognised in a financial year in respect of risks assumed during that particular financial year. Contributions from direct business are recognised during the financial year upon the issuance of debit notes. Contributions 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.

(x) 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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

AB IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(i) Assets carried at amortised cost (continued)

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.

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 and any shortfall will be recognised to income statement. 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 assesses at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Group uses criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. 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 profit or loss, the impairment loss is reversed through the profit or loss.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

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 profit or loss. The amount of cumulative loss 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 profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss in subsequent periods.

AC EMPLOYEE BENEFITS

(i) Short-term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

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.

(ii) Defined contribution plans

A defined contribution plan is a pension plan under which the Group and the Company pays fixed contributions into a separate entity (fund) on a mandatory, contractual or voluntary basis and the Group and the Company 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.

(iii) Share-based compensation

The Company and certain of its subsidiaries operate equity-settled, share-based compensation plans for their employees. 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 to share options reserve within 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 in equity.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

AC EMPLOYEE BENEFITS (CONTINUED)

(iii) Share-based compensation (continued)

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 would be charged to the statements of income when incurred in accordance with accounting standards.

When the options are exercised, the Group transfers the Treasury Shares for ESOS to the ESOS holder. The treasury shares and share options reserve would be adjusted against the retailed profits.

When the options are exercised, the Company and certain of its subsidiaries issue new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

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

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 or valuation where items are remeasured. 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 or are attributable to items that form part of the net investment in a foreign operation.

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 statement of income, and other changes in the carrying amount are recognised in other comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities held at fair value through profit or loss 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 2017

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 statements 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 statements of 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 statements of 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

AE CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents in the statement of cash flows. In the statement of financial position, banks overdrafts are shown within borrowings in current liabilities.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

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 of disposal 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 which are largely independent of the cash inflows from other assets or groups of assets (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 of non-financial assets (other than goodwill) 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.

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 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 financial 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 Group'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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

AI 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.

(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.

(iii) Dividends

Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

(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 costs, net of tax, is deducted from 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 adjusted against treasury shares.

(v) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share

Diluted earnings per share adjusts the figures in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

AJ 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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

AJ SALE AND REPURCHASE AGREEMENTS (CONTINUED)

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.

AK 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.

AL 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.

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

Non-current assets (or disposal groups) are classified as assets held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held-for-sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held-for-sale continue to be recognised.

Non-current assets classified as held-for-sale and the assets of a disposal group classified as held-for-sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held-for-sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of income.

Notes to the Financial Statements

for the financial year ended 30 June 2017

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash and balances with banks and other financial institutions	**2,256,951**	1,791,237	**11**	24
Money at call and deposit placements maturing within one month	**10,515,392**	7,638,355	**7,710**	9,596
	12,772,343	9,429,592	**7,721**	9,620

Inclusive in cash and short-term funds of the Group are accounts held in trust for dealer's representative amounting to RM13,786,000 (2016: RM12,998,000).

The Company has placed a fixed deposit of RM900,000 (2016: RM900,000) with a bank for the RM150 million short-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.

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Licensed banks	**5,913,592**	2,487,772	**8,400**	8,400
Other financial institutions	**100,366**	545,894	**–**	–
	6,013,958	3,033,666	**8,400**	8,400

As at 30 June 2017, the Company has placed a fixed deposit of RM8,400,000 (2016: RM8,400,000) with a bank for the RM100 million revolving credit facility and RM200 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.

Notes to the Financial Statements

for the financial year ended 30 June 2017

4 FINANCIAL ASSETS HELD-FOR-TRADING

	The Group	
	2017 RM'000	2016 RM'000
Money market instruments		
Government treasury bills	–	119,332
Malaysian Government securities	475,794	239,083
Malaysian Government investment certificates	715,133	320,952
Negotiable instruments of deposit	5,177,899	4,848,396
Cagamas bonds	1,013	55,474
Other Government securities	557,649	158,666
	6,927,488	5,741,903
Quoted securities		
Shares in Malaysia	743,504	478,460
Shares outside Malaysia	71,073	66,899
Unit trust investments	332,260	241,851
Foreign currency bonds in Malaysia	195,592	488,718
Foreign currency bonds outside Malaysia	62,860	–
	1,405,289	1,275,928
Unquoted securities		
Foreign currency bonds in Malaysia	–	53,001
Foreign currency bonds outside Malaysia	53,087	134,406
Malaysia Government sukuk	191,394	–
Corporate bonds and sukuk	876,179	1,319,435
	1,120,660	1,506,842
Total financial assets held-for-trading	9,453,437	8,524,673

Included in the financial assets held-for-trading are foreign currency bonds, which are pledged as collateral for obligations on securities sold under repurchase agreements amounting to RM Nil (2016: RM7,929,000).

Notes to the Financial Statements

for the financial year ended 30 June 2017

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	The Group	
	2017 RM'000	2016 RM'000
Money market instruments		
Government treasury bills	–	69,206
Malaysia Government securities	**1,367,665**	1,040,565
Malaysia Government investment certificates	**4,446,014**	3,547,351
Other Government securities	**3,284,010**	1,790,368
Khazanah bonds	**406,904**	334,686
Cagamas bonds	**1,458,370**	1,019,398
	10,962,963	7,801,574
Quoted securities		
Shares in Malaysia	**1,653,070**	1,513,057
Shares outside Malaysia	**114,374**	146,706
Foreign currency bonds in Malaysia	**3,056,104**	3,606,238
Foreign currency bonds outside Malaysia	**1,818,131**	1,954,369
Unit trust investments	**470,603**	7,079,657
	7,112,282	14,300,027
Unquoted securities		
Shares in Malaysia	**459,212**	427,399
Shares outside Malaysia	**162,243**	16,301
Malaysia Government sukuk	**2,040,793**	820,552
Corporate bonds and sukuk	**13,437,539**	11,004,921
Foreign currency bonds in Malaysia	**294,300**	1,125,156
Foreign currency bonds outside Malaysia	**862,710**	468,925
Investment-linked funds	**300**	300
	17,257,097	13,863,554
	35,332,342	35,965,155
Allowance for impairment losses	**(168,980)**	(198,063)
Total financial investments available-for-sale	**35,163,362**	35,767,092

Notes to the Financial Statements

for the financial year ended 30 June 2017

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE (CONTINUED)

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

	The Group	
	2017 RM'000	2016 RM'000
As at 1 July	**198,063**	142,240
Allowance made during the financial year	**46,679**	141,488
Amount written back in respect of recoveries	**(2,566)**	–
Amount written off	**(74,179)**	(88,231)
Amount transferred from individual assessment impairment allowance of loans, advances and financing	**–**	2,566
Exchange fluctuation	**983**	–
As at 30 June	**168,980**	198,063

Included in the financial investments available-for-sale are foreign currency bonds, which are pledged as collateral for obligations on securities sold under repurchase agreements amounting to RM2,269,879,000 (2016: RM1,950,947,000).

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	The Group	
	2017 RM'000	2016 RM'000
Money market instruments		
Government treasury bills	**57,367**	54,922
Malaysian Government securities	**2,764,747**	3,403,858
Malaysian Government investment certificates	**9,482,704**	7,731,720
Cagamas bonds	**–**	30,356
Other Government securities	**484,230**	395,513
	12,789,048	11,616,369
Unquoted securities		
Loan stocks	**6,095**	5,923
Malaysia Government sukuk	**814,591**	470,220
Corporate bonds and sukuk	**805,278**	777,763
Foreign currency bonds outside Malaysia	**247,796**	125,456
Redeemable preference shares	**32,066**	32,066
	1,905,826	1,411,428
	14,694,874	13,027,797
Allowance for impairment losses	**(113,844)**	(116,479)
Total financial investments held-to-maturity	**14,581,030**	12,911,318

Notes to the Financial Statements

for the financial year ended 30 June 2017

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY (CONTINUED)

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

	The Group	
	2017 RM'000	2016 RM'000
As at 1 July	**116,479**	126,317
Amount written back in respect of recoveries	**(2,635)**	(9,838)
As at 30 June	**113,844**	116,479

Included in the financial investments held-to-maturity are Malaysian Government securities, which are pledged as collateral for obligations on securities sold under repurchase agreements amounting to RM Nil (2016: RM1,304,265,000). The fair value of the Malaysian Government securities as at 30 June 2017 is RM Nil (2016: RM1,306,625,000).

7 LOANS, ADVANCES AND FINANCING

	The Group	
	2017 RM'000	2016 RM'000
Overdrafts	**3,776,243**	3,857,485
Term loans/financing		
- Housing and shop loans/financing	**65,998,057**	60,462,347
- Syndicated term loans/financing	**9,225,253**	9,339,212
- Hire purchase receivables	**18,159,364**	18,682,098
- Other term loans/financing	**8,135,246**	8,605,184
Credit/charge card receivables	**3,997,701**	3,755,348
Bills receivable	**1,081,635**	1,107,690
Trust receipts	**314,042**	381,531
Policy and premium loans	**584,546**	614,679
Claims on customers under acceptance credits	**7,451,325**	7,439,144
Revolving credits	**6,611,688**	6,757,003
Staff loans/financing	**146,737**	164,914
Other loans/financing	**486,255**	425,856
Gross loans, advances and financing	**125,968,092**	121,592,491
Fair value changes arising from fair value hedges	**(34)**	–
Unamortised fair value changes arising from terminated fair value hedges	**(36)**	(784)
Allowance for impaired loans, advances and financing		
- Collective assessment allowance	**(830,407)**	(856,971)
- Individual assessment allowance	**(325,536)**	(289,844)
Total net loans, advances and financing	**124,812,079**	120,444,892

Included in loans, advances and financing are housing loans sold to Cagamas with recourse to the Group amounting to RM184,571,000 (2016: RM Nil).

Notes to the Financial Statements

for the financial year ended 30 June 2017

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	The Group	
	2017 RM'000	**2016 RM'000**
Maturing within:		
- one year	**27,380,609**	27,848,217
- over one year to three years	**5,492,203**	5,434,573
- over three years to five years	**10,265,641**	10,710,736
- over five years	**82,829,639**	77,598,965
Gross loans, advances and financing	**125,968,092**	121,592,491

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

	The Group	
	2017 RM'000	**2016 RM'000**
Domestic financial institutions	**–**	47
Domestic non-bank financial institutions other than stockbroking companies	**651,907**	600,249
Domestic business enterprises		
- small medium enterprises	**20,377,345**	19,246,622
- others	**15,491,115**	17,099,287
Government and statutory bodies	**29,072**	24,804
Individuals	**82,063,090**	77,670,558
Other domestic entities	**79,052**	75,714
Foreign entities	**7,276,511**	6,875,210
Gross loans, advances and financing	**125,968,092**	121,592,491

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

	The Group	
	2017 RM'000	**2016 RM'000**
Fixed rate		
- Housing and shop loans/financing	**4,753,971**	2,604,404
- Hire purchase receivables	**17,747,828**	18,200,640
- Credit card	**3,997,701**	3,755,348
- Other fixed rate loan/financing	**3,515,903**	4,328,490
Variable rate		
- Base rate/base lending rate plus	**78,636,505**	75,993,221
- Cost plus	**16,918,373**	16,322,812
- Other variable rates	**397,811**	387,576
Gross loans, advances and financing	**125,968,092**	121,592,491

Notes to the Financial Statements

for the financial year ended 30 June 2017

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	The Group	
	2017 RM'000	2016 RM'000
Purchase of securities	**700,958**	856,080
Purchase of transport vehicles	**17,583,693**	18,445,657
Residential property (housing)	**56,861,181**	51,510,277
Non-residential property	**15,774,407**	14,986,782
Purchase of fixed assets (excluding landed properties)	**379,050**	434,041
Personal use	**3,563,125**	3,766,429
Credit card	**3,997,701**	3,755,348
Purchase of consumer durables	**–**	387
Construction	**1,238,539**	1,386,003
Mergers and acquisition	**201,182**	233,364
Working capital	**23,216,086**	23,529,783
Other purposes	**2,452,170**	2,688,340
Gross loans, advances and financing	**125,968,092**	121,592,491

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

	The Group	
	2017 RM'000	2016 RM'000
In Malaysia	**119,382,844**	115,965,819
Outside Malaysia		
- Singapore	**5,379,133**	4,678,961
- Hong Kong	**–**	34,168
- Vietnam	**397,813**	387,576
- Cambodia	**808,302**	525,967
Gross loans, advances and financing	**125,968,092**	121,592,491

Notes to the Financial Statements

for the financial year ended 30 June 2017

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	The Group	
	2017 RM'000	2016 RM'000
Purchase of securities	**2,196**	225
Purchase of transport vehicles	**142,754**	145,528
Residential property (housing)	**307,234**	233,566
Non-residential property	**133,296**	99,145
Purchase of fixed assets (excluding landed properties)	**3,332**	22,872
Personal use	**44,066**	36,909
Credit card	**48,005**	44,308
Construction	**7,209**	9,138
Working capital	**510,724**	346,555
Other purposes	**16,201**	18,907
Gross impaired loans, advances and financing	**1,215,017**	957,153

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

	The Group	
	2017 RM'000	2016 RM'000
As at 1 July	**957,153**	948,583
Impaired during the financial year	**1,824,594**	1,572,187
Performing during the financial year	**(821,519)**	(798,443)
Amount written back in respect of recoveries	**(336,403)**	(338,880)
Amount written off	**(407,656)**	(426,490)
Exchange differences	**(1,152)**	196
As at 30 June	**1,215,017**	957,153
Gross impaired loans as a % of gross loans, advances and financing	**1.0%**	0.8%

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

	The Group	
	2017 RM'000	2016 RM'000
In Malaysia	**1,208,932**	943,207
Outside Malaysia		
- Singapore operations	**471**	5,601
- Vietnam operations	**5,098**	8,345
- Cambodia operations	**516**	–
Gross impaired loans, advances and financing	**1,215,017**	957,153

Notes to the Financial Statements

for the financial year ended 30 June 2017

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	The Group	
	2017 RM'000	2016 RM'000
Collective assessment allowance		
As at 1 July	856,971	969,925
Net allowance made during the financial year	282,483	263,678
Amount transferred to individual assessment allowance	(729)	(109)
Amount written off	(298,120)	(365,615)
Unwinding income	(10,732)	(11,465)
Exchange differences	534	557
As at 30 June	830,407	856,971
Individual assessment allowance		
As at 1 July	289,844	323,071
Net allowance made during the financial year	162,679	57,180
Amount transferred from collective assessment allowance	729	109
Amount transferred to allowance for impairment losses on financial investments	–	(2,566)
Amount written back in respect of recoveries	(46,433)	(61,626)
Amount written off	(72,260)	(22,014)
Unwinding income	(8,741)	(4,404)
Exchange differences	(282)	94
As at 30 June	325,536	289,844

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	
	2017 RM'000	2016 RM'000
Performing accounts	507,251	394,793
Impaired accounts	1,264	1,390
	508,515	396,183
Less: Allowances for bad and doubtful debts		
- Individual assessment allowance	(417)	(282)
- Collective assessment allowance	(28)	(17)
	508,070	395,884

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for the financial year ended 30 June 2017

8 CLIENTS' AND BROKERS' BALANCES (CONTINUED)

Movements of impaired accounts are as follows:

	The Group	
	2017 RM'000	2016 RM'000
As at 1 July	**1,390**	1,532
Impaired during the financial year	**574**	581
Written back during the financial year	**(700)**	(723)
As at 30 June	**1,264**	1,390

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

	The Group	
	2017 RM'000	2016 RM'000
Individual assessment allowance		
As at 1 July	**282**	361
Allowance made during the financial year	**245**	150
Allowance written back during the financial year	**(110)**	(229)
As at 30 June	**417**	282
Collective assessment allowance		
As at 1 July	**17**	23
Allowance made/(written back) during the financial year	**11**	(6)
As at 30 June	**28**	17

9 OTHER RECEIVABLES

		The Group		The Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Foreclosed properties		**46**	46	**–**	–
Sundry debtors and other prepayments		**181,987**	337,397	**312**	410
Treasury related receivables		**457,935**	629,659	**–**	–
Cash collateral pledged for derivative transactions		**676,156**	684,890	**–**	–
Fee income receivables net of allowance for impairment losses of RM1,015,000 (2016: RM28,000)	(a)	**16,076**	7,743	**–**	–
Other receivables		**195,555**	157,093	**263**	229
		1,527,755	1,816,828	**575**	639

Notes to the Financial Statements

for the financial year ended 30 June 2017

9 OTHER RECEIVABLES (CONTINUED)

(a) Movements of allowance for impairment losses on fee income receivables is as follows:

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Individual assessment allowance				
As at 1 July	**28**	28	**–**	–
Allowance made during the financial year	**987**	–	**–**	–
As at 30 June	**1,015**	28	**–**	–

10 STATUTORY DEPOSITS WITH CENTRAL BANKS

The non-interest bearing statutory deposits are maintained by certain banking subsidiaries with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amounts of which are determined at set percentages of total eligible liabilities. The non-interest bearing statutory deposits of a foreign banking subsidiary and the foreign branch of a banking subsidiary of the Group are maintained with respective central banks in compliance with the applicable legislation.

11 INVESTMENT IN SUBSIDIARY COMPANIES

	The Company	
	2017 RM'000	2016 RM'000
Subsidiary companies		
Unquoted shares at cost	**325,247**	330,684
Shares quoted in Malaysia at cost	**16,597,456**	16,597,456
	16,922,703	16,928,140
Less: Allowance for impairment loss	**(12,980)**	(12,980)
	16,909,723	16,915,160

		The Company	
	Note	2017 RM'000	2016 RM'000
As at 1 July		**16,928,140**	15,010,875
Add: Subscription of rights shares		**–**	1,903,501
Add: Subscription of redeemable preference shares		**–**	15,684
Less: Redemption of redeemable preference shares	(i)	**(5,340)**	(1,920)
Less: Redemption of redeemable preference shares	(ii)	**(97)**	–
As at 30 June		**16,922,703**	16,928,140

(i) The Company has redeemed 5,340 (2016: 1,920) redeemable preference share ("RPS") of RM1.00 each and RM999.00 share premium in Hong Leong Equities Sdn Bhd.

(ii) The Company has redeemed 25,000 RPS of USD1.00 each in HLFG Principal Investments (L) Limited.

Notes to the Financial Statements

for the financial year ended 30 June 2017

11 INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

(i) Information about principal subsidiaries:

The subsidiary companies of the Company are as follows:

Name of companies	Place of incorporation	Effective percentage of ownership 2017 %	2016 %	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 ESOSΩ*	Malaysia	**–**	–	Special purpose vehicle for ESOS
(ii) Hong Leong Insurance (Asia) Limited*	Hong Kong	**100.00**	100.00	General insurance
(iii) Hong Leong MSIG Takaful Berhad	Malaysia	**65.00**	65.00	Takaful business
(iv) RC Holdings Sdn Bhd	Malaysia	**100.00**	100.00	Investment holding
(v) 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 dealing
(d) Unincorporated trust for ESOSΩ*	Malaysia	**–**	–	Special purpose vehicle for ESOS
(e) HLFG Principal Investments (L) Limited	Labuan	**100.00**	100.00	Investment holding
(f) Hong Leong Capital Berhad and its subsidiary companies:	Malaysia	**83.22**	83.22	Investment holding
(i) HLG Securities Sdn Bhd	Malaysia	**83.22**	83.22	Investment holding
(ii) HLG Capital Markets Sdn Bhd and its subsidiary company:	Malaysia	**83.22**	83.22	Investment holding
- HLG Principal Investments (L) Limited	Labuan	**–**	83.22	Dissolved
(iii) Hong Leong Investment Bank Berhad and its subsidiary companies:	Malaysia	**83.22**	83.22	Investment banking, stockbroking business, futures broking and related financial services
- HLG Nominee (Tempatan) Sdn Bhd	Malaysia	**–**	83.22	Dissolved
- HLG Nominee (Asing) Sdn Bhd	Malaysia	**–**	83.22	Dissolved
- SSSB Jaya (1987) Sdn Bhd	Malaysia	**83.22**	83.22	In creditors' voluntary liquidation
- HLIB Nominees (Tempatan) Sdn Bhd	Malaysia	**83.22**	83.22	Nominee and custodian services for Malaysian clients
- HLIB Nominees (Asing) Sdn Bhd	Malaysia	**83.22**	83.22	Nominee and custodian services for foreign clients
(iv) HLCB Assets Sdn Bhd	Malaysia	**83.22**	83.22	Investment holding
(v) Hong Leong Asset Management Bhd	Malaysia	**83.22**	83.22	Unit trust management, fund management and sale of unit trusts
(vi) Unincorporated trust for ESOSΩ*	Malaysia	**–**	–	Special purpose vehicle for ESOS
(vii) Hong Leong Dana Al-IzdiharΩ*	Malaysia	**83.22**	–	Unit trust funds

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 2017 %	2016 %	Principal activities
(g) Hong Leong Bank Berhad and its subsidiary companies:	Malaysia	**65.62**	65.62	All aspects of commercial banking business and provision of related services
(i) Hong Leong Islamic Bank Berhad	Malaysia	**65.62**	65.62	Islamic banking business and related financial services
(ii) DC Tower Sdn Bhd	Malaysia	**65.62**	65.62	Real property investment
(iii) Hong Leong Bank Vietnam Limited*	Vietnam	**65.62**	65.62	Commercial banking business
(iv) Hong Leong Bank (Cambodia) PLC+	Cambodia	**65.62**	65.62	Commercial banking business
(v) HLF Credit (Perak) Bhd and its subsidiary companies:	Malaysia	**65.62**	65.62	Investment holding
- Gensource Sdn Bhd and its subsidiary company:	Malaysia	**65.62**	65.62	Investment holding
• Pelita Terang Sdn Bhd	Malaysia	**65.62**	65.62	Dormant
- WTB Corporation Sdn Bhd and its subsidiary companies:	Malaysia	**65.62**	65.62	Investment holding
• Wah Tat Nominees (Tempatan) Sdn Bhd	Malaysia	**–**	65.62	Dissolved
• Wah Tat Nominees (Asing) Sdn Bhd	Malaysia	**–**	65.62	Dissolved
- Chew Geok Lin Finance Sdn Bhd	Malaysia	**65.62**	65.62	Investment holding
- Hong Leong Leasing Sdn Bhd*	Malaysia	**65.62**	65.62	Investment holding
- HL Leasing Sdn Bhd	Malaysia	**65.62**	65.62	Investment holding
- HLB Realty Sdn Bhd	Malaysia	**65.62**	65.62	Real property investment and investment holding
(vi) HLB Nominees (Tempatan) Sdn Bhd	Malaysia	**65.62**	65.62	Agent and nominee for Malaysian clients
(vii) HLB Nominees (Asing) Sdn Bhd	Malaysia	**65.62**	65.62	Agent and nominee for foreign clients
(viii) HL Bank Nominees (Singapore) Pte Ltd+	Singapore	**65.62**	65.62	Agent and nominee for clients
(ix) HLB Trade Services (Hong Kong) Limited+	Hong Kong	**65.62**	65.62	Ceased operations
(x) HLB Principal Investments (L) Limited and its subsidiary company:	Malaysia	**65.62**	65.62	Holding of or dealings in offshore securities and investment holding
- Promino Sdn Bhd	Malaysia	**65.62**	65.62	Ceased operations
(xi) Prominic Berhad	Malaysia	**–**	65.62	Dissolved
(xii) Promilia Berhad	Malaysia	**65.62**	65.62	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)

		Effective percentage of ownership		
Name of companies	Place of incorporation	2017 %	2016 %	Principal activities
(xiii) EB Nominees (Tempatan) Sendirian Berhad	Malaysia	**65.62**	65.62	Nominee services
(xiv) EB Nominees (Asing) Sendirian Berhad	Malaysia	**65.62**	65.62	Nominee services
(xv) EB Realty Sendirian Berhad	Malaysia	**65.62**	65.62	Property investment
(xvi) OBB Realty Sdn Bhd	Malaysia	**65.62**	65.62	Property investment
(xvii) Unincorporated trust for ESOSΩ*	Malaysia	**–**	–	Special purpose vehicle for ESOS
(h) Halcyon Capital Sdn BhdΩ*	Malaysia	**–**	–	Ceased control during the year
(i) Balius Capital Sdn BhdΩ*	Malaysia	**–**	–	Special purpose vehicle
(j) Hong Leong Wholesale Bond FundΩ	Malaysia	**–**	–	Unit trust funds
(k) Hong Leong Money Market FundΩ	Malaysia	**–**	–	Unit trust funds

* 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"

(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	
	2017 %	2016 %	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Hong Leong Bank Berhad	**34.38**	34.38	**737,457**	655,873	**7,799,245**	7,260,075
Hong Leong Capital Berhad	**16.78**	16.78	**13,270**	11,345	**125,063**	116,559
Hong Leong Assurance Berhad	**30.00**	30.00	**59,627**	40,093	**471,759**	431,726
Individually immaterial subsidiaries with non-controlling interests			**(235)**	(2,662)	**27,509**	27,661
			810,119	704,649	**8,423,576**	7,836,021

Notes to the Financial Statements

for the financial year ended 30 June 2017

11 INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

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

Summarised financial information for each subsidiary companies 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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Total assets	**16,923,163**	14,820,940	**195,552,524**	189,828,215	**4,263,986**	4,149,057
Total liabilities	**(15,351,073)**	(13,382,294)	**(172,867,109)**	(168,711,068)	**(3,518,679)**	(3,448,696)
Net assets	**1,572,090**	1,438,646	**22,685,415**	21,117,147	**745,307**	700,361
Equity attributable to owners of the Company	**(1,100,331)**	(1,006,920)	**(14,886,170)**	(13,857,072)	**(620,244)**	(583,802)
Non-controlling interests	**(471,759)**	(431,726)	**(7,799,245)**	(7,260,075)	**(125,063)**	(116,559)
Revenue	**255,182**	198,983	**6,163,134**	6,303,462	**149,654**	127,462
Profit before taxation	**252,037**	162,648	**2,748,252**	2,381,699	**84,037**	64,500
Taxation	**(53,283)**	(29,006)	**(603,236)**	(478,282)	**(4,952)**	(2,623)
Other comprehensive income/(loss)	**21,689**	(23,488)	**251,637**	278,963	**(5,185)**	5,365
Total comprehensive income	**220,443**	110,154	**2,396,653**	2,182,380	**73,900**	67,242
Net cash used in investing activities	**(7,510)**	(4,452)	**(1,682,216)**	(6,402,145)	**(419,475)**	(138,772)
Net cash used in financing activities	**(109,377)**	(22,562)	**(2,715,075)**	(3,056,703)	**(31,619)**	(23,166)
Net cash generated from operating activities	**76,139**	43,877	**6,187,055**	11,851,248	**381,859**	(13,469)
Net (decrease)/increase in cash and cash equivalents	**(40,748)**	16,863	**1,789,764**	2,392,400	**(69,235)**	(175,407)
Profit allocated to non-controlling interests of the Group	**59,627**	40,093	**737,457**	655,873	**13,270**	11,345
Dividends paid to non-controlling interests of the Group	**26,100**	26,100	**289,203**	235,439	**4,857**	6,054

Notes to the Financial Statements

for the financial year ended 30 June 2017

12 INVESTMENT IN ASSOCIATED COMPANIES

	The Group	
	2017 RM'000	**2016 RM'000**
Unquoted shares, at cost		
- In Malaysia	**618,666**	618,666
- Outside Malaysia	**946,505**	946,505
Cumulative share of results, net of dividend received	**2,064,692**	1,855,269
Cumulative share of changes in other comprehensive income	**1,155**	13,711
Exchange fluctuation reserve	**690,607**	547,940
	4,321,625	3,982,091

(a) Information about associated companies

			The Group Percentage (%) of equity held	
Name	**Country of incorporation**	**Principal activities**	**2017 %**	**2016 %**
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 subscription enables HLB to enter into a strategic alliance with BOCD to tap the promising and growing financial services sector of China. It strengthens and diversifies the earning base of the Group.

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

All associated companies are non-listed companies and there is no quoted market price available for their shares.

The Group deems BOCD and MSIM as material associated companies.

Notes to the Financial Statements

for the financial year ended 30 June 2017

12 INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

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

(i) Bank of Chengdu Co., Ltd

	The Group	
	2017 RM'000	2016 RM'000
Total assets	**242,523,008**	210,788,236
Total liabilities	**(225,188,553)**	(194,899,396)
Net assets	**17,334,455**	15,888,840
Interest income	**8,185,397**	8,591,993
Interest expense	**(3,729,548)**	(3,682,577)
Non-interest income	**868,127**	751,728
Profit before taxation	**2,051,831**	2,164,939
Profit after taxation	**1,714,550**	1,560,890
Dividends paid by the associated company during the financial year	**909,765**	489,440
Shares of results of associated company (%)	**20%**	20%
Shares of results of associated company (RM'000)	**342,910**	312,178

(ii) MSIG Insurance (Malaysia) Bhd

	The Group	
	2017 RM'000	2016 RM'000
Total assets	**4,929,474**	4,916,992
Total liabilities	**(2,080,361)**	(2,235,914)
Net assets	**2,849,113**	2,681,078
Interest income	**77,981**	77,252
Non-interest income	**452,130**	436,204
Profit before taxation	**310,854**	285,013
Profit after taxation	**244,838**	229,597
Dividends paid by the associated company during the financial year	**83,286**	99,943
Shares of results of associated company (%)	**30%**	30%
Shares of results of associated company (RM'000)	**73,451**	68,879

Notes to the Financial Statements

for the financial year ended 30 June 2017

12 INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

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

(i) Bank of Chengdu Co., Ltd

	The Group	
	2017 RM'000	2016 RM'000
Opening net assets as at 1 July	**15,888,840**	14,888,880
Profit for the financial year	**1,714,550**	1,560,890
Other comprehensive income for the financial year	**(72,505)**	22,625
Dividends	**(909,765)**	(489,440)
Exchange fluctuation reserve	**713,335**	(94,115)
Closing net assets as at 30 June	**17,334,455**	15,888,840
Interest in associated company (%)	**20%**	20%
Interest in associated company (RM'000)	**3,466,891**	3,177,768

(ii) MSIG Insurance (Malaysia) Bhd

	The Group	
	2017 RM'000	2016 RM'000
Opening net assets as at 1 July	**2,681,078**	2,541,754
Profit for the financial year	**244,838**	229,597
Other comprehensive income/(loss) for the financial year	**6,483**	9,670
Dividends	**(83,286)**	(99,943)
Closing net assets as at 30 June	**2,849,113**	2,681,078
Interest in associated company (%)	**30%**	30%
Interest in associated company (RM'000)	**854,734**	804,323

The information presented above is based on the financial statements of the associated company after reflecting adjustments made by the Group when using the equity method, such as fair value adjustments made at the time of acquisition and differences in accounting policies between the Group and the associated companies.

The summarised financial information above represents amount shown in the material associate's financial statements prepared in accordance with MFRSs (adjusted by the Group for equity accounting purposes).

Notes to the Financial Statements

for the financial year ended 30 June 2017

13 INVESTMENT IN JOINT VENTURES

	The Group	
	2017 RM'000	2016 RM'000
Unquoted shares, at cost		
- In Malaysia	**–**	3,252
- Outside Malaysia	**24,657**	76,711
Cumulative share of results, net of dividend received	**20,882**	43,943
Exchange fluctuation reserve	**8,842**	21,277
Held for sale	**114,804**	–
	169,185	145,183

(a) Information about joint ventures

			The Group Percentage (%) of equity held	
Name	Country of incorporation	Principal activities	2017 %	2016 %
Sichuan Jincheng Consumer Finance Limited Company	China	Consumer finance	**49**	49
Bangsar Capital Holdings (L) Limited (Incorporated in the Federal Territory of Labuan)	Malaysia	Dissolved	**–**	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"), 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 the Group's vision and belief in the huge potential of China.

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

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

Notes to the Financial Statements

for the financial year ended 30 June 2017

13 INVESTMENT IN JOINT VENTURES (CONTINUED)

(a) Information about joint ventures (continued)

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

On 28 June 2014, HLFG Principal Investments (L) Limited ("HLFGPI"), a wholly-owned subsidiary of HLFG, 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. The Joint Venture Entity has commenced liquidation previously and dissolved during the financial year.

All joint ventures companies are non-listed companies and there is no quoted market price available for their shares.

(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	
	2017 RM'000	2016 RM'000
Total assets	**783,476**	959,061
Total liabilities	**(438,201)**	(663,398)
Net assets	**345,275**	295,663
Interest income	**86,490**	114,510
Interest expense	**(26,608)**	(40,666)
Non-interest income	**37,263**	41,059
Profit before taxation	**57,740**	57,513
Profit after taxation	**43,169**	43,320
Dividend paid by the joint venture during the financial year	**6,996**	7,663
Shares of results of joint venture (%)	**49%**	49%
Shares of results of joint venture (RM'000)		
- Retained portion	**6,799**	21,227
- Held for sale	**14,354**	–
	21,153	21,227

Notes to the Financial Statements

for the financial year ended 30 June 2017

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: (continued)

(ii) Bangsar Capital Holdings (L) Limited

	The Group	
	2017 RM'000	2016 RM'000
Total assets	–	788
Total liabilities	–	(172)
Net assets	–	616
Loss before taxation	–	(352)
Loss after taxation	–	(352)
Shares of results of joint venture (%)	–	50%
Shares of results of joint venture (RM'000)	–	(176)

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

(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	
	2017 RM'000	2016 RM'000
Opening net assets as at 1 July	**295,663**	262,837
Profit for the financial year	**43,169**	43,320
Dividend	**(6,996)**	(7,663)
Exchange fluctuation reserve	**13,439**	(2,831)
Closing net assets as at 30 June	**345,275**	295,663
Interest in joint ventures (%)	**49%**	49%
Interest in joint ventures - retained portion (RM'000)	**54,381**	–
Interest in joint ventures - held for sale (RM'000)	**114,804**	144,875

Notes to the Financial Statements

for the financial year ended 30 June 2017

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: (continued)

(ii) Bangsar Capital Holdings (L) Limited

	The Group	
	2017 RM'000	2016 RM'000
Opening net assets as at 1 July	**616**	880
Loss for the financial year	**–**	(352)
Final distribution, net	**(616)**	–
Exchange fluctuation reserve	**–**	88
Closing net assets as at 30 June	**–**	616
Interest in joint ventures (%)	**–**	50%
Interest in joint ventures (RM'000)	**–**	308

The information presented above is based on the financial statements of the joint venture after reflecting adjustments made by the Group when using the equity method, such as differences in accounting policies between the Group and the joint venture.

14 PROPERTY AND EQUIPMENT

The Group 2017	Note	Land and building* RM'000	Office and computer equipment RM'000	Furniture, fittings and renovation RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Property work-in-progress RM'000	Total RM'000
Cost								
As at 1 July 2016		**796,445**	**1,046,744**	**439,927**	**12,526**	**119,317**	**620,075**	**3,035,034**
Exchange fluctuation		**3,626**	**4,032**	**1,312**	**74**	**56**	**–**	**9,100**
Reclassification/adjustments		**–**	**44**	**1,080**	**–**	**(1,190)**	**(21,580)**	**(21,646)**
Reclassification to intangible assets	17	**–**	**2,488**	**(353)**	**–**	**(7,333)**	**–**	**(5,198)**
Additions		**–**	**134,850**	**16,831**	**1,662**	**15,271**	**1,096**	**169,710**
Disposals/write-off		**(3,330)**	**(37,524)**	**(5,525)**	**(1,294)**	**–**	**–**	**(47,673)**
As at 30 June 2017		**796,741**	**1,150,634**	**453,272**	**12,968**	**126,121**	**599,591**	**3,139,327**
Accumulated depreciation								
As at 1 July 2016		**131,712**	**726,030**	**319,963**	**8,127**	**–**	**–**	**1,185,832**
Exchange fluctuation		**456**	**2,604**	**708**	**61**	**–**	**–**	**3,829**
Reclassification		**–**	**350**	**(350)**	**–**	**–**	**–**	**–**
Disposals/write-off		**(1,121)**	**(36,749)**	**(5,138)**	**(851)**	**–**	**–**	**(43,859)**
Charge during the financial year		**10,960**	**70,368**	**25,978**	**1,768**	**–**	**–**	**109,074**
As at 30 June 2017		**142,007**	**762,603**	**341,161**	**9,105**	**–**	**–**	**1,254,876**
Net book value as at 30 June 2017		**654,734**	**388,031**	**112,111**	**3,863**	**126,121**	**599,591**	**1,884,451**

Notes to the Financial Statements

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14 PROPERTY AND EQUIPMENT (CONTINUED)

* 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
2017	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cost							
As at 1 July 2016	165,344	346,942	21,555	258,678	1,693	2,233	796,445
Exchange fluctuation	–	–	–	3,626	–	–	3,626
Reclassification	–	–	22,608	(22,608)	–	–	–
Disposals	–	(3,330)	–	–	–	–	(3,330)
As at 30 June 2017	165,344	343,612	44,163	239,696	1,693	2,233	796,741
Accumulated depreciation							
As at 1 July 2016	–	87,384	2,781	39,126	1,400	1,021	131,712
Exchange fluctuation	–	–	–	456	–	–	456
Reclassification	–	–	2,751	(2,751)	–	–	–
Disposals	–	(1,121)	–	–	–	–	(1,121)
Charge during the financial year	–	6,976	(872)	4,804	7	45	10,960
As at 30 June 2017	–	93,239	4,660	41,635	1,407	1,066	142,007
Net book value as at 30 June 2017	165,344	250,373	39,503	198,061	286	1,167	654,734

The Group		Land and building*	Office and computer equipment	Furniture, fittings and renovation	Motor vehicles	Capital work-in-progress	Property work-in-progress	Total
2016	**Note**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cost								
As at 1 July 2015		753,955	969,908	432,748	13,076	88,813	–	2,258,500
Exchange fluctuation		3,754	4,195	1,786	94	(1,173)	–	8,656
Reclassification to intangible assets	17	–	1,172	–	–	(5,922)	–	(4,750)
Additions		40,181	86,429	16,782	862	37,599	620,075	801,928
Disposals/write-off		(1,445)	(14,960)	(11,389)	(1,506)	–	–	(29,300)
As at 30 June 2016		796,445	1,046,744	439,927	12,526	119,317	620,075	3,035,034
Accumulated depreciation								
As at 1 July 2015		114,940	679,830	305,866	7,909	–	–	1,108,545
Exchange fluctuation		376	2,492	557	75	–	–	3,500
Reclassification to intangible assets	17	–	131	–	–	–	–	131
Disposals/write-off		(232)	(14,602)	(10,802)	(1,484)	–	–	(27,120)
Charge during the financial year		16,628	58,179	24,342	1,627	–	–	100,776
As at 30 June 2016		131,712	726,030	319,963	8,127	–	–	1,185,832
Net book value as at 30 June 2016		664,733	320,714	119,964	4,399	119,317	620,075	1,849,202

Notes to the Financial Statements

for the financial year ended 30 June 2017

14 PROPERTY AND EQUIPMENT (CONTINUED)

* Land and building consists of the following: (continued)

The Group 2016	Freehold land RM'000	Freehold building RM'000	Long-term leasehold land RM'000	Long-term leasehold building RM'000	Short-term leasehold land RM'000	Short-term leasehold building RM'000	Total RM'000
Cost							
As at 1 July 2015	159,815	317,898	33,249	238,811	3,450	732	753,955
Exchange fluctuation	–	–	–	3,754	–	–	3,754
Additions	17,960	17,066	3,800	1,355	–	–	40,181
Reclassification	(11,945)	12,271	(15,361)	15,291	(1,757)	1,501	–
Disposals	(486)	(293)	(133)	(533)	–	–	(1,445)
As at 30 June 2016	165,344	346,942	21,555	258,678	1,693	2,233	796,445
Accumulated depreciation							
As at 1 July 2015	–	76,833	4,286	31,244	2,160	417	114,940
Exchange fluctuation	–	–	–	376	–	–	376
Reclassification	–	(1,207)	(1,659)	3,058	(763)	571	–
Disposals	–	(95)	(18)	(119)	–	–	(232)
Charge during the financial year	–	11,853	172	4,567	3	33	16,628
As at 30 June 2016	–	87,384	2,781	39,126	1,400	1,021	131,712
Net book value as at 30 June 2016	165,344	259,558	18,774	219,552	293	1,212	664,733

The Company 2017	Office and computer equipment RM'000	Furniture, fittings and renovation RM'000	Motor vehicles RM'000	Total RM'000
Cost				
As at 1 July 2016	**788**	**1,512**	**2,139**	**4,439**
Additions	**12**	**–**	**327**	**339**
Write-off	**(73)**	**–**	**–**	**(73)**
As at 30 June 2017	**727**	**1,512**	**2,466**	**4,705**
Accumulated depreciation				
As at 1 July 2016	**657**	**1,230**	**823**	**2,710**
Write-off	**(73)**	**–**	**–**	**(73)**
Charge during the financial year	**85**	**107**	**458**	**650**
As at 30 June 2017	**669**	**1,337**	**1,281**	**3,287**
Net book value as at 30 June 2017	**58**	**175**	**1,185**	**1,418**

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14 PROPERTY AND EQUIPMENT (CONTINUED)

The Company 2016	Office and computer equipment RM'000	Furniture, fittings and renovation RM'000	Motor vehicles RM'000	Total RM'000
Cost				
As at 1 July 2015	778	1,512	2,139	4,429
Additions	10	–	–	10
As at 30 June 2016	788	1,512	2,139	4,439
Accumulated depreciation				
As at 1 July 2015	554	1,104	396	2,054
Charge during the financial year	103	126	427	656
As at 30 June 2016	657	1,230	823	2,710
Net book value as at 30 June 2016	131	282	1,316	1,729

15 INVESTMENT PROPERTIES

	The Group	
	2017 RM'000	2016 RM'000
Fair value		
As at 1 July	**1,940**	1,848
Fair value gain	**90**	92
As at 30 June	**2,030**	1,940
The analysis of investment properties is as follows:		
Leasehold land and building	**2,030**	1,940

The fair value of the properties was estimated at RM2,030,000 (2016: RM1,940,000) based on open market valuation by an independent professional valuer, Raine & Horne International Zaki + Partners Sdn Bhd.

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	
	2017 RM'000	2016 RM'000
Rental income	**118**	91
Operating expenses arising from investment properties that generated the rental income	**5**	33

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16 GOODWILL ARISING ON CONSOLIDATION

	The Group	
	2017 RM'000	**2016 RM'000**
As at 1 July/30 June	**2,410,644**	2,410,644

Allocation of goodwill to cash-generating units

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

	The Group	
	2017 RM'000	**2016 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 CGUs is determined based on higher of fair value less costs to sell and value-in-use calculations. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, less costs of disposal. This estimate is mainly determined, on 30 June 2017, on the basis of available market information such as the fair value of the underlying assets and liabilities which have been marked-to-market.

(i) Commercial banking CGU and investment banking and asset management CGU

The recoverable amounts of the commercial banking CGU and investment banking and asset management CGU have been determined based on the respective value-in-use calculations. Value in use is the present value of the future cash flows expected to be derived from the CGU. This calculation uses pre-tax cash flow projection based on the budget for the financial year ending 2018, which is approved by the respective Board of Directors of Hong Leong Bank Berhad and Hong Leong Capital Berhad. There is a further projection of 3 years (2016: 3 years) based on the average historical Gross Domestic Product ("GDP") growth of the country covering a 5 year (2016: 5 years) period, revised for current economic conditions. Cash flows beyond the 4 year period are extrapolated using an estimated growth rate of 4.59% (2016: 3.60%) representing the forecasted GDP growth rate of the country for all cash generating units. The cash flow projections are derived based on a number of key factors including past performance of these CGUs and management's expectation of market developments.

The discount rate used in determining the recoverable amount of the commercial banking CGUs and investment banking and asset management CGUs are 7.48% (2016: 10.20%) and 8.16% (2016: 10.69%) respectively. The pre-tax discount rate reflects the specific risks relating to the CGUs.

(ii) Insurance CGU

The value-in-use 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.

Notes to the Financial Statements

for the financial year ended 30 June 2017

16 GOODWILL ARISING ON CONSOLIDATION (CONTINUED)

Impairment test for goodwill (continued)

(ii) Insurance CGU (continued)

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

(a) The present value of future shareholders' earnings is discounted at 9% (2016: 9%).
(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 17% (2016: 17%) 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.
(g) The cost of capital is the cost of holding the required capital at the internal capital adequacy ratio allowing for future investment return on the capital held.

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.

Management believes that any reasonably possible change to the key assumptions applied would not cause the carrying amount of the goodwill to exceed the recoverable amount of the CGUs, which could warrant any impairment to be recognised.

17 INTANGIBLE ASSETS

The Group		Core deposit	Customer relationship	Computer software	Total
2017	**Note**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cost or valuation					
As at 1 July 2016		152,434	127,426	612,205	892,065
Additions		–	–	22,912	22,912
Write-off		–	–	(1,488)	(1,488)
Exchange fluctuation		–	–	1,990	1,990
Reclassification from property and equipment	14	–	–	5,198	5,198
As at 30 June 2017		152,434	127,426	640,817	920,677
Accumulated amortisation and impairment					
As at 1 July 2016		112,510	65,838	428,746	607,094
Amortisation during the financial year		21,776	12,743	49,014	83,533
Write-off		–	–	(1,431)	(1,431)
Exchange fluctuation		–	–	893	893
As at 30 June 2017		134,286	78,581	477,222	690,089
Net book value as at 30 June 2017		18,148	48,845	163,595	230,588

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for the financial year ended 30 June 2017

17 INTANGIBLE ASSETS (CONTINUED)

The Group 2016	Note	Core deposit RM'000	Customer relationship RM'000	Computer software RM'000	Total RM'000
Cost or valuation					
As at 1 July 2015		152,434	127,426	585,516	865,376
Additions		–	–	25,223	25,223
Disposals/write-off		–	–	(4,953)	(4,953)
Exchange fluctuation		–	–	1,669	1,669
Reclassification from property and equipment	14	–	–	4,750	4,750
As at 30 June 2016		152,434	127,426	612,205	892,065
Accumulated amortisation and impairment					
As at 1 July 2015		90,734	53,095	383,705	527,534
Amortisation during the financial year		21,776	12,743	46,114	80,633
Disposals/write-off		–	–	(1,565)	(1,565)
Exchange fluctuation		–	–	623	623
Reclassification from property and equipment	14	–	–	(131)	(131)
As at 30 June 2016		112,510	65,838	428,746	607,094
Net book value as at 30 June 2016		39,924	61,588	183,459	284,971

The Company	Computer software 2017 RM'000	Computer software 2016 RM'000
Cost		
As at 1 July	**841**	840
Additions	**2**	1
As at 30 June	**843**	841
Accumulated amortisation and impairment		
As at 1 July	**735**	627
Amortisation during the financial year	**95**	108
As at 30 June	**830**	735
Net book value as at 30 June	**13**	106

The customer relationship and core deposit arise from the acquisition of EON commercial banking business operations.

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.

Notes to the Financial Statements

for the financial year ended 30 June 2017

17 INTANGIBLE ASSETS (CONTINUED)

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 to 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 2 to 5 years respectively.

18 DEPOSITS FROM CUSTOMERS

	The Group	
	2017 RM'000	2016 RM'000
At amortised cost		
Fixed deposits	**88,216,001**	85,737,639
Negotiable instruments of deposits	**5,713,184**	7,816,740
Short-term placements	**18,312,314**	16,429,616
	112,241,499	109,983,995
Demand deposits	**21,186,820**	20,559,745
Savings deposits	**17,531,603**	16,581,412
Others	**1,017,170**	943,462
Gross deposits from customers	**151,977,092**	148,068,614
At fair value through profit or loss		
Callable range accrual notes, at cost	**2,442,012**	1,442,912
Callable inverse floater, at cost	**155,851**	–
Fair value changes arising from designation at fair value through profit or loss*	**(116,938)**	(20,993)
	2,480,925	1,421,919
Total net deposits from customers	**154,458,017**	149,490,533

* The banking subsidiary has issued structured deposits (callable range accrual notes and callable inverse floater) and designated them at fair value through profit or loss. This designation is permitted under MFRS 139 "Financial Instruments: Recognition and Measurement" as it significantly reduces accounting mismatch. These instruments are managed by the Group on the basis of its fair value and includes terms that have substantive derivative characteristic.

The fair value changes of the structured deposits that are attributable to the changes in own credit risk are not significant.

The carrying amount of the structured deposits of the Group is RM106,355,000 (2016: RM12,771,000), lower than the contractual amount at maturity.

Notes to the Financial Statements

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18 DEPOSITS FROM CUSTOMERS (CONTINUED)

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

	The Group	
	2017 RM'000	2016 RM'000
Due within:		
- six months	**93,035,057**	90,130,671
- six months to one year	**17,382,345**	16,791,342
- one year to five years	**1,824,097**	3,044,069
- more than five years	**–**	17,913
	112,241,499	109,983,995

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

	The Group	
	2017 RM'000	2016 RM'000
Government and statutory bodies	**3,395,343**	2,891,538
Business enterprises	**62,087,439**	62,776,728
Individuals	**86,196,444**	81,366,305
Others	**2,778,791**	2,455,962
	154,458,017	149,490,533

19 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group	
	2017 RM'000	2016 RM'000
Licensed banks and investment banks	**6,312,662**	6,842,865
Other financial institutions	**1,421,763**	1,263,135
	7,734,425	8,106,000

Notes to the Financial Statements

for the financial year ended 30 June 2017

20 DERIVATIVE FINANCIAL INSTRUMENTS

		The Group		The Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Derivatives at fair value through profit or loss					
- Interest rate swaps		**209,298**	307,063	**–**	80
- Cross currency swaps		**428,856**	415,859	**–**	–
- Foreign currency forwards		**280,906**	287,846	**–**	–
- Foreign currency options		**19,761**	23,091	**–**	–
- Foreign currency swaps		**5,883**	18,347	**–**	–
- Foreign currency spots		**1**	–	**–**	–
- Futures		**355**	11	**–**	–
- Equity options		**9,203**	9,266	**–**	–
- Swaption		**23,341**	–	**–**	–
- Commodity swap		**–**	875	**–**	–
Total derivative financial instruments assets		**977,604**	1,062,358	**–**	80
Derivatives at fair value through profit or loss					
- Interest rate swaps		**(334,865)**	(435,849)	**(874)**	(1,455)
- Cross currency swaps		**(717,183)**	(579,482)	**–**	–
- Foreign currency forwards		**(313,274)**	(528,156)	**–**	–
- Foreign currency options		**(17,009)**	(17,676)	**–**	–
- Foreign currency swaps		**(7,346)**	(30,597)	**–**	–
- Foreign currency spots		**(3)**	–	**–**	–
- Futures		**(1,228)**	(3,142)	**–**	–
- Equity options		**(8,568)**	(7,995)	**–**	–
- Swaption		**(78,484)**	(48,215)	**–**	–
- Commodity swap		**–**	(852)	**–**	–
Derivatives designated as cash flow hedge					
- Interest rate swaps	(a)	**(1,405)**	(2,261)	**–**	–
Derivatives designated as fair value hedge					
- Interest rate swaps	(b)	**(199)**	–	**–**	–
Total derivative financial instruments liabilities		**(1,479,564)**	(1,654,225)	**(874)**	(1,455)

(a) Cash flow hedge

The Group's cash flow hedges principally consist of interest rate swaps that are used to protect against exposures to variability in future interest cash flows on interest incurring liabilities. The amount and timing of the interest cash flows, are projected on the basis of their contractual terms and other relevant factors, including estimates of renewal of interest incurring liabilities. The aggregate projected interest cash flows over time form the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges to forecast transactions. Gains and losses are initially recognised directly in equity, in the cash flow hedge reserve, and are transferred to profit or loss when the forecast cash flows affect the profit or loss.

Notes to the Financial Statements

for the financial year ended 30 June 2017

20 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(a) Cash flow hedge (continued)

The hedging relationship was fully effective for the total hedging period and as of the reporting date. As such, the unrealised loss of RM1,068,000 (2016: loss of RM1,718,000) from the hedging relationship were recognised through other comprehensive income.

All underlying hedged cashflows are expected to be recognised in profit or loss in the period in which they occur. This is anticipated to take place over the next 2 to 3 years from the financial year ended 30 June 2017 (2016: 3 to 4 years), as detailed below:

	The Group				
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 5 years RM'000
As at 30 June 2017					
Cash inflows (assets)	**1,283**	**1,767**	**3,070**	**6,174**	**34,679**
Cash outflows (liabilities)	**(1,279)**	**(1,563)**	**(2,801)**	**(5,638)**	**(31,188)**
Net cash inflows	**4**	**204**	**269**	**536**	**3,491**
As at 30 June 2016					
Cash inflows (assets)	1,384	464	1,867	3,433	18,586
Cash outflows (liabilities)	(1,346)	(454)	(1,811)	(3,271)	(17,812)
Net cash inflows	38	10	56	162	774

(b) Fair value hedge

The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of financial assets due to movement in interest rates. The Group had undertaken fair value hedges on interest rate risk of RM196,429,000 at Group, (30 June 2016: RM Nil) 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 2017 amounted to RM199,000 (total fair value loss at 30 June 2016: RM Nil).

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

	The Group	
	2017 RM'000	2016 RM'000
Gain on hedging instruments	**32**	–
Loss on the hedged items attributable to the hedged risks	**(35)**	–

Notes to the Financial Statements

for the financial year ended 30 June 2017

21 PAYABLES AND OTHER LIABILITIES

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Trade payables	2,333,872	1,964,896	–	–
Post employment benefits obligation				
- defined contribution plan	1,819	1,774	44	43
Loan advance payment	2,987,067	2,641,139	–	–
Treasury and cheque clearing	129,556	163,202	–	–
Treasury related payables	235,295	189,958	–	–
Sundry creditors and accruals	332,197	560,146	1,276	1,462
Provision for bonus and staff related expenses	207,627	151,062	8,169	7,846
Financial liabilities due to third party investors*	1,773,647	–	–	–
Others	529,955	565,645	–	–
	8,531,035	6,237,822	9,489	9,351

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

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deferred tax assets/(liabilities)				
- to be recovered within 12 months	104,952	136,489	36	330
- to be recovered more than 12 months	(407,469)	(338,726)	–	–
	(302,517)	(202,237)	36	330

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deferred tax assets				
- Cash flow hedge reserve	337	543	–	–
- Unutilised tax credit	85,613	89,692	–	–
- Senior bonds	–	69,732	–	–
- Provision for expenses	91,557	65,386	–	–
- Other temporary differences	1,296	10,645	36	330
	178,803	235,998	36	330

Notes to the Financial Statements

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22 DEFERRED TAXATION (CONTINUED)

The analysis of deferred tax assets and deferred tax liabilities is as follows: (continued)

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deferred tax liabilities				
- Property and equipment	**(97,759)**	(108,957)	**–**	–
- Financial investments available-for-sale	**(183,432)**	(147,978)	**–**	–
- Intangible assets	**(16,079)**	(24,363)	**–**	–
- Unallocated surplus	**(175,696)**	(156,937)	**–**	–
- Other temporary differences	**(8,354)**	–	**–**	–
	(481,320)	(438,235)	**–**	–
Deferred tax (liabilities)/assets net	**(302,517)**	(202,237)	**36**	330

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

The Group	Note	Property and equipment RM'000	Financial investments available-for-sale RM'000	Cash flow hedge reserve RM'000	Intangible assets RM'000	Unutilised tax credit RM'000	Senior bonds RM'000	Provision for expenses RM'000	Unallocated surplus RM'000	Other temporary differences RM'000	Total RM'000
2017											
As at 1 July		**(108,957)**	**(147,978)**	**543**	**(24,363)**	**89,692**	**69,732**	**65,386**	**(156,937)**	**10,645**	**(202,237)**
(Charged)/credited to statements of income	37	**11,300**	**(13,467)**	**–**	**8,284**	**(4,100)**	**(69,732)**	**25,886**	**(18,759)**	**(5,237)**	**(65,825)**
Charged to Life fund		**–**	**(6,007)**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,466)**	**(18,473)**
(Charged)/credited to equity		**–**	**(15,980)**	**(206)**	**–**	**–**	**–**	**–**	**–**	**–**	**(16,186)**
Exchange difference		**(102)**	**–**	**–**	**–**	**21**	**–**	**285**	**–**	**–**	**204**
As at 30 June		**(97,759)**	**(183,432)**	**337**	**(16,079)**	**85,613**	**–**	**91,557**	**(175,696)**	**(7,058)**	**(302,517)**
2016											
As at 1 July		(88,143)	(121,166)	(54)	(34,008)	83,554	108,938	27,694	(150,391)	1,731	(171,845)
(Charged)/credited to statements of income	37	(20,814)	(572)	–	9,645	6,138	(39,206)	37,692	(6,546)	5,038	(8,625)
Credited to Life fund		–	(4,029)	–	–	–	–	–	–	3,876	(153)
(Charged)/credited to equity		–	(22,211)	597	–	–	–	–	–	–	(21,614)
As at 30 June		(108,957)	(147,978)	543	(24,363)	89,692	69,732	65,386	(156,937)	10,645	(202,237)

Notes to the Financial Statements

for the financial year ended 30 June 2017

22 DEFERRED TAXATION (CONTINUED)

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

The Company	Note	Property and equipment RM'000	Provision for expenses RM'000	Other temporary differences RM'000	Total RM'000
2017					
As at 1 July		**–**	**–**	**330**	**330**
Charged to statements of income	37	**–**	**–**	**(294)**	**(294)**
As at 30 June		**–**	**–**	**36**	**36**
2016					
As at 1 July		(418)	2,336	252	2,170
Credited/(charged) to statements of income	37	418	(2,336)	78	(1,840)
As at 30 June		–	–	330	330

23 BORROWINGS

	Note	The Group 2017 RM'000	The Group 2016 RM'000	The Company 2017 RM'000	The Company 2016 RM'000
Revolving credit	(a)	**370,197**	305,450	**370,197**	305,450
Commercial papers	(b)	**149,707**	349,347	**149,707**	349,347
Medium term notes	(b)	**656,088**	756,286	**656,088**	806,457
Term loans/bridging loan	(c)	**350,230**	565,193	**350,230**	180,463
Senior bonds	(d)	**–**	1,215,643	**–**	–
		1,526,222	3,191,919	**1,526,222**	1,641,717

(a) The revolving credit facilities carried interest rates ranging from 3.40% to 3.84% (2016: ranging from 3.64% to 3.92%) 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 rate ranging from 3.38% to 3.75% (2016: 3.58% to 3.86%).

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 4.30% to 4.80% (2016: 4.30% to 4.80%) per annum.

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

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for the financial year ended 30 June 2017

23 BORROWINGS (CONTINUED)

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

(i) The Company has an unsecured short-term loan facility of RM150 million maturing on 11 January 2018. The term loan with one month interest period bears an interest rate ranging from 3.51% to 3.88% (30 June 2016: 3.70% to 3.92%) per annum.

(ii) The Company has an unsecured 1 year term loan of RM200 million maturing on 2 July 2017. The term loan with one month interest period bears an interest rate ranging from 3.51% to 3.88% (30 June 2016: 3.70% to 3.92%) per annum.

(d) Senior bonds

		The Group	
	Note	2017 RM'000	2016 RM'000
USD300 million senior bonds, at par	(i)	–	919,200
Foreign exchange translations		–	290,550
		–	1,209,750
Add: Interest payable		–	7,561
		–	1,217,311
Less: Unamortised discounts		–	(1,668)
		–	1,215,643

(i) On 20 April 2012, HLB completed its inaugural US dollar senior unsecured notes issuance of USD300.0 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%.

On 19 April 2017, HLB had fully redeemed the Senior Notes of USD300.0 million on its maturity date.

24 SUBORDINATED OBLIGATIONS

		The Group	
	Note	2017 RM'000	2016 RM'000
RM1.5 billion Tier 2 subordinated debt, at par	(a)	**1,500,000**	1,500,000
Add: Interest payable		**1,664**	1,480
		1,501,664	1,501,480
Less: Unamortised discounts		**(277)**	(589)
		1,501,387	1,500,891

Notes to the Financial Statements

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24 SUBORDINATED OBLIGATIONS (CONTINUED)

		The Group	
	Note	2017 RM'000	2016 RM'000
RM500 million Tier 2 subordinated debt, at par	(b)	**500,000**	500,000
Add: Interest payable		**8,815**	8,692
		508,815	508,692
Less: Unamortised discounts		**(1,443)**	(1,620)
		507,372	507,072
RM400 million Tier 2 subordinated Sukuk Ijarah, at par	(c)	**400,000**	400,000
Add: Profit payable		**631**	736
		400,631	400,736
Less: Unamortised discounts		**(128)**	(254)
		400,503	400,482
RM500 million Tier 2 subordinated notes, at par	(d)	**500,000**	500,000
Add: Interest payable		**526**	526
		500,526	500,526
Less: Unamortised discounts		**(271)**	(577)
		500,255	499,949
RM50 million Tier 2 subordinated notes, at par	(e)	**50,000**	50,000
Add: Interest payable		**392**	407
		50,392	50,407
Less: Unamortised discounts		**(130)**	(160)
		50,262	50,247
		2,959,779	2,958,641

(a) On 22 June 2012, HLB had completed the issuance of RM1.5 billion nominal value of Tier 2 Subordinated Notes ("Sub Notes"). The RM1.5 billion Sub Notes will mature in 2024 and are callable on any interest payment date falling on or after the 7th anniversary of the issue date subject to approval of BNM. The Sub Notes which bears interest of 4.50% per annum is payable semi-annually in arrears.

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

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

On 20 March 2014, the Securities Commission approved the application subject to certain operational terms and conditions being fulfilled.

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24 SUBORDINATED OBLIGATIONS (CONTINUED)

(b) On 7 February 2014, HLA completed its RM500.0 million Sub-Notes issuance. The Sub-Notes were issued for a period of 12 years on a 12 non-callable 7 basis with a coupon rate of 4.5% per annum.

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

(c) On 17 June 2014, Hong Leong Islamic Bank Berhad ("HLISB"), a wholly owned subsidiary of HLB, had completed the first issuance of RM400.0 million nominal value of Tier 2 Subordinated Sukuk Ijarah ("Subordinated Sukuk Ijarah") out of its RM1.0 billion Tier 2 Subordinated Sukuk Ijarah Programme. The RM400.0 million Subordinated Sukuk Ijarah will mature in 2024 and is callable at end of year 5 and on each subsequent coupon payment dates thereafter subject to approval of BNM. The Subordinated Sukuk Ijarah which bears profit rate of 4.80% per annum is payable semi-annually in arrears.

The Subordinated Sukuk Ijarah constitute direct, unconditional, subordinated and unsecured obligations of HLISB and subordinated in right and priority of payment, to the extend and in the manner provided in the Subordinated Sukuk Ijarah, ranking *pari passu* among themselves. The Subordinated Sukuk Ijarah is subordinated in right of payment to all deposit liabilities and other liabilities of HLISB, except to those liabilities, which by their terms, rank equally in right of payment with or are subordinated to the Subordinated Sukuk Ijarah. The Subordinated Sukuk Ijarah qualifies as Tier 2 capital for the purpose of determining the capital adequacy ratio of HLISB.

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

The Sub-Notes constitute unsecured liabilities of HLB, and is subordinated in right of payment to the deposit liabilities and all other liabilities of HLB in accordance with the terms and conditions of the issue, except to those liabilities, which by their terms, rank equally in right of payment with or are subordinated to the Sub-Notes. The Sub-Notes may be written off, either fully or partially, at the discretion of BNM at the point of non-viability as determined by BNM or Perbadanan Insurans Deposit Malaysia. The Sub-Notes qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of the HLB.

(e) On 6 November 2014, Hong Leong Investment Bank Berhad ("HLIB"), a wholly owned subsidiary of Hong Leong Capital Berhad and also an indirect subsidiary of HLFG, had completed the first issuance of RM50 million nominal value of Tier 2 Subordinated Notes ("Sub-Notes") out of its RM1.0 billion Multi-Currency Sub-Notes Programme. The RM50.0 million Sub-Notes will mature in 2024 and is callable on any coupon payment date falling on or after the 5th anniversary of the issue date. The Sub-Notes which bears interest rate of 5.30% per annum is payable semi-annually in arrears. The exercise of the call option on the Sub-Notes shall be subject to the approval of BNM.

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

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25 INNOVATIVE TIER 1 CAPITAL SECURITIES

	The Group	
	2017 RM'000	**2016 RM'000**
RM500 million Innovative Tier 1 capital securities, at par	**500,000**	500,000
Add: Interest payable	**12,771**	12,771
	512,771	512,771
Less: Unamortised discounts	**(4,223)**	(5,858)
Fair value adjustments on completion of business combination accounting	**7,075**	14,599
	515,623	521,512

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 RM500.0 million in nominal value, from its RM1.0 billion IT-1 Capital Securities Programme. The IT-1 Capital Securities is structured in accordance with the Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components) issued by BNM.

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

On 1 July 2011, the above IT-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.

26 INSURANCE FUNDS

	The Group	
	2017 RM'000	**2016 RM'000**
Unearned premium reserves	**53,432**	41,282
Life policyholders' fund	**10,028,670**	8,940,776
Fair value reserves - financial investments available-for-sale	**318,055**	251,637
Life investment-linked unitholders' fund	**1,821,408**	1,394,985
	12,221,565	10,628,680

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.

Notes to the Financial Statements

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27 SHARE CAPITAL

	The Group and The Company			
	2017 Number of ordinary shares	2017 RM'000	2016 Number of ordinary shares	2016 RM'000
Authorised*				
Ordinary shares of RM1.00 each	–	–	2,000,000	2,000,000
Issued and fully paid capital				
As at 1 July - ordinary shares of RM1.00 each	**1,147,517**	**1,147,517**	1,052,768	1,052,768
New ordinary shares issued during the previous financial year	–	–	94,749	94,749
Transfer pursuant to Companies Act, 2016*	–	**1,119,491**	–	–
As at 30 June - ordinary shares with no par value (2016: par value of RM1.00 each)	**1,147,517**	**2,267,008**	1,147,517	1,147,517

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

28 RESERVES

		The Group		The Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Retained profits	(a)	**12,527,478**	8,228,437	**12,909,636**	12,764,322
Share premium	(b)	–	1,119,491	–	1,119,491
Statutory reserve	(c)	–	3,310,501	–	–
Regulatory reserves	(d)	**680,987**	602,335	–	–
Share options reserve	(e)	**29,429**	10,205	–	–
Exchange fluctuation reserve	(f)	**745,858**	587,368	–	–
Other capital reserve	(g)	**134,957**	134,870	**254,991**	254,991
Fair value reserve	(h)	**259,635**	237,252	–	–
Cash flow hedge reserve	(i)	**(703)**	(1,129)	–	–
		14,377,641	14,229,330	**13,164,627**	14,138,804

(a) The Company can distribute dividends out of its entire retained earnings under the single-tier system.

(b) Prior to 31 January 2017, the application of the share premium account was governed by Section 60 and 61 of the Companies Act, 1965. In accordance with the transitional provisions set out in Section 618(2) of the Companies Act, 2016, on 31 January 2017 the amount standing to the credit of the Company's share premium account has become part of the Company's share capital (refer to Note 27). Notwithstanding this provision, the Company may within 24 months from the commencement of the Companies Act, 2016, use the amount standing to the credit of its share premium account of RM1,119,491,000 for purposes as set out in Section 618(3) of the Companies Act, 2016.

Notes to the Financial Statements

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28 RESERVES (CONTINUED)

(c) The requirement to maintain a statutory reserve fund has been removed pursuant to BNM's Capital Fund Policy with effective from 3 May 2017.

(d) The Group's Malaysian banking subsidiaries are required to maintain in aggregate collective impairment allowances of no less than 1.2% of the total outstanding loans, advances and financing, net of individual impairment allowances, in accordance with BNM circular dated 6 April 2015 titled 'Classification and Impairment Provisions for Loans/Financing – Maintenance of Regulatory Reserves'.

During the financial year, an additional amount of RM78.7 million (2016: RM199.9 million) at Group has been transferred from retained profits to regulatory reserves.

Included in the Group is the regulatory reserve maintained by the Group's banking subsidiary company in Vietnam of RM11.3 million (2016: RM11.3 million) in line with the requirements of the State Bank of Vietnam.

(e) The share options reserve arose from the employee share option schemes granted to eligible executives of the Group. Terms of the share options and movements in the number of shares held by Trustee for ESOS are disclosed in Note 50 to the financial statements.

(f) Exchange differences arising from translation of the Group's banking foreign branches, subsidiaries, associated companies and joint venture are shown under exchange fluctuation reserve.

(g) 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 other capital reserve arising from redemption of RPS from the subsidiaries. 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.

(h) The fair value reserve is in respect of unrealised fair value gains and losses on financial investments available-for-sale.

(i) Hedging reserve arises from cash flow hedge activities undertaken by HLB to hedge the changes in the cash flow hedged items arising from the movement of market interest rates. The reserve is non-distributable and is reversed to the statement of income when the hedged items affect the statement of income or termination of the cash flow hedge.

29 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 2017, the number of shares held by the appointed trustee was 500 shares (2016: 500) at an average price of RM6.31 per share (2016: RM6.31). The total consideration paid, including transaction costs was RM3,156 (2016: RM3,156).

Notes to the Financial Statements

for the financial year ended 30 June 2017

29 TREASURY SHARES FOR ESOS (CONTINUED)

Pursuant to the insurance subsidiary company's ESOS, the insurance subsidiary company also held 3,963,900 (2016: 3,963,900) units of the Company's shares at an average price of RM9.01 (2016: RM9.01) per share with total consideration paid, including transaction costs of RM35,709,188 (2016: RM35,709,188), 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 50 to the financial statements.

30 INTEREST INCOME

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Loans, advances and financing	**4,640,525**	4,665,092	**–**	–
Money at call and deposit placements with financial institutions	**126,591**	193,360	**1,118**	5,017
Securities purchased under resale agreements	**35,504**	145,767	**–**	–
Financial assets held-for-trading	**423,645**	554,361	**–**	–
Financial investments available-for-sale	**687,883**	548,827	**–**	–
Financial investments held-to-maturity	**382,722**	325,274	**–**	–
Others	**19,633**	15,802	**191**	–
	6,316,503	6,448,483	**1,309**	5,017
Of which:				
Accretion of discount less amortisation of premium	**183,932**	241,921	**–**	–
Interest income earned on impaired loans, advances and financing	**53,446**	49,997	**–**	–

31 INTEREST EXPENSE

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deposits and placements of banks and other financial institutions	**120,048**	96,216	**–**	–
Deposits from other customers	**2,780,108**	3,000,705	**–**	–
Short-term placements	**322,177**	307,746	**–**	–
Borrowings	**91,488**	126,718	**58,631**	53,786
Subordinated obligations	**117,473**	171,079	**–**	–
Recourse obligation on loans sold to Cagamas	**6,727**	–	**–**	–
Non-Innovative Tier 1 stapled securities	**–**	60,024	**–**	–
Innovative Tier 1 capital securities	**35,362**	32,652	**–**	–
Others	**21,465**	12,401	**455**	571
	3,494,848	3,807,541	**59,086**	54,357

Notes to the Financial Statements

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32 INCOME FROM ISLAMIC BANKING BUSINESS

	The Group	
	2017 RM'000	2016 RM'000
Income derived from investment of depositors' funds and others	**1,108,101**	986,299
Income derived from investment of shareholders' funds	**128,043**	124,306
Total distributable income	**1,236,144**	1,110,605
Income attributable to depositors	**(686,045)**	(643,139)
	550,099	467,466
Of which:		
Financing income earned on impaired financing and advances	**7,574**	7,995

33 NON-INTEREST INCOME

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Insurance income	**280,699**	214,705	**–**	–
Brokerage income	**60,368**	58,165	**–**	–
Fee income				
Commissions	**147,075**	139,557	**–**	–
Service charges and fees	**50,262**	51,963	**–**	–
Guarantee fees	**13,663**	17,219	**–**	–
Credit card related fees	**236,211**	256,917	**–**	–
Corporate advisory fees	**7,744**	7,212	**–**	–
Commitment fees	**34,916**	34,624	**–**	–
Fee on loans, advances and financing	**49,046**	56,944	**–**	–
Placement fees	**12,451**	9,001	**–**	–
Arranger fees	**9,633**	15,428	**–**	–
Unit trust fee income	**27,260**	20,750	**–**	–
Other fee income	**118,374**	80,057	**6,847**	10,410
	706,635	689,672	**6,847**	10,410

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33 NON-INTEREST INCOME (CONTINUED)

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Net income from securities				
Net realised gain/(loss) from sale/redemption of financial assets:				
- financial assets held-for-trading	**19,033**	54,224	**–**	16
- financial investments available-for-sale	**74,568**	103,435	**–**	–
- financial investments held-to-maturity	**226**	31	**–**	–
- derivative financial instruments	**49,482**	(19,444)	**(80)**	(1,237)
Gross dividend income from:				
- financial assets held-for-trading	**2,740**	7,151	**–**	3,031
- financial investments available-for-sale	**294,023**	226,516	**–**	–
- subsidiary companies	**–**	–	**655,150**	513,534
Net unrealised gain/(loss) on revaluation of:				
- financial assets held-for-trading	**(352)**	(13,444)	**–**	–
- derivative financial instruments	**80,896**	(87,006)	**581**	(1,038)
Amortisation of fair value changes arising from terminated fair value hedges	**(115)**	(519)	**–**	–
Net loss on fair value changes arising from fair value hedges	**(3)**	–	**–**	–
	520,498	270,944	**655,651**	514,306
Other income				
Foreign exchange gain	**75,366**	184,139	**1**	1
Rental income	**4,058**	9,051	**–**	–
Gain on sale of property and equipment (net)	**1,295**	1,967	**–**	–
Other non-operating income	**13,889**	6,277	**14**	188
	94,608	201,434	**15**	189
	1,662,808	1,434,920	**662,513**	524,905

34 OVERHEAD EXPENSES

		The Group		The Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Personnel costs	(a)	**1,257,595**	1,359,453	**15,598**	9,831
Establishment costs	(b)	**523,299**	478,147	**1,885**	2,213
Marketing expenses	(c)	**166,144**	173,384	**–**	–
Administration and general expenses	(d)	**275,193**	273,397	**3,844**	3,160
		2,222,231	2,284,381	**21,327**	15,204

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34 OVERHEAD EXPENSES (CONTINUED)

(a) Personnel costs comprise the following:

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Salaries, bonus and allowances	**1,131,380**	1,065,972	**14,300**	8,721
Mutual separation scheme (MSS)*	**–**	172,064	**–**	–
Medical expenses	**35,302**	31,672	**79**	96
Training and convention expenses	**29,528**	33,566	**15**	23
Staff welfare	**12,107**	7,995	**537**	397
Other employees benefits	**49,278**	48,184	**667**	594
	1,257,595	1,359,453	**15,598**	9,831

(b) Establishment costs comprise the following:

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Depreciation of property and equipment	**101,045**	93,119	**650**	656
Amortisation of intangible assets	**81,351**	78,308	**95**	108
Rental of premises	**90,034**	93,458	**760**	729
Information technology expenses	**159,122**	120,382	**134**	128
Security services	**28,451**	27,686	**–**	–
Electricity, water and sewerage	**25,034**	27,408	**45**	43
Hire of plant and machinery	**14,588**	15,472	**31**	36
Others	**23,674**	22,314	**170**	513
	523,299	478,147	**1,885**	2,213

(c) Marketing expenses comprise the following:

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Advertisement and publicity	**36,054**	31,412	**–**	–
Credit card related fees	**108,998**	119,434	**–**	–
Others	**21,092**	22,538	**–**	–
	166,144	173,384	**–**	–

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34 OVERHEAD EXPENSES (CONTINUED)

(d) Administration and general expenses comprise the following:

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Teletransmission expenses	**18,925**	14,665	**29**	31
Stationery and printing expenses	**18,098**	18,332	**20**	36
Professional fees	**77,153**	71,566	**888**	575
Insurance fees	**40,175**	38,125	**–**	–
Stamp, postage and courier	**19,842**	22,010	**2**	5
Credit card fees	**39,601**	36,587	**–**	–
Travelling and transport expenses	**4,300**	4,924	**112**	42
Registration and license fees	**10,077**	9,667	**–**	–
Brokerage and commission	**6,747**	6,897	**–**	–
Others	**40,275**	50,624	**2,793**	2,471
	275,193	273,397	**3,844**	3,160

* Hong Leong Bank Berhad and Hong Leong Islamic Bank Berhad had implemented a MSS in 2016 as part of its move to strengthen operational efficiencies. This scheme was offered to all permanent staff at all levels, functions and locations on a voluntary basis, which will create an opportunity for both the banking subsidiaries and employees to gain mutual benefits.

The above expenditure includes the following statutory disclosures:

		The Group		The Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Directors' remuneration	36	**7,332**	8,329	**6,779**	3,368
Hire of equipment		**14,560**	15,546	**31**	36
Auditors' remuneration*:					
(i) PwC Malaysia firm					
- statutory audit		**3,064**	2,986	**153**	126
- regulatory related fees		**903**	828	**32**	32
- other services		**1,192**	89	**25**	–
- tax compliance		**112**	125	**–**	–
- other tax services		**–**	6	**–**	–
(ii) PwC overseas affiliated firms					
- statutory audit		**540**	866	**–**	–
- regulatory related fees		**201**	143	**–**	–
- tax compliance		**142**	191	**–**	–
(iii) Other overseas firm					
- statutory audit		**–**	63	**–**	–
- other tax services		**23**	–	**–**	–
Property and equipment written off		**808**	834	**–**	–
Intangible assets written off		**57**	3,386	**–**	–
Options charge arising from ESOS		**21,157**	10,205	**–**	–

* There was no indemnity given or insurance effected for the auditors of the Group and the Company during the financial year.

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35 ALLOWANCE FOR/(WRITEBACK OF) IMPAIRMENT LOSSES ON LOANS, ADVANCES AND FINANCING AND OTHER LOSSES

	The Group	
	2017 RM'000	2016 RM'000
Allowance for/(writeback of) impairment losses on loans, advances and financing		
- collective assessment allowance	282,483	263,678
- individual assessment allowance	116,246	(4,446)
Allowance for/(writeback of) impairment losses on clients' and brokers' balances		
- collective assessment allowance	11	(6)
- individual assessment allowance	135	(79)
Allowance for impairment losses on fee income receivables		
- individual assessment allowance	987	–
Impaired loans and financing		
- written off	22,520	22,048
- recovered	(261,156)	(228,658)
	161,226	52,537

36 DIRECTORS' REMUNERATION

Forms of remuneration in aggregate for all Directors for the financial year are as follows:

	The Group				The Company			
2017	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 Tan Kong Khoon	6,160	–	35	6,195	6,160	–	35	6,195
Non-executive Directors								
YBhg Tan Sri Quek Leng Chan	–	–	28	28	–	–	28	28
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	–	325	–	325	–	106	–	106
Ms Lim Lean See	–	389	–	389	–	150	–	150
Mr Saw Kok Wei	–	164	–	164	–	145	–	145
Ms Lim Tau Kien	–	231	–	231	–	155	–	155
Mr Quek Kon Sean (Resigned on 9 July 2016)	–	–	–	–	–	–	–	–
	–	1,109	28	1,137	–	556	28	584
Total Directors' remuneration	6,160	1,109	63	7,332	6,160	556	63	6,779
Directors of subsidiaries	15,798	3,097	118	19,013				

Note: During the financial year, Directors and Officers of the Group are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of the Group subject to the terms of the policy. The total amount of Directors' & Officers' Liability Insurance effected for the Directors & Officers of the Group was RM10 million. The total amount of premium paid for the Directors' & Officers' Liability Insurance by the Group was RM67,688 and the apportioned amount of the said premium paid by the Company was RM3,382.

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36 DIRECTORS' REMUNERATION (CONTINUED)

Forms of remuneration in aggregate for all Directors for the financial year are as follows: (continued)

2016	The Group Salaries and other remunerations RM'000	The Group Director fees RM'000	The Group Estimated monetary value for benefits-in-kind RM'000	The Group Total RM'000	The Company Salaries and other remunerations RM'000	The Company Director fees RM'000	The Company Estimated monetary value for benefits-in-kind RM'000	The Company Total RM'000
Executive Directors								
Mr Tan Kong Khoon (Appointed on 5 February 2016)	5,523	–	36	5,559	1,167	–	15	1,182
Mr Choong Yee How (Resigned on 1 September 2015)	1,592	–	6	1,598	1,592	–	6	1,598
	7,115	–	42	7,157	2,759	–	21	2,780
Non-executive Directors								
Mr Quek Kon Sean	–	–	–	–	–	–	–	–
YBhg Tan Sri Quek Leng Chan	–	–	28	28	–	–	28	28
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	–	329	–	329	–	110	–	110
Ms Lim Lean See	–	395	–	395	–	150	–	150
Mr Saw Kok Wei	–	205	–	205	–	145	–	145
Ms Lim Tau Kien	–	215	–	215	–	155	–	155
	–	1,144	28	1,172	–	560	28	588
Total Directors' remuneration	7,115	1,144	70	8,329	2,759	560	49	3,368

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.

The Directors' remuneration in the current financial year represents remuneration for Directors of the Company and its subsidiaries to comply with the requirements of Companies Act, 2016. The comparative figures have not been restated to include the remuneration for Directors in the subsidiaries of the Company. The names of Directors of subsidiaries and their remuneration details are set out in the respective subsidiaries' statutory accounts and the said information is deemed incorporated herein by such reference and make a part hereof.

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37 TAXATION

		The Group		The Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Income tax		**538,696**	484,693	**1,770**	3,200
Deferred taxation	22	**65,825**	8,625	**294**	1,840
Under/(over) accrual in prior years		**168,544**	8,176	**(25)**	(82)
Taxation		**773,065**	501,494	**2,039**	4,958

Included in the under accrual in prior years is an additional one-off assessments raised by IRB in respect of prior years tax of RM206.3 mil of which RM101.8 mil is in respect of additional assessment raised on HLB's prior years taxes and RM104.5 mil being additional assessment raised on HLAH.

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit before taxation	**3,089,949**	2,565,038	**583,409**	450,647
Tax calculated at a rate of 24% (2016: 24%)	**741,588**	615,609	**140,018**	108,155
Tax effects of:				
- Differences in tax rate of foreign inward and offshore insurance	**(1,012)**	1,266	**–**	–
- Income not subject to tax	**(103,521)**	(91,921)	**(157,360)**	(123,508)
- Share of net income of associated companies and joint ventures	**(105,003)**	(96,548)	**–**	–
- Expenses not deductible for tax purposes	**84,645**	80,045	**19,406**	20,393
- Under/(over) accrual in prior years	**168,544**	8,176	**(25)**	(82)
- Origination of temporary differences previously not recognised	**(12,176)**	(15,133)	**–**	–
Taxation	**773,065**	501,494	**2,039**	4,958

	The Group	
	2017 RM'000	2016 RM'000
Tax losses		
Tax losses for which the related tax credit has not been recognised in the financial statements	**65,076**	69,681
Tax credit		
Tax credit which has not been recognised in the financial statements	**108,489**	121,830
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.

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38 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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Weighted average number of ordinary shares ('000)	**1,143,552**	1,102,947	**1,147,516**	1,106,355
Net profit attributable to owners of the parent	**1,506,765**	1,358,895	**581,370**	445,689
Basic earnings per share (sen)	**131.8**	123.2	**50.7**	40.3

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Weighted average number of ordinary shares ('000)	**1,143,552**	1,102,947	**1,147,516**	1,106,355
Adjustment for ESOS shares ('000)	**–**	–	**–**	–
	1,143,552	1,102,947	**1,147,516**	1,106,355
Net profit attributable to owners of the parent	**1,506,765**	1,358,895	**581,370**	445,689
Diluted earnings per share (sen)	**131.8**	123.2	**50.7**	40.3

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39 DIVIDENDS

Dividends recognised as distribution to ordinary equity holders of the Company:

	The Group and The Company	
	2017 RM'000	2016 RM'000
First interim single-tier dividend of 13 sen per share (2016: 13 sen per share (single-tier))	**149,177**	136,860
Second interim single-tier dividend of 25 sen per share (2016: 25 sen per share (single-tier))	**286,879**	286,879
	436,056	423,739

40 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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Commitments and contingencies				
Direct credit substitutes*	**82,785**	121,679	**–**	–
Certain transaction related contingent items	**1,391,111**	1,621,014	**–**	–
Short-term self liquidating trade related contingencies	**780,216**	766,350	**–**	–
Obligations under underwriting agreement	**130,000**	–	**–**	–
Any commitments that are unconditionally cancellable at any time by the Group without prior notice				
- less than one year	**661,322**	686,780	**–**	–
Irrevocable commitments to extend credit:				
- less than one year	**16,098,253**	17,515,111	**–**	–
- more than one year	**13,257,147**	16,125,773	**–**	–
Unutilised credit card lines	**7,001,256**	7,503,020	**–**	–
	39,402,090	44,339,727	**–**	–

Notes to the Financial Statements

for the financial year ended 30 June 2017

40 COMMITMENTS AND CONTINGENCIES (CONTINUED)

(a) Group related commitments and contingencies (continued)

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

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Derivative financial instruments				
Foreign exchange related contracts^:				
- less than one year	**37,699,553**	30,866,808	**–**	–
- one year to less than five years	**3,758,574**	4,950,940	**–**	–
- five years and above	**1,260,525**	895,329	**–**	–
Interest rate related contracts^:				
- less than one year	**45,167,380**	35,439,838	**–**	100,000
- one year to less than five years	**37,794,681**	39,926,819	**100,000**	100,000
- five years and above	**5,807,786**	2,532,411	**–**	–
Equity related contracts^:				
- less than one year	**155,471**	296,489	**–**	–
- one year to less than five years	**286,187**	219,299	**–**	–
Commodity related contracts^:				
- less than one year	**–**	4,949	**–**	–
	131,930,157	115,132,882	**100,000**	200,000
	171,332,247	159,472,609	**100,000**	200,000

* Included in direct credit substitutes are the financial guarantee contracts of RM74,011,530 (2016: RM112,451,135), of which fair value at the time of issuance is nil.

^ These derivatives are revalued at gross position basis and the unrealised gains or losses have been reflected in Note 20 to the financial statements as derivative assets or derivative liabilities.

(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 Trustees Malaysia Berhad, the trustee of the Funds, that if the funds falls below the minimum fund size of RM1 million, HLCB would invest cash, equivalent to the shortfall, into the relevant fund.

The size of each of the funds was above the minimum of RM1 million as at 30 June 2017 (2016: RM1 million).

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for the financial year ended 30 June 2017

41 CAPITAL COMMITMENTS

	The Group	
	2017 RM'000	**2016 RM'000**
Approved and contracted for	**127,909**	98,858
Approved but not contracted for	**77,115**	63,802
	205,024	162,660

The capital commitments are in respect of:
- property and equipment
- intangible assets

42 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	
	2017 RM'000	**2016 RM'000**
Not more than one year	**7,623**	9,589
More than one year but less than five years	**3,807**	9,929
More than 5 years	**1,848**	2,113
	13,278	21,631

43 ULTIMATE HOLDING COMPANY

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

44 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 and its revised version on 13 October 2015 (the "Framework"). The Framework sets out the approach for computing the regulatory capital adequacy ratios, the minimum levels of the ratios at which banking institutions are required to operate as well as requirement on Capital Conservation Buffer ("CCB") and Counter Cyclical Buffer ("CCyB"). The minimum capital adequacy requirements for Common Equity Tier I (CET I) capital ratio, Tier I capital ratio and Total Capital ratio are 4.50%, 6.00% and 8.00% respectively. The Group are also required to maintain CCB of up to 2.50% of total risk weighted assets ("RWA"), which is phased in starting with 0.625% in year 2016, 1.250% in year 2017, 1.875% in year 2018 and 2.500% in year 2019. The CCyB which ranges from 0% up to 2.50% is determined as the weighted average of prevailing CCyB rates applied in the jurisdictions in which a financial institution has credit exposures. There is no BNM announcement on the CCyB rates yet.

Individual entities within the Group comply with all externally imposed capital requirements to which they are subject to. 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.

Notes to the Financial Statements

for the financial year ended 30 June 2017

44 CAPITAL ADEQUACY (CONTINUED)

(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	
	2017	2016	2017	2016	2017	2016
Before deducting proposed dividends						
CET I capital ratio	**13.788%**	13.176%	**13.078%**	12.493%	**29.744%**	29.202%
Tier I capital ratio	**14.193%**	13.577%	**13.556%**	12.961%	**29.744%**	29.202%
Total capital ratio	**16.280%**	15.104%	**15.997%**	14.858%	**33.912%**	33.576%
After deducting proposed dividends						
CET I capital ratio	**13.286%**	12.745%	**12.486%**	11.991%	**25.398%**	24.986%
Tier I capital ratio	**13.691%**	13.146%	**12.964%**	12.458%	**25.398%**	24.986%
Total capital ratio	**15.779%**	14.673%	**15.405%**	14.355%	**29.566%**	29.360%

(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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
CET I capital						
Paid up share capital	**7,739,063**	2,167,718	**7,739,063**	2,167,718	**252,950**	165,000
Share premium	**–**	5,571,345	**–**	5,571,345	**–**	87,950
Retained profit	**13,560,582**	8,412,365	**10,245,205**	6,035,024	**246,910**	36,357
Other reserves	**1,265,223**	4,939,875	**422,954**	3,727,869	**648**	199,404
Less: Treasury shares	**(733,961)**	(735,040)	**(733,961)**	(735,040)	**–**	–
Less: Other intangible assets	**(213,323)**	(264,766)	**(194,870)**	(246,784)	**–**	–
Less: Goodwill	**(1,831,312)**	(1,831,312)	**(1,771,547)**	(1,771,547)	**(33,796)**	(34,379)
Less: Deferred tax assets	**(4,851)**	(3,957)	**–**	–	**(90,153)**	(91,882)
Less: Investment in subsidiary company/associated company/joint venture	**(2,908,861)**	(1,993,586)	**(2,148,516)**	(1,531,798)	**(160)**	(217)
Total CET I capital	**16,872,560**	16,262,642	**13,558,328**	13,216,787	**376,399**	362,233
Additional Tier I capital						
Innovative Tier 1 capital securities	**495,778**	494,142	**495,778**	494,142	**–**	–
Total additional Tier 1 capital	**495,778**	494,142	**495,778**	494,142	**–**	–
Total Tier I capital	**17,368,338**	16,756,784	**14,054,106**	13,710,929	**376,399**	362,233

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for the financial year ended 30 June 2017

44 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	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Tier II Capital						
Collective assessment allowance^ and regulatory reserves#	**1,281,686**	1,214,681	**1,067,705**	1,029,079	**2,783**	4,394
Subordinated obligations	**1,999,723**	1,999,411	**1,999,723**	1,999,411	**50,000**	50,000
Tier II capital before regulatory adjustments	**3,281,409**	3,214,092	**3,067,428**	3,028,490	**52,783**	54,394
Less: Investment in subsidiary companies/ associated company/ joint venture	**(727,215)**	(1,329,057)	**(537,129)**	(1,021,198)	**(40)**	(144)
Total Tier II capital	**2,554,194**	1,885,035	**2,530,299**	2,007,292	**52,743**	54,250
Total capital	**19,922,532**	18,641,819	**16,584,405**	15,718,221	**429,142**	416,483

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

Includes the qualifying regulatory reserves for non-impaired loans of Hong Leong Bank Group of RM667,238,000 (2016: RM587,527,000), Hong Leong Bank Berhad of RM571,678,000 (2016: RM495,008,000) and Hong Leong Investment Bank Berhad of RM2,504,000 (2016: RM3,563,000) respectively.

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

	Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Credit risk	**111,299,987**	111,838,090	**93,397,418**	95,233,431	**461,963**	520,091
Market risk	**3,115,525**	3,951,986	**3,340,119**	3,857,577	**517,433**	416,042
Operational risk	**7,958,340**	7,633,295	**6,934,552**	6,698,869	**286,064**	304,287
Total RWA	**122,373,852**	123,423,371	**103,672,089**	105,789,877	**1,265,460**	1,240,420

Notes to the Financial Statements

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44 CAPITAL ADEQUACY (CONTINUED)

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

	Hong Leong Islamic Bank Berhad	
	2017	2016
Before deducting proposed dividends		
CET I capital ratio	**10.622%**	10.383%
Tier I capital ratio	**10.622%**	10.383%
Total capital ratio	**13.946%**	13.855%
After deducting proposed dividends		
CET I capital ratio	**10.622%**	10.383%
Tier I capital ratio	**10.622%**	10.383%
Total capital ratio	**13.946%**	13.855%

45 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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45 SEGMENTAL INFORMATION

Business segment reporting

Set out below is information of the Group by business segments:

The Group 2017	Commercial banking RM'000	Investment banking RM'000	Insurance RM'000	Other operations RM'000	Eliminations/ consolidation adjustments RM'000	Consolidated RM'000
Revenue						
External revenue	4,536,222	187,409	370,160	(59,229)	–	5,034,562
Inter-segment revenue	14,426	14,604	3,922	668,053	(701,005)	–
Segment revenue	4,550,648	202,013	374,082	608,824	(701,005)	5,034,562
Overhead expenses of which:	(2,007,524)	(117,910)	(108,833)	(20,223)	32,259	(2,222,231)
Depreciation of property and equipment	(91,477)	(1,953)	(3,807)	(3,808)	–	(101,045)
Amortisation of intangible assets	(74,469)	(2,729)	(4,058)	(95)	–	(81,351)
Allowance for impairment losses on loans, advances and financing	(161,158)	(68)	–	–	–	(161,226)
Writeback of/(allowance for) impairment losses	2,223	–	(893)	–	–	1,330
Segment results	2,384,189	84,035	264,356	588,601	(668,746)	2,652,435
Share of results of associated companies	342,910	–	73,451	–	–	416,361
Share of results of joint ventures	21,153	–	–	–	–	21,153
Profit before taxation	2,748,252	84,035	337,807	588,601	(668,746)	3,089,949
Taxation						(773,065)
Net profit for the financial year						2,316,884
Non-controlling interests						(810,119)
Profit attributable to owners of the parent						1,506,765
Other information						
Segment assets	195,547,673	4,173,038	18,508,992	17,174,782	(16,442,082)	218,962,403
Segment liabilities	172,862,258	3,427,731	15,877,414	1,538,264	224,223	193,929,890
Other significant segment items						
Capital expenditure	177,657	3,192	11,432	341	–	192,622

Note:
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 2017

45 SEGMENTAL INFORMATION (CONTINUED)

Business segment reporting (continued)

Set out below is information of the Group by business segments: (continued)

The Group 2016	Commercial banking RM'000	Investment banking RM'000	Insurance RM'000	Other operations RM'000	Eliminations/ consolidation adjustments RM'000	Consolidated RM'000
Revenue						
External revenue	4,153,353	168,337	261,531	(39,893)	–	4,543,328
Inter-segment revenue	24,509	4,558	6,055	529,151	(564,273)	–
Segment revenue	4,177,862	172,895	267,586	489,258	(564,273)	4,543,328
Overhead expenses of which:	(2,086,800)	(108,463)	(97,540)	(24,051)	32,473	(2,284,381)
Depreciation of property and equipment	(83,512)	(2,002)	(3,792)	(3,813)	–	(93,119)
Amortisation of intangible assets	(72,838)	(1,500)	(3,862)	(108)	–	(78,308)
(Allowance for)/writeback of impairment losses on loans, advances and financing	(52,605)	68	–	–	–	(52,537)
Writeback of/(allowance for) impairment losses	9,839	–	(41,420)	(21,613)	9,714	(43,480)
Segment results	2,048,296	64,500	128,626	443,594	(522,086)	2,162,930
Share of results of associated companies	312,178	–	68,879	–	–	381,057
Share of results of joint ventures	21,227	–	–	(176)	–	21,051
Profit before taxation	2,381,701	64,500	197,505	443,418	(522,086)	2,565,038
Taxation						(501,494)
Net profit for the financial year						2,063,544
Non-controlling interests						(704,649)
Profit attributable to owners of the parent						1,358,895
Other information						
Segment assets	189,824,259	4,056,679	16,351,304	17,112,723	(16,870,431)	210,474,534
Segment liabilities	168,707,111	3,356,319	13,808,691	1,654,040	(228,783)	187,297,378
Other significant segment items						
Capital expenditure	809,367	7,143	10,630	11	–	827,151

Note:
Total segment revenue comprises of net interest income, income from Islamic banking business and non-interest income.

Notes to the Financial Statements

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45 SEGMENTAL INFORMATION (CONTINUED)

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	Total assets RM'000	Total liabilities RM'000	Capital expenditure RM'000
2017				
Malaysia	**4,733,545**	**206,504,219**	**182,613,050**	**169,087**
Overseas operations	**301,017**	**12,458,184**	**11,316,840**	**23,535**
	5,034,562	**218,962,403**	**193,929,890**	**192,622**
2016				
Malaysia	4,293,149	198,962,327	176,794,597	803,329
Overseas operations	250,179	11,512,207	10,502,781	23,822
	4,543,328	210,474,534	187,297,378	827,151

46 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
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
Hume Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements ("Hume Group")	Subsidiary and associated companies of ultimate holding company

Notes to the Financial Statements

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46 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
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	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

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46 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions

Transactions with related parties are as follows:

	The Group			
2017	Parent company RM'000	Associated companies RM'000	Other related companies RM'000	Key management personnel RM'000
Income				
Interest on deposits	–	312	–	–
Interest on loans	–	–	9,443	–
Brokerage fee received	–	–	218	145
Insurance premium received	–	–	659	–
Others	–	–	3,532	25
	–	312	13,852	170
Expenditure				
Rental and maintenance	–	–	7,408	–
Interest on deposits	–	–	–	1,419
Interest paid on short-term placements	–	–	10,036	2,247
Management fees	–	–	35,522	–
Other miscellaneous expenses	–	–	40,124	–
	–	–	93,090	3,666
Amount due from:				
Deposit and placements	–	4,913	–	–
Current account	–	20,849	–	–
Loans	–	–	233,248	–
Insurance premium receivable	–	–	16	–
Credit card	–	–	–	163
Others	–	69	104	–
	–	25,831	233,368	163
Amount due to:				
Current account and fixed deposits	–	–	1,183,020	112,617
Short-term placements	–	–	–	36,821
Others	–	36	1,848	–
	–	36	1,184,868	149,438

Notes to the Financial Statements

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46 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions (continued)

Transactions with related parties are as follows: (continued)

	The Group			
2016	**Parent company RM'000**	**Associated companies RM'000**	**Other related companies RM'000**	**Key management personnel RM'000**
Income				
Interest on deposits	–	330	–	–
Interest on loans	–	–	12,839	1
Interest on redeemable preference shares	–	–	1,333	–
Brokerage fee received	–	–	90	91
Insurance premium received	–	–	1,689	–
Others	–	–	8,021	41
	–	330	23,972	133
Expenditure				
Rental and maintenance	–	–	3,704	–
Interest on deposits	–	–	813	319
Interest paid on short-term placements	–	–	2,671	3,446
Management fees	–	–	32,486	–
Other miscellaneous expenses	–	–	11,439	–
	–	–	51,113	3,765
Amount due from:				
Deposits and placements	–	5,846	–	–
Current account	–	19,653	–	–
Loans	–	–	233,364	63
Redeemable preference shares	–	–	32,066	–
Insurance premium receivable	–	–	380	–
Credit card	–	–	–	90
Others	–	–	372	–
	–	25,499	266,182	153
Amount due to:				
Current account and fixed deposits	–	–	81,364	20,623
Short-term placements	–	–	498,447	100,110
Others	–	–	1,977	–
	–	–	581,788	120,733

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46 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions (continued)

Transactions with related parties are as follows: (continued)

	The Company			
2017	Parent company RM'000	Subsidiary companies RM'000	Other related companies RM'000	Key management personnel RM'000
Income				
Dividend income	–	655,150	–	–
Interest on deposit	–	462	–	–
Interest on loan	–	190	–	–
Management fee	–	6,847	–	–
	–	662,649	–	–
Expenditure				
Insurance	–	13	5	–
Interest on derivatives	–	529	–	–
Management fee	–	–	2,251	–
Rental and maintenance	–	767	–	–
Other miscellaneous expenses	–	94	81	–
	–	1,403	2,337	–
Amount due from:				
Money at call and deposit placements	–	209	–	–
Loans, advances and financing	–	38,600	–	–
Others	–	46	18	–
	–	38,855	18	–
Amount due to:				
Derivative liabilities	–	874	–	–
	–	874	–	–

Notes to the Financial Statements

for the financial year ended 30 June 2017

46 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions (continued)

Transactions with related parties are as follows: (continued)

	The Company			
2016	Parent company RM'000	Subsidiary companies RM'000	Other related companies RM'000	Key management personnel RM'000
Income				
Dividend income	–	513,534	–	–
Interest on deposit	–	275	–	–
Management fee	–	10,410	–	–
	–	524,219	–	–
Expenditure				
Insurance	–	2	12	–
Interest expense	–	2,150	–	–
Interest on derivatives	–	253	–	–
Management fee	–	–	2,171	–
Rental and maintenance	–	729	–	–
Other miscellaneous expenses	–	73	101	–
	–	3,207	2,284	–
Amount due from:				
Money at call and deposit placements	–	446	–	–
Others	–	48	4	–
	–	494	4	–
Amount due to:				
Borrowings	–	50,171	–	–
Others	–	1,455	–	–
	–	51,626	–	–

	The Group	
	2017 RM'000	2016 RM'000
The approved limit on loans, advances and financing for key management personnel	**2,210**	1,900

Notes to the Financial Statements

for the financial year ended 30 June 2017

46 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management personnel

Key management compensation

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Salaries and other short-term employee	9,255	10,162	8,702	5,201
	Units '000	Units '000	Units '000	Units '000
Share options balance of the Company	–	–	–	–

Included in the above is the Directors' compensation which is disclosed in Note 36.

Loans made to key management personnel of the Group is on similar terms and conditions generally available to other employees within the Group. No specific allowances were required in financial years 2017 and 2016 for loans made to key management personnel.

47 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.

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Risk management objectives and policies (continued)

<u>**Commercial Banking (continued)**</u>

Integrated Risk Management ("IRM") (continued)

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 Banking Group. The core functions of the Banking Group's risk management are to identify all key risks for the Banking Group, measure these risks, manage the risk positions and determine the optimum capital allocations. The Banking Group regularly reviews its risk management framework to reflect changes in markets, products, regulatory and emerging best market practice.

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.

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Risk management objectives and policies (continued)

<u>Commercial Banking (continued)</u>

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.

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 as well as maintains a liquidity compliance buffer to meet any unexpected cash outflows.

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 monitors the Net Stable Funding Ratio which is one of the key Basel III liquidity ratios in line with the observation period reporting to BNM.

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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.

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.

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Risk management objectives and policies (continued)

Insurance (continued)

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 2017

47 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Risk management objectives and policies (continued)

<u>**Insurance (continued)**</u>

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 2017.

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 and fixed rate financial assets and financial liabilities.

	The Group		The Company	
	Increase/(decrease)		Increase/(decrease)	
	Impact on profit after tax RM'000	Impact on equity RM'000	Impact on profit after tax RM'000	Impact on equity RM'000
2017				
+100 basis points ('bps')	**21,713**	**(443,923)**	**888**	**–**
-100 bps	**(11,612)**	**457,815**	**(927)**	**–**
2016				
+100 bps	64,335	(352,867)	1,576	–
-100 bps	(60,601)	361,346	(1,654)	–

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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	
	Net receivable/(payable) exposure			
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
United States Dollar ("USD")	**931,339**	977,860	**–**	–
Euro ("EUR")	**23**	50,356	**–**	–
Great Britain Pound ("GBP")	**(5,357)**	4,980	**–**	–
Singapore Dollar ("SGD")	**7,817**	48,269	**–**	–
Chinese Yuan Renminbi ("CNY")	**19,071**	17,001	**–**	–
Hong Kong Dollar ("HKD")	**(294,577)**	(379,709)	**–**	–
Japanese Yen ("JPY")	**10**	14,046	**–**	–
Australian Dollar ("AUD")	**61,142**	20,440	**–**	–
Others	**(237)**	14,358	**–**	–
	719,231	767,601	**–**	–

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	
	2017	2016	2017	2016
	Increase/(decrease)		Increase/(decrease)	
	RM'000	RM'000	RM'000	RM'000
+ 1%				
United States Dollar ("USD")	**5,021**	4,944	**–**	–
Euro ("EUR")	**–**	9	**–**	–
Great Britain Pound ("GBP")	**(42)**	40	**–**	–
Singapore Dollar ("SGD")	**(422)**	(189)	**–**	–
Chinese Yuan Renminbi ("CNY")	**142**	129	**–**	–
Hong Kong Dollar ("HKD")	**(2,644)**	(3,369)	**–**	–
Australian Dollar ("AUD")	**315**	50	**–**	–
Others	**(27)**	101	**–**	–
	2,343	1,715	**–**	–

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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	
	2017	2016	2017	2016
	Increase/(decrease)		Increase/(decrease)	
	RM'000	RM'000	RM'000	RM'000
- 1%				
United States Dollar ("USD")	**(5,021)**	(4,944)	**–**	–
Euro ("EUR")	**–**	(9)	**–**	–
Great Britain Pound ("GBP")	**42**	(40)	**–**	–
Singapore Dollar ("SGD")	**422**	189	**–**	–
Chinese Yuan Renminbi ("CNY")	**(142)**	(129)	**–**	–
Hong Kong Dollar ("HKD")	**2,644**	3,369	**–**	–
Australian Dollar ("AUD")	**(315)**	(50)	**–**	–
Others	**27**	(101)	**–**	–
	(2,343)	(1,715)	**–**	–

(iii) Equity risk

Equity risk refers to the impact of change in equity positions held by the Group for yield purposes.

	The Group	
	Increase/(decrease)	
	Impact on profit after tax RM'000	Impact on equity RM'000
2017		
+ 20% change in equity market price	**11,606**	**51,566**
- 20% change in equity market price	**(11,606)**	**(51,566)**
2016		
+ 20% change in equity market price	10,404	53,621
- 20% change in equity market price	(10,404)	(53,621)

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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							
2017	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	10,595,762	–	–	–	–	2,176,581	–	12,772,343
Deposits and placements with banks and other financial institutions	–	1,556,550	4,454,333	–	–	3,075	–	6,013,958
Securities purchased under resale agreements	300,672	–	35,000	–	–	331	–	336,003
Financial assets held-for-trading	–	–	–	–	–	–	9,453,437	9,453,437
Financial investments available-for-sale	4,999	953,131	2,186,291	19,563,687	8,168,897	4,286,357	–	35,163,362
Financial investments held-to-maturity	–	1,111,421	468,587	10,733,940	2,069,350	197,732	–	14,581,030
Derivative financial instruments								
- Trading derivatives	–	–	–	–	–	–	977,604	977,604
Loans, advances and financing								
- Performing	99,640,834	1,248,245	701,850	9,804,821	12,169,786	584,147	–	124,149,683
- Impaired^	131,992	44,914	9,495	77,959	398,036	–	–	662,396
Clients' and brokers' balances	–	–	–	–	–	508,070	–	508,070
Other receivables	32,375	–	–	–	–	1,379,553	–	1,411,928
Statutory deposits with Central Banks	–	–	–	–	157,297	3,639,033	–	3,796,330
Total financial assets	110,706,634	4,914,261	7,855,556	40,180,407	22,963,366	12,774,879	10,431,041	209,826,144

^ This represents outstanding impaired loans after deducting individual assessment impairment allowance and collective assessment impairment allowance.

Notes to the Financial Statements

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47 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 →							
2017	**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	62,738,156	30,309,132	37,702,239	3,042,102	1,134,826	19,531,562	–	154,458,017
Deposits and placements of banks and other financial institutions	4,791,598	1,861,256	1,048,248	–	–	33,323	–	7,734,425
Obligations on securities sold under repurchase agreements	557,416	2,046,390	372,600	–	–	2,322	–	2,978,728
Bills and acceptance payable	57,552	47,464	15,865	–	–	243,794	–	364,675
Derivative financial instruments								
- Trading derivatives	–	–	–	–	–	–	1,477,961	1,477,961
- Hedging derivatives	–	–	–	1,409	194	–	–	1,603
Clients' and brokers' balances	–	–	–	–	–	271,738	–	271,738
Payables and other liabilities	–	–	–	–	–	8,283,771	–	8,283,771
Recourse obligations on loans sold to Cagamas Berhad	–	–	–	200,052	–	2,874	–	202,926
Provision for claims	–	–	–	–	–	147,767	–	147,767
Borrowings	870,000	–	–	650,000	–	6,222	–	1,526,222
Subordinated obligations	–	–	–	2,399,324	548,427	12,028	–	2,959,779
Innovative Tier 1 capital securities	–	–	–	502,852	–	12,771	–	515,623
Insurance funds	–	–	–	–	–	12,221,565	–	12,221,565
Total financial liabilities	69,014,722	34,264,242	39,138,952	6,795,739	1,683,447	40,769,737	1,477,961	193,144,800
Net interest sensitivity gap	41,691,912	(29,349,981)	(31,283,396)	33,384,668	21,279,919			
Financial guarantees	–	–	–	–	–	564,049		
Credit related commitments and contingencies	–	–	–	–	–	37,158,330		
Treasury related commitments and contingencies (hedging)	–	–	–	400,000	146,429	–		
Net interest sensitivity gap	–	–	–	400,000	146,429	37,722,379		

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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							
2016	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	7,728,937	–	–	–	–	1,700,655	–	9,429,592
Deposits and placements with banks and other financial institutions	–	1,932,032	1,083,130	–	–	18,504	–	3,033,666
Securities purchased under resale agreements	4,052,152	–	–	–	–	4,518	–	4,056,670
Financial assets held-for-trading	–	–	–	–	–	–	8,524,673	8,524,673
Financial investments available-for-sale	733,249	431,680	1,959,539	17,074,828	6,331,106	9,236,690	–	35,767,092
Financial investments held-to-maturity	36,390	1,362,207	1,555,827	7,935,892	1,854,413	166,589	–	12,911,318
Derivative financial instruments								
- Trading derivatives	–	–	–	–	–	–	1,062,358	1,062,358
Loans, advances and financing								
- Performing	97,529,756	508,622	807,065	10,014,853	10,532,808	613,856	–	120,006,960
- Impaired^	111,397	1,297	7,998	71,977	245,263	–	–	437,932
Clients' and brokers' balances	–	–	–	–	–	395,884	–	395,884
Other receivables	18,304	–	–	–	–	1,696,217	–	1,714,521
Statutory deposits with Central Banks	–	–	–	–	112,002	4,216,517	–	4,328,519
Total financial assets	110,210,185	4,235,838	5,413,559	35,097,550	19,075,592	18,049,430	9,587,031	201,669,185

^ 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 2017

47 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							
2016	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	64,260,295	23,993,880	36,842,186	3,741,330	514,452	20,138,390	–	149,490,533
Deposits and placements of banks and other financial institutions	4,934,009	2,974,993	188,879	–	–	8,119	–	8,106,000
Obligations on securities sold under repurchase agreements	1,789,407	1,700,606	–	–	–	4,890	–	3,494,903
Bills and acceptance payable	51,034	26,062	15,159	–	–	258,200	–	350,455
Derivative financial instruments								
- Trading derivatives	–	–	–	–	–	–	1,651,964	1,651,964
- Hedging derivatives	–	–	–	2,261	–	–	–	2,261
Clients' and brokers' balances	–	–	–	–	–	279,919	–	279,919
Payables and other liabilities	–	–	–	–	–	5,988,684	–	5,988,684
Provision for claims	–	–	–	–	–	141,175	–	141,175
Borrowings	1,219,730	–	1,308,082	650,000	–	14,107	–	3,191,919
Subordinated obligations	–	–	–	2,398,581	548,220	11,840	–	2,958,641
Innovative Tier 1 capital securities	–	–	–	508,741	–	12,771	–	521,512
Insurance funds	–	–	–	–	–	10,628,680	–	10,628,680
Total financial liabilities	72,254,475	28,695,541	38,354,306	7,300,913	1,062,672	37,486,775	1,651,964	186,806,646
Net interest sensitivity gap	37,955,710	(24,459,703)	(32,940,747)	27,796,637	18,012,920			
Financial guarantees	–	–	–	–	–	541,524		
Credit related commitments and contingencies	–	–	–	–	–	41,830,685		
Treasury related commitments and contingencies (hedging)	–	–	–	200,000	–	–		
Net interest sensitivity gap	–	–	–	200,000	–	42,372,209		

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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							
2017	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	7,721	–	–	–	–	–	–	7,721
Deposits and placements with banks and other financial institutions	–	–	8,400	–	–	–	–	8,400
Other receivables	–	–	–	–	–	322	–	322
Amount due from subsidiaries	–	–	–	–	–	38,646	–	38,646
Total financial assets	7,721	–	8,400	–	–	38,968	–	55,089
Financial liabilities								
Derivative financial instruments								
- Trading derivatives	–	–	–	–	–	–	874	874
Payables and other liabilities	–	–	–	–	–	8,887	–	8,887
Borrowings								
- Term loans	350,000	–	–	–	–	230	–	350,230
- Revolving credit	370,000	–	–	–	–	197	–	370,197
- Commercial papers	150,000	–	–	–	–	(293)	–	149,707
- Medium term notes	–	–	–	650,000	–	6,088	–	656,088
Total financial liabilities	870,000	–	–	650,000	–	15,109	874	1,535,983
Net interest sensitivity gap	(862,279)	–	8,400	(650,000)	–			

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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							
2016	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	9,620	–	–	–	–	–	–	9,620
Deposits and placements with banks and other financial institutions	–	–	8,400	–	–	–	–	8,400
Derivative financial instruments								
- Trading derivatives	–	–	–	–	–	–	80	80
Other receivables	–	–	–	–	–	434	–	434
Amount due from subsidiaries	–	–	–	–	–	48	–	48
Total financial assets	9,620	–	8,400	–	–	482	80	18,582
Financial liabilities								
Derivative financial instruments								
- Trading derivatives	–	–	–	–	–	–	1,455	1,455
Payables and other liabilities	–	–	–	–	–	8,590	–	8,590
Borrowings								
- Term loans	180,000	–	–	–	–	463	–	180,463
- Revolving credit	305,000	–	–	–	–	450	–	305,450
- Commercial papers	350,000	–	–	–	–	(653)	–	349,347
- Medium term notes	–	–	150,000	650,000	–	6,457	–	806,457
Total financial liabilities	835,000	–	150,000	650,000	–	15,307	1,455	1,651,762
Net interest sensitivity gap	(825,380)	–	(141,600)	(650,000)	–			

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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) based on the remaining contractual maturity:

	The Group							
2017	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	11,982,445	738,142	–	–	–	–	51,756	12,772,343
Deposits and placements with banks and other financial institutions	–	–	1,559,083	3,632,467	822,408	–	–	6,013,958
Securities purchased under resale agreements	–	300,880	–	35,123	–	–	–	336,003
Financial assets held-for-trading	1,550,734	903,487	1,960,634	510,741	20,777	3,360,229	1,146,835	9,453,437
Financial investments available-for-sale	–	5,076	956,587	1,223,053	724,226	29,558,598	2,695,822	35,163,362
Financial investments held-to-maturity	48	–	1,124,328	384,880	226,217	12,845,557	–	14,581,030
Derivative financial instruments	64,848	62,082	146,849	53,976	157,921	491,928	–	977,604
Loans, advances and financing	10,715,753	5,954,327	6,664,066	2,307,310	1,201,393	97,969,230	–	124,812,079
Clients' and brokers' balances	270,967	–	–	–	237,103	–	–	508,070
Other receivables	1,223,287	6,942	10,719	29,658	48,221	19,122	189,806	1,527,755
Statutory deposits with Central Banks	–	–	–	–	–	–	3,796,330	3,796,330
Tax recoverable	–	–	–	–	9	–	1,900	1,909
Investment in associated companies	–	–	–	–	–	–	4,321,625	4,321,625
Investment in joint ventures	–	–	–	–	–	–	169,185	169,185
Property and equipment	–	–	–	–	–	–	1,884,451	1,884,451
Investment properties	–	–	–	–	–	–	2,030	2,030
Goodwill	–	–	–	–	–	–	2,410,644	2,410,644
Intangible assets	–	–	–	–	–	–	230,588	230,588
Total assets	25,808,082	7,970,936	12,422,266	8,177,208	3,438,275	144,244,664	16,900,972	218,962,403

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) based on the remaining contractual maturity: (continued)

	The Group							
2017	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	54,542,682	27,574,173	30,342,849	20,328,350	17,347,048	4,322,915	–	154,458,017
Deposits and placements of banks and other financial institutions	3,225,305	1,595,762	1,864,422	1,005,863	43,073	–	–	7,734,425
Obligations on securities sold under repurchase agreements	529,165	28,251	2,048,386	372,926	–	–	–	2,978,728
Bills and acceptances payable	270	57,282	47,464	15,865	–	–	243,794	364,675
Derivative financial instruments	30,403	45,253	82,707	220,279	275,323	825,599	–	1,479,564
Clients' and brokers' balances	271,738	–	–	–	–	–	–	271,738
Payables and other liabilities	3,839,314	804	8,345	2,307	2,859,477	202	1,820,586	8,531,035
Recourse obligations on loans sold to Cagamas Berhad	–	–	–	–	–	202,926	–	202,926
Provision for claims	–	–	–	–	147,767	–	–	147,767
Provision for taxation	–	–	451	–	33,145	–	201,713	235,309
Deferred tax liabilities	–	–	–	–	498	226,920	75,099	302,517
Borrowings	–	870,134	–	406,088	–	250,000	–	1,526,222
Subordinated obligations	–	–	8,815	–	–	2,950,964	–	2,959,779
Innovative Tier 1 capital securities	–	–	–	–	–	515,623	–	515,623
Insurance funds*	–	28,823	1	2	2,015,139	9,866,191	–	11,910,156
Total liabilities	62,438,877	30,200,482	34,403,440	22,351,680	22,721,470	19,161,340	2,341,192	193,618,481
Total equity	–	–	–	–	–	–	25,032,513	25,032,513
Total liabilities and equity	62,438,877	30,200,482	34,403,440	22,351,680	22,721,470	19,161,340	27,373,705	218,650,994
Net liquidity gap	(36,630,795)	(22,229,546)	(21,981,174)	(14,174,472)	(19,283,195)	125,083,324		

* Excluding AFS Reserve

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) based on the remaining contractual maturity: (continued)

	The Group							
2016	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	7,469,879	1,957,109	–	–	–	–	2,604	9,429,592
Deposits and placements with banks and other financial institutions	–	–	1,934,961	859,301	239,404	–	–	3,033,666
Securities purchased under resale agreements	–	4,056,670	–	–	–	–	–	4,056,670
Financial assets held-for-trading	72,353	2,295,835	2,303,320	90,384	2,916	2,974,458	785,407	8,524,673
Financial investments available-for-sale	624,822	118,016	436,006	694,516	960,438	23,942,938	8,990,356	35,767,092
Financial investments held-to-maturity	16,435	20,373	1,379,218	923,763	640,976	9,930,553	–	12,911,318
Derivative financial instruments	110,402	85,251	79,217	70,124	48,698	668,666	–	1,062,358
Loans, advances and financing	11,256,845	6,148,011	5,812,698	2,813,164	1,299,092	93,115,082	–	120,444,892
Clients' and brokers' balances	197,034	–	–	–	198,850	–	–	395,884
Other receivables	1,365,078	26,309	12,888	8,350	117,212	21,354	265,637	1,816,828
Statutory deposits with Central Banks	–	–	–	–	–	–	4,328,519	4,328,519
Tax recoverable	–	–	–	–	–	–	29,011	29,011
Investment in associated companies	–	–	–	–	–	–	3,982,091	3,982,091
Investment in joint ventures	–	–	–	–	–	–	145,183	145,183
Property and equipment	–	–	–	–	–	–	1,849,202	1,849,202
Investment properties	–	–	–	–	–	–	1,940	1,940
Goodwill	–	–	–	–	–	–	2,410,644	2,410,644
Intangible assets	–	–	–	–	–	–	284,971	284,971
Total assets	21,112,848	14,707,574	11,958,308	5,459,602	3,507,586	130,653,051	23,075,565	210,474,534

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) based on the remaining contractual maturity: (continued)

	The Group							
2016	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	48,810,978	35,338,385	23,852,338	20,155,934	16,842,166	4,490,732	–	149,490,533
Deposits and placements of banks and other financial institutions	2,930,267	1,848,668	3,018,108	212,022	96,935	–	–	8,106,000
Obligations on securities sold under repurchase agreements	230,836	1,562,179	1,701,888	–	–	–	–	3,494,903
Bills and acceptances payable	43,503	7,531	26,062	15,155	4	–	258,200	350,455
Derivative financial instruments	67,119	78,105	177,053	202,384	105,189	1,024,375	–	1,654,225
Clients' and brokers' balances	279,919	–	–	–	–	–	–	279,919
Payables and other liabilities	3,664,225	2,060	2,270	2,040	2,402,749	258	164,220	6,237,822
Provision for claims	–	–	–	–	141,175	–	–	141,175
Provision for taxation	–	–	–	–	7,704	–	31,653	39,357
Deferred tax liabilities	–	–	–	–	1,005	179,055	22,177	202,237
Borrowings	–	835,260	–	104,497	1,215,643	1,034,730	1,789	3,191,919
Subordinated obligations	–	–	8,692	–	–	2,949,949	–	2,958,641
Innovative Tier 1 capital securities	–	–	–	–	–	521,512	–	521,512
Insurance funds*	–	–	–	–	1,430,011	8,952,892	–	10,382,903
Total liabilities	56,026,847	39,672,188	28,786,411	20,692,032	22,242,581	19,153,503	478,039	187,051,601
Total equity	–	–	–	–	–	–	23,177,156	23,177,156
Total liabilities and equity	56,026,847	39,672,188	28,786,411	20,692,032	22,242,581	19,153,503	23,655,195	210,228,757
Net liquidity gap	(34,913,999)	(24,964,614)	(16,828,103)	(15,232,430)	(18,734,995)	111,499,548		

* Excluding AFS Reserve

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) based on the remaining contractual maturity: (continued)

	The Company							
2017	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	7,721	–	–	–	–	–	–	7,721
Deposits and placements with banks and other financial institutions	–	–	–	8,400	–	–	–	8,400
Other receivables	–	46	17	61	149	302	–	575
Amount due from subsidiaries	–	–	–	–	–	–	38,646	38,646
Tax recoverable	–	–	–	–	–	–	1,685	1,685
Investment in subsidiary companies	–	–	–	–	–	–	16,909,723	16,909,723
Deferred tax assets	–	–	–	–	–	–	36	36
Property and equipment	–	–	–	–	–	–	1,418	1,418
Intangible assets	–	–	–	–	–	–	13	13
Total assets	7,721	46	17	8,461	149	302	16,951,521	16,968,217
Liabilities								
Derivative financial instruments	–	–	–	–	–	874	–	874
Payables and other liabilities	–	254	–	1,331	7,904	–	–	9,489
Borrowings								
- Term loans	–	350,230	–	–	–	–	–	350,230
- Revolving credits	–	370,197	–	–	–	–	–	370,197
- Commercial papers	–	149,707	–	–	–	–	–	149,707
- Medium term notes	–	–	–	406,088	–	250,000	–	656,088
Total liabilities	–	870,388	–	407,419	7,904	250,874	–	1,536,585
Net liquidity gap	7,721	(870,342)	17	(398,958)	(7,755)	(250,572)		

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) based on the remaining contractual maturity: (continued)

	The Company							
2016	**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	9,620	–	–	–	–	–	–	9,620
Deposits and placements with banks and other financial institutions	–	–	–	8,400	–	–	–	8,400
Derivative financial instruments	–	–	–	–	–	80	–	80
Other receivables	–	187	17	46	–	389	–	639
Amount due from subsidiaries	–	–	–	–	–	–	48	48
Tax recoverable	–	–	–	–	–	–	2,729	2,729
Investment in subsidiary companies	–	–	–	–	–	–	16,915,160	16,915,160
Deferred tax assets	–	–	–	–	–	–	330	330
Property and equipment	–	–	–	–	–	–	1,729	1,729
Intangible assets	–	–	–	–	–	–	106	106
Total assets	9,620	187	17	8,446	–	469	16,920,102	16,938,841
Liabilities								
Derivative financial instruments	–	–	–	–	–	1,455	–	1,455
Payables and other liabilities	–	381	–	1,274	7,635	61	–	9,351
Borrowings								
- Term loans	–	180,463	–	–	–	–	–	180,463
- Revolving credits	–	305,450	–	–	–	–	–	305,450
- Commercial papers	–	349,347	–	–	–	–	–	349,347
- Medium term notes	–	–	–	156,457	–	650,000	–	806,457
Total liabilities	–	835,641	–	157,731	7,635	651,516	–	1,652,523
Net liquidity gap	9,620	(835,454)	17	(149,285)	(7,635)	(651,047)		

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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					
2017	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
Financial Liabilities						
Deposits from customers	82,314,206	30,253,304	38,623,780	3,693,534	1,255,188	156,140,012
Deposits and placements of banks and other financial institutions	5,661,728	3,373,582	173,155	–	–	9,208,465
Obligations on securities sold under repurchase agreements	28,251	2,577,171	388,132	–	–	2,993,554
Bills and acceptances payable	297,817	26,867	2,501	–	–	327,185
Derivative financial instruments						
- Gross settled derivatives						
- Inflow	(4,688,103)	(2,947,626)	(8,351,508)	(2,310,471)	(1,683,057)	(19,980,765)
- Outflow	4,729,794	3,028,406	8,844,192	2,680,188	1,705,165	20,987,745
- Net settled derivatives	26,171	26,773	164,996	388,366	85,040	691,346
Clients' and brokers' balances	271,738	–	–	–	–	271,738
Payables and other liabilities	3,846,148	8,345	2,665,230	–	213	6,519,936
Recourse obligations on loans sold to Cagamas Berhad	–	3,791	3,853	211,486	–	219,130
Provision for claims	–	–	147,767	–	–	147,767
Borrowings	201,990	212,885	278,847	911,163	–	1,604,885
Subordinated obligations	–	10,151	134,416	2,605,612	620,225	3,370,404
Innovative Tier 1 capital securities	–	20,908	20,568	561,818	–	603,294
Insurance funds*	29,239	910	2,024,788	2,282,765	20,405,988	24,743,690
Total financial liabilities	92,718,979	36,595,467	45,120,717	11,024,461	22,388,762	207,848,386

* Excluding AFS Reserve

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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					
2016	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
Financial Liabilities						
Deposits from customers	84,485,941	24,206,953	37,927,447	4,266,104	550,166	151,436,611
Deposits and placements of banks and other financial institutions	5,884,467	3,412,544	97,263	–	–	9,394,274
Obligations on securities sold under repurchase agreements	1,567,165	2,213,440	–	–	–	3,780,605
Bills and acceptances payable	305,688	3,244	1,665	–	–	310,597
Derivative financial instruments						
- Gross settled derivatives						
- Inflow	(5,868,571)	(5,013,580)	(5,335,276)	(2,881,709)	(1,842,714)	(20,941,850)
- Outflow	5,927,814	5,174,565	5,639,685	3,364,296	1,910,265	22,016,625
- Net settled derivatives	24,784	41,006	291,335	540,644	36,799	934,568
Clients' and brokers' balances	279,919	–	–	–	–	279,919
Payables and other liabilities	3,704,955	2,110	2,282,481	–	243	5,989,789
Provision for claims	–	–	141,175	–	–	141,175
Borrowings	4,321	97,903	1,634,153	1,430,874	346,706	3,513,957
Subordinated obligations	–	10,042	134,443	2,721,692	639,721	3,505,898
Innovative Tier 1 capital securities	–	21,021	20,229	603,295	–	644,545
Insurance funds*	231	684	1,427,022	1,731,561	19,913,560	23,073,058
Total financial liabilities	96,316,714	30,169,932	44,261,622	11,776,757	21,554,746	204,079,771

* Excluding AFS Reserve

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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 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
2017						
Financial Liabilities						
Payables and other liabilities	**974**	**–**	**7,913**	**–**	**–**	**8,887**
Derivative financial instruments						
- Net settled derivatives	**–**	**141**	**426**	**714**	**–**	**1,281**
Borrowings						
- Term loans	**1,065**	**201,093**	**151,487**	**–**	**–**	**353,645**
- Revolving credit	**200,463**	**1,219**	**102,364**	**70,128**	**–**	**374,174**
- Commercial papers	**462**	**956**	**4,224**	**152,081**	**–**	**157,723**
- Medium term notes	**–**	**9,617**	**20,773**	**688,954**	**–**	**719,344**
Total financial liabilities	**202,964**	**213,026**	**287,187**	**911,877**	**–**	**1,615,054**
2016						
Financial Liabilities						
Payables and other liabilities	956	–	7,635	–	–	8,591
Derivative financial instruments						
- Net settled derivatives	–	7	449	1,351	–	1,807
Borrowings						
- Term loans	583	1,151	14,820	170,280	–	186,834
- Revolving credit	1,103	81,677	225,926	–	–	308,706
- Commercial papers	1,004	2,162	9,555	367,459	–	380,180
- Medium term notes	–	9,669	173,789	719,345	–	902,803
Total financial liabilities	3,646	94,666	432,174	1,258,435	–	1,788,921

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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
2017			
Direct credit substitutes	**32,628**	**50,157**	**82,785**
Any commitment that are unconditionally cancelled at anytime by the Group without prior notice	**661,322**	**–**	**661,322**
Short-term self liquidating trade related contingencies	**444,264**	**47,352**	**491,616**
Obligations under underwriting agreement	**130,000**	**–**	**130,000**
Irrevocable commitments to extend credit	**16,098,253**	**13,257,147**	**29,355,400**
Unutilised credit card lines	**7,001,256**	**–**	**7,001,256**
Total commitments and contingencies	**24,367,723**	**13,354,656**	**37,722,379**
2016			
Direct credit substitutes	120,526	1,153	121,679
Any commitment that are unconditionally cancelled at anytime by the Group without prior notice	686,780	–	686,780
Short-term self liquidating trade related contingencies	370,876	48,970	419,846
Irrevocable commitments to extend credit	17,515,111	16,125,773	33,640,884
Unutilised credit card lines	7,503,020	–	7,503,020
Total commitments and contingencies	26,196,313	16,175,896	42,372,209

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 2017

47 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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Credit risk exposure relating to on-balance sheet assets:				
Short-term funds and placements with banks and other financial institutions (exclude cash in hand)	**11,799,904**	11,242,419	**16,120**	18,019
Securities purchased under resale agreement	**336,003**	4,056,670	**–**	–
Financial assets and investments portfolios (exclude shares and unit trust investments)				
- Financial assets held-for-trading	**8,306,600**	7,737,463	**–**	–
- Financial investments available-for-sale	**32,467,102**	26,776,637	**–**	–
- Financial investments held-to-maturity	**14,580,496**	12,910,785	**–**	–
Loans, advances and financing	**124,812,079**	120,444,892	**–**	–
Clients' and brokers' balances	**508,070**	395,884	**–**	–
Other receivables	**1,335,987**	1,696,217	**322**	434
Amount due from subsidiaries	**–**	–	**38,646**	48
Derivative financial instruments	**977,604**	1,062,358	**–**	80
	195,123,845	186,323,325	**55,088**	18,581
Credit risk exposure relating to off-balance sheet assets:				
Commitments and contingencies	**37,722,379**	42,372,209	**–**	–
Total maximum credit risk exposure	**232,846,224**	228,695,534	**55,088**	18,581

(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 84.05% (2016: 81.61%). 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 2017

47 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	
	2017 RM'000	**2016 RM'000**
Neither past due nor impaired	**117,237,531**	113,200,312
Past due but not impaired	**7,515,545**	7,435,026
Individually impaired	**1,215,016**	957,153
Gross loans, advances and financing	**125,968,092**	121,592,491
Fair value changes arising from fair value hedges	**(34)**	–
Unamortised fair value changes arising from terminated fair value hedges	**(36)**	(784)
Less : Allowance for impaired loans, advances and financing		
- individual assessment allowance	**(325,536)**	(289,844)
- collective assessment allowance	**(830,407)**	(856,971)
Net loans, advances and financing	**124,812,079**	120,444,892

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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:

		The Group	
		2017 RM'000	**2016 RM'000**
Hong Leong Bank Group			
Consumer loans/financing			
Risk Grade			
Good		**84,893,412**	80,222,051
Weakest		**408,017**	382,298
		85,301,429	80,604,349
Corporates loans/financing			
Risk Grade	Credit Quality		
A	Exceptional	**979,207**	1,015,687
B+	Superior	**3,286,343**	2,829,101
B	Excellent	**5,105,050**	5,361,051
B-	Strong	**5,987,873**	5,921,342
C+	Good	**5,179,776**	5,945,392
C	Satisfactory	**6,769,870**	7,046,394
C-	Fair	**2,790,420**	2,575,544
D+	Adequate	**508,591**	509,732
D	Marginal	**189,345**	88,609
Un-graded		**329,615**	315,830
		31,126,090	31,608,682
Hong Leong Capital Group			
Risk Grade			
Good		**14,695**	38,178
Satisfactory		**–**	46,349
Un-graded		**210,771**	288,075
		225,466	372,602
HLA Holdings Group			
Risk Grade			
Un-graded		**584,546**	614,679
The Group total neither past due nor impaired		**117,237,531**	113,200,312

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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	
	2017 RM'000	2016 RM'000
Past due less than 30 days	**5,130,954**	5,176,331
Past due 30 to less than 60 days	**1,667,456**	1,681,913
Past due 60 to less than 90 days	**717,135**	576,782
Past due but not impaired	**7,515,545**	7,435,026

(iii) Loans, advances and financing that are determined to be impaired are as follows:

	The Group	
	2017 RM'000	2016 RM'000
Gross amount of impaired loans	**1,215,016**	957,153
Less: Individual assessment impairment allowance	**(325,536)**	(289,844)
Less: Collective assessment impairment allowance	**(215,618)**	(228,903)
Total net amount of impaired loans	**673,862**	438,406

Notes to the Financial Statements

for the financial year ended 30 June 2017

47 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), based on Moody's ratings or its equivalent are as follows:

	The Group							
	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
2017								
Neither past due nor impaired								
AAA to AA3	3,968,432	–	4,661,281	10,926,309	833,011	–	533	159,160
A1 to A3	959,774	–	1,998,490	5,381,721	67,463	–	–	589,724
Baa1 to Baa3	580,208	–	63,449	942,876	26,294	–	–	8,349
P1 to P3	267,373	–	–	105,323	–	–	19,785	–
Non-rated	6,024,117	336,003	1,583,380	15,110,873	13,653,728	508,070	1,315,669	220,371
	11,799,904	336,003	8,306,600	32,467,102	14,580,496	508,070	1,335,987	977,604
Individually impaired	–	–	–	–	–	–	–	–
	11,799,904	336,003	8,306,600	32,467,102	14,580,496	508,070	1,335,987	977,604

The amount of short-term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, 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 2017

47 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), based on Moody's ratings or its equivalent are as follows: (continued)

	The Group							
	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
2016								
Neither past due nor impaired								
AAA to AA3	4,376,414	–	1,752,732	11,050,870	710,751	–	31,000	148,881
A1 to A3	3,513,616	–	780,204	4,742,491	63,902	–	–	665,619
Baa1 to Baa3	23,364	–	155,005	1,033,616	61,553	–	–	26,411
P1 to P3	–	–	5,028	10,159	–	–	–	–
Non-rated	3,329,025	4,056,670	5,044,494	9,939,501	12,074,579	395,884	1,665,217	221,447
	11,242,419	4,056,670	7,737,463	26,776,637	12,910,785	395,884	1,696,217	1,062,358
Individually impaired	–	–	–	–	–	–	–	–
	11,242,419	4,056,670	7,737,463	26,776,637	12,910,785	395,884	1,696,217	1,062,358

The amount of short-term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, 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 2017

47 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), based on Moody's ratings or its equivalent are as follows: (continued)

	The Company			
	Short-term funds and deposits 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
2017				
Neither past due nor impaired				
AAA to AA3	**16,120**	**–**	**–**	**–**
A1 to A3	**–**	**–**	**–**	**–**
Baa1 to Baa3	**–**	**–**	**–**	**–**
P1 to P3	**–**	**–**	**–**	**–**
Non-rated	**–**	**322**	**38,646**	**–**
	16,120	**322**	**38,646**	**–**
Individually impaired	**–**	**–**	**–**	**–**
	16,120	**322**	**38,646**	**–**
2016				
Neither past due nor impaired				
AAA to AA3	18,019	–	–	–
A1 to A3	–	–	–	–
Baa1 to Baa3	–	–	–	–
P1 to P3	–	–	–	–
Non-rated	–	434	48	80
	18,019	434	48	80
Individually impaired	–	–	–	–
	18,019	434	48	80

(iv) Collateral and other credit enhancements obtained

	The Group	
	2017 RM'000	2016 RM'000
Properties	**146,604**	147,249

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

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47 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												
	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
2017													
Agriculture	–	–	–	64,756	–	2,693,449	–	–	–	2,758,205	–	1,044,645	83
Mining and quarrying	–	–	–	43,812	–	261,228	–	–	–	305,040	–	79,247	–
Manufacturing	–	–	–	34,610	–	8,846,409	–	476	–	8,881,495	–	6,421,783	180,192
Electricity, gas and water	–	–	103,541	2,810,817	–	192,950	–	471	–	3,107,779	–	77,583	674
Construction	–	35,123	15,450	508,430	–	2,455,787	–	13,744	–	3,028,534	1,326	1,901,560	5,443
Wholesale and retail	–	–	–	65,234	–	10,228,205	–	–	–	10,293,439	–	4,969,794	235,875
Transport, storage and communications	–	–	65,199	523,735	–	2,932,632	–	–	–	3,521,566	–	676,862	7,395
Finance, insurance, real estate and business services	7,233,893	–	5,776,372	16,558,831	388,141	9,644,935	237,103	1,266,624	977,604	42,083,503	10,352	3,086,173	128,490
Government and government agencies	4,566,011	300,880	1,620,660	9,337,030	13,757,678	–	–	17,510	–	29,599,769	–	–	200
Education, health and others	–	–	–	–	–	1,927,915	–	35	–	1,927,950	–	248,723	–
Household	–	–	–	–	–	84,109,089	–	–	–	84,109,089	–	17,756,977	4,296
Purchase of securities	–	–	–	–	–	210,622	270,967	–	–	481,589	130,000	–	–
Others	–	–	725,378	2,519,847	434,677	1,308,858	–	37,127	–	5,025,887	661,322	92,983	401
	11,799,904	336,003	8,306,600	32,467,102	14,580,496	124,812,079	508,070	1,335,987	977,604	195,123,845	803,000	36,356,330	563,049

Notes to the Financial Statements

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47 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												
	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
2016													
Agriculture	–	–	50,191	60,575	–	2,800,195	–	–	–	2,910,961	–	896,679	1,184
Mining and quarrying	–	–	–	41,383	–	347,776	–	–	–	389,159	–	186,823	–
Manufacturing	–	–	–	48,842	–	8,939,890	–	604	–	8,989,336	–	6,497,895	145,388
Electricity, gas and water	–	–	118,749	2,620,621	–	167,402	–	32	–	2,906,804	–	183,603	–
Construction	–	–	87,858	866,819	–	2,293,560	–	4,296	–	3,252,533	1,000	1,568,446	15,391
Wholesale and retail	–	–	–	83,758	–	10,027,519	–	555	–	10,111,832	–	6,158,637	202,727
Transport, storage and communications	–	–	471,932	607,139	–	2,418,559	–	–	–	3,497,630	–	505,001	5,408
Finance, insurance, real estate and business services	9,324,642	–	5,890,914	13,912,899	411,545	9,402,704	198,850	1,629,360	1,062,358	41,833,272	2,754	3,724,008	164,971
Government and government agencies	1,917,777	4,056,670	681,952	6,662,831	12,056,235	–	–	20,299	–	25,395,764	–	–	202
Education, health and others	–	–	–	–	–	2,113,462	–	35	–	2,113,497	–	468,984	–
Household	–	–	–	–	–	79,874,894	–	–	–	79,874,894	–	20,522,701	1,387
Purchase of securities	–	–	–	–	–	287,888	197,034	–	–	484,922	686,780	–	–
Others	–	–	435,867	1,871,770	443,005	1,771,043	–	41,036	–	4,562,721	–	428,374	3,866
	11,242,419	4,056,670	7,737,463	26,776,637	12,910,785	120,444,892	395,884	1,696,217	1,062,358	186,323,325	690,534	41,141,151	540,524

Notes to the Financial Statements

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47 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
2017					
Finance, insurance, real estate and business services	**16,120**	**322**	**38,646**	**–**	**55,088**
2016					
Finance, insurance, real estate and business services	18,019	434	48	80	18,581

48 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

Notes to the Financial Statements

for the financial year ended 30 June 2017

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Determination of fair value and fair value hierarchy (continued)

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instrument are generally classified as Level 2.

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

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

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

	The Group			
	Fair Value			
	Level 1	Level 2	Level 3	Total
2017	RM'000	RM'000	RM'000	RM'000
Recurring fair value measurements				
Financial assets				
Financial assets held-for-trading				
- Money market instruments	–	6,927,488	–	6,927,488
- Quoted securities	1,405,289	–	–	1,405,289
- Unquoted securities	–	1,120,660	–	1,120,660
Financial investments available-for-sale				
- Money market instruments	–	10,962,963	–	10,962,963
- Quoted securities	6,963,362	–	–	6,963,362
- Unquoted securities	–	16,779,885	457,152	17,237,037
Derivative financial instruments	18	969,018	8,568	977,604
	8,368,669	36,760,014	465,720	45,594,403
Financial liabilities				
Derivative financial instruments	1,228	1,469,768	8,568	1,479,564
Financial liabilities designated at fair value				
- Callable range accrual notes and callable inverse floater	–	2,480,925	–	2,480,925
	1,228	3,950,693	8,568	3,960,489

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48 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 Group			
	Fair Value			
2016	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Recurring fair value measurements				
Financial assets				
Financial assets held-for-trading				
- Money market instruments	–	5,741,903	–	5,741,903
- Quoted securities	1,275,928	–	–	1,275,928
- Unquoted securities	–	1,506,842	–	1,506,842
Financial investments available-for-sale				
- Money market instruments	–	7,801,574	–	7,801,574
- Quoted securities	14,121,041	–	–	14,121,041
- Unquoted securities	–	13,414,757	429,720	13,844,477
Derivative financial instruments	11	1,054,352	7,995	1,062,358
	15,396,980	29,519,428	437,715	45,354,123
Financial liabilities				
Derivative financial instruments	1,564	1,644,666	7,995	1,654,225
Financial liabilities designated at fair value				
- Callable range accrual notes	–	1,421,919	–	1,421,919
	1,564	3,066,585	7,995	3,076,144

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 (2016: RM Nil).

	The Company			
	Fair Value			
2017	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Recurring fair value measurements				
Financial liabilities				
Derivative financial instruments	**–**	**874**	**–**	**874**

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48 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			
2016	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Recurring fair value measurements				
Financial assets				
Derivative financial instruments	–	80	–	80
Financial liabilities				
Derivative financial instruments	–	1,455	–	1,455

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 (2016: RM Nil).

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy, as below:

	The Group		
	Financial Assets		Financial Liability
2017	Financial investments available-for-sale RM'000	Derivative financial instruments RM'000	Derivative financial instruments RM'000
As at 1 July	**429,720**	**7,995**	**7,995**
Fair value changes recognised in statements of income	**–**	**7,297**	**7,297**
Net fair value changes recognised in other comprehensive income	**31,814**	**–**	**–**
Purchases	**–**	**7,582**	**7,582**
Disposal	**(53)**	**–**	**–**
Settlements	**–**	**(14,306)**	**(14,306)**
Transfer out from Level 3	**(4,329)**	**–**	**–**
As at 30 June	**457,152**	**8,568**	**8,568**
Fair value changes recognised in statements of income relating to assets/liability held on 30 June 2017	**–**	**7,297**	**7,297**
Total gain recognised in other comprehensive income relating to assets held on 30 June 2017	**31,814**	**–**	**–**

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

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for the financial year ended 30 June 2017

48 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: (continued)

	The Group		
	Financial Assets		Financial Liability
2016	Financial investments available-for-sale RM'000	Derivative financial instruments RM'000	Derivative financial instruments RM'000
As at 1 July	397,279	6,952	6,952
Fair value changes recognised in statements of income	–	(3,023)	(3,023)
Net fair value changes recognised in other comprehensive income	32,441	–	–
Purchases	–	4,171	4,171
Disposal	–	(105)	(105)
As at 30 June	429,720	7,995	7,995
Fair value changes recognised in statements of income relating to assets/liability held on 30 June 2016	–	(3,023)	(3,023)
Total gain recognised in other comprehensive income relating to assets held on 30 June 2016	32,441	–	–

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

	The Group					
2017 Description	Fair value assets RM'000	Fair value liabilities RM'000	Valuation technique(s)	Unobservable input	Range (weighted average)	Inter-relationship between significant unobservable inputs and fair value measurement
Financial investments available-for-sale						
Unquoted shares	457,152	–	Net tangible assets	Net tangible assets	Not applicable	Higher net tangible assets results in higher fair value
Derivative financial instruments						
Equity derivatives			Monte Carlo Simulation	Equity volatility	+3% to +37%	Higher volatility, would generally result in higher fair valuation for long volatility positions and vice versa
	8,568	(8,568)	Monte Carlo Simulation	Equity/FX Correlation between underlyers	-10% to +60%	An increase in correlation, would generally result in a higher fair value measurement and vice versa

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48 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Determination of fair value and fair value hierarchy (continued)

Quantitative information about fair value measurements using significant unobservable inputs (Level 3) (continued)

The Group						
2016 Description	**Fair value assets RM'000**	**Fair value liabilities RM'000**	**Valuation technique(s)**	**Unobservable input**	**Range (weighted average)**	**Inter-relationship between significant unobservable inputs and fair value measurement**
Financial investments available-for-sale						
Unquoted shares	429,720	–	Net tangible assets	Net tangible assets	Not applicable	Higher net tangible assets results in higher fair value
Derivative financial instruments						
Equity derivatives			Monte Carlo Simulation	Equity volatility	+19% to +48%	Higher volatility, would generally result in higher fair valuation for long volatility positions and vice versa
	7,995	(7,995)	Monte Carlo Simulation	Equity/FX Correlation between underlyers	-51% to +75%	An increase in correlation, would generally result in a higher fair value measurement and vice versa

Sensitivity analysis for level 3

			Effect of reasonable possible alternative assumptions to: Profit or loss	
			Favourable/Unfavourable changes	
The Group	**Type of unobservable input**	**Sensitivity of significant unobservable input**	**Financial assets RM'000**	**Financial liabilities RM'000**
2017				
Derivative financial instruments				
- Equity derivatives	Equity volatility	**+10%**	**(514)**	**514**
		–10%	**529**	**(529)**
	Equity/Fx	**+10%**	**(95)**	**95**
	Correlation	**–10%**	**122**	**(122)**
	Total *		**42**	**(42)**
2016				
Derivative financial instruments				
- Equity derivatives	Equity volatility	+10%	617	(617)
		–10%	(569)	569
	Equity/Fx	+10%	137	(137)
	Correlation	–10%	(110)	110
	Total *		75	(75)

* No or insignificant impact to the Group. All equity link derivatives with unobservable inputs are hedged back-to-back with external parties.

Notes to the Financial Statements

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48 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 2017 RM'000	Fair value 2017 RM'000	Carrying amount 2016 RM'000	Fair value 2016 RM'000
Financial assets				
Financial investments held-to-maturity				
- Money market instruments	**12,789,048**	**12,731,455**	11,616,369	11,654,226
- Unquoted securities	**1,791,982**	**1,804,102**	1,294,949	1,310,222
Loans, advances and financing	**124,812,079**	**124,907,609**	120,444,892	120,406,882
	139,393,109	**139,443,166**	133,356,210	133,371,330
Financial liabilities				
Deposits from customers	**151,977,092**	**152,778,933**	148,068,614	148,985,363
Recourse obligations on loans sold to Cagamas Berhad	**202,926**	**201,195**	–	–
Borrowings	**1,526,222**	**1,524,130**	3,191,919	3,197,625
Subordinated obligations	**2,959,779**	**2,938,556**	2,958,641	2,940,915
Innovative Tier 1 capital securities	**515,623**	**550,590**	521,512	565,528
	157,181,642	**157,993,404**	154,740,686	155,689,431

	The Company			
	Carrying amount 2017 RM'000	Fair value 2017 RM'000	Carrying amount 2016 RM'000	Fair value 2016 RM'000
Financial liabilities				
Borrowings	**1,526,222**	**1,524,130**	1,641,717	1,640,298

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48 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 but for which fair value is disclosed:

	The Group				
	Carrying amount RM'000	Fair Value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2017					
Financial assets					
Financial investments held-to-maturity					
- Money market instruments	12,789,048	–	12,731,455	–	12,731,455
- Unquoted securities	1,791,982	–	1,803,567	535	1,804,102
Loans, advances and financing	124,812,079	–	124,907,609	–	124,907,609
	139,393,109	–	139,442,631	535	139,443,166
Financial liabilities					
Deposits from customers	151,977,092	–	152,778,933	–	152,778,933
Recourse obligations on loans sold to Cagamas Berhad	202,926	–	201,195	–	201,195
Borrowings	1,526,222	–	1,524,130	–	1,524,130
Subordinated obligations	2,959,779	–	2,938,556	–	2,938,556
Innovative Tier 1 capital securities	515,623	–	550,590	–	550,590
	157,181,642	–	157,993,404	–	157,993,404
2016					
Financial assets					
Financial investments held-to-maturity					
- Money market instruments	11,616,369	–	11,654,226	–	11,654,226
- Unquoted securities	1,294,949	–	1,309,687	535	1,310,222
Loans, advances and financing	120,444,892	–	120,406,882	–	120,406,882
	133,356,210	–	133,370,795	535	133,371,330
Financial liabilities					
Deposits from customers	148,068,614	–	148,985,363	–	148,985,363
Borrowings	3,191,919	–	3,197,625	–	3,197,625
Subordinated obligations	2,958,641	–	2,940,915	–	2,940,915
Innovative Tier 1 capital securities	521,512	–	565,528	–	565,528
	154,740,686	–	155,689,431	–	155,689,431

Notes to the Financial Statements

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48 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 but for which fair value is disclosed: (continued)

	The Company				
	Carrying amount RM'000	Fair Value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2017					
Financial liabilities					
Borrowings	**1,526,222**	**–**	**1,524,130**	**–**	**1,524,130**
2016					
Financial liabilities					
Borrowings	1,641,717	–	1,640,298	–	1,640,298

(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.

Notes to the Financial Statements

for the financial year ended 30 June 2017

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value methodologies and assumptions (continued)

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.

Recourse obligations on loans sold to Cagamas Berhad

For amounts due to Cagamas Berhad with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For amounts due to Cagamas Berhad with maturities of more than one year, fair value is estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturity.

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.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption amount is recognised in profit or loss 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.

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 transfer the contracts at the statements of financial position date.

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49 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 amount not set off in the statements of financial position						Related amount not set off in the statements of financial position		
2017	Gross amount recognised in the statements of financial position RM'000	Gross amount offset in the statements 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 amount 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	800,608	(292,538)	508,070	-	-	508,070	-	-	-	-	-	-
Derivative financial instruments	992,620	(15,016)	977,604	(489,073)	(196,201)	292,330	-	-	-	-	-	-
Securities purchased under resale agreements	842,659	(506,656)	336,003	(336,321)	-	(318)	-	-	-	-	-	-
Total	2,635,887	(814,210)	1,821,677	(825,394)	(196,201)	800,082	-	-	-	-	-	-
Financial liabilities												
Clients' and brokers' balances	505,588	(233,850)	271,738	-	-	271,738	-	-	-	-	-	-
Derivative financial instruments	1,494,580	(15,016)	1,479,564	(489,073)	(647,042)	343,449	874	-	874	-	-	874
Obligations on securities sold under repurchase agreements	3,485,384	(506,656)	2,978,728	(2,979,038)	-	(310)	-	-	-	-	-	-
Payables and other liabilities	8,629,372	(98,337)	8,531,035	-	-	8,531,035	9,489	-	9,489	-	-	9,489
Total	14,114,924	(853,859)	13,261,065	(3,468,111)	(647,042)	9,145,912	10,363	-	10,363	-	-	10,363

Notes to the Financial Statements

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49 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 amount not set off in the statements of financial position						Related amount not set off in the statements of financial position		
2016	Gross amount recognised in the statements of financial position RM'000	Gross amount offset in the statements 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 amount 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	756,216	(360,332)	395,884	–	–	395,884	–	–	–	–	–	–
Derivative financial instruments	1,076,042	(13,684)	1,062,358	(631,609)	(144,179)	286,570	80	–	80	–	–	80
Securities purchased under resale agreements	4,563,431	(506,761)	4,056,670	(4,056,670)	–	–	–	–	–	–	–	–
Total	6,395,689	(880,777)	5,514,912	(4,688,279)	(144,179)	682,454	80	–	80	–	–	80
Financial liabilities												
Clients' and brokers' balances	523,092	(243,173)	279,919	–	–	279,919	–	–	–	–	–	–
Derivative financial instruments	1,667,909	(13,684)	1,654,225	(631,609)	(534,301)	488,315	1,455	–	1,455	–	–	1,455
Obligations on securities sold under repurchase agreements	4,001,664	(506,761)	3,494,903	(3,254,893)	(12,664)	227,346	–	–	–	–	–	–
Payables and other liabilities	6,374,546	(136,724)	6,237,822	–	–	6,237,822	9,351	–	9,351	–	–	9,351
Total	12,567,211	(900,342)	11,666,869	(3,886,502)	(546,965)	7,233,402	10,806	–	10,806	–	–	10,806

Notes to the Financial Statements

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50 EQUITY COMPENSATION BENEFITS

Executive Share Option Scheme And Executive Share Scheme

The Group has established and implemented an Executive Share Scheme.

(a) 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.

Arising from the completion of the Company's Rights Issue on 7 December 2015, the exercise price for the share options granted on 2 April 2015 under the ESS was adjusted from RM16.88 to RM16.61 and additional share options of 189,819 were allotted to the option holders, in accordance with the provisions of the Bye-Laws governing the ESS.

(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.

There are no share granted under the ESGS to date.

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.

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50 EQUITY COMPENSATION BENEFITS (CONTINUED)

Executive Share Option Scheme And Executive Share Scheme (continued)

(a) Executive Share Scheme ("ESS") (continued)

(ii) ESGS (continued)

The main features of the ESS are, inter alia, as follows: (continued)

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.

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 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.

The 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.

A trust has been set up for the ESS and it is administered by an appointed trustee. This trustee will be entitled from time to time to accept financial assistance from the Group upon such terms and conditions as the Group 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			
	2017		2016	
	Number of trust shares held unit	Cost RM	Number of trust shares held unit	Cost RM
As at 1 July	**3,964,400**	**35,712,518**	2,281,900	12,698,172
Purchase of treasury shares	**–**	**–**	1,682,500	23,014,346
As at 30 June	**3,964,400**	**35,712,518**	3,964,400	35,712,518

Notes to the Financial Statements

for the financial year ended 30 June 2017

50 EQUITY COMPENSATION BENEFITS (CONTINUED)

Executive Share Option Scheme And Executive Share Scheme (continued)

The number and market values of the ordinary shares held by the Trustee are as follows (continued):

	The Company			
	2017		2016	
	Number of trust shares held unit	Cost RM	Number of trust shares held unit	Cost RM
As at 1 July	**500**	**3,156**	408	2,089
Rights Issue	**–**	**–**	92	1,067
As at 30 June	**500**	**3,156**	500	3,156

ESOS 2013/2023

There were 12,200,000 options granted at an exercise price of RM16.88 under the ESOS 2013/2023 of the Group on 2 April 2015.

Grant date	Expiry date	As at 1-Jul	Option granted	Adjustment for Rights Issue	Ceased/ forfeited	Outstanding as at 30-Jun	Exercisable as at 30-Jun
2017							
2-Apr-15	July 2019	**11,688,183**	**–**	**–**	**(1,118,000)**	**10,570,183**	**–**
2016							
2-Apr-15	July 2019	12,200,000	–	189,819	(701,636)	11,688,183	–

On 6 November 2015 ("modified grant date"), the options exercise price was adjusted and additional options were granted due to the Rights Issue exercise pursuant to the ESS Bye-Laws.

The fair value of share options granted was estimated using the Black-scholes model, taking into account the terms and conditions upon which the options are granted and is inclusive of incremental fair value arising from adjusted exercise price. The expected volatility reflects the assumption that the historical volatility was indicative of future trends, which may not necessarily be the actual outcome.

Notes to the Financial Statements

for the financial year ended 30 June 2017

50 EQUITY COMPENSATION BENEFITS (CONTINUED)

Executive Share Option Scheme And Executive Share Scheme (continued)

ESOS 2013/2023 (continued)

The value of share options and the key inputs for share options valuation before and after rights issue were as follows:

	2017 Issue	2016 Issue
Fair value of share options (RM)	**0.94 - 1.97**	0.82 - 1.59
Share price at valuation date (RM)	**16.80**	14.68
Adjusted exercise price (RM)	**16.61**	16.61
Expected volatility (%)	**17.28**	20.42
Weighted average dividend yield (%)	**2.28**	2.36
Weighted average risk free rate (%)	**3.10**	3.30

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 2.80 to 4.80 years from grant date. The weighted average remaining option life as at 30 June 2017 is 3.80 years.

51 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(a) On 30 June 2016, the Company announced that Bank Negara Malaysia has no objection for the Company and its wholly owned subsidiary, HLA Holdings Sdn Bhd ("HLAH"), to commence negotiations with certain parties for the possible acquisition by them of HLAH's equity interest in Hong Leong Assurance Berhad, a 70% subsidiary of HLAH, and Hong Leong MSIG Takaful Berhad, a 65% subsidiary of HLAH, subject to the negotiations being concluded within 6 months from 23 June 2016.

On 4 November 2016, the Company announced that the Company and HLAH could not reach an acceptable commercial agreement with the BNM approved negotiating parties and have mutually agreed to cease negotiations.

(b) On 19 April 2017, Hong Leong Bank announced that it had fully redeemed the USD300.0 million Senior Unsecured Notes bearing interest rate of 3.125% per annum.

Notes to the Financial Statements

for the financial year ended 30 June 2017

52 SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

(a) Pursuant to Section 247(3) of the Companies Act, 2016, the Companies Commission of Malaysia had on 24 August 2017 granted its approval for Hong Leong Bank Vietnam Limited ("HLBVN"), a wholly-owned subsidiary of Hong Leong Bank incorporated in the Socialist Republic of Vietnam, to have a different financial year end from its holding company. The financial year end of HLBVN is 31 December as required under the Law on Credit Institutions of Vietnam.

(b) Pursuant to Section 247(3) of the Companies Act, 2016, the Companies Commission of Malaysia had on 24 August 2017 granted its approval for Hong Leong Bank (Cambodia) PLC ("HLBCAM"), a wholly-owned subsidiary of Hong Leong Bank incorporated in the Kingdom of Cambodia, to have a different financial year end from its holding company. The financial year end of HLBCAM is 31 December as required under the Prakason Annual Audit of Financial Statement of Banks and Financial Institutions issued by the National Bank of Cambodia.

53 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
2017			
Financial investments available-for-sale - net fair value gain/(loss)	**64,925**	**(15,980)**	**48,945**
Cash flow hedge - net fair value gain/(loss)	**856**	**(206)**	**650**
2016			
Financial investments available-for-sale - net fair value gain/(loss)	113,416	(22,211)	91,205
Cash flow hedge - net fair value gain/(loss)	(2,477)	597	(1,880)

Notes to the Financial Statements

for the financial year ended 30 June 2017

54 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 reviews 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.

(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.

55 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 18 September 2017.

56 REALISED AND UNREALISED PROFIT

The determination of realised and unrealised profits is based on the Guidance of 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, issued by the Malaysian Institute of Accountants on 20 December 2010 and the directive of Bursa Malaysia Securities Berhad.

Notes to the Financial Statements

for the financial year ended 30 June 2017

56 REALISED AND UNREALISED PROFIT (CONTINUED)

The breakdown of the retained profits of the Group and the Company are as follows:

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Total retained profits of the Group and subsidiaries				
- Realised	**25,419,231**	20,418,733	**12,909,600**	12,763,912
- Unrealised	**972,893**	908,372	**36**	410
Total share of retained profits from associated companies				
- Realised	**2,617,982**	2,201,404	**–**	–
- Unrealised	**2,357**	2,574	**–**	–
Total share of retained profits from joint ventures				
- Realised	**68,851**	47,698	**–**	–
	29,081,314	23,578,781	**12,909,636**	12,764,322
Less : Consolidation adjustments	**(16,553,836)**	(15,350,344)	**–**	–
Total retained profits	**12,527,478**	8,228,437	**12,909,636**	12,764,322

The Group views translation gains or losses on monetary items as realised as it is incurred in the ordinary course of business.

The disclosure of realised and unrealised profits/(losses) above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purpose.

Statement by Directors

pursuant to Section 251(2) of the Companies Act, 2016

We, Tan Kong Khoon and Lim Tau Kien, 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 74 to 229 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 2017 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, 2016 in Malaysia.

On behalf of the Board.

TAN KONG KHOON Director	**LIM TAU KIEN** Director

Kuala Lumpur
18 September 2017

Statutory Declaration

pursuant to Section 251(1) of the Companies Act, 2016

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 74 to 229 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 abovenamed Chew Seong Aun at	)	
Kuala Lumpur in Wilayah Persekutuan on	)	
18 September 2017	)	**CHEW SEONG AUN**

Before me,

TAN SEOK KETT
Pesuruhjaya Sumpah
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 AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Hong Leong Financial Group ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 30 June 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the statements of financial position as at 30 June 2017 of the Group and of the Company, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 74 to 229.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements of the Group and the Company. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group and of the Company, the accounting processes and controls, and the industry in which the Group and the Company operate.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditors' Report

to the members of Hong Leong Financial Group Berhad
(Company no: 8024-W)
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans, advances and financing Refer to Note AB of the summary of significant accounting policies, and Notes 7, 35 and 54 to the financial statements. We focused on this area due to the size of the carrying value of loans, advances and financing, which represented 57% of total assets. In addition, impairment is a highly subjective area as the Group makes significant judgements on the following areas: Where the loans, advances and financing are individually assessed for impairment, the Group made subjective estimate on the timing of recognition of impairment and the estimation of the impairment loss. Where the loans, advances and financing are assessed for impairment on a collective basis, the Group made subjective estimate on the assumptions used in the loss models.	We understood and tested management's key controls over impairment of loans, advances and financing surrounding the following: – Identification of occurrence of loss events for individually assessed accounts, being the point of classification as impaired; – Collateral valuation process including assessment of panel valuer as collateral value is one of the key inputs in determination of the recoverable amount for secured accounts; – Accuracy of internal credit risk ratings, month-in-arrears data and extraction of these data inputs from source systems which formed the basis of assumptions used in deriving probability of default ("PD") for collective assessment; – Collection of historical loss data which formed the basis of assumptions used in deriving loss given default ("LGD") for collective assessment; and – Calculation of collective impairment allowance based on loss models and posting of model results to general ledger. We noted no significant exceptions based on the testing performed on these relevant controls. **<u>Individual assessment</u>** We tested samples of accounts where payment defaults have not occurred to check if these included any impairment indicators not identified by management. Our selection basis focused on loans, advances and financing identified by management as having lower credit quality, rescheduled and restructured, and borrowers with exposures in oil and gas and ship building industry. For accounts where impairment loss was recognised, we tested a sample of these accounts and checked whether objective evidence of impairment had been appropriately identified by management in the appropriate period. Where an impairment event has been identified, we checked the measurement of the impairment loss to future cash flow and evidence from past experience. We noted that certain individually assessed accounts had recorded impairment allowance which was different from our testing results. However these differences are not material in the context of the overall financial statements.

Independent Auditors' Report

to the members of Hong Leong Financial Group Berhad
(Company no: 8024-W)
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
	<u>**Collective assessment**</u> Our work to test the impairment calculations on a collective basis comprised the following: – On a sample basis, we tested completeness and accuracy of data inputs, particularly borrowers' internal credit risk ratings and months-in-arrears data used to derive PD statistics and recoveries data used to derive LGD rates; – Re-performed, on a sample basis, the calculation of collective impairment and checked the posting of model results to general ledger; and – Understood the basis used by the management to determine the key assumptions used in deriving the PD and LGD. Based on the procedures performed, the outcome of our independent testing results were not significantly different to the Directors' collective impairment estimation.

Key audit matters on financial statements of the Company

We have determined that there are no key audit matters to communicate in our report which arise from the audit of the financial statements of the Company.

Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises:

- Five year group financial highlights;
- Simplified group statements of financial position;
- Group quarterly financial statements;
- Segmental information;
- Hong Leong Financial Group share price;
- Chairman Statement;
- Management discussion and analysis;
- Sustainability Statement;
- Board Audit and Risk Management Committee Report; and
- Directors' Report.

Other information does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditors' Report

to the members of Hong Leong Financial Group Berhad
(Company no: 8024-W)
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of the financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

(d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report

to the members of Hong Leong Financial Group Berhad
(Company no: 8024-W)
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 11 to the financial statements.

Other Reporting Responsibilities

The supplementary information set out in Note 56 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 266 of the Companies Act, 2016 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

NG YEE LING
03032/01/2019 J
Chartered Accountant

Kuala Lumpur
18 September 2017

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Forty-eighth 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, 26 October 2017 at 4.00 p.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 2017.

2. To approve the payment of Director Fees of RM555,701 for the financial year ended 30 June 2017 to be divided amongst the Directors in such manner as the Directors may determine and Directors' Other Benefits of up to an amount of RM158,000 for the period of 31 January 2017 until the next Annual General Meeting. **(Resolution 1)**

3. To pass the following motions as ordinary resolutions:-

   (a) "**THAT** Ms Lim Tau Kien who retires by rotation pursuant to Article 115 of the Company's Constitution, be and is hereby re-elected a Director of the Company." **(Resolution 2)**

   (b) "**THAT** YBhg Tan Sri Quek Leng Chan be and is hereby re-appointed a Director of the Company." **(Resolution 3)**

   (c) "**THAT** YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman be and is hereby re-appointed a Director of the Company." **(Resolution 4)**

4. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration. **(Resolution 5)**

SPECIAL BUSINESS

As special business, to pass the following motions as ordinary resolutions:-

5. **Ordinary Resolution**
   Authority to Directors to Allot and Issue Shares

   "THAT subject to the Companies Act 2016, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Company's Constitution and approval of the relevant governmental regulatory authorities, if required, the Directors be and are hereby empowered pursuant to Sections 75 and 76 of the Companies Act 2016 to allot shares in the Company, grant rights to subcribe for shares in the Company convert any security into shares in the Company, or allot shares under an agreement or option or offer 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 and allotted, to be subscribed under any rights granted, to be issued from conversion of any security, or to be issued and alloted under an agreement or option or offer, pursuant to this resolution does not exceed 10% of the total number of issued shares (excluding treasury shares) 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 alloted 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 6)**

Notice of Annual General Meeting

6. **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 4 October 2017 ("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 340(2) of the Companies Act 2016 (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Companies Act 2016); 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 7)**

7. **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 4 October 2017 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;

   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

Notice of Annual General Meeting

(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 340(2) of the Companies Act 2016 (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Companies Act 2016); 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. 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
4 October 2017

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 20 October 2017 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, participate, speak and vote in his stead. A proxy may but need not be a member of 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 proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which the appointments 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 24 hours before the time and date of the meeting or adjourned meeting.

5. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the resolutions set out in this Notice will be put to a vote by way of a poll.

Notice of Annual General Meeting

EXPLANATORY NOTES

1. **Resolution 1 on Director Fees and Directors' Other Benefits**

   - Director Fees of RM RM555,701 are inclusive of Board Committee Fees of RM155,701.
   - Directors' Other Benefits refer to Directors' & Officers' Liability Insurance coverage based on premium paid/payable and Directors' training benefits of up to RM68,000 as well as Chairman's car benefits of up to RM90,000.

2. **Resolution 3 and 4 on Re-appointment of Directors**

   Under the new Companies Act 2016, the requirement to put forth the re-appointment of Directors of or over the age of 70 years had been repealed. At the Forty-seventh AGM of the Company held on 27 October 2016, the Company had obtained shareholders' approval for the re-appointment of YBhg Tan Sri Quek Leng Chan and YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman as Directors of the Company and for them to continue in office as Directors until the conclusion of the next AGM of the Company. In this regard, the Company is seeking shareholders' approval for the re-appointment of YBhg Tan Sri Quek Leng Chan and YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman as Directors of the Company.

   YBhg Tan Sri Quek Leng Chan's and YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman's retirement by rotation at subsequent AGMs will be in accordance with the Company's Constitution.

3. **Resolution 6 on Authority to Directors to Allot Shares**

   The proposed Ordinary Resolution, if passed, will renew the general mandate given to the Directors of the Company to issue ordinary shares of the Company from time to time and expand the mandate to grant rights to subscribe for shares in the Company, convert any security into shares in the Company, or allot shares under an agreement or option or offer, provided that the aggregate number of shares allotted, to be subscribed under any rights granted, to be issued from conversion of any security, or to be allotted under any agreement or option or offer, pursuant to this resolution does not exceed 10% of the total number of issued shares of the Company for the time being ("Renewed General Mandate"). In computing the aforesaid 10% limit, shares issued or agreed to be issued or subscribed pursuant to the approval of shareholders in a general meeting where precise terms and conditions are approved shall not be counted. The Renewed General Mandate, unless revoked or varied at a general meeting, will expire at the conclusion of the next AGM of the Company.

   As at the date of this Notice, no new shares in the Company were issued and allotted pursuant to the general mandate given to the Directors at the last AGM held on 27 October 2016 and which will lapse at the conclusion of the Forty-eighth AGM. The Renewed General 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 issuance and allotment of new shares, grant of rights to subscribe for shares, conversion of any security into shares, or allotment of shares under an agreement or option or offer, and to avoid delay and cost in convening general meetings to approve the same.

4. **Resolutions 7 and 8 on 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 Shareholders' Mandate").

   Detailed information on the Proposed Shareholders' Mandate is set out in the Circular to Shareholders dated 4 October 2017 which is dispatched together with the Company's 2017 Annual Report.

Notice of Annual General Meeting

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-eighth Annual General Meeting of the Company.

- **Statement relating to general mandate for issue of securities in accordance with Paragraph 6.03(3) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad**

  Details of the general mandate to issue securities in the Company pursuant to Sections 75 and 76 of the Companies Act 2016 are set out in Explanatory Note 3 of the Notice of Forty-eighth Annual General Meeting.

Other Information

1. MATERIAL CONTRACTS

There were 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 30 AUGUST 2017

Issued share capital	:	RM1,147,516,890
Class of shares	:	Ordinary shares
Voting rights	:	1 vote for each share held

Distribution Schedule of Shareholders as at 30 August 2017

Size of Holdings	No. of Shareholders	%	No. of Shares	%
Less than 100	313	8.48	7,197	0.00
100 – 1,000	669	18.12	418,916	0.03
1,001 – 10,000	1,666	45.12	6,348,197	0.55
10,001 – 100,000	793	21.48	24,748,443	2.16
100,001 – less than 5% of issued shares	249	6.75	228,894,041	19.95
5% and above of issued shares	2	0.05	887,100,096	77.31
	3,692	100.00	1,147,516,890	100.00

List of Thirty Largest Shareholders as at 30 August 2017

Name of Shareholders	No. of Shares	%
1. Assets Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	595,982,955	51.94
2. Assets Nominees (Asing) Sdn Bhd - Guoco Assets Sdn Bhd	291,117,141	25.37
3. Citigroup Nominees (Asing) Sdn Bhd - ING Bank N.V.	20,931,523	1.82
4. Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board	14,844,510	1.29
5. HSBC Nominees (Asing) Sdn Bhd - Exempt AN for BNS Asia Limited	9,009,177	0.79
6. Cartaban Nominees (Asing) Sdn Bhd - Exempt AN for State Street Bank & Trust Company (West Clt OD67)	7,258,974	0.63
7. Assets Nominees (Tempatan) Sdn Bhd - Soft Portfolio Sdn Bhd	6,602,130	0.58
8. Citigroup Nominees (Asing) Sdn Bhd - CBNY for The Bank Of Nova Scotia	6,562,018	0.57

Other Information

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2017 (CONTINUED)

List of Thirty Largest Shareholders as at 30 August 2017 (continued)

Name of Shareholders	No. of Shares	%
9. Tan Sri Dato' Seri Khalid Ahmad Bin Sulaiman	5,544,000	0.48
10. Cartaban Nominees (Tempatan) Sdn Bhd - PAMB for Prulink Equity Fund	5,484,850	0.48
11. Tan Sri Quek Leng Chan	5,438,664	0.47
12. Citigroup Nominees (Asing) Sdn Bhd - Exempt AN for Citibank New York (Norges Bank 14)	5,193,867	0.45
13. Chua Holdings Sdn Bhd	4,967,949	0.43
14. Hong Bee Hardware Company, Sdn. Berhad	4,730,506	0.41
15. Citigroup Nominees (Asing) Sdn Bhd - Exempt AN for Citibank New York (Norges Bank 9)	4,663,536	0.41
16. HSBC Nominees (Asing) Sdn Bhd - BBH And Co Boston for Vanguard Emerging Markets Stock Index Fund	4,458,315	0.39
17. DB (Malaysia) Nominee (Asing) Sdn Bhd - Exempt AN for Bank of Singapore Limited	4,292,710	0.37
18. MTrustee Berhad - Exempt AN for Hong Leong Financial Group Berhad (HLA-ESOS)	3,963,900	0.35
19. Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (Affin-Hwg)	3,786,599	0.33
20. AMSEC Nominees (Tempatan) Sdn Bhd - AmBank (M) Berhad (Hedging)	3,543,481	0.31
21. Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (Nomura)	3,414,100	0.30
22. Pertubuhan Keselamatan Sosial	3,405,500	0.30
23. HSBC Nominees (Asing) Sdn Bhd - JPMCB NA for Vanguard Total International Stock Index Fund	2,885,832	0.25
24. Citigroup Nominees (Asing) Sdn Bhd - CBNY for Dimensional Emerging Markets Value Fund	2,819,234	0.25
25. Cartaban Nominees (Asing) Sdn Bhd - GIC Private Limited for Government Of Singapore (C)	2,773,236	0.24
26. Quek Kon Sean	2,452,500	0.21
27. Kheng Lim Holdings Sdn Bhd	2,292,492	0.20

Other Information

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2017 (CONTINUED)

List of Thirty Largest Shareholders as at 30 August 2017 (continued)

Name of Shareholders	No. of Shares	%
28. RHB Capital Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Poh Soon Sim (CEB)	2,164,086	0.19
29. RHB Capital Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Choong Yee How	2,071,000	0.18
30. Choong Yee How	1,925,400	0.17
	1,034,580,185	90.16

Substantial Shareholders

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 30 August 2017 are as follows:-

	Direct		Indirect	
Shareholders	No. of shares	%	No. of shares	%
Hong Leong Company (Malaysia) Berhad	595,982,955	51.94	291,121,141	25.37[A]
Tan Sri Quek Leng Chan	5,438,664	0.47	893,706,226	77.88[B]
HL Holdings Sdn Bhd	–	–	887,104,096	77.31[C]
Kwek Holdings Pte Ltd	–	–	891,834,602	77.72[B]
Kwek Leng Beng	1,315,841	0.11	891,834,602	77.72[B]
Hong Realty (Private) Limited	–	–	891,834,602	77.72[B]
Hong Leong Investment Holdings Pte Ltd	–	–	891,834,602	77.72[B]
Davos Investment Holdings Private Limited	–	–	891,834,602	77.72[B]
Kwek Leng Kee	–	–	891,834,602	77.72[B]
Guoco Assets Sdn Bhd	291,117,141	25.37	–	–
GuoLine Overseas Limited	–	–	291,117,141	25.37[D]
Guoco Group Limited	–	–	291,117,141	25.37[D]
GuoLine Capital Assets Limited	–	–	291,117,141	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

Other Information

3. DIRECTORS' INTERESTS AS AT 30 AUGUST 2017

Subsequent to the financial year end, there is no change, as at 30 August 2017, to the Directors' interests in the ordinary shares, preference shares and/or options over ordinary shares or convertible bonds of the Company and/or its related corporations (other than wholly-owned subsidiaries), appearing in the Directors' Report on pages 67 to 69 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016 except for the change set out below:

Indirect Interest	No. of Ordinary Shares	%
YBhg Tan Sri Quek Leng Chan in:		
Southern Pipe Industry (Malaysia) Sdn Bhd	124,964,153	96.13

Other Information

LIST OF PROPERTIES HELD AS AT 30 JUNE 2017

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
1	No. 1, Light Street Georgetown 10200 Pulau Pinang	Freehold	Branch premises	20,594	83	7,443	30/12/1986
2	No. 15-G-1, 15-1-1 & 15-2-1 Medan Kampung Relau Bayan Point 11900 Pulau Pinang	Freehold	Branch premises	9,968	18	2,092	26/06/1997
3	No. 42, Jalan Pending 93450 Kuching Sarawak	Leasehold - 859 years (31/12/2779)	Branch premises	4,425	35	1,594	27/12/1983
4	No. 133, 135 & 137 Jalan Kampong Nyabor 96000 Sibu Sarawak	Freehold	Branch premises	4,871	25	2,925	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	No. 25 & 27, Jalan Tun Ismail 25000 Kuantan Pahang Darul Makmur	Freehold	Branch premises	1,600	26	1,160	29/06/1996
7	No. 69, 70 & 71, Jalan Dato' Bandar Tunggal 70000 Seremban Negeri Sembilan Darul Khusus	Freehold	Branch premises	6,000	Pre-war	1,424	27/12/1994
8	No. 26, Lorong Rahim Kajai 14 Taman Tun Dr Ismail 60000 Kuala Lumpur	Freehold	Branch premises	3,750	31	505	30/12/1986
9	No. 120-122, Jalan Mersing 86000 Kluang Johor Darul Takzim	Leasehold - 99 years (22/8/2063)	Branch premises	3,355	51	563	31/05/1990
10	No. 100, Jalan Gurney 72100 Bahau Negeri Sembilan Darul Khusus	Freehold	Branch premises	5,107	31	2,132	25/06/1992
11	No. 12, 14 & 16, Jalan Wong Ah Fook 80000 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	4,174	26	3,548	25/06/1992
12	No. 6, Jalan Merdeka 96100 Sarikei Sarawak	Leasehold - 60 years (31/12/2029)	Vacant	2,240	48	61	18/10/1969

Other Information

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
13	No. 63 & 65, Jalan SS 23/15 47400 Petaling Jaya Selangor Darul Ehsan	Freehold	Branch premises	4,760	22	3,207	28/04/1997
14	No. 24, Medan Taming 2 Taman Taming Jaya 43300 Balakong Selangor Darul Ehsan	Freehold	Branch premises	3,037	21	991	28/04/1997
15	No. 1, Jalan Takal 15/21 Seksyen 15 40000 Shah Alam Selangor Darul Ehsan	Leasehold - 99 years (29/6/2086)	Branch premises	2,625	30	1,163	26/06/1997
16	Lots 3594 & 3595 Jalan Baru Pak Sabah 23000 Dungun Terengganu Darul Iman	Leasehold - 84 years (2/2/2079)	Branch premises	3,199	23	200	26/06/1997
17	Lot 3073 & 3074, Jalan Abang Galau, 97000 Bintulu, Sarawak	Leasehold - 60 years (12/2/2056)	Branch premises	2,582	20	1,022	26/06/1997
18	Lot 34, Putra Industrial Park 47000 Sungai Buloh Selangor Darul Ehsan	Freehold	Warehouse	96,219	21	2,628	26/01/1995
19	No. 1540, Jalan Sultan Badlishah 05000 Alor Setar Kedah Darul Aman	Leasehold - 60 years (19/7/2030)	Vacant	10,619	42	29	30/06/1977
20	No. 9A & 9B, Jalan Kampong Baru 08000 Sungai Petani Kedah Darul Aman	Freehold	Branch premises	9,320	24	782	01/01/1994
21	No. 45, Jalan Burma 10500 Pulau Pinang	Freehold	Branch premises	14,277	39	1,887	24/11/1978
22	No. 33A-C, Lintang Angsana Bandar Baru Air Hitam 11500 Pulau Pinang	Leasehold - 83 years (8/4/2082)	Storage	4,394	22	363	26/12/1995
23	No. 55-57, Jalan Yang Kalsom 30250 Ipoh Perak Darul Ridzuan	Freehold	Branch premises	11,720	38	989	01/10/1984
24	No. 27, Jalan Dewangsa 31000 Batu Gajah Perak Darul Ridzuan	Leasehold - 79 years (26/2/2078)	Branch premises	4,694	22	251	24/11/1995
25	No. 75, Jalan Sultan Idris Shah 30000 Ipoh Perak Darul Ridzuan	Freehold	Branch premises	1,900	20	609	15/06/1998

Other Information

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
26	No. 80 & 82, Jalan Othman 1/14 46000 Petaling Jaya Selangor Darul Ehsan	Leasehold - 90 years (15/6/2089)	Branch premises	9,062	27	894	01/06/1994
27	No. 19, Jalan 54, Desa Jaya 52100 Kepong Selangor Darul Ehsan	Leasehold - 99 years (8/3/2081)	Branch premises	5,859	35	326	29/11/1985
28	No. 55, Jalan Pasar 55100 Kuala Lumpur	Freehold	Branch premises	4,313	37	301	01/04/1980
29	Lot 111, Jalan Mega Mendung Kompleks Bandar Off Jalan Klang Lama 58200 Kuala Lumpur	Leasehold - 99 years (11/10/2076)	Branch premises	4,978	37	415	31/07/1988
30	No. 161, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	2,454	21	2,687	14/02/1996
31	No. 8A-C, Jalan Station 80000 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	12,854	24	365	22/10/1977
32	No. 109, Main Road 83700 Yong Peng Johor Darul Takzim	Freehold	Branch premises	2,740	29	203	01/09/1988
33	No. 26 & 28, Jalan Mersing 80050 Johor Bahru Johor Darul Takzim	Freehold	Vacant	7,040	33	1,186	22/05/1995
34	No. 1, Bentong Heights 28700 Bentong Pahang Darul Makmur	Freehold	Branch premises	5,432	49	32	30/06/1977
35	No. 36, Main Road Tanah Rata 39000 Cameron Highland Pahang Darul Makmur	Leasehold - 99 years (24/11/2039)	Branch premises	1,728	77	101	30/08/1982
36	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	18	1,237	18/12/1999
37	No. 2828-G-02 & 2828-1-02 Jalan Bagan Luar 12000 Butterworth Pulau Pinang	Freehold	Branch premises	12,173	18	2,351	18/12/1999
38	Plot No 20, Jalan Bidor Raya 35500 Bidor Perak Darul Ridzuan	Freehold	Branch premises	3,243	18	464	23/11/1999

Other Information

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
39	No. 1, Persiaran Greentown 2 Greentown Business Centre 30450 Ipoh Perak Darul Ridzuan	Leasehold - 99 years (21/11/2094)	Branch premises	7,870	17	1,578	23/11/1999
40	Lots 39 & 40 Kompleks Munshi Abdullah 75100 Melaka	Leasehold - 99 years (24/2/2084)	Branch premises	5,988	18	1,161	31/05/1991
41	No. 1 & 2 Jalan Raya, 09800 Serdang Kedah Darul Aman	Freehold	Branch premises	5,840	16	356	20/09/2000
42	No. 133 & 135, Jalan Gopeng 31900 Kampar Perak Darul Ridzuan	Freehold	Branch premises	4,700	16	329	13/12/2000
43	No. 65-67, Jalan Tun HS Lee 50000 Kuala Lumpur	Freehold	Vacant	2,223	21	4,734	14/10/1996
44	No. 64, Jalan Tun Mustapha 87007 Labuan	Leasehold 999 years (28/12/2881)	Branch premises	1,370	26	414	30/05/1991
45	No. 159, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	1,688	12	2,552	25/11/2005
46	No. 163, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	1,688	12	2,630	25/10/2005
47	No. 114 & 116, Jalan Cerdas Taman Connaught 56000 Kuala Lumpur	Leasehold - 99 years (16/10/2078)	Branch premises	12,200	11	3,667	07/06/2006
48	Lot A08-A09 Jalan SS 6/5A Dataran Glomac Pusat Bandar Kelana Jaya 47301 Petaling Jaya	Freehold	Branch premises	9,800	11	2,633	06/07/2006
49	No. 2 Jalan Puteri 2/4, Bandar Puteri, Puchong 47100 Selangor Darul Ehsan	Freehold	Branch premises	11,850	10	5,067	26/06/2007
50	Tower A PJ City Development 46100 Petaling Jaya, Selangor	Leasehold - 99 years (14/08/2094)	Branch premises	194,489	9	75,679	21/07/2008
51	OUG No.2, Lorong 2/137C, Off Jalan Kelang Lama, 58200 Kuala Lumpur	Leasehold -99 years (year 2088)	Branch Premises	17,300	7	4,988	01/04/2011

Other Information

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
52	KEP Lot No 77C & 77D, Lot No.58529 Jalan Kepong, 52100 Kuala Lumpur	Leasehold -99 years (7/01/2101)	Branch Premises	30,613	7	8,555	01/05/2011
53	No. 122, Kapit By-Pass 96807 Kapit, Sarawak	Leasehold -60 years 29/4/2045	Branch Premises	1,200	24	155	30/04/1985
54	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	30	121	24/05/1983
55	No. 9, Jalan Cheng Lock 50000 Kuala Lumpur Wilayah Persekutuan	Freehold	Vacant	2,199	44	284	18/09/1972
56	No. 3, Jalan Bandar Satu Pusat Bandar Puchong 47100 Puchong Selangor Darul Ehsan	Freehold	Branch Premises	4,687	22	1,793	03/04/1997
57	No. 32 & 34, Jalan 21/19 Sea Park 46300 Petaling Jaya Selangor Darul Ehsan	Freehold	Branch Premises	3,080	54	2,137	19/08/1997
58	No. 1, Jalan Goh Hock Huat 41400 Klang Selangor Darul Ehsan	Freehold	Centre	2,776	34	1,502	09/07/1998
59	No. 26 & 27, Jalan Kenari 1 Bandar Puchong Jaya 47100 Puchong Selangor Darul Ehsan	Freehold	Branch Premises	3,600	21	1,421	22/01/1999
60	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	13	3,432	12/02/2005
61	No. J09-6 and J02-06 Paradise Lagoon Holiday Apartment, Batu 3 1/2 Jalan Pantai 70100 Port Dickson Negeri Sembilan Darul Khusus	Leasehold -99 years 07/06/87	2 units apartment	2,088	21	196	21/04/1994
62	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	33	258	29/06/1981

Other Information

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
63	No. 105 & 107, Jalan Melaka Raya 24 Taman Melaka Raya 75000 Melaka	Leasehold -99 years 20/3/2094	Vacant	3,132	21	513	17/04/1998
64	No. 67 & 69, Jalan Merdeka 75000 Taman Merdeka Raya Melaka	Leasehold -99 years 07/07/93	Branch Premises	3,080	22	660	15/08/1999
65	No. 21 & 23, Jalan Indah 15/1 Bukit Indah, 81200 Johor Bahru Johor Darul Takzim	Freehold	Branch Premises	5,090	15	1,414	27/05/2002
66	No. 35, 37 & 39 Jalan Johor Satu Taman Desa Cemerlang 81800 Ulu Tiram Johor Darul Takzim	Freehold	Branch Premises	13,965	14	1,996	12/02/2003
67	No. 21, Jalan Permas 10/1 Bandar Baru Permas Jaya 81750 Masai Johor Darul Takzim	Freehold	Branch Premises	2,624	20	997	05/04/1999
68	No. C05-07 Genting Permai Park & Resort 6th Mile 69000 Genting Highland Pahang Darul Makmur	Freehold	1 unit apartment	1,029	18	176	09/02/1996
69	No. B-278 & B-280 Jalan Beserah 25300 Kuantan Pahang Darul Makmur	Freehold	Branch Premises	3,208	16	1,414	04/08/1999
70	No. 31, 33, 35 & 37 Jalan Usahaniaga 1 Taman Niagajaya 14000 Bukit Mertajam Seberang Perai Tengah, Penang	Freehold	Branch Premises	15,844	14	1,150	10/07/2003
71	Lot 171, Jalan Council 95000 Bandar Sri aman Sarawak	Leasehold 60 years 20/06/2050	Branch Premises	1,740	21	145	21/06/1990
72	Lot No. 2013, Jalan Pisang Barat 93150 Kuching Sarawak	Leasehold -99 years 31/12/2038	Storage	1,390	24	–	23/09/1992
73	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	22	1,758	04/02/1997

Other Information

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
74	No. 177, Limbok Hill 70000 Seremban, Negeri Sembilan Darul Khusus	Freehold	Single-storey Detached house	6,730	44	11	16/08/1972
75	No. 11, Jalan Emas 2 Taman Emas Cheras 43200 Cheras, Selangor	Freehold	Storage	5,804	24	–	25/05/1993
76	No. 53 & 55, Jalan Sultan Ismail 50250 Kuala Lumpur	Freehold	Branch Premises	9,600	20	17,524	01/06/2015
77	No. 9, Jalan Kundang, Taman Bukit Pasir 83000 Batu Pahat Johor Darul Takzim	Freehold	Branch Premises	7,060	35	2,654	01/06/2015
78	No. 300, Jalan Jelutong 11600 Pulau Pinang	Freehold	Branch Premises	16,652	15	14,308	23/06/2015
79	Lot 1, Block 35, Fajar Commercial Complex Jalan Lembaga 91000 Tawau, Sabah	Leasehold - 998 years (31/12/2895)	Branch Premises	13,880	45	5,026	17/08/2015
80	Menara Hong Leong No. 6, Jalan Damanlela Bukit Damansara 50490 Kuala Lumpur	Freehold	Head Office/ Branch	668,331	2	599,591	03/07/2015
81	Lot 942 Jalan Parry 98000 Miri Sarawak	Leasehold - 60 Years (06/04/2057)	Branch premises	5,496	20	840	31/01/1997
82	Lot 1, 2 & 3, Block 18, Bandar Indah Mile 4, North Road Bandar Indah Sandakan, Sabah	Freehold	Branch premises	6,760	17	2,030	08/11/2001
83	No 3 Persiaran Greentown 4 Greentown Business Centre 30450 Ipoh	Leasehold - 99 Years (21/11/2094)	Branch premises	8,846	22	464	04/12/1995
84	Bangunan HLA 7 Jalan Yayasan 86000 Kluang	Leasehold - 99 Years (23/03/2084)	Branch premises	6,019	28	393	30/12/1989
85	Wisma Hong Leong 18 Jalan Perak 50450 Kuala Lumpur	Freehold	Office premises	333,594	16	263,000	13/11/2001

Other Information

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
86	Unit 2.1.2, 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 Years (17/07/2083)	Condominium	1,904	24	509	30/06/1993
87	Unit 1.1.5, 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 Years (17/07/2083)	Condominium	1,815	24	485	30/06/1993
88	14-23 Darul Aman Jalan Tun Ismail 25000 Kuantan Pahang	Freehold	Branch premises	5,610	24	466	21/02/1993
89	No 1 Persiaran Greentown 4 Pusat Perdagangan Greentown 30450 Ipoh Perak	Leasehold - 99 Years (21/11/2094)	Branch premises	5,246	22	489	04/12/1995
90	13-2B 2nd Floor Jalan Perdana 6/6 Pandan Perdana 55300 Kuala Lumpur	Leasehold - 99 Years (11/12/2088)	Apartment	468	13	60	2004
91	Block B, PJ City Jalan 219 Seksyen 51A 46100 Petaling Jaya Selangor	Leasehold - 99 Years (12/12/2107)	Office premises	202,194	9	62,956	29/04/2008
92	31 & 32 Jalan Kundang Taman Bukit Pasir 46100 Petaling Jaya Selangor	Freehold	Branch premises	8,932	25	1,465	31/12/2013
93	Menara Raja Laut No. 288 Jalan Raja Laut 50350 Kuala Lumpur Wilayah Persekutuan	Freehold	Office premises	839,574	24	231,594	06/04/2015
94	51-53, Persiaran Greenhill 30450 Ipoh, Perak	Freehold & leasehold -999 years	Branch premises	4,793	23	1,819	31/12/1993
95	Unit 1-10, 8th Floor Island Place Tower, Island Place No 510 King's Road Hong Kong	Leasehold - 55 Years (30/06/2047)	Office premises	20,000	22	55,964	22/02/2010

Form Of Proxy

HongLeong Financial Group Berhad (8024-W)

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-eighth 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, 26 October 2017 at 4 p.m. and at any adjournment thereof.

My/Our proxy/proxies is/are to vote as indicated below with an "X":

RESOLUTIONS		FOR	AGAINST
1.	To approve the payment of Director fees and Directors' Other Benefits		
2.	To re-elect Ms Lim Tau Kien as a Director		
3.	To re-appoint YBhg Tan Sri Quek Leng Chan as a Director		
4.	To re-appoint YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman as a Director		
5.	To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration.		
Special Business			
6.	To approve the ordinary resolution on Authority to Directors to Allot Shares		
7.	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		
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 Tower Real Estate Investment Trust		

Dated this .... day of 2017

______________________ ______________________

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 20 October 2017 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.
(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, participate, speak 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 proportion 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 24 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

(10) Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the notice of the Annual General Meeting will be put to a vote by way of a poll.

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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

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