Hong Leong Financial Group Berhad

ANNUAL REPORT **2018**

Scan the QR code to visit our website.

Scan the QR code by following these simple steps:

Get it
Download the "QR Code Reader" app from Google Play (Android Market), BlackBerry AppWorld, App Store (iOS/iPhone) or Windows Phone Store

Run it
Run the QR Code Reader app and point your camera at the QR code

Access it
Get access to Hong Leong Financial Group's website

CORPORATE

04 Introduction

06 Five Year Group Financial Highlights

08 Simplified Group Statements of Financial Position

09 Group Quarterly Financial Performance

10 Segmental Information

11 Hong Leong Financial Group Share Price

12 Financial Calendar

14 Corporate Milestones

16 Awards and Accolades

20 Chairman's Statement

26 Management Discussion and Analysis

36 Sustainability Statement

49 Corporate Information

50 Board of Directors' Profile

52 Key Senior Management

54 Board Audit and Risk Management Committee Report

57 Corporate Governance Overview, Risk Management & Internal Control Statement

WHAT'S INSIDE

FINANCIALS

69 Directors' Report

76 Statements of Financial Position

78 Statements of Income

79 Statements of Comprehensive Income

80 Statements of Changes in Equity

83 Statements of Cash Flows

89 Summary of Significant Accounting Policies

117 Notes to the Financial Statements

225 Statement by Directors

225 Statutory Declaration

226 Independent Auditors' Report

ADDITIONAL INFORMATION

231 Notice of Annual General Meeting

234 Statement Accompanying Notice of Annual General Meeting

235 Other Information

- Form of Proxy


Just Three Words

VISION

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

INTRODUCTION

Hong Leong Financial Group Berhad 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.

HongLeong Financial Group Berhad

COMMERCIAL AND ISLAMIC BANKING

- Personal Financial Services
- Business & Corporate Banking
- Global Markets
- Islamic Banking

INVESTMENT BANKING

- Investment Banking
- Stockbroking
- Asset Management

INSURANCE AND TAKAFUL

- Life Insurance
- Family Takaful

CORE VALUES

- Quality
- Innovation
- Progress
- Human Resource
- Entrepreneurship
- Honour
- Social Responsibility
- Unity


Hong Leong Bank

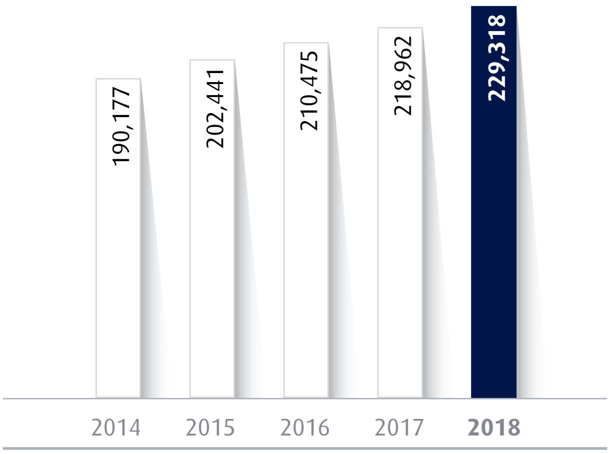
FIVE YEAR GROUP FINANCIAL HIGHLIGHTS

The Group	2014 RM'Million	2015 RM'Million	2016 RM'Million	2017 RM'Million	2018 RM'Million
Statements of Financial Position					
Total assets	190,177	202,441	210,475	218,962	**229,318**
Net loans	103,665	113,112	120,445	124,812	**128,851**
Total liabilities	173,172	182,976	187,297	193,930	**202,638**
Deposits from customers	130,632	140,955	149,491	154,458	**156,883**
Shareholders' funds	11,474	13,111	15,341	16,609	**17,804**
Commitments and contingencies	199,881	157,622	159,473	171,332	**177,098**
Statements of Income					
Revenue	4,549	4,491	4,543	5,035	**5,351**
Profit before tax	3,009	3,023	2,565	3,090	**3,579**
Net profit	2,517	2,460	2,064	2,317	**2,895**
Profit attributable to owners of the parent	1,707	1,621	1,359	1,507	**1,907**
Key Performance Indicators					
Share price (RM)	16.14	15.16	14.68	16.80	**18.00**
Book value per share (RM)	10.95	12.48	13.42	14.52	**15.55**
Basic earnings per share (sen)	162.9	154.3	123.2	131.8	**166.8**
Net dividend per share (sen)	38.0	38.0	38.0	38.0	**40.0**
Financial Ratios (%)					
Profitability Ratios					
Return on equity	15.8%	13.2%	9.6%	9.4%	**11.1%**
Return on average assets	0.9%	0.8%	0.7%	0.7%	**0.9%**
Cost/income ratio	43.2%	44.5%	50.3%	44.1%	**42.9%**
Asset Quality/Loan Ratios					
Gross loans to deposits ratio	80.6%	81.2%	81.3%	81.6%	**82.8%**
Gross impaired loans ratio	1.2%	0.8%	0.8%	1.0%	**0.9%**

FIVE YEAR GROUP FINANCIAL HIGHLIGHTS

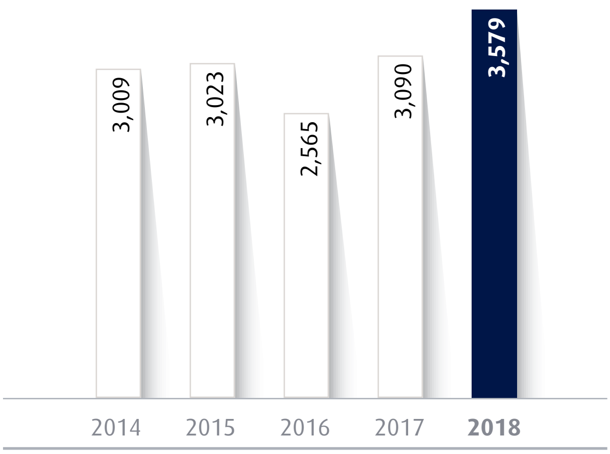
GROUP TOTAL ASSETS
(RM'Million)

YoY +4.7%
CAGR = 4.9%



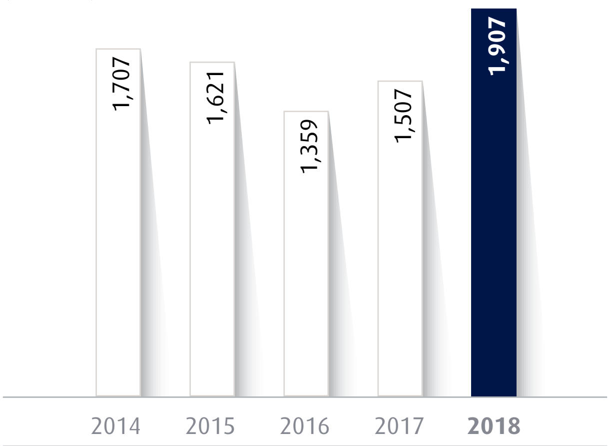
GROUP PROFIT BEFORE TAX
(RM'Million)

YoY +15.8%
CAGR = 6.4%



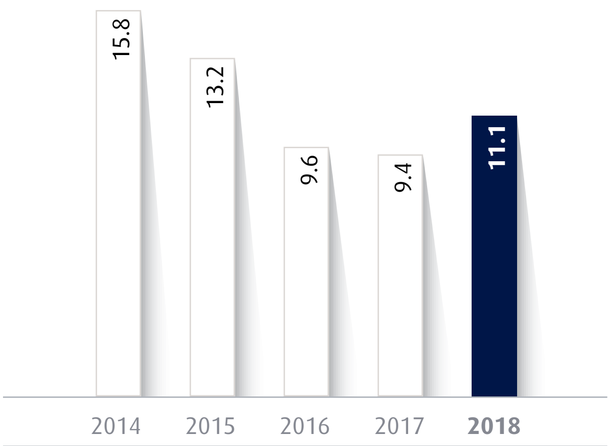
GROUP PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT
(RM'Million)

YoY +26.6%
CAGR = 5.1%



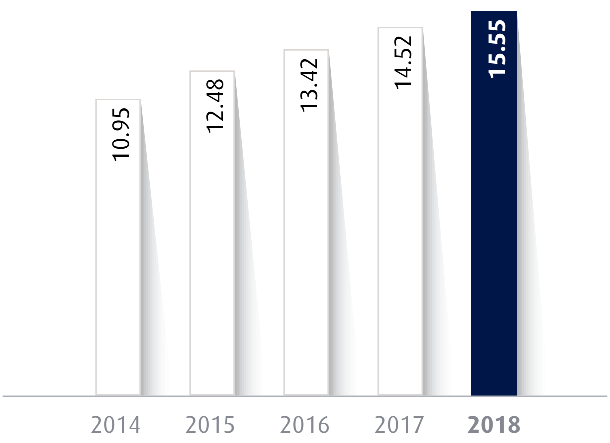
GROUP RETURN ON EQUITY
(%)

YoY +1.7%



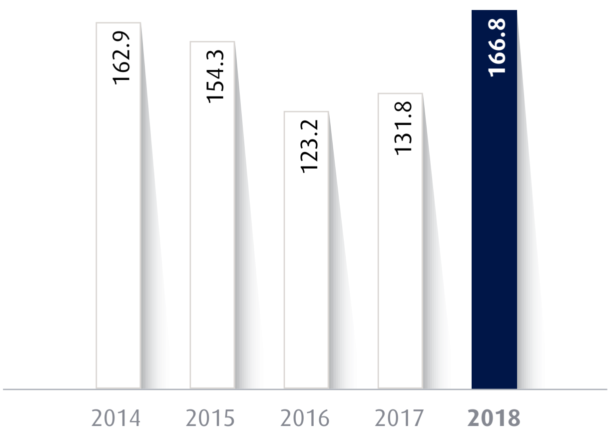
GROUP BOOK VALUE PER SHARE
(RM)

YoY +7.1%
CAGR = 10.0%



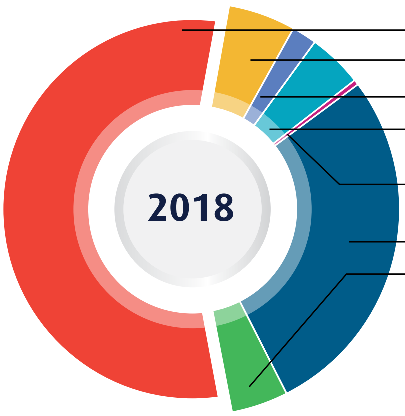
GROUP BASIC EARNINGS PER SHARE
(Sen)

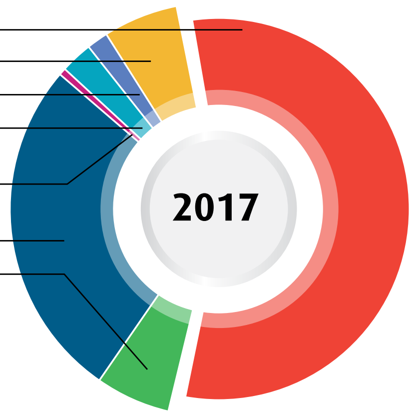
YoY +26.6%



SIMPLIFIED GROUP STATEMENTS OF FINANCIAL POSITION

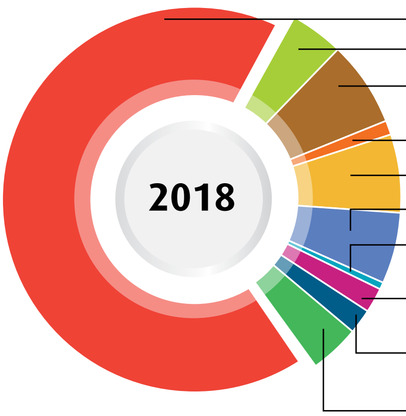
Assets

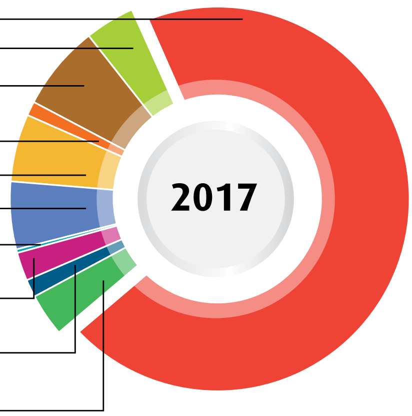




2018		2017
56.2%	Loans, advances and financing	57.0%
5.2%	Other assets (including goodwill)	5.6%
1.9%	Statutory deposits with Central Banks	1.7%
4.4%	Deposits and placements with banks and other FI	2.7%
0.02%	Securities purchased under resale agreements	0.2%
28.0%	Portfolio of securities	27.0%
4.3%	Cash and short-term funds	5.8%

Liabilities & Equity





2018		2017
68.4%	Deposits from customers	70.5%
3.9%	Non-controlling interests	3.8%
6.8%	Reserves (net of treasury shares for ESOS)	6.6%
1.0%	Share capital	1.0%
6.1%	Other liabilities	5.4%
5.8%	Insurance funds	5.6%
0.4%	Additional Tier 1 and Innovative Tier 1 capital securities	0.2%
1.8%	Borrowings and subordinated obligations	2.0%
1.7%	Obligations on securities sold under repurchase agreements	1.4%
4.1%	Deposits and placements of banks and other FI	3.5%

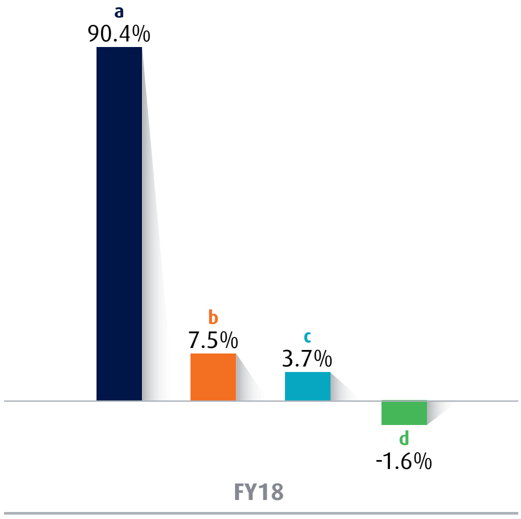
GROUP QUARTERLY FINANCIAL PERFORMANCE

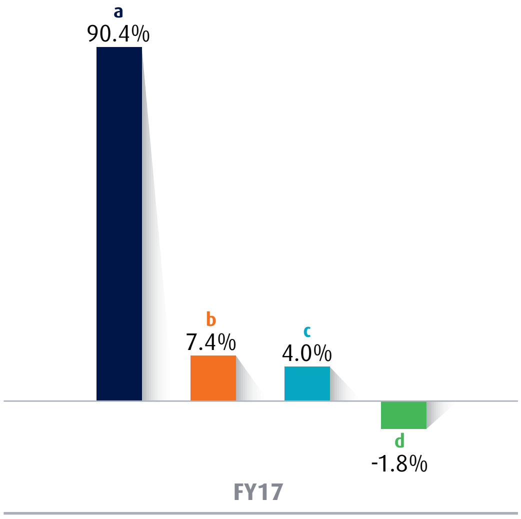
RM'Million	Q1	Q2	2018 Q3	Q4	Year
Statements of Income					
Revenue	**1,279**	**1,366**	**1,386**	**1,320**	**5,351**
Profit before tax	**840**	**925**	**943**	**871**	**3,579**
Net Profit	**690**	**750**	**762**	**693**	**2,895**
Profit attributable to owners of the parent	**455**	**495**	**503**	**454**	**1,907**
Key Performance Indicators					
Share price (RM)	**16.6**	**17.9**	**19.3**	**18.0**	**18.0**
Book value per share (RM)	**14.9**	**15.1**	**15.4**	**15.6**	**15.6**
Basic earnings per share (sen)	**39.8**	**43.3**	**43.9**	**39.7**	**166.8**
Dividend per share (sen)	**–**	**13.0**	**–**	**27.0**	**40.0**

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

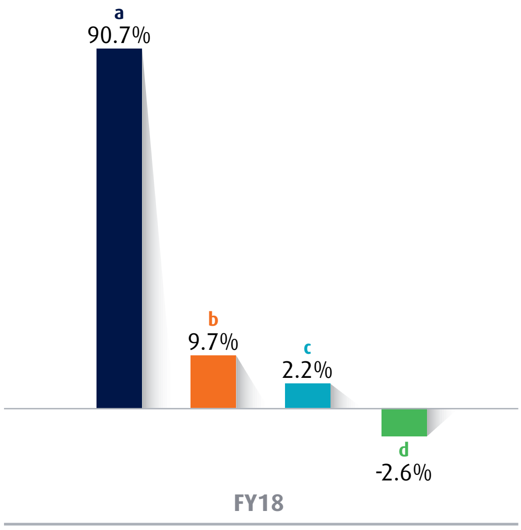
SEGMENTAL INFORMATION

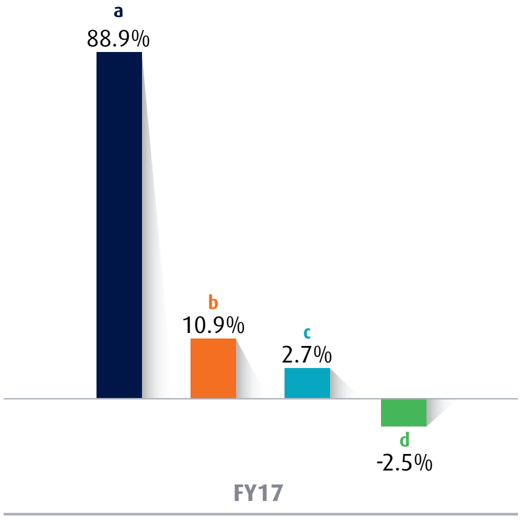
OPERATING REVENUE
By Business Segment





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
YoY 5.3%

FY18	**40.0 sen**
FY17	38.0 sen

MARKET CAPITALISATION
YoY 7.3%

FY18	**RM20.7 bil**
FY17	RM19.3 bil

TOTAL SHAREHOLDER RETURN
YoY 1.7%

FY18	**11.1%**
FY17	9.4%

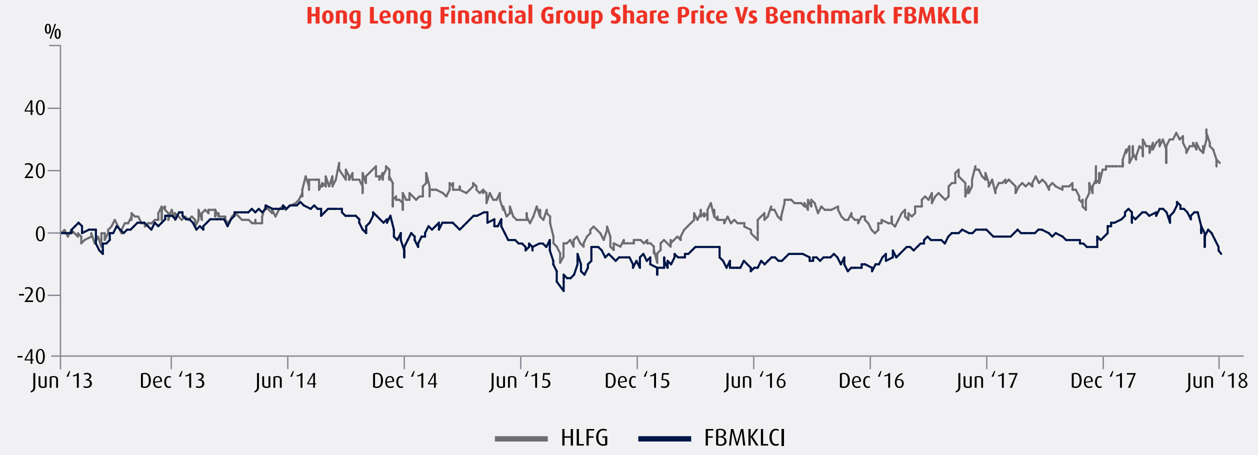
SHARE PRICE
YoY 7.1%

FY18	**RM18.00**
FY17	RM16.80

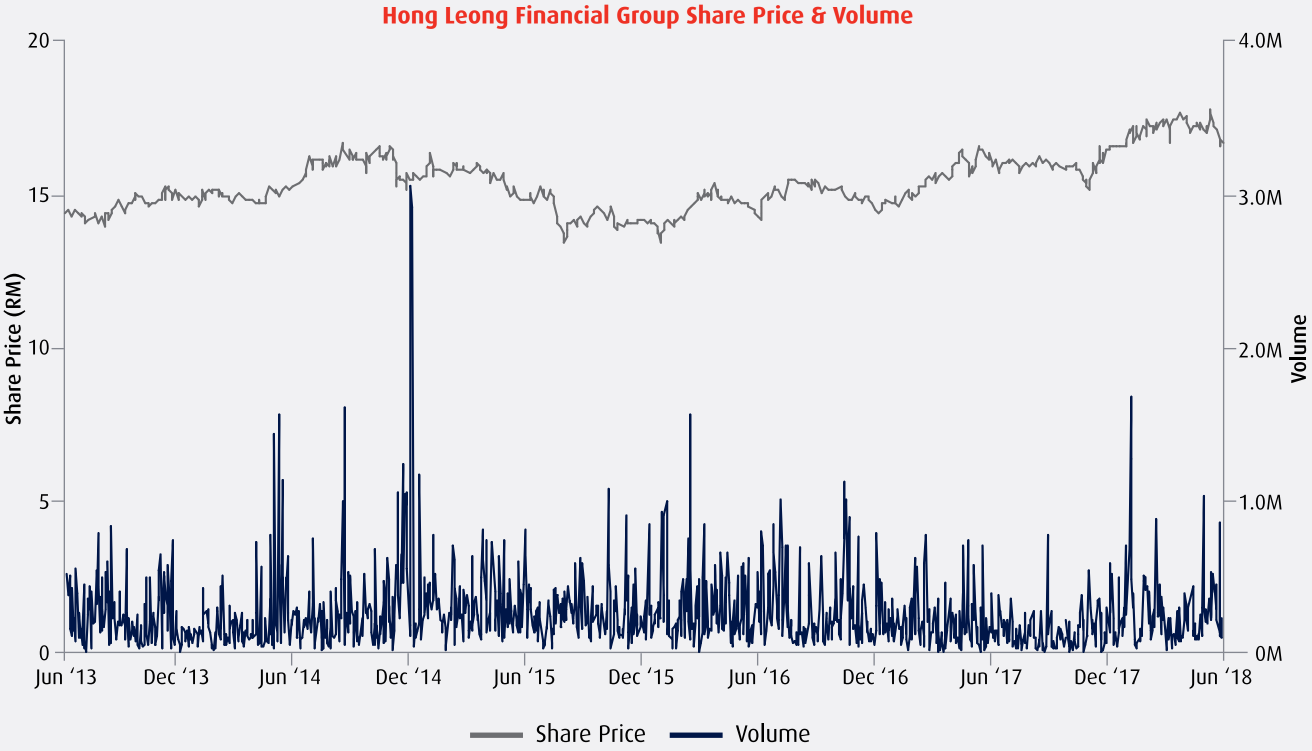
EARNING PER SHARE
YoY 26.6%

FY18	**166.8 sen**
FY17	131.8 sen

Hong Leong Financial Group Share Price Vs Benchmark FBMKLCI



Hong Leong Financial Group Share Price & Volume



FINANCIAL CALENDAR

Annual General Meeting

30 October 2018 (Tuesday)
49th Annual General Meeting

DIVIDENDS

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

Notice	Entitlement	Payment
30 November 2017	18 December 2017	28 December 2017

2nd Interim Single-Tier Dividend of 27 sen per share

Notice	Entitlement	Payment
30 May 2018	14 June 2018	26 June 2018

ANNOUNCEMENT OF CONSOLIDATED RESULTS

30 NOVEMBER 2017
THURSDAY

unaudited results for
1st quarter ended
30 September 2017

26 FEBRUARY 2018
MONDAY

unaudited results for
2nd quarter ended
31 December 2017

30 MAY 2018
WEDNESDAY

unaudited results for
3rd quarter ended
31 March 2018

28 AUGUST 2018
TUESDAY

unaudited results for
4th quarter and
financial year ended
30 June 2018

CORPORATE MILESTONES

HongLeong Financial Group Berhad

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
- HLIB obtained investment bank status
- HLB granted Vietnam banking license

February 2009
Insurance holding company, HLAH, was incorporated

October 2009
HLCB 1:1 Rights Issue completed

CORPORATE MILESTONES

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 BHD

1. **MALAYSIA'S BEST BANK AWARDS FOR EXCELLENCE 2017**
   EuroMoney

2. **BEST BANK IN MALAYSIA CASH MANAGEMENT CUSTOMER SATISFACTION AWARD, 2017**
   AsiaMoney

3. **BEST INNOVATION IN RETAIL BANKING MALAYSIA, 2017**
   The International Banker

4. **HIGHEST RETURNS TO SHAREHOLDERS OVER 3 YEARS – GOLD AWARD, 2017**
   The Edge – Billion Ringgit Club

5. **HIGHEST RETURN ON EQUITY OVER 3 YEARS – SILVER AWARD, 2017**
   The Edge – Billion Ringgit Club

6. **MOST INNOVATIVE TECHNOLOGY ADOPTION – GOLD AWARD MALAYSIAN CONTACT CENTRE AWARDS 2017**
   Contact Centre Association of Malaysia

7. **BEST SOCIAL MEDIA OF A CONTACT CENTRE – GOLD AWARD MALAYSIAN CONTACT CENTRE AWARDS 2017**
   Contact Centre Association of Malaysia

8. **BEST NEW CONTACT CENTRE – GOLD AWARD MALAYSIAN CONTACT CENTRE AWARDS 2017**
   Contact Centre Association of Malaysia

9. **BEST INBOUND CONTACT CENTRE ABOVE 100 SEATS – MERIT AWARD MALAYSIAN CONTACT CENTRE AWARDS 2017**
   Contact Centre Association of Malaysia

10. **BEST USE OF CEM TECHNOLOGY – GOLD AWARD, 2017**
    International Quality and Productivity Centre

AWARDS & ACCOLADES

HONG LEONG BANK BHD (CONTINUED)

11. **ASIA'S BEST FIRST TIME SUSTAINABILITY REPORT FINALISTS 2017**
    Asia Sustainability Reporting Awards

12. **ASIA'S BEST DIGITAL WORKFORCE FINANCIAL INSIGHTS INNOVATION AWARDS 2018**
    IDC FINANCIAL INSIGHTS

13. **MALAYSIA FINTECH AWARDS 2018**
    Fintech Personality of The Year

14. **OUTSTANDING CONTRIBUTION TO MYDEBIT MALAYSIAN E-PAYMENTS EXCELLENCE AWARDS 2018**
    PayNet

15. **BEST GRADUATE RECRUITMENT PROGRAMME – BRONZE AWARD RECRUITMENT AWARDS 2018**
    Human Resource Asia

16. **THE BEST CASH MANAGEMENT PROJECT IN MALAYSIA BANKER'S CHOICE AWARDS 2018**
    The Asian Banker

17. **THE BEST FINANCIAL SUPPLY CHAIN MANAGEMENT IN MALAYSIA BANKER'S CHOICE AWARDS 2018**
    The Asian Banker

18. **MALAYSIA'S BEST BRAND, 2018**
    CMO Asia

19. **TOP BANK IN THE SECONDARY MARKET CORPORATE BONDS MALAYSIA – RANK 3 ASIAN LOCAL CURRENCY BOND BENCHMARK REVIEW 2017**
    The Asset

20. **TOP BANK IN THE SECONDARY MARKET GOVERNMENT BONDS MALAYSIA – RANK 3 ASIAN LOCAL CURRENCY BOND BENCHMARK REVIEW 2017**
    The Asset

AWARDS & ACCOLADES

21


24


25


26


27


28


HONG LEONG ISLAMIC BANK BHD

21. ASIA'S BEST EMPLOYER BRAND
EMPLOYER BRANDING AWARDS 2017
Employer Branding Institute

HONG LEONG ASSURANCE BHD

22. DOMESTIC LIFE INSURER OF THE YEAR – MALAYSIA 2017
Asian Banking and Finance Insurance Asia Awards

23. BEST LIFE INSURANCE COMPANY – MALAYSIA 2017
World Finance Global Insurance Awards

24. BEST LIFE INSURANCE COMPANY – MALAYSIA 2017
International Finance Awards

HONG LEONG INVESTMENT BANK BHD

25. BEST ASSETS-BACKED SECURITISATION DEAL IN SOUTHEAST ASIA 2017
11TH ANNUAL ALPHA SOUTHEAST ASIA DEAL & SOLUTION AWARDS 2017
Alpha Southeast Asia

26. BEST MURABAHAH DEAL IN SOUTHEAST ASIA 2017
11TH ANNUAL ALPHA SOUTHEAST ASIA DEAL & SOLUTION AWARDS 2017
Alpha Southeast Asia

27. BEST SECURITISATION SUKUK
THE ASSET TRIPLE A ISLAMIC FINANCE AWARDS 2017
Asset Triple A

28. RAM AWARD OF DISTINCTION 2017
LEAD MANAGER AWARD BY NUMBER OF ISSUES – 1ST RANKING
15TH ANNUAL RAM LEAGUE AWARDS
RAM Ratings

AWARDS & ACCOLADES

HONG LEONG INVESTMENT BANK BHD (CONTINUED)

29. RAM AWARD OF DISTINCTION 2017
LEAD MANAGER AWARD BY PROGRAMME VALUE – 1ST RANKING
15TH ANNUAL RAM LEAGUE AWARDS
RAM Ratings

30. RAM AWARD OF DISTINCTION 2017
LEAD MANAGER AWARD (SUKUK) BY NUMBER OF ISSUES – 1ST RANKING
15TH ANNUAL RAM LEAGUE AWARDS
RAM Ratings

31. COMMODITY MURABAHAH DEAL OF THE YEAR
ISLAMIC FINANCE NEWS AWARDS 2017
Islamic Finance News

HONG LEONG ASSET MANAGEMENT BHD

32. HONG LEONG DIVIDEND FUND
BEST FUND OVER 3 YEARS: EQUITY MALAYSIA INCOME (PROVIDENT)
THE EDGE | THOMSON REUTERS LIPPER FUND AWARDS 2018
The Edge | Thomson Reuters

33. HONG LEONG GROWTH FUND
BEST FUND OVER 3 YEARS: EQUITY MALAYSIA DIVERSIFIED (PROVIDENT)
THE EDGE | THOMSON REUTERS LIPPER FUND AWARDS 2018
The Edge | Thomson Reuters

34. BEST GROUP IN MIXED ASSETS (PROVIDENT)
THE EDGE | THOMSON REUTERS LIPPER FUND AWARDS 2018
The Edge | Thomson Reuters

35. BEST GROUP IN EQUITY (PROVIDENT)
THE EDGE | THOMSON REUTERS LIPPER FUND AWARDS 2018
The Edge | Thomson Reuters

CHAIRMAN'S STATEMENT

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 2018 ("FY18").

FINANCIAL RESULTS – REVIEW OF THE YEAR'S PERFORMANCE

Amidst a subdued business environment and cautious consumer sentiment for much of the year, HLFG achieved a commendable performance by increasing its pretax profit by 15.8% year-on-year ("yoy") to a new high of RM3,579 million. This has been contributed by a steady and better business momentum from our commercial banking and insurance businesses.

Hong Leong Bank Berhad's ("HLB") pretax profit increased 18.1% yoy to RM3,246 million whilst Hong Leong Assurance Berhad's ("HLA") pretax profits rose 8.4% yoy to RM266 million. Our investment banking and asset management businesses under Hong Leong Capital Berhad reported lower pretax profit by 6.4% yoy to RM79 million against a slowdown in capital and equity market activities.

The Group's key balance sheet and risk metrics remain strong. HLB's gross impaired loan ratio stayed sound at 0.87% whilst its loan impairment coverage was at 89.5% as at 30 June 2018. Inclusive of additional regulatory reserves, HLB's loan impairment coverage was at 155.4%. HLB's liquidity ratio remains prudent with a loan/deposit ratio of 82.0%. HLB's capital position further improved with its total capital ratio increasing from 15.8% last year to 16.3% as at 30 June 2018.

HLFG's profit after tax and minority interests increased by 26.6% yoy to RM1,907 million. Earnings per share also increased by 26.6% yoy from 131.8 sen in FY17 to 166.8 sen in FY18. Net assets per share rose from RM14.52 as at 30 June 2017 to RM15.55 as at 30 June 2018.

While the Group stands ready for the full implementation of the Basel III Capital Adequacy Framework in 2019, we have been able to increase our dividend per share from 38 sen to 40 sen in FY18.

PRETAX PROFIT

RM3,579 million +15.8%

PROFIT AFTER TAX AND MINORITY INTERESTS

RM1,907 million +26.6%

CHAIRMAN'S STATEMENT

NET ASSETS PER SHARE

RM14.52
30 June 2017

RM15.55
30 June 2018

EARNINGS PER SHARE +26.6%

166.8sen

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 continue to execute our business plans by advancing on multiple fronts towards achieving long-term sustainable growth. In this period, we will 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.

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 speed up even further. To this end, we have made digitalization a core part of the bank's strategy and have been keeping abreast of new developments, investing in technology, as well as consciously positioning ourselves to benefit from this digital wave. We believe that we are on the right path and have also been refreshing the technology platforms through which we interact with our customers.

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 10% to RM22.9 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 Shariah standards and value based intermediation, and encouraging diversified and innovative product offerings.

"HLB also clinched the Gold Award for Highest Returns to Shareholders Over 3 Years and Silver Award for Highest Return on Equity Over 3 Years as awarded in The Edge - Billion Ringgit Club 2017 edition."

CHAIRMAN'S STATEMENT

INSURANCE

Under HLA, our life insurance business has grown over the last decade. Our agency force numbers around 10,000 today having been at below 3,000 ten years ago. HLA is presently the largest domestic insurer and ranks amongst the top 4 insurers in the country by new business premiums with continued strong contributions from our agency force along with improving Bancassurance sales.

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.

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 continued its digital journey across multiple fronts. With an established data warehouse, we are increasing the use of analytics capabilities to data mine our growing customer base to enhance effectiveness in both cross-selling and up-selling activities. Apart from this, we are also utilising technology to enhance our customer service and experience. The HLA Customer 360 Portal 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 over 200 plus branches.

On 1 July 2018, we converted our composite takaful license to a single Family takaful license, taking the step to concentrate more on our Life businesses across both conventional and takaful. We remain focused on promoting and growing our Family Takaful insurance businesses with Hong Leong MSIG Takaful Berhad spearheading efforts across our group. We believe the potential for Islamic insurance is significant and our plans are to build a sizeable and sustainable business in reaching out and serving our customers better.

"On the insurance front, in recognition of its performance, HLA was awarded the prestigious Domestic Life Insurer of the Year at Asian Banking and Finance Insurance Asia Awards 2017."

CHAIRMAN'S STATEMENT

INVESTMENT BANKING

Our investment banking arm, Hong Leong Investment Bank Berhad ("HLIB") has made substantial progress since being awarded investment bank status in 2009. Over the years, we have achieved recognition in the Malaysian 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 shown good progress and currently manages assets of about RM15 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 to better serve our customers.

RECOGNITION

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

During the year, RAM Ratings upgraded the long-term financial institution ratings of Hong Leong Bank Berhad from AA1 to AAA in recognition of its strong asset quality. Concurrently, RAM had assigned AA1/P1 corporate credit ratings (CCRs) to Hong Leong Financial Group Berhad. All the long-term ratings had a stable outlook. It also reflected Hong Leong Bank's sustained track record of having robust funding and liquidity positions, as well as our respectable domestic retail and SME franchises.

"Our Debt Markets secured three top position awards in the recent League awards by programme value and by number of issues for both conventional and Islamic issuance."

CHAIRMAN'S STATEMENT

RECOGNITION (CONTINUED)

One of the highlights of the year was when HLB was selected as one of Asia's best employers for graduates by Human Resources Asia Recruitment Awards 2018. The award was for Best Graduate Recruitment Programme and is recognition of the bank's commitment to develop the next generation of exceptional bankers for the Group.

Another award that HLB attained was for Best Innovation in Retail Banking Malaysia 2017 by International Banker 2017 Banking Awards. This was in recognition of our constant drive to improve products and services through state-of-the-art banking solutions.

HLB Group's intensive efforts to transform customer experience as a digital bank was recognized by Asiamoney when it gave us the Best Bank in Malaysia - Cash Management Customer Satisfaction Award 2017. In winning the award, Asiamoney noted our unmatched customer centric approach which included several first-in-Malaysia innovations focused on improving overall customer experience. These included the use of Artificial Intelligence to support customer service through chat software and a robot concierge to help guide customers at branches, and the launch of "Loan2Go" being a straight-through-processing mobile auto loan application platform.

HLB also clinched the Gold Award for Highest Returns to Shareholders Over 3 Years and Silver Award for Highest Return on Equity Over 3 Years as awarded in The Edge - Billion Ringgit Club 2017 edition. These two awards are recognition of the strong returns generated for our shareholders.

"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."

On the insurance front, in recognition of its performance, HLA was awarded the prestigious Domestic Life Insurer of the Year at Asian Banking and Finance Insurance Asia Awards 2017. It was awarded to HLA for rising above the challenges and its initiatives to make the most of the lucrative opportunities in the Malaysian domestic insurance market. During the same period, HLA has also been accorded as the Malaysia Best Life Insurance Company 2017 by World Finance Global Insurance and International Finance.

In terms of HLIB, for the first time since commencement of business, our Debt Markets secured three top position awards in the recent League awards by programme value and by number of issues for both conventional and Islamic issuance. The team has also successfully secured other awards and achieved various league table achievements during the year. Apart from the achievements and awards secured, the team had also structured the first ever Islamic Basel III compliant AT-1 issuance by an Islamic bank in Malaysia.

HLIB's Equity Markets and the Asset Management team of HLAM have also successfully secured various awards throughout the current financial year. In the Edge Thomson Reuters Lipper Malaysian Fund Awards 2018, HLAM achieved 2 Group and 2 Individual awards, namely:

- Best Group in Equity – Malaysia Provident (for the second consecutive year);
- Best Group in Mixed Assets – Malaysia Provident;
- Best Performing Equity Malaysia Diversified (3 years) for the Hong Leong Growth Fund; and
- Best Performing Equity Malaysia Income (3 years) for the Hong Leong Dividend Fund.

CHAIRMAN'S STATEMENT

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 efficiency. We have made continued progress towards this end 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 further strengthen corporate governance standards and adopt international best practices to improve.

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.

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

19 September 2018

MANAGEMENT DISCUSSION AND ANALYSIS

We are pleased to present the Management Discussion and Analysis ("MD&A") for the financial year ended 30 June 2018 ("FY18"). In this report, we would like to provide a review of our Group's business operations and financial performance during FY18.

In summary, for FY18, the Group achieved a good set of financial results with a new pretax profits record of RM3.6bn arising from steady business momentum from our commercial banking and insurance businesses. Our results have been achieved with prudent operating metrics and we continue to make 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:

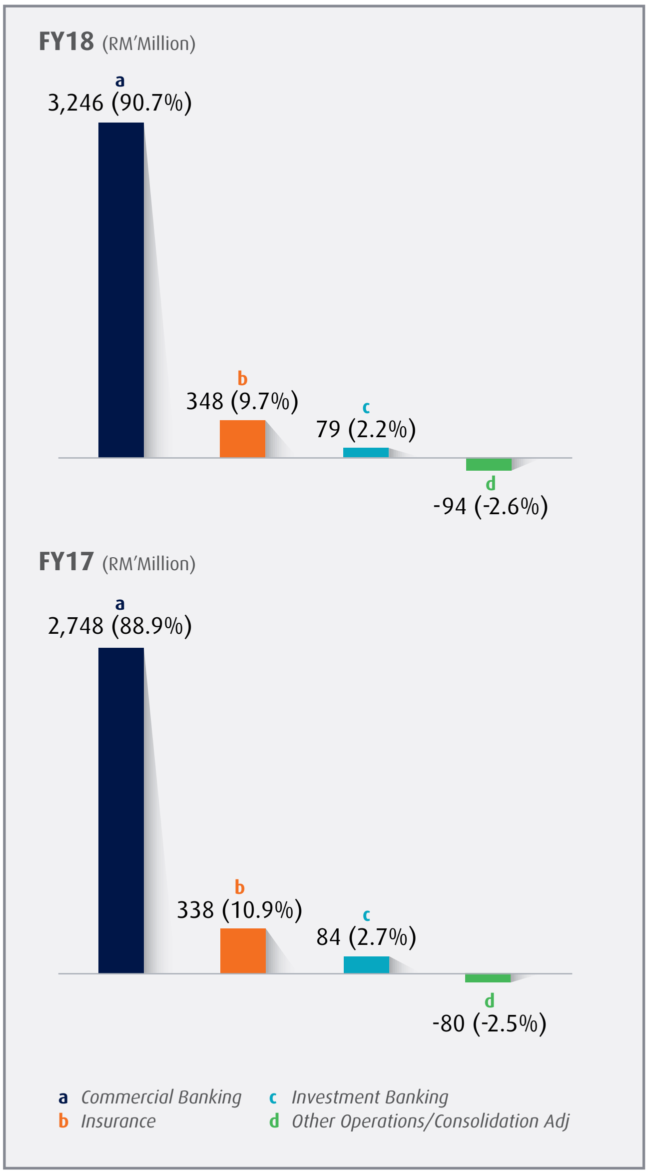
- Commercial banking under Hong Leong Bank Berhad ("HLB").
- Insurance and takaful, housed under our insurance holding company HLA Holdings Sdn Bhd ("HLAH"); and
- Investment banking and asset management, housed under Hong Leong Capital Berhad ("HLCB").

PRETAX PROFIT

RM3.58
billion

+15.8%

HLFG Segmental Pretax Profit



MANAGEMENT DISCUSSION AND ANALYSIS

PROFIT AFTER TAX AND MINORITY INTERESTS
+26.6%
RM1.91
billion

RETURN ON EQUITY
+1.7%
11.1%

DIVIDEND PER SHARE
40sen
for FY18
38sen
for FY17

HLFG's pretax profit increased 15.8% year-on-year ("yoy") in FY18 whilst net profit after tax and minority interests increased by 26.6% yoy to RM1.91bn, mainly due to a lower effective tax rate of 19.1% in FY18 as compared to 25.0% in FY17. The higher effective tax rate in FY17 was due to one-off additional tax assessments totaling RM206.3m, attributable to both HLB and HLAH. Correspondingly, Return on equity ("ROE") increased to 11.1% from 9.4% in FY17.

Company level borrowings decreased from RM1.53bn (30 June 2017) to RM1.39bn as at 30 June 2018, as surplus dividends received were used to pay down borrowings. During the year, the Company issued its inaugural Additional Tier 1 capital securities and Tier 2 Subordinated Notes of RM400m and RM500m. The issuances are in accordance with Bank Negara Malaysia's ("BNM") Capital Adequacy Framework (Capital Components) and our capital plans. We will continue to vigilantly manage our capital position to 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.

HLFG's book value per share increased from RM14.52 as at 30 June 2017 to RM15.55 as at 30 June 2018.

During the year, RAM Ratings ("RAM") assigned AA1/P1 corporate credit ratings (CCRs) to HLFG. Concurrently, RAM upgraded the long-term financial institution ratings of HLB from AA1 to AAA in recognition of its superior asset quality. All the long-term ratings have a stable outlook. It also reflects HLB's sustained track record of having robust funding and liquidity positions, as well as its respectable domestic retail and SME franchises.

Dividend per share increased to 40 sen in FY18 from 38 sen in FY17. While we increased the returns to shareholders, we have also managed our capital position in anticipation of the full implementation of the Basel III Capital Adequacy Framework for Financial Holding Companies in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

COMMERCIAL BANKING FINANCIAL & OPERATIONAL REVIEW

HLB Financial Highlights

	FY18	FY17	Growth %
Profitability & Efficiency (RM'million)			
Total Income	**4,840**	4,551	6.3
Operating Profit	**2,779**	2,543	9.3
Profit Before Tax ("PBT")	**3,246**	2,748	18.1
Profit After Tax ("PAT")	**2,638**	2,145	23.0
Earnings Per Share (sen)	**129**	105	23.0
Net Interest Margin (%)	**2.10%**	2.09%	0.01 #
Cost-to-Income Ratio (%)	**42.6%**	44.1%	(1.5)#
Return on Assets (%)	**1.32%**	1.11%	0.21 #
Return on Equity (%)	**11.3%**	9.8%	1.5 #
Balance Sheet (RM'million)			
Total Assets	**202,891**	195,553	3.8
Gross Loans, Advances and Financing	**129,069**	125,147	3.1
Customer Deposits	**157,414**	155,233	1.4
Asset Quality			
Gross Impaired Loan Ratio	**0.87%**	0.96%	(0.09)#
Loan Impairment Coverage Ratio	**89%**	96%	(7)#
Loan Impairment Coverage Ratio (including Regulatory Reserve)	**155%**	151%	4 #
Liquidity and Capital Ratio			
Loan-to-Deposit Ratio	**82.0%**	80.6%	1.4 #
Common Equity Tier-1 Capital Ratio	**12.6%**	13.3%	(0.7)#
Tier 1 Capital Ratio	**13.3%**	13.7%	(0.4)#
Total Capital Ratio	**16.3%**	15.8%	0.5 #

Quantum of change is depicted

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;
- 18% equity interest in the Bank of Chengdu Co., Ltd; and
- A representative office in Nanjing China.

MANAGEMENT DISCUSSION AND ANALYSIS

COMMERCIAL BANKING FINANCIAL & OPERATIONAL REVIEW (CONTINUED)

NET INTEREST AND FINANCING INCOME
+ 4.2%
RM3.50
billion

NON-INTEREST AND NON-FINANCING INCOME
+ 12.5%
RM1.34
billion

HLB's pretax profit increased 18.1% yoy to RM3.25bn in FY18. This achievement was driven by prudent loan pricing, effective funding cost management and strong growth in non-interest income, as well as a higher associate contribution from the Bank of Chengdu, where its contribution increased RM173.2m yoy.

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

- Higher non-interest income, which increased RM154.2m yoy.
- Higher Islamic Banking income, which increased RM96.0m yoy.
- Higher net interest income, which rose RM38.7m yoy, driven by a 1bps increase in net interest margin ("NIM"), as well as a 3.1% yoy increase in gross loans.

Net interest and financing income expanded 4.2% yoy to RM3.50bn in FY18, aided by both loan growth and an improvement in NIM. The improvement in NIM reflects continued prudent loan pricing and funding cost management. Non-interest and non-financing income improved by 12.5% yoy to RM1.34bn with a higher non-interest income ratio of 27.8%.

Cost/Income ratio decreased from 44.1% in FY17 to 42.6% in FY18, at the lower end of the industry range.

Core business performance indicators remained positive, with gross loans growing by 3.1% yoy to RM129bn as at 30 June 2018 alongside continued stringent credit initiation controls. Residential mortgages increased 7.9% yoy to RM61.4bn, while loans to SMEs were higher at RM20.5bn.

Customer deposits increased by 1.4% yoy to RM157bn as at 30 June 2018, achieved amidst an increasingly competitive environment for deposits. This translates to a Loan/Deposit ("L/D") ratio of 82.0% and a loan to fund ratio of 83.5%, which places HLB in a comfortable liquidity position.

HLB'S PRETAX PROFIT
+ 18.1%
RM3.25
billion

COST/INCOME RATIO
42.6%

GROSS LOANS
+ 3.1%
RM129
billion

CUSTOMER DEPOSITS
+ 1.4%
RM157
billion

MANAGEMENT DISCUSSION AND ANALYSIS

COMMERCIAL BANKING FINANCIAL & OPERATIONAL REVIEW (CONTINUED)

GROSS IMPAIRED LOAN RATIO
0.87%

TOTAL DIVIDEND
48.0 sen per share

DIVIDEND PAYOUT RATIO
37%

Personal Financial Services ("PFS")

PFS remained the largest contributor to HLB, making up 53% and 34% of its revenue and pre-tax profit, respectively. Retail loans and deposits grew 3% and 2% respectively, in line with the softer domestic retail market growth. Asset quality meanwhile remained solid as reflected by its low GIL ratio of 0.62%. The low GIL ratio was achieved on the back of disciplined lending and prudent risk management.

Asset quality and provisioning remained sound, with a gross impaired loan ("GIL") ratio of 0.87% and loan impairment coverage at 89.5% as at 30 June 2018. Inclusive of additional regulatory reserves set aside, HLB's coverage ratio increased to 155% as at 30 June 2018.

HLB's capital position remained robust, especially after the issuance of Additional Tier 1 capital securities and Tier 2 Subordinated Notes during the year, with Common Equity Tier 1, Tier 1 and Total Capital Ratios at 12.6%, 13.3% and 16.3% respectively as at 30 June 2018, positioning HLB well for the full implementation of the Basel III capital adequacy framework in 2019.

HLB raised its total dividend from 45.0 sen per share last year to 48.0 sen per share in FY18, translating to better cash flows for HLFG. HLB's dividend payout ratio is at 37%.

The mortgage business sustained growth in originations with loan acceptances growing 11% y-o-y despite a soft property market. To further improve our position, we strengthened our capabilities to serve developers and property market intermediaries during the year. This allowed us to drive wider market coverage and deliver higher sales and service standards. We continued to innovate the customer experience and purchasing journey by introducing a fast and secure online approval-in-principle service in February 2018. We also introduced tiered interest rates to better align ourselves with the needs of customer and assisted them with their home ownership cash flow.

Retail deposits grew 2% y-o-y driven largely by contributions from both SME and individual segments. During the year, the emphasis was placed on key products namely the BizOne Account for the SME segment and Pay & Save for the individual segment. There was also an emphasis on cross selling to customers who do not have a current or savings account with HLB.

Business & Corporate Banking ("BCB")

It was a solid year for BCB with revenue and pre-tax profit at RM1.1 billion and RM831 million respectively. This represents a 24% and 26% contribution to the HLB's total income and pre-tax profit.

BCB's loans growth performance of 4% y-o-y was mainly anchored by the commercial/ mid-sized corporate and SME client segments, which grew at 10% y-o-y and 22% y-o-y respectively.

Healthy growth has also been exhibited in Current Accounts balances where we registered a growth of 4% y-o-y, which outperformed the industry demand deposit growth.

MANAGEMENT DISCUSSION AND ANALYSIS

COMMERCIAL BANKING FINANCIAL & OPERATIONAL REVIEW (CONTINUED)

Global Markets ("GM")

The Global Markets business is a key product partner for HLB's clients, encompassing Foreign Exchange (FX), Fixed Income, Derivatives and Structured Products. Our presence in five countries, namely Malaysia, Singapore, Hong Kong, Vietnam and Cambodia, allows us to holistically manage client solutions in various currencies. GM is also responsible for managing HLB's excess liquidity and capital through investments in Fixed Income and Money Market instruments.

The Global Markets business turned in a strong performance for the year with revenue and pre-tax profit at RM577 million and RM468 million respectively. This represents a 12% and 14% contribution to HLB's total income and pre-tax profit. The strong momentum was achieved on the back of improved branch and SME FX revenues and increased deal activity from our FI/GLC segment. Heightened market volatility in global FX and interest rates also helped drive better trading performance.

Our strong franchise positioning in Malaysia continues to be affirmed by leading publications. For example, The Asset awarded us the Top 3 spots for Local Currency Bond Sales. Asiamoney also ranked us 2nd for their Corporate Client Choice Awards in Malaysia.

Islamic Banking

HLISB achieved a strong growth in earnings in the 2018 financial year with PBT growing 28.9% over the previous year. ROE and ROA improved to 13.2% and 0.9% respectively from 11.6% and 0.8% the previous year. The growth in earnings was in tandem with the enlarged financing business supported by robust cost management and increase in operating efficiency. Our operating expenses remained stable with the CIR at 32.1%, which is markedly lower than last year's 37.2%.

HLISB achieved some significant milestones in the digital transformation of its Islamic banking services and products. During the year HLISB expanded the automation of Commodity Murabahah Trading to a wider range of products such as Personal Financing-I, ABS Financing-I and Cashline. HLISB also introduced 24/7 commodity trading for certain Commodity Based products. The initiatives not only improve efficiency but also enhanced the flexibility and digital capability of our products. HLISB also expanded digital offerings to include broader market segments. These included areas such as Islamic wealth management and business banking.

HLISB continues to focus on the growth of financing through small and medium enterprises ("SMEs") financing. In achieving this objective, HLISB has been working closely with government agencies such as TERAJU and SME Corporation. As part of its strategic plan, HLISB continued its partnership with SMECorp under the Shariah-compliant SME Financing Scheme 2 ("SSFS2") to provide financing assistance to eligible SMEs involved in Shariah-compliant business activities.

MANAGEMENT DISCUSSION AND ANALYSIS

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") (Note 1);
- 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").

Note 1: With effect from 1 July 2018, HLMT converted its composite license to a family only takaful license and ceased taking on new general takaful business.

HLAH's pretax profit increased by 3.0% yoy from RM337.8m in FY17 to RM348.0m in FY18. This was mainly contributed from an increase in HLA's pretax profit to RM265.5m in FY18 from RM245.0m in FY17 and higher contribution from HLMT of RM13.0m. Our full year share of MSIG's profit after tax decreased by 14.1% yoy from RM73.5m in FY17 to RM63.1m in FY18 mainly due to higher net claims for the year. However, if we exclude the non-recurring item of RM 58.5m in HLA's results, HLAH's would have grown its pretax profit by 20.3% yoy.

HLA is the largest business within our insurance division, comprising 76% of total HLAH insurance pretax profits. HLA's higher pretax profit was mainly due to higher non-par surpluses, which increased RM52.4m yoy, assisted by higher long-term Malaysian Government Securities interest rates. The results also reflect the continued execution of our strategy to enhance our agency and bancassurance distribution channels, as well as targeting specific growth in our **N**ew **B**usiness **E**mbedded **V**alue through a more profitable product mix via higher sales of Non-Participating and Investment-Linked policies.

HLAH'S PRETAX PROFIT

RM348
million

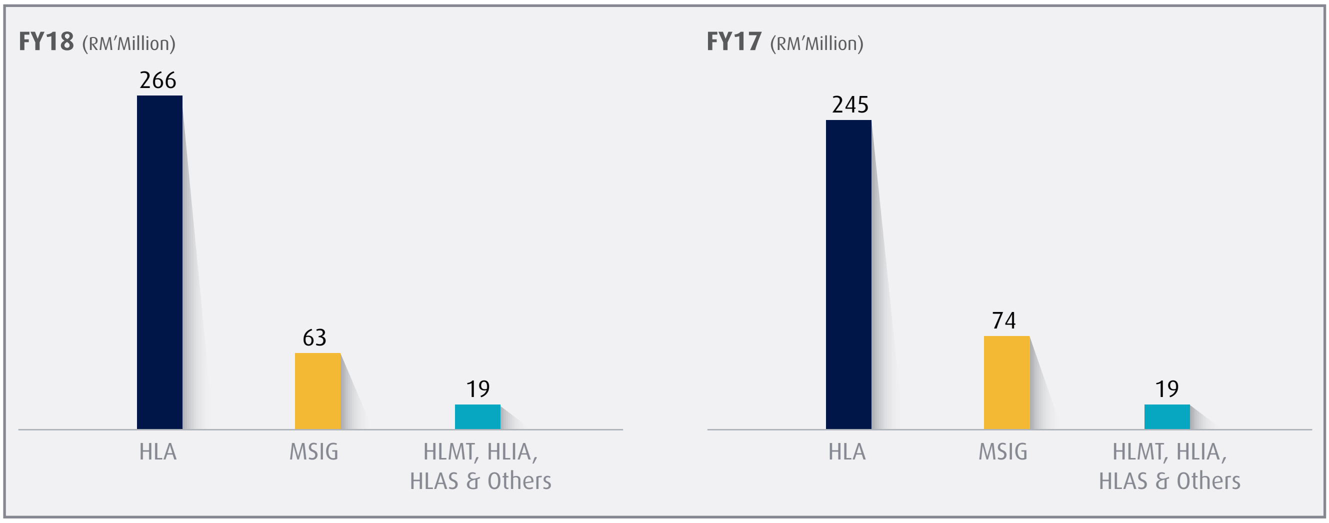
+3.0%

HLA's gross premiums remained at the RM3bn mark for the year, achieved amidst a tougher business environment as well as a greater focus on Non-Participating policies. HLA's achieved new business regular premiums ("NBRP") of RM537.5m in FY18.

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 2017, by the same metric.

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.

HLAH Segmental Pretax Profit



MANAGEMENT DISCUSSION AND ANALYSIS

INSURANCE/TAKAFUL FINANCIAL & OPERATIONAL REVIEW (CONTINUED)

In terms of distribution, HLA continues to execute its Bancassurance Plan, which aims to leverage off the distribution network of its sister company HLB's circa 273 branches. Over the last 5 years, HLA has increased its Non-Agency (Bancassurance) market share of NBRP from 4.9% in 2010 to 10.5% in 2017 and now holds the No. 5 position within this distribution segment.

HLA's management expense ratio was 5.9% in FY18, the lowest amongst the major domestic life insurers. We have launched our HLA Customer 360 Portal in July 2016. Through this portal, all HLA customers will have instant and seamless access to their policy information, at their convenience.

HLA'S GROSS PREMIUMS **RM3billion**

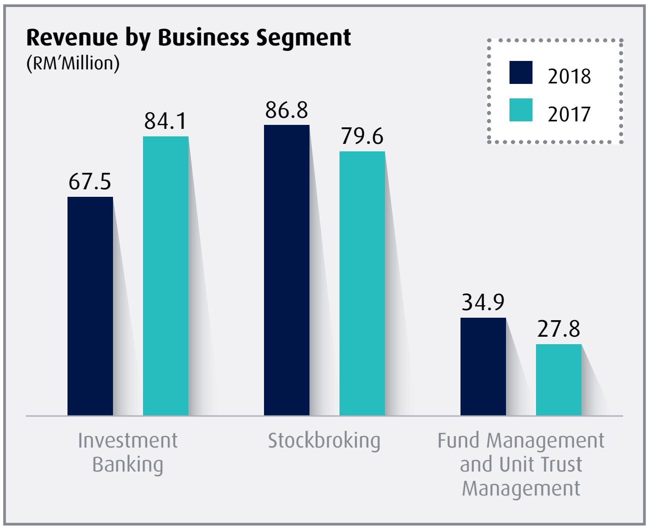
In recognition of its performance, HLA has been awarded the prestigious Domestic Life Insurer of the Year at the Asian Banking and Finance Insurance Asia Awards 2017. It was awarded to HLA for rising above the challenges and its initiatives to make the most of the lucrative opportunities in the Malaysian domestic insurance market. During the same period, HLA has also been accorded the Malaysia Best Life Insurance Company 2017 by World Finance Global Insurance and International Finance.

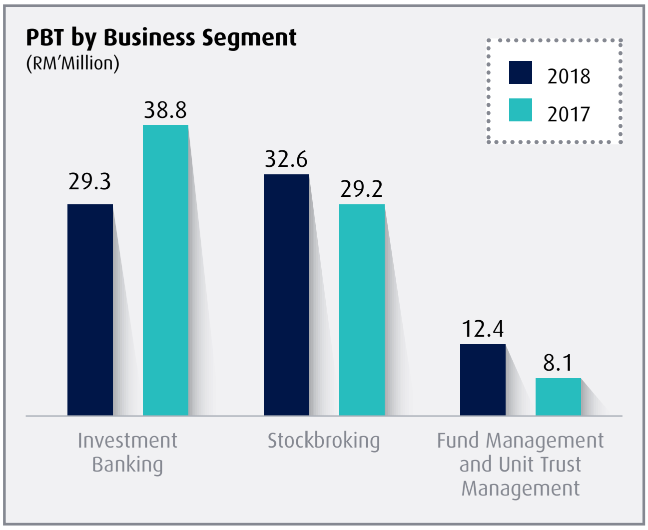
MANAGEMENT DISCUSSION AND ANALYSIS

INVESTMENT BANKING FINANCIAL & OPERATIONAL REVIEW

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").

HLCB has had a challenging year attributable to weak capital markets and muted corporate activities. Pretax profit decreased 6.5% yoy from RM84.0m in FY17 to RM78.6m in FY18.





Investment Banking ("IB")

Treasury and Markets ("T&M") was the largest contributor to the IB Division in FY18, contributing 46% of total IB Division revenue, ahead of Debt Markets, which contributed 45% of division revenue. T&M reported lower revenue by 15.9% in FY18 mainly due to the effect of the Overnight Policy Rate adjustment of 25 basis points in January 2018 and cautious sentiment from investors leading up to the 14th General Election.

Revenue generated from Debt Markets in FY18 achieved a growth of 6.9% from RM27.0m in FY17 to RM28.9m in FY18. Higher revenue from Debt Markets was mainly attributed to placement income earned from underwriting deals at primary levels in which HLIB acted as sole Principal Advisor, Lead Arranger and Lead Manager.

The Equity Markets division had a very challenging year due to the soft market conditions in FY18 with only 1 IPO on the Main Market and 13 other IPOs on LEAP/ ACE Market. Nonetheless, the team is cautiously optimistic because the deals pipeline remains encouraging and the team continues to explore different ways and opportunities to diversify HLIB's income source and create value for clients in the coming financial year.

Stockbroking ("SB")

The stockbroking business of HLIB delivered a positive result registering a 9.0% revenue growth from RM79.6m in FY17 to RM86.8m in FY18 and a 11.5% pre-tax profit growth from RM29.2m in FY17 to RM32.6m in FY18. The growth was mainly due to a higher market share achieved and higher revenue contributions from the Institutional and e-Broking desks.

The stockbroking business recorded a 20.5% increase in trading volume against Bursa Malaysia's 16.0% increase in trading volume for FY17. Margin income decreased by 27.4% compared to the previous financial year from lower margin drawdown balances throughout the current financial year.

MANAGEMENT DISCUSSION AND ANALYSIS

INVESTMENT BANKING FINANCIAL & OPERATIONAL REVIEW (CONTINUED)

Asset Management

HLAM's higher pretax profit of RM12.4m, up 53.1% yoy, was achieved on the back of improved fund investment performance and higher assets under management of RM15bn. In recognition of its fund performance, HLAM also won various awards at The Edge Thomson Reuters Lipper Malaysia Fund Awards 2018 as follows:

BEST GROUP IN EQUITY Malaysia Provident (for the second consecutive year)	**BEST GROUP IN MIXED ASSETS** Malaysia Provident
BEST PERFORMING EQUITY MALAYSIA DIVERSIFIED 3 years – Hong Leong Growth Fund	**BEST PERFORMING EQUITY MALAYSIA INCOME** 3 years – Hong Leong Dividend 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

Whilst we believe the economy will go thorough challenges and a slower growth in the immediate term, the economic fundamentals of the country are sound and the longer term prospects promising given the prudent and supportive policies of the government. This will provide a more conducive and sustainable 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 judiciously control our expenses and reinvest in the right areas.

Our key strategic objective remains the pursuit of long-term sustainable growth. We will also continue to review potential acquisition opportunities that will complement and add value to our financial services group.

FURTHER INFORMATION

For further information on our subsidiaries, please refer to:

- HLB's FY18 MD&A in their FY18 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 FY18 MD&A in their FY18 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

This is Hong Leong Financial Group Berhad's ("HLFG") sustainability report covering the financial year ended 30 June 2018 ("FY18").

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**
- HLCB at **www.hlcap.com.my** or **www.bursamalaysia.com**

A. HONG LEONG GROUP VALUES

The Hong Leong Group was built on a strong heritage of value creation for our stakeholders and communities within which we operate. Over the decades, we have taken a progressive approach in integrating sustainability into our businesses to become stronger and more resilient. 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.

SUSTAINABILITY STATEMENT

B. 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

C. 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 with the Sustainability Reporting Team and through review by senior management.

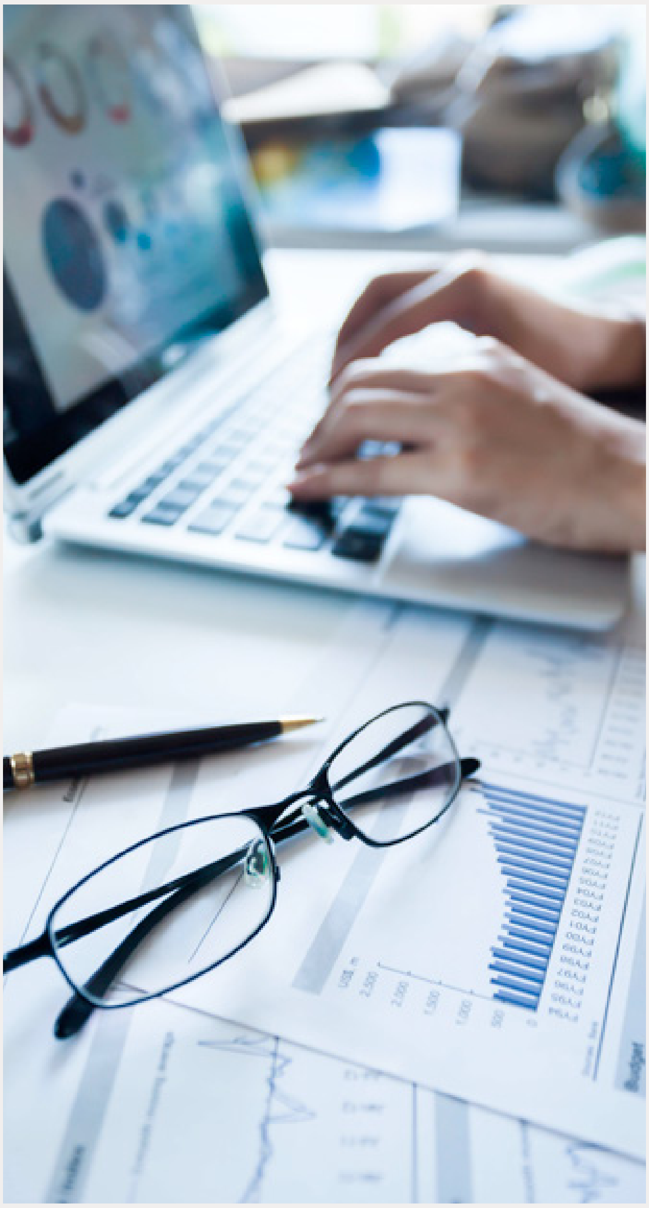
Validation
The material sustainability matters were then validated with the Group CFO and approved by the Board of Directors.

Review
This final step encompasses feedback from all our stakeholders. From the 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



SUSTAINABILITY STATEMENT

C. MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

2. Material Sustainability Matters (continued)

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.
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.

SUSTAINABILITY STATEMENT

C. MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

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.

We also look at digitisation as an organised way of using technology tools on optimised processes with an objective of reducing manual intervention through automated activities that should yield higher productivity and customer satisfaction. Digitisation is the essential key to transform our traditional products deployment approach into a progressive, dynamic and sustainable customer oriented business.

MAJOR INITIATIVES FROM HLB:

- Introduced several first-in-Malaysia and in the region innovations including the introduction of the use of artificial intelligence, robotics, real time speech analytics, visual analytics, real time customer feedback and in-branch tablet solutions to boost the delivery of our customer experience and their omni-channel journeys with us.
- The first Digital branch for the HLB was opened on 3 November 2017 in Damansara City, Kuala Lumpur to bring customers a new experience through innovative service delivery.
- An exciting digitisation innovation is the HLB Loan2Go off-site mobile auto loan application platform where managing loan accounts was made easy and 24/7 accessible to our customers.
- Launched the HL Connect First on 22nd November 2017. This innovation offers single sign-on access to a comprehensive suite of advanced cash, trade and foreign exchange solutions for corporate, commercial and SME customers of HLB and Hong Leong Islamic Bank Berhad ("HLISB").

SUSTAINABILITY STATEMENT

C. MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

3. Importance and Management of Sustainability Matters (continued)

ii. Customer Experience

In the digital era where tech-savvy millennials make up the majority of our customer base, we are witnessing a shift in customer behaviour from conventional banking to demands for online banking. Digitisation trends in the banking and wider industries drive business development, which in turn drive continued higher customer expectations and satisfaction. Being digital at the core is not only about being mobile or having the latest technology but it is also about finding effective ideas to interact and engage with customers.

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 the Mobile Wallet Project Green Lantern (WechatPay). HLB obtained Bank Negara Malaysia's approval to enter into an agreement with Tenpay Payment Technology Co Limited, a subsidiary of Tencent ("Tencent"), to provide WeChat Pay payment solution.
- Customers' feedback is crucial to help us improve our digitisation efforts. We collect customer opinions through HLB touchpoint channel users such as the contact center, branches, self-service terminals and digital banking with the subscription to an Enterprise Feedback Management ("EFM") platform. This platform collects and reports customer feedback in real-time.
- Effective 14 August 2017, HLB has discontinued cheque book replenishment for Pay&Save Account and removed Cheque book facility as one of the features of Pay&Save Account.

MAJOR INITIATIVES/POLICIES FROM HLCB:

- HLCB's Asset Desk of Stockbroking Division has been actively installing front line trading programs which facilitate clients' trade execution and the consolidation of all trades executed during the day to ease the day end reporting requirements and to enhance clients' experience with us.

SUSTAINABILITY STATEMENT

C. MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

3. Importance and Management of Sustainability Matters (continued)

iii. Cyber Security and Data Privacy

Cyber security and customer data privacy continue to be a top priority for our Group. We cannot overstate enough the importance of protecting the customer data we hold nor understate the risks involved affecting reputation, loss of trust by customers/ stakeholders, claims and regulatory actions amongst others. We have implemented and continue to upgrade and strengthen a multitude of measures to safeguard customer data and prevent security breaches in our organisation.

We deploy specialist knowledge and key technologies to detect and prevent a fraud incident or cyberattack, and if we catch an attack in progress then we can contain it. However, it's not just down to our team of developers, IT teams and our fraud management unit. We also need to ensure that our customers are aware of the risks and consequences of fraud. Security is a joint responsibility between the bank and the customer where customer education also plays an important preventive role.

MAJOR INITIATIVES/POLICIES FROM HLB:

- Establishment of Cyber Threat intelligence purposed at creating a world view on latest threats, mapping out a threat landscape and how it affects HLB as a whole. HLB targets to implement the Global Cyber Threat intelligence feeds by FY19. Among the ongoing action plans to help HLB achieve this target are the enhancement of its Malware and Endpoint Protection, implementing the APT mitigation platforms and exercising around the clock Security Operations Center monitoring.
- HLB has established multiple channels for communications, from having brown bag sessions, townhalls, to online and e-based awareness on Cyber Security and Private Data Protection.

MAJOR INITIATIVES/POLICIES FROM HLCB:

- Installations of antivirus software on workstations and devices to prevent uninvited threats from emails, external storage or through the network, implementation of file encryption protection on all files retrieved from workstations, and controls on the accessibility of data retrieved from workstations.
- Cyber security awareness program is conducted internally within the group to address the rapid and ever-changing data security threat environment. The programs provide the education, monitoring and on-going maintenance of security awareness.

SUSTAINABILITY STATEMENT

C. MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

3. Importance and Management of Sustainability Matters

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	14	37
Female	24	63
Total	**38**	**100**

HLFG strives to create an equal opportunity workplace for all employees. We believe we have succeeded to some extent at this, as over 60% 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

The success of HLB's Human Resource strategy depends in part on our ability to retain, motivate, develop, and continue to attract employees with the skills and experience to help HLB master challenges and make the most of opportunities. Investing in our employees remains of paramount importance. The Human Resources Report, "Fit for Future Workforce" provides transparency on their employee metrics and how we are translating our strategic priorities into action.

One of HLB most valuable assets is the workforce. It's unrealistic to think that HLB can survive with talented workers with skills that aren't periodically upgraded. Investing in their knowledge base and professional development is critical for their success. This type of investment also underlies the company's strategic plan to create a world-class workforce.

Providing relevant training and implementing workforce development are essential components of HLB's human resources function. Having the necessary tools for success will inevitably benefit the organization overall. Ensuring employees are equipped to perform at high levels and to sustain high performance is HLB's training and development goal. In addition, providing skills building and professional development opportunities to employees greatly enhance their job satisfaction and engagement.

HLCB

HLCB has introduced a HiPo ("High Potential") program as one of the initiatives under its talent management strategy. The program aims to build a strong succession pipeline of bright and skilled future leaders and maintain a high retention rate. Additionally, HLCB Talent Incubator Program (Management Trainee) program was introduced with the aim to propel passionate, engaged and aspirated young talents.

Besides, as part of the talent management program to drive the company's workforce to achieve a high level of professionalism, HLCB has developed a Competency Structure for each category of employee. The Competency Structure defines the skills and knowledge requires for successful job performance at all levels. We derive the structure based on expected traits and demand in upcoming market workforce specifically for Head of Department, People Manager and Contributor.

SUSTAINABILITY STATEMENT

C. MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

3. Importance and Management of Sustainability Matters

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 HLB expects all staff to adhere to. The Code is available on HLB's Online Knowledge Portal.

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 serves to less served segments of the community, as well as in supporting under-served entrepreneurs, particularly start-ups. We seek to engage and help local communities develop via programs that have been designed to meet their specific needs.

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 the more marginalised pockets of 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:

- HLB is taking an active role towards supporting the growth of Malaysia's SME sector, by providing financial support to SMEs as well as enabling avenues and opportunities that addresses their non-financial needs. In FY17, our baseline target for SME loan base was set at RM20 Billion. HLB plans to double the loan base of SME by FY21. We target to achieve this by supporting the growth and capability development of SMEs through the provision of relevant tools, knowledge, and banking products and services.
- Deployment of 150 community banking managers at branches nationwide to serve the SME segment, and increase HLB's coverage by approximately 5 times.
- HLB undertook initiatives to enhance the financial literacy among our customers with the objective to educate customers and other groups or communities on financial planning and management. Under Program Celik Muamalat, HLISB collaborated with the Johore Islamic College (MARSAH) as part of our support towards Value-based Intermediation initiatives. The program was held in March 2018 at MARSAH where 75 students & lecturers from the faculty of Muamalah, attended the event where our speakers shared on topics to create awareness on Islamic Finance and the industry.

SUSTAINABILITY STATEMENT

C. 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 HLB introduces has to be approved by HLB's Product and Evaluation Approval Committee ("PEAC") which is also applicable to its overseas subsidiaries (HLB subsidiaries and branches in Vietnam, Cambodia, Singapore and China) and HLISB. The committee evaluates and scrutinises each products at length from various angles including giving attention to compliance requirements from various regulators prior making a final decision on the product.

viii. 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.

We moved into the new head office, Menara Hong Leong ("MHL"), in the second half of 2018. MHL is a certified Green Building. The MHL building Management implemented a Green Building Guideline to promote awareness of energy conservation and to better control energy consumption of the building's operations. In order to minimize electricity consumption in MHL, several energy efficient technology have been installed such as (1) photocell sensors are installed in the building to activate lighting when ambient lighting levels are low; (2) motion sensors for lighting are installed to activate lighting only when room is being occupied; (3) digital electrical sub-meters are used to efficiently track electricity usage. (4) Carbon Dioxide ("CO2") levels are being monitored and controlled by introducing fresh air monitor system: when CO2 levels exceed 800ppm, the system is activated.

SUSTAINABILITY STATEMENT

C. MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

3. Importance and Management of Sustainability Matters (continued)

viii. 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 every year.
- Recycling initiative: Paper and plastic products consumed within our office premises are placed in recycling bins.
- To promote energy conservation and efficiency, our staffs are encouraged to conserve electricity wherever possible.

MAJOR INITIATIVES/POLICIES FROM HLB:

- In FY18, the total weight of recyclable material used in operation were 45,000kg, of which 15,000kg or 33.33% were recycled after used. HLB operations will Go Green by reducing 54% on the cost of printing documents such as statements, notices, letters and reminders by FY19.
- The management had pledged and moved the initiatives to reduce overall energy consumption by 5% over three years; we aimed to reach this target by 2020. Within the next three years, we will replace all building lightings to LED types; and rationalize our air-conditioning and chilled water. On electricity consumption, we were successful in reducing the building electricity consumption in PJ CITY, from 9,254,162kwh in 2017 to 8,823,559kwh in 2018, a 5% in electricity saving within a year.
- Our efficiency also covers the non-renewable resources/fuel consumption volume of our company vehicles. For FY18, we observed a sharp reduction from 4,272 kJoules in 2017 to 2,841kJoules in 2018 for our company vehicles.

MAJOR INITIATIVES/POLICIES FROM HLCB:

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

ix. 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:

- In line with our empowerment and support corporates and SMEs involved in Green/ Renewable Energy Project, the Bank has launched an initiative to provide RM500 million financing to corporate/SMEs on activities in relations to renewable/sustainable energy from FY18 to FY22.
- HLB also supported Bank Negara Malaysia's initiative to provide financing to SMEs affected by disasters to assist them in resuming their business operations. The Fund is called the Disaster Relief Fund/Special Relief Fund. HLB for FY18 committed RM4.40 million for conventional financing and RM0.85 million for Islamic financing in line with Bank Negara's campaign for Disaster Relief Fund/Special Relief Fund.

SUSTAINABILITY STATEMENT

CONTENT INDEX

PROFILE DISCLOSURE	REFERENCE PAGE/EXPLANATIONS
REPORT PROFILE	
• Reporting period	**36**
• Reporting scope	**36**
• Reporting cycle	Annual
• Contact point for questions	**66**
GOVERNANCE	
• Governance structure of the organisation	**37**
IDENTIFIED MATERIAL MATTERS	
• Material matters identified	**37 -38**
• Process for identifying material sustainability matters	**37**
MATERIAL SUSTAINABILITY MATTERS	
HELPING CLIENTS SUCCEED	
Digital Innovation	
• Digital innovation related initiatives that have been implemented in the organisation	**39**
Customer Experience	
• Customer experience related initiatives that have been implemented in the Digital organisation	**40**
Cyber Security & Data Privacy	
• Cyber Security & Data Privacy related initiatives that have been implemented in the organisation	**41**

SUSTAINABILITY STATEMENT

CONTENT INDEX (CONTINUED)

MATERIAL SUSTAINABILITY MATTERS	REFERENCE PAGE/EXPLANATIONS
PROVIDING OUR PEOPLE WITH THE BEST OPPORTUNITIES	
Employee Experience	
• Employee experience related initiatives that have been implemented in the organisation	42
CREATING STAKEHOLDER VALUE	
Good Governance	
• Governance related initiatives that have been implemented in the organisation	43
Community Banking	
• Community banking related initiatives that have been implemented in the organisation	43
Product Responsibility	
• Product responsibility related initiatives that have been implemented in the organisation	44
Managing Environmental Footprint	
• Environment related initiatives that have been implemented in the organisation	44 - 45
Environmental and Social Assessment of Products and Services	
• Environmental and Social Assessment of Products and Services related Initiatives that have been implemented in the organisation	45

CORPORATE INFORMATION

DIRECTORS

YBhg Tan Sri Quek Leng Chan *(Chairman)*

Mr Tan Kong Khoon *(President & Chief Executive Officer)*

Ms Lim Tau Kien

Ms Lim Lean See

Mr Saw Kok Wei

GROUP COMPANY SECRETARY

Ms Christine Moh Suat Moi
MAICSA 7005095

AUDITORS

PricewaterhouseCoopers PLT
(LLP0014401 – LCA & AF1146)
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 30, Menara Hong Leong
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel : 03-2080 9888
Fax : 03-2080 9801

WEBSITE

www.hlfg.com.my

BOARD OF DIRECTORS' PROFILE

YBHG TAN SRI QUEK LENG CHAN

Chairman/Non-Executive/Non-Independent

Age 75, 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 Nomination 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"), a company 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. He is also the Chairman of the Council of Members of Hong Leong Bank Vietnam Limited ("HLBVN").

MR TAN KONG KHOON

President & Chief Executive Officer/Non-Independent

Age 61, 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. He is a Chartered Banker of the Asian Institute of Chartered Bankers.

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 DBS Bank Ltd ("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 financial group in Thailand listed on the Thailand Stock Exchange. The group businesses included commercial and investment banking, life and non-life insurance, stock broking, asset management and consumer finance subsidiaries.

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

Mr Tan is the Chairman of Hong Leong Capital Berhad and a Director of HLB, both companies listed on the Main Market of Bursa Securities; and a Director of HLA and Hong Leong Investment Bank Berhad, both public companies. He is also the Chairman of Hong Leong Bank (Cambodia) PLC and Chief Controller on the Board of Controllers of HLBVN.

MS LIM TAU KIEN

Non-Executive Director/Independent

Age 62, Female, Malaysian

Ms Lim Tau Kien is a Chartered Accountant registered with the Institute of Chartered Accountants of Scotland and is a member of the Malaysian Institute of Accountants.

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.

BOARD OF DIRECTORS' PROFILE

MS LIM LEAN SEE

Non-Executive Director/Independent

Age 65, 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 of 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 55, Male, Singaporean

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.

Notes:

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 2018.
4. ***Attendance of Directors***
   Details of Board meeting attendance of each Director are disclosed in the Corporate Governance Overview, Risk Management & Internal Control Statement in the Annual Report.

KEY SENIOR MANAGEMENT

MR CHEW SEONG AUN

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

Age 54, 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 51, 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 55, 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 53, 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 2018.

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. A BARMC member who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the BARMC meeting where the material transaction or material arrangement is being deliberated by the BARMC.

Two (2) members of the BARMC, who shall be independent, shall constitute a quorum and majority of members present must be independent director.

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 2018 ("FYE 2018"), five (5) BARMC meetings were held and the attendances of the BARMC members was as follows:

Member	Attendance
Ms Lim Tau Kien	5/5
Mr Saw Kok Wei	5/5
Ms Lim Lean See	5/5

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.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

HOW THE BARMC DISCHARGES ITS RESPONSIBILITIES (CONTINUED)

Financial Reporting (continued)

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 FYE 2018 is PricewaterhouseCoopers PLT ("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 FYE 2018 amounted to RM5,118,999 of which RM1,940,571 was payable in respect of non-audit services. Non-audit services accounted for 38% 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 FYE 2018 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 FYE 2018 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. Resolution concerning the re-appointment of PwC will be proposed to shareholders at the 2018 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.

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.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

HOW THE BARMC DISCHARGES ITS RESPONSIBILITIES (CONTINUED)

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 audit's 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 assess and manage risks and uncertainties that could inhibit the Group's ability to achieve its business objectives.

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 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 FYE 2018, the following internal audits were carried out:

- Financial Holding Company: audits on finance functions and oversight of key subsidiaries.
- 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, data privacy and protection, agency, product development, actuarial, investment, financial, information technology and system, branches, and other assignments as required by regulatory bodies.

The cost incurred for the various internal audit functions within the Group for the FYE 2018 was RM16.81 million.

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

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

"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") is pleased to present this statement with an overview of the corporate governance ("CG") practices of the Group which supports the three key principles of the Malaysian Code on Corporate Governance ("MCCG") namely board leadership and effectiveness; effective audit and risk management; and integrity in corporate reporting and meaningful relationship with stakeholders.

The CG Report 2018 of the Company in relation to this statement is published on the Company's website, www.hlfg.com.my ("the Company's website").

The Board also reviewed the manner in which the Bank Negara Malaysia's ("BNM") policy document on Corporate Governance ("BNM CG Policy") 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 has 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 was last reviewed by the Board in September 2017, and will be periodically reviewed. The Board Charter is published on the Company's Website. 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 as specified in the guidelines and circulars issued by BNM from time to time.

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.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

A. ROLES AND RESPONSIBILITIES OF THE BOARD (CONTINUED)

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 has been adopted by the Board and published on the Company's Website. In addition, the Company also has a Code of Conduct and Ethics for Employees that set 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 the said policy is published on the Company's Website. 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 currently comprises five (5) Directors. The five (5) Directors are made up of four (4) Non-Executive Directors, of whom three (3) are independent. The profiles of the members of the Board are set out in the Annual Report.

The Company is guided by BNM CG Policy 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 to 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 Company 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 the MCCG.

Based on the review of the Board composition in July 2018, 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.

(b) NC

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

- **Ms Lim Lean See**
  (Chairman)
- **YBhg Tan Sri Quek Leng Chan**
- **Ms Lim Tau Kien**

The NC's functions and responsibilities are set out in the TOR which is published on the Company's Website.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

C. BOARD COMMITTEES (CONTINUED)

(b) NC (continued)

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 appointments and re-appointments of Chairman, Directors and CEO, (ii) appointment of Board Committee members, and (iii) annual F&P assessment of Chairman, Directors and CEO, and the criteria and guidelines 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.

(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, personal integrity, reputation, qualifications, skills, experience and financial integrity in line with the standards required under the relevant BNM Guidelines. The Company has taken steps to build and maintain a pool of potential Board candidates from internal and external introductions, recommendations and independent sources with 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 • Relevant Credit Bureau Checks • Recommendation by the NC	Deliberation by the Board and decision thereof

For re-appointments, the Chairman, Directors and CEO 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 in respect of their probity, competence, personal integrity, reputation, qualifications, skills, experience and financial integrity in line with the standards required under the relevant BNM Guidelines and for Independent Directors, their independence.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

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 Chairman, 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 Chairman, Directors and 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-a-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 contribution 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 2018 ("FYE 2018"), five (5) NC meetings were held and the attendances of the NC members were as follows:

Member	Attendance
Ms Lim Lean See	5/5
YBhg Tan Sri Quek Leng Chan	5/5
Ms Lim Tau Kien	5/5

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

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 FYE 2018:

- 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 cognisance 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;
- 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 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;
- 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;
- Reviewed and recommended to the Board for adoption the revisions to the F&P Policy of the Company on tenure of Independent Directors, and criteria of Independent Directors.

(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)
- **YBhg Tan Sri Quek Leng Chan**
- **Mr Saw Kok Wei**

The RC's functions and responsibilities are set out in the TOR which is published on the Company's Website.

During the FYE 2018, two (2) RC meetings were held and the attendances of the RC members was as follows:

Member	Attendance
Ms Lim Lean See	2/2
YBhg Tan Sri Quek Leng Chan	2/2
Mr Saw Kok Wei	2/2

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 detailed remuneration of each Director during the FYE 2018 is as set out in Note 37 of the Audited Financial Statements in this Annual Report.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

C. BOARD COMMITTEES (CONTINUED)

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

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 RC.

Deferred Compensation and Clawbacks

The deferred compensation is applicable to some of the incentive schemes introduced in HLFG. These can be for any roles across the organisation with built-in clawback mechanism. The clawback mechanism is introduced to ensure excessive risk taking behavior of each staff is minimized and that the system does not induce excessive risk taking and sufficient control is in place to ensure sustainable business achievements in the long-term. 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 can be triggered when there are non-compliances to regulations and policies and where Management deemed necessary due to achievements of performance targets that are not sustainable.

The remuneration of the CEO, Senior Management and other Material Risk Takers for FYE 2018 is shown in the table below:

	Unrestricted (RM)	Deferred (RM)
Fixed Remuneration		
• Cash-based	5,165,300	–
• Shares and share-linked instruments	–	–
• Other	–	–
Variable Remuneration		
• Cash-based	9,319,122	–
• Shares and share-linked instruments*	–	39,598,000
• Other	–	–

Note: * The value of share is based on the valuation used for MFRS 2 Accounting.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

D. INDEPENDENCE

The Board takes cognisance of the provisions of the MCCG, which 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. It further states that in the event the Board wishes to retain an Independent Director who has served a cumulative term of 9 years and above, shareholders' approval shall be annually sought with justification. In the event the Board wishes to retain an Independent Director who has served a cumulative term of 12 years and above, shareholders' approval shall be annually sought through a two-tier voting process.

The tenure of all the 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 the Company for a period of 9 years cumulatively 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;
(b) the due date for his retirement by rotation pursuant to the Constitution of the Company.

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 MCCG 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 ad-hoc 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 Policy.

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 governance 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.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

E. COMMITMENT (CONTINUED)

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. A Director who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the Board meeting where the material transaction or material arrangement is being deliberated by the Board.

The Board met six (6) times for the FYE 2018 with timely notices of issues to be discussed. Details of attendance of each director are as follows:-

Member	Attendance
YBhg Tan Sri Quek Leng Chan	6/6
Mr Tan Kong Khoon	6/6
Ms Lim Tau Kien	6/6
Ms Lim Lean See	6/6
Mr Saw Kok Wei	6/6
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman[(1)]	5/5

(1) *Retired as Director with effect from 31 January 2018*

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.

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-à-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, cyber security, internal control and/or statutory/regulatory compliance, be recommended and arranged for the Directors to enhance their contributions to the Board.

During the FYE 2018, the Directors received regular briefings and updates on the Group's businesses, operations, risk management and compliance, internal controls, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Company also organised an in-house programme for its Directors and senior management.

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

During the FYE 2018, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- FIDE Forum – Fintech: Opportunities for the Financial Services Industry in Malaysia
- FIDE Forum – 5th Annual Dialogue with the Deputy Governor of Bank Negara Malaysia
- BNM – Value-Based Intermediation (VBI) Dialogue
- KPMG – Malaysian Code on Corporate Governance Update
- KPMG – Cyber Security Awareness Session
- Securities Commission – Boards in the Digital Economy
- Bursa Malaysia – Fraud Risk Management Workshop
- Bursa Malaysia – Case Study Workshop for Independent Directors
- ICLIF – CG Breakfast Series Entitled: Leading Change @ The Brain
- ICLIF – The CG Breakfast Series for Directors: Leading in a Volatile, Uncertain, Complex, Ambiguous (VUCA) World
- Malaysian Directors Academy ("MINDA") – Directors CPD

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

E. COMMITMENT (CONTINUED)

- MINDA & Razak School of Government (RSOG) – International Directors Summit 2017
- MINDA – The Corporate Intelligence: A Director's Understanding & Access to Evidence-Based Foresight
- Malaysian Institute of Accountants – Capital Market Conference 2017
- Cyber Security Insights & Sharing
- Digital Transformation and Impact to Businesses
- Malaysian Financial Reporting Standards 17 (MFRS17) Insurance Contracts
- Briefing on Oil Hedging Overview, Tools and Risk
- Briefing on FX Market Development
- Briefing on MOPS Pricing Methodology and Market Outlook
- Executive Presentation on Board Online Software
- Institute of Singapore Chartered Accountants ("ISCA") – ISCA CFO Networking
- CFO Innovation & Questex – 9th CFO Innovation Asia Forum : Leveraging Exponential Technologies to Create Incremental Value
- Singapore Institute of Directors – The Director as an Innovation Driver
- Update on Singapore Stock Exchange Regulations
- Briefing on Singapore Corporate Access (CorpPass) – a new corporate digital identity to transact online with Government agencies
- Briefing on Guide on Prevention of Insider Trading – Handling of Confidential Information and Dealings in Securities
- Update on Amendments to the Building Maintenance and Strata Management Act

F. ACCOUNTABILITY AND AUDIT

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

I Financial Reporting

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

II 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.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

F. ACCOUNTABILITY AND AUDIT (CONTINUED)

III Relationship with Auditors (continued)

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 Company's 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's 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.

Queries may be conveyed to the Group Chief Financial Officer at:

Tel No : 03-2080 9888
Fax No : 03-2080 9800
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 the CEO attended the last AGM held on 26 October 2017.

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.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

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

I The responsibility of the Board (continued)

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

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

II The Risk Management Framework

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

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

These processes have been in place throughout the FYE 2018 and have continued up to the date this statement was approved.

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

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

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

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

III Internal Control Review and Regulatory Compliance Procedures

The Internal Audit Division ("IAD"), 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. IAD, working with the various internal audit functions within the Group 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 respective Group company's BARMC and the Group company's 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.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

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

IV Management and Decision-Making Processes (continued)

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

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

The Group has identified the major risks that has significant impact on its operations, namely; credit risk, market risk, liquidity risk, operational risk, 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 Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Audit and Assurance Practice Guide ("AAPG") 3 issued by the Malaysian Institute of Accountants. AAPG 3 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 FYE 2018, 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 Overview, Risk Management and Internal Control is made in accordance with the resolution of the Board.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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 2018.

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	**1,907,442**	**755,869**
- Non-controlling interests	**987,084**	**–**
	2,894,526	**755,869**

DIVIDENDS

The dividends on ordinary shares paid or declared by the Company since the previous financial year ended 30 June 2017 were as follows:

(a) A first interim single-tier dividend of 13 sen per share, amounting to RM149,177,131 in respect of the financial year ended 30 June 2018, was paid on 28 December 2017.

(b) A second interim single-tier dividend of 27 sen per share, amounting to RM309,829,425 in respect of the financial year ended 30 June 2018, was paid on 26 June 2018.

The Directors do not recommend the payment of any final dividend for the financial year ended 30 June 2018.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

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

SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

Significant events subsequent to the financial year are disclosed in Note 53 to the financial statements.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

CREDIT RATING

On 2 November 2017, Rating Agency Malaysia Berhad has assigned AA_1/P1 corporate credit ratings (CCRs) to Hong Leong Financial Group Berhad (the Company or the Group). All the long-term ratings have a stable outlook.

Details of the ratings are as follows:

	Rating Classification
Corporate Credit Ratings	AA_1/Stable/P1
Proposed Multi-Currency Senior Notes, Tier-2 Subordinated Notes and Additional Tier-1 Capital Securities Programme of up to RM25.0 billion*	
i. Senior Notes	AA_1/Stable
ii. Tier-2 Subordinated Notes	AA_2/Stable
iii. Additional Tier-1 Capital Securities	A_1/Stable
Proposed Commercial Papers Programme of up to RM3.0 billion*	-/-/P1

** combined limit of RM25.0 billion*

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)
Ms Lim Tau Kien	(Independent Non-Executive Director)
Ms Lim Lean See	(Independent Non-Executive Director)
Mr Saw Kok Wei	(Independent Non-Executive Director)
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman (Retired with effect from 31 January 2018)	(Non-Independent Non-Executive Director)

The subsidiaries' 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 2018

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings required to be 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:

	Directors' direct interests Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising fromthe exercise of options*/conversion of redeemable convertible unsecured loan stocks**/nominal value in Ringgit Malaysia of Additional Tier 1 capital securities/perpetual subordinated sukuk wakalah***				
	Nominal value per share RM (unless indicated)	As at 01.07.2017	Acquired	Sold	As at 30.06.2018
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 Tan Kong Khoon in:					
Hong Leong Financial Group Berhad		–	8,000,000*	–	8,000,000*

	Directors' 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**/nominal value in Ringgit Malaysia of Additional Tier 1 capital securities/perpetual subordinated sukuk wakalah***				
	Nominal value per share RM (unless indicated)	As at 01.07.2017	Acquired	Sold	As at 30.06.2018
Interests of YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	(1)	7,701,455 (7)	–	(50,000)(12)	7,651,455 (7)
Hong Leong Financial Group Berhad	(1)	896,158,726 (7)	–	–	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
		–	400,000,000***	–	400,000,000***
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 Islamic Bank Berhad		–	400,000,000***	–	400,000,000***
Hong Leong Industries Berhad	(1)	243,415,670 (7)	200,000(7)(11)	(915,200) (7)	242,700,470 (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
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)	108,950,757	–	(235,500)	108,715,257
Carter Resources Sdn Bhd	(1)	5,640,607	–	–	5,640,607
Carsem (M) Sdn Bhd	(1)	84,000,000	–	–	84,000,000
	(1)	22,400 (8)	–	–	22,400 (8)

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

DIRECTORS' INTERESTS (CONTINUED)

	Directors' direct interests Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising fromthe exercise of options*/conversion of redeemable convertible unsecured loan stocks**/nominal value in Ringgit Malaysia of Additional Tier 1 capital securities/perpetual subordinated sukuk wakalah***				
	Nominal value per share RM (unless indicated)	As at 01.07.2017	Acquired	Sold	As at 30.06.2018
Interests of YBhg Tan Sri Quek Leng Chan in: (continued)					
Hume Industries Berhad	(1)	350,231,658 (7)	–	–	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	35,000 (7)(11)	–	817,946,030 (7)
		420,000*(7)	–	(35,000)*(7)	385,000*(7)
Southern Steel Berhad	(1)	292,169,709	–	–	292,169,709
	(1)	140,076,337**	–	–	140,076,337**
Southern Pipe Industry (Malaysia) Sdn Bhd	(1)	123,372,953	1,591,200	–	124,964,153
TPC Commercial Pte. Ltd.	(2)	189,600,000	–	–	189,600,000
TPC Hotel Pte. Ltd.	(2)	8,000,000	54,400,000	–	62,400,000
Wallich Residence Pte. Ltd.	(2)	24,000,000	–	–	24,000,000
GLL A Pte. Ltd.	(2)	7 (9)	–	–	7 (10)
GLL Chengdu Pte Ltd	(2)	149,597,307	–	–	149,597,307
GLL Prosper Pte Ltd	(2)	128,800,000 (9)	–	–	128,800,000 (10)
GLL Thrive Pte Ltd	(2)	22,400,000 (9)	–	–	22,400,000 (10)
Beijing Ming Hua Property Co., Ltd	(3)	150,000,000	–	–	150,000,000
Shanghai Xinhaojia Property Development Co., Ltd	(3)	3,150,000,000	–	–	3,150,000,000
Shanghai Xinhaozhong Holding Co., Ltd (formerly known as Shanghai Xinhaozhong Property Development Co., Ltd)	(3)	19,600,000	–	(19,110,000)	490,000
JB Parade Sdn Bhd	(1)	28,000,000	–	–	28,000,000
	(1)	68,594,000 (8)	28,796,000 (8)	–	97,390,000 (8)
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)	455,574,796	–	–	455,574,796
Guoman Hotel & Resort Holdings Sdn Bhd	(1)	277,000,000	–	–	277,000,000
GLM Emerald Industrial Park (Jasin) Sdn Bhd	(1)	34,408,000	–	–	34,408,000
(formerly known as Continental Estates Sdn Bhd)	(1)	123,502,605 (8)	–	–	123,502,605 (8)
GL Limited	USD0.20	925,753,134	–	–	925,753,134
		100,000*(7)	–	–	100,000*(7)
The Rank Group Plc	GBP13$^{8/9}$p	219,282,221	–	–	219,282,221

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) A wholly owned subsidiary
(10) Became a non-wholly owned subsidiary during the financial year
(11) Exercise of share options
(12) Cancellation pursuant to reduction of share capital.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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 37 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 total number of issued shares (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 total number of issued shares (excluding treasury shares) of the Company at any one time ("Aggregate Maximum Allocation").

There were 20,450,000 options granted at an exercise price of RM17.12 under the ESS of the Company during the financial year ended 30 June 2018.

As at 30 June 2018, a total of 32,839,819 options had been granted under the ESS, out of which 1,446,000 options had been exercised, with 21,919,000 options remaining outstanding. The aggregate options granted to directors and chief executives of the Group under the ESS amounted to 18,081,823, out of which 800,000 options had been exercised, with 14,200,000 options 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.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

EXECUTIVE SHARE SCHEME ("ESS") (CONTINUED)

As at 30 June 2018, the actual percentage of total options granted to directors and senior management of the Group under the ESS was 2.45% of the issued and paid-up ordinary share capital of the Company, and the actual percentage granted to directors and senior management of the Group during the financial year ended 30 June 2018 was 1.59% 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 51 on Equity Compensation Benefits.

SHARE CAPITAL

During the financial year, there was no issuance of new ordinary shares. As at 30 June 2018, 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 financial position and statements of income of the Group and of the Company were prepared, 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.

(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 of 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 of the Company misleading or inappropriate.

(ii) In the opinion of the Directors:

- the results of the operations of the Group and of the Company for the financial year ended 30 June 2018 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.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY (CONTINUED)

(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 of the Company which would render any amount stated in the financial statements misleading.

DISCLOSURE OF SHARIAH ADVISORY COMMITTEE

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

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

ULTIMATE HOLDING COMPANY

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

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 37 to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 35 to the financial statements.

AUDITORS

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

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

Signed on behalf of the Board of Directors in accordance with their resolution dated 19 September 2018.

TAN KONG KHOON
Director

LIM TAU KIEN
Director

Kuala Lumpur
19 September 2018

STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	The Group 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
Assets					
Cash and short-term funds	2	**9,890,071**	12,772,343	**25,466**	7,721
Deposits and placements with banks and other financial institutions	3	**10,196,421**	6,013,958	**3,360**	8,400
Securities purchased under resale agreements		**35,126**	336,003	**–**	–
Financial assets held-for-trading	4	**10,536,881**	9,453,437	**–**	–
Financial investments available-for-sale	5	**37,732,539**	35,163,362	**–**	–
Financial investments held-to-maturity	6	**15,895,679**	14,581,030	**–**	–
Derivative financial instruments	20	**971,195**	977,604	**–**	–
Loans, advances and financing	7	**128,851,234**	124,812,079	**–**	–
Clients' and brokers' balances	8	**525,556**	508,070	**–**	–
Other receivables	9	**952,570**	1,527,755	**410**	575
Amount due from subsidiaries	47	**–**	–	**4,137**	38,646
Statutory deposits with Central Banks	10	**4,364,982**	3,796,330	**–**	–
Tax recoverable		**367**	1,909	**–**	1,685
Investment in subsidiary companies	11	**–**	–	**17,996,078**	16,909,723
Investment in associated companies	12	**4,538,326**	4,321,625	**–**	–
Investment in joint venture	13	**179,426**	169,185	**–**	–
Deferred tax assets	22	**–**	–	**75**	36
Property and equipment	14	**1,573,829**	1,884,451	**5,332**	1,418
Investment properties	15	**494,164**	2,030	**–**	–
Goodwill arising on consolidation	16	**2,410,644**	2,410,644	**–**	–
Intangible assets	17	**168,541**	230,588	**1**	13
Total assets		**229,317,551**	218,962,403	**18,034,859**	16,968,217

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

STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	The Group 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
Liabilities					
Deposits from customers	18	**156,882,912**	154,458,017	**–**	–
Deposits and placements of banks and other financial institutions	19	**9,296,395**	7,734,425	**–**	–
Obligations on securities sold under repurchase agreements		**3,931,523**	2,978,728	**–**	–
Bills and acceptances payable		**544,450**	364,675	**–**	–
Derivative financial instruments	20	**1,082,140**	1,479,564	**327**	874
Clients' and brokers' balances		**350,730**	271,738	**–**	–
Payables and other liabilities	21	**11,708,191**	8,531,035	**13,612**	9,489
Recourse obligations on loans sold to Cagamas Berhad		**202,952**	202,926	**–**	–
Provision for claims		**150,478**	147,767	**–**	–
Provision for taxation		**244,162**	235,309	**1,972**	–
Deferred tax liabilities	22	**78,309**	302,517	**–**	–
Borrowings	23	**1,300,371**	1,526,222	**1,385,934**	1,526,222
Subordinated obligations	24	**2,800,447**	2,959,779	**499,599**	–
Innovative Tier 1 capital securities	25	**474,612**	515,623	**–**	–
Multi-currency Additional Tier 1 capital securities	26	**401,369**	–	**400,751**	–
Insurance funds	27	**13,188,787**	12,221,565	**–**	–
Total liabilities		**202,637,828**	193,929,890	**2,302,195**	1,536,585
Equity attributable to owners of the parent					
Share capital	28	**2,267,008**	2,267,008	**2,267,008**	2,267,008
Reserves	29	**15,560,124**	14,377,641	**13,465,659**	13,164,627
Treasury shares for ESOS	30	**(22,686)**	(35,712)	**(3)**	(3)
		17,804,446	16,608,937	**15,732,664**	15,431,632
Non-controlling interests		**8,875,277**	8,423,576	**–**	–
Total equity		**26,679,723**	25,032,513	**15,732,664**	15,431,632
Total equity and liabilities		**229,317,551**	218,962,403	**18,034,859**	16,968,217
Commitments and contingencies	41	**177,098,055**	171,332,247	**100,000**	100,000

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

STATEMENTS OF INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

		The Group		The Company	
		2018	2017	2018	2017
	Note	RM'000	RM'000	RM'000	RM'000
Interest income	31	**6,519,210**	6,316,503	**14,239**	1,309
Interest expense	32	**(3,648,602)**	(3,494,848)	**(67,495)**	(59,086)
Net interest income/(expense)		**2,870,608**	2,821,655	**(53,256)**	(57,777)
Income from Islamic banking business	33	**646,064**	550,099	**–**	–
		3,516,672	3,371,754	**(53,256)**	(57,777)
Non-interest income	34	**1,834,319**	1,662,808	**850,286**	662,513
		5,350,991	5,034,562	**797,030**	604,736
Overhead expenses	35	**(2,295,031)**	(2,222,231)	**(35,809)**	(21,327)
Operating profit before allowances		**3,055,960**	2,812,331	**761,221**	583,409
Allowance for impairment losses on loans, advances and financing and other losses	36	**(77,383)**	(161,226)	**–**	–
Writeback of impairment losses on financial investments		**287**	1,330	**–**	–
		2,978,864	2,652,435	**761,221**	583,409
Share of results of associated companies	12	**579,173**	416,361	**–**	–
Share of results of joint ventures	13	**20,548**	21,153	**–**	–
Profit before taxation		**3,578,585**	3,089,949	**761,221**	583,409
Taxation	38	**(684,059)**	(773,065)	**(5,352)**	(2,039)
Net profit for the financial year		**2,894,526**	2,316,884	**755,869**	581,370
Attributable to:					
Owners of the parent		**1,907,442**	1,506,765	**755,869**	581,370
Non-controlling interests		**987,084**	810,119	**–**	–
		2,894,526	2,316,884	**755,869**	581,370
Earnings per share attributable to equity holders of the Company (sen)					
- Basic	39	**166.8**	131.8	**65.9**	50.7

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 2018

	Note	The Group 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
Net profit for the financial year		**2,894,526**	2,316,884	**755,869**	581,370
Other comprehensive (loss)/income:					
Items that may be reclassified subsequently to profit or loss:					
Currency translation differences		**(336,308)**	236,493	**–**	–
Share of other comprehensive loss of associated companies		**(5,890)**	(12,556)	**–**	–
Net fair value changes in cash flow hedge	54	**2,398**	856	**–**	–
Net fair value changes on financial investments available-for-sale	54	**(403,475)**	64,925	**–**	–
Revaluation of property upon transfer to investment properties		**78,896**	–	**–**	–
Income tax relating to components of other comprehensive income	54	**183,278**	(16,186)	**–**	–
Other comprehensive (loss)/income for the financial year, net of tax		**(481,101)**	273,532	**–**	–
Total comprehensive income for the financial year, net of tax		**2,413,425**	2,590,416	**755,869**	581,370
Attributable to:					
Owners of the parent		**1,612,675**	1,688,064	**755,869**	581,370
Non-controlling interests		**800,750**	902,352	**–**	–
		2,413,425	2,590,416	**755,869**	581,370

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 2018

The Group	Note	Share capital RM'000	Regulatory reserves* RM'000	Fair value reserve RM'000	Cash flow hedge reserve RM'000	Other reserves 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 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
Comprehensive income													
Net profit for the financial year		-	-	-	-	-	-	-	1,907,442	-	1,907,442	987,084	2,894,526
Currency translation differences		-	-	-	-	-	-	(224,559)	-	-	(224,559)	(111,749)	(336,308)
Share of other comprehensive loss of associated companies		-	-	(5,610)	-	-	-	-	-	-	(5,610)	(280)	(5,890)
Net fair value changes in financial investments available-for-sale, net of tax	54	-	-	(144,741)	-	-	-	-	-	-	(144,741)	(74,958)	(219,699)
Net fair value changes in cash flow hedge, net of tax	54	-	-	-	1,247	-	-	-	-	-	1,247	653	1,900
Revaluation of property upon transfer to investment properties		-	-	-	-	80,156	-	-	-	-	80,156	-	80,156
Others		-	-	-	-	(1,260)	-	-	-	-	(1,260)	-	(1,260)
Total comprehensive income		-	-	(150,351)	1,247	78,896	-	(224,559)	1,907,442	-	1,612,675	800,750	2,413,425
Transaction with owners													
Transfer to regulatory reserve		-	74,023	-	-	-	-	-	(74,023)	-	-	-	-
Allocation of other reserves to non-controlling interests		-	-	-	-	-	-	-	(5,497)	-	(5,497)	5,497	-
Dividends paid:													
- first interim dividend for the financial year ended 30 June 2018	40	-	-	-	-	-	-	-	(149,177)	-	(149,177)	-	(149,177)
- second interim dividend for the financial year ended 30 June 2018	40	-	-	-	-	-	-	-	(309,829)	-	(309,829)	-	(309,829)
Non-controlling interests share of dividend		-	-	-	-	-	-	-	-	-	-	(356,241)	(356,241)
Non-controlling interests share of subsidiary treasury shares		-	-	-	-	-	-	-	-	-	-	1,695	1,695
Options charge arising from executive share scheme		-	-	-	-	-	23,861	-	-	-	23,861	-	23,861
Exercise of executive share scheme		-	-	-	-	-	(3,036)	-	13,486	13,026	23,476	-	23,476
Transfer to other reserve		-	-	-	-	(539)	-	-	539	-	-	-	-
Total transaction with owners		-	74,023	-	-	(539)	20,825	-	(524,501)	13,026	(417,166)	(349,049)	(766,215)
As at 30 June 2018		2,267,008	755,010	109,284	544	213,314	50,254	521,299	13,910,419	(22,686)	17,804,446	8,875,277	26,679,723

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 2018

		Attributable to owners of the parent												
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 reserves 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
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	54	–	–	–	–	29,955	–	–	–	–	–	–	29,955	18,990	48,945
Net fair value changes in cash flow hedge, net of tax	54	–	–	–	–	–	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	40	–	–	–	–	–	–	–	–	–	(149,177)	–	(149,177)	–	(149,177)
- second interim dividend for the financial year ended 30 June 2017	40	–	–	–	–	–	–	–	–	–	(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 executive share		–	–	–	–	–	–	–	21,157	–	–	–	21,157	–	21,157
Exercise of executive share scheme		–	–	–	–	–	–	–	(1,933)	–	854	–	(1,079)	–	(1,079)
Transfer to other 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 RM743,765,000 (2017: RM669,742,000) 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 (2017: RM11,245,000).

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

The 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 2018

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 2017		**2,267,008**	**–**	**254,991**	**–**	**(3)**	**12,909,636**	**15,431,632**
Net profit for the financial year		**–**	**–**	**–**	**–**	**–**	**755,869**	**755,869**
Dividends paid:								
- first interim dividend for the financial year ended 30 June 2018	40	**–**	**–**	**–**	**–**	**–**	**(149,177)**	**(149,177)**
- second interim dividend for the financial year ended 30 June 2018	40	**–**	**–**	**–**	**–**	**–**	**(309,829)**	**(309,829)**
Options charge arising from executive share scheme		**–**	**–**	**–**	**4,169**	**–**	**–**	**4,169**
As at 30 June 2018		**2,267,008**	**–**	**254,991**	**4,169**	**(3)**	**13,206,499**	**15,732,664**
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	40	–	–	–	–	–	(149,177)	(149,177)
- second interim dividend for the financial year ended 30 June 2017	40	–	–	–	–	–	(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

** 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 CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	The Group 2018 RM'000	The Group 2017 RM'000
Cash flows from operating activities		
Profit before taxation	**3,578,585**	3,089,949
Adjustments for:		
Unearned premium reserves	**10,236**	12,150
Life fund - underwriting surplus	**1,101,847**	1,837,866
Depreciation of property and equipment	**130,013**	101,045
Amortisation of intangible assets	**78,910**	81,351
Amortisation of upfront fees arising from debt issuance	**2,005**	–
Intangible assets written off	**21**	57
Property and equipment written off	**5,241**	808
Net gain on sale of property and equipment	**(2,492)**	(1,295)
Loss/(gain) on revaluation of investment properties	**460**	(90)
Net realised gain from sales of financial assets held-for-trading	**(19,671)**	(19,033)
Net realised gain from sales of financial investments available-for-sale	**(217,616)**	(74,568)
Net realised gain from redemption of financial investments held-to-maturity	**(7)**	(226)
Net realised loss/(gain) arising from derivative financial instruments	**20,712**	(49,482)
Net unrealised gain on revaluation of financial assets held-for-trading and derivative financial instruments	**(110,569)**	(80,544)
Amortisation of fair value changes arising from terminated fair value hedges	**800**	115
Net loss on fair value changes arising from fair value hedges	**152**	3
Unrealised exchange (gain)/loss	**(983)**	114,707
Writeback of impairment losses on financial investments	**(287)**	(1,330)
Allowances for impairment losses on loans, advances and financing and other losses	**308,511**	399,862
Impaired loans and financing written off	**19,719**	22,520
Interest expense on borrowings	**54,188**	91,488
Interest expense on subordinated obligations	**117,616**	117,473
Interest expense on Innovative Tier 1 capital securities	**38,205**	35,362
Interest expense on Multi-currency Additional Tier 1 capital securities	**13,002**	–
Interest expense on recourse obligations on loans sold to Cagamas	**7,602**	6,727
Interest income from financial assets held-for-trading	**(419,434)**	(423,645)
Interest income from financial investments available-for-sale	**(787,842)**	(687,883)
Interest income from financial investments held-to-maturity	**(408,036)**	(382,722)
Dividend income from financial assets held-for-trading and financial investments available-for-sale	**(327,549)**	(296,763)
Share option expenses	**23,861**	21,157
Surplus transferred from life insurance business	**(247,364)**	(246,920)
Share of results of associated companies	**(579,173)**	(416,361)
Share of results of joint ventures	**(20,548)**	(21,153)
	(1,208,470)	140,676
Operating profit before working capital changes	**2,370,115**	3,230,625

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	The Group 2018 RM'000	The Group 2017 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	**1,736,294**	(4,203,157)
Securities purchased under resale agreements	**300,877**	3,720,667
Financial assets held-for-trading	**(654,550)**	(487,745)
Loans, advances and financing	**(4,369,890)**	(4,789,630)
Clients' and brokers' balances	**(17,486)**	(112,186)
Other receivables	**143,272**	233,388
Statutory deposits with Central Banks	**(568,652)**	532,189
Increase/(decrease) in operating liabilities		
Deposits from customers	**2,594,940**	5,087,205
Deposits and placements of banks and other financial institutions	**1,561,970**	(371,575)
Obligations on securities sold under repurchase agreements	**952,795**	(516,175)
Bills and acceptances payable	**179,775**	14,220
Payables and other liabilities	**3,240,417**	2,339,870
Provision for claims	**2,711**	6,592
Clients' and brokers' balances	**78,992**	(8,181)
	5,181,465	1,445,482
Cash generated from operating activities	**7,551,580**	4,676,107
Income tax paid	**(754,459)**	(532,149)
Interest received	**866**	1,309
	(753,593)	(530,840)
Net cash generated from operating activities	**6,797,987**	4,145,267
Cash flows from investing activities		
Net (purchases)/sales of financial investments available-for-sale	**(2,850,988)**	754,173
Net purchases of financial investments held-to-maturity	**(1,318,487)**	(1,669,486)
Interest received on financial investments available-for-sale and financial investments held-to-maturity	**1,522,158**	1,070,605
Dividends received on financial assets held-for-trading and financial investments available-for-sale	**327,549**	296,763
Dividends received from associated and joint ventures companies	**104,674**	210,367
Net proceeds from disposal of property and equipment	**5,898**	4,301
Purchase of property and equipment	**(148,285)**	(169,710)
Purchase of intangible assets	**(14,119)**	(22,912)
Net cash (used in)/generated from investing activities	**(2,371,600)**	474,101

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

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	The Group 2018 RM'000	The Group 2017 RM'000
Cash flows from financing activities			
Interest paid on subordinated obligations		**(118,020)**	(116,335)
Interest paid on borrowings		**(55,153)**	(97,707)
Interest paid on Multi-currency Additional Tier 1 capital securities		**(11,168)**	–
Interest paid on Innovative Tier 1 capital securities		**(39,371)**	(33,727)
Interest expense on recourse obligations on loans sold to Cagamas Berhad		**(7,576)**	(3,851)
(Repayment)/drawdown of revolving credit		**(245,000)**	65,000
Issuance/(redemption) of medium term notes and commercial papers		**20,000**	(300,000)
Repayment of term loans		**–**	(214,730)
Repayment of senior bonds		**–**	(1,323,150)
Repayment of Innovative Tier 1 capital securities		**(36,800)**	–
Proceeds from issuance of subordinated obligations		**500,000**	–
Repayment of subordinated obligations		**(659,500)**	–
Proceeds from issuance of Multi-currency Additional Tier 1 capital securities		**400,000**	–
Recourse obligations on loans sold to Cagamas Berhad		**–**	200,050
Dividends paid to			
- owners of the parent		**(459,006)**	(436,056)
- non-controlling interest		**(356,241)**	(320,160)
Net cash used in financing activities		**(1,067,835)**	(2,580,666)
Net increase in cash and cash equivalents		**3,358,552**	2,038,702
Effects of exchange rate changes		**(322,067)**	81,184
Cash and cash equivalents at beginning of financial year		**12,648,403**	10,528,517
Cash and cash equivalents at end of financial year		**15,684,888**	12,648,403
Analysis of cash and cash equivalents			
Cash and short-term funds	2	**9,890,071**	12,772,343
Deposits and placements with banks and other financial institutions	3	**10,196,421**	6,013,958
		20,086,492	18,786,301
Less: deposits and placements with banks and other financial institutions with original maturity of more than three months		**(4,401,604)**	(6,137,898)
		15,684,888	12,648,403

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

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	The Company 2018 RM'000	2017 RM'000
Cash flows from operating activities		
Profit before taxation	**761,221**	583,409
Adjustments for:		
Depreciation of property and equipment	**810**	650
Amortisation of intangible assets	**12**	95
Amortisation of upfront fees arising from debt issuance	**(1,775)**	–
Gain on sale of property and equipment	**(1)**	–
Gain from distribution on liquidation of subsidiary	**(190,156)**	–
Net realised loss from sale of derivative financial instruments	**–**	80
Net unrealised gain on revaluation of derivative financial instruments	**(547)**	(581)
Interest expense	**67,495**	59,086
Interest income	**(14,239)**	(1,309)
Dividend income from subsidiary companies	**(648,555)**	(655,150)
Share option expenses	**4,169**	–
	(782,787)	(597,129)
Operating loss before working capital changes	**(21,566)**	(13,720)
Decrease/(increase) in operating assets		
Other receivables	**34,674**	(38,534)
Deposits and placements with banks and other financial institutions with original maturity of more than three months	**6,000**	–
Increase in operating liabilities		
Payables and other liabilities	**4,123**	138
	44,797	(38,396)
Cash generated from/(used in) operating activities	**23,231**	(52,116)
Income tax paid	**(1,733)**	(700)
Interest received	**1,327**	1,309
	(406)	609
Net cash generated from/(used in) operating activities	**22,825**	(51,507)
Cash flows from investing activities		
Dividends received from subsidiary companies	**648,555**	655,150
Net proceeds from disposal of property and equipment	**2**	–
Purchase of property and equipment	**(4,725)**	(339)
Purchase of intangible assets	**–**	(2)
Proceeds from redemption of redeemable preference shares and liquidation	**6,000**	5,437
Investment in debt instrument issued by a subsidiary company		
- Multi-currency Additional Tier 1 capital securities	**(400,000)**	–
- Tier 2 subordinated notes	**(500,000)**	–
Interest received from investment in debt instrument issued by a subsidiary company		
- Multi-currency Additional Tier 1 capital securities	**10,175**	–
Net cash (used in)/generated from investing activities	**(239,993)**	660,246

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	The Company 2018 RM'000	The Company 2017 RM'000
Cash flows from financing activities			
Interest paid on borrowings		**(54,590)**	(59,582)
Interest paid on Multi-currency Additional Tier 1 capital securities		**(10,517)**	–
Interest paid on Tier 2 subordinated notes		**(14)**	–
(Repayment)/drawdown of revolving credit		**(160,000)**	65,000
Issuance/(redemption) of medium term notes and commercial papers		**20,000**	(350,000)
Drawdown of term loans		**–**	170,000
Proceeds from issuance of Multi-currency Additional Tier 1 capital securities		**400,000**	–
Proceeds from Tier 2 subordinated notes		**500,000**	–
Dividends paid to shareholders of the Company		**(459,006)**	(436,056)
Net cash generated from/(used in) financing activities		**235,873**	(610,638)
Net increase/(decrease) in cash and cash equivalents		**18,705**	(1,899)
Cash and cash equivalents at beginning of financial year		**6,821**	8,720
Cash and cash equivalents at end of financial year		**25,526**	6,821
Analysis of cash and cash equivalents			
Cash and short-term funds	2	**25,466**	7,721
Deposits and placements with banks and other financial institutions	3	**3,360**	8,400
		28,826	16,121
Less: deposits and placements with banks and other financial institutions with original maturity of more than three months		**(3,300)**	(9,300)
		25,526	6,821

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

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Analysis of changes in liabilities arising from financing activities as follows:

		← Cash changes →			← Non-cash changes →			
The Group 2018	**Balance at the beginning of the financial year RM'000**	**Proceed RM'000**	**Repayments RM'000**	**Interest paid RM'000**	**Accrued interest RM'000**	**Amortisation/ (accretion) RM'000**	**Other non-cash* RM'000**	**Balance at the end of the financial year RM'000**
Recourse obligation on loans sold to Cagamas Berhad	202,926	–	–	(7,576)	7,602	–	–	202,952
Borrowings	1,526,222	20,000	(245,000)	(55,153)	54,188	114	–	1,300,371
Subordinated obligations	2,959,779	500,000	(659,500)	(118,020)	117,616	572	–	2,800,447
Innovative Tier 1 capital securities	515,623	–	(36,800)	(39,371)	38,205	1,784	(4,829)	474,612
Multi-currency Additional Tier 1 capital securities	–	400,000	–	(11,168)	13,002	(465)	–	401,369
	5,204,550	920,000	(941,300)	(231,288)	230,613	2,005	(4,829)	5,179,751

		← Cash changes →			← Non-cash changes →			
The Company 2018	**Balance at the beginning of the financial year RM'000**	**Proceed RM'000**	**Repayments RM'000**	**Interest paid RM'000**	**Accrued interest RM'000**	**Amortisation/ (accretion) RM'000**	**Other non-cash RM'000**	**Balance at the end of the financial year RM'000**
Borrowings	1,526,222	20,000	(160,000)	(54,590)	54,188	114	–	1,385,934
Subordinated obligations	–	500,000	–	(14)	419	(806)	–	499,599
Multi-currency Additional Tier 1 capital securities	–	400,000	–	(10,517)	12,351	(1,083)	–	400,751
	1,526,222	920,000	(160,000)	(65,121)	66,958	(1,775)	–	2,286,284

* Other non-cash item comprises changes in fair value adjustments on completion of business combination accounting as disclosed in Note 25.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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 55.

(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 2017:

- Amendments to MFRS 107 "Statement of Cash Flows – Disclosure Initiative"
- Amendments to MFRS 112 "Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses"
- Annual Improvements to MFRSs 2014 – 2016 Cycle: MFRS 12 "Disclosures of Interests in Other Entities"

The adoption of the Amendments to MFRS 107 has required additional disclosure of changes in liabilities arising from financing activities. Other than that, 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 2018 that are applicable to the Group and the Company are as follows.

(i) 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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 2018 (continued)

- 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".

  Classification and measurements

  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 ("FVTPL") 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.

  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:

  - For financial liabilities classified as FVTPL, the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to profit or loss.

  The combined application of the entity's business model and the cash flow characteristics of the financial assets do not result in the significant change in the classification of financial asset when compared to the existing classification of financial assets in the statement of financial position as at 30 June 2018.

  However, the Group has identified certain financial investments currently held at both held-to-maturity and available-for-sale which fail the solely for the payment of principal and interest ("SPPI") test to be reclassified as fair value through profit or loss ("FVTPL") accordingly on 1 July 2018.

  Certain debt instruments which pass the SPPI test have been re-designated from held-to-maturity to fair value through OCI; held for trading to fair value through OCI; and available-for-sale to amortised cost.

  The Group has classified and measured all equity instruments that are not held for trading at FVTPL except for certain equity instruments which have been identified to elect, at inception, the irrevocable option to present changes in fair value in OCI.

  The Group does not expect a significant impact arising from the changes in classification and measurement of the financial assets.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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 2018 (continued)

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

Classification and measurements (continued)

There will be no significant changes to the Group's accounting for financial liabilities as it largely retains the MFRS 139 requirements. All the financial liabilities, except for derivatives financial liabilities and financial liabilities designated at FVTPL, will remain as amortised cost as there has not been significant change in the requirements for financial liabilities under MFRS 9.

Impairment of financial assets

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The new impairment model requires the recognition of impairment allowances based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under MFRS 139. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through OCI, lease receivables, loan commitments, financial guarantee contracts and other loan commitments.

- Stage 1 – from initial recognition of a financial assets to the date on which the credit risk of the asset has increased significantly relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the next 12 months (12-month ECL).
- Stage 2 – following a significant increase in credit risk relative to the initial recognition of the financial assets, a loss allowance is recognised equal to the credit losses expected over the remaining life of the financial asset (Lifetime ECL).
- Stage 3 – when a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses is to be recognised (Lifetime ECL).

As all financial assets within the scope of MFRS 9 impairment model will be assessed for at least 12-month ECL, and the population of financial assets to which full lifetime ECL applies is larger than the population of impaired loans for which there is objective evidence of impairment in accordance with MFRS 139, the total allowance for credit losses is expected to increase under MFRS 9 relative to the allowance for credit losses under MFRS 139.

In addition, changes in the required credit loss allowance, including the impact of movements between Stage 1 (12-month ECL) and Stage 2 (lifetime ECL) and the application of forward looking information, will be recorded in profit or loss, allowance for credit losses will be more volatile under MFRS 9.

The assessment of credit risk and the estimation of ECL are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also take into account the time value of money.

Hedge accounting

Under MFRS 9, the general hedge accounting requirements have been simplified for hedge effectiveness testing and permit hedge accounting to be applied to a greater variety of hedging instruments and risks. The Group does not expect a significant impact arising from the changes in the hedge accounting requirements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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 2018 (continued)

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

  Disclosure

  The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

  The Group will apply the new requirements retrospectively from 1 July 2018, with the practical expedients permitted under the standard. Comparatives for 2018 will not be restated.

  The Group is still in the midst of finalising the financial impact in relation to the adoption of MFRS 9. Based on the preliminary assessments undertaken to-date, the Group expects an increase in the allowance for impairment on loans, advances and financing under the new impairment requirements, which will result in a reduction in the Group's opening retained profits and overall capital positions as of 1 July 2018.

  Amendments to MFRS 4 "Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts" (effective from 1 January 2018) allows entities to avoid temporary volatality in profit or loss that might result from adopting MFRS 9 before the forthcoming new insurance contracts standards. The Group has opted not to apply the exemptions permitted under this Amendment and will fully adopt MFRS 9 when it becomes effective on 1 July 2018.

- 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, that is, 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.

  The Group is in the process of finalising the financial implication arising from the adoption of this new standard and expects no significant impact to the fees and other income for the Group.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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 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.

  The Group has initiated the assessment of the potential impact arising from the adoption of MFRS 16. Due to the complexity of the requirements, the financial effects are still being assesed by the Group.

- IC Interpretation 23 "Uncertainty over Income Tax Treatments" (effective from 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

  IC Interpreration 23 will be applied retrospectively.

- Amendments to MFRS 128 "Long-term Interests in Associates and Joint Ventures" (effective from 1 January 2019) clarify that an entity should apply MFRS 9 "Financial Instruments" (including the impairment requirements) to long-term interests in an associate or joint venture, which are in substance form part of the entity's net investment, for which settlement is neither planned nor likely to occur in the foreseeable future.

  In addition, such long-term interest are subject to loss allocation and impairment requirements in MFRS 128.

  The amendments shall be applied retrospectively.

- Amendments to MFRS 9 "Prepayment Features with Negative Compensation" (effective from 1 January 2019) allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a 'held to collect' business model.

  The amendments shall be applied retrospectively.

- Annual Improvements to MFRSs 2015 – 2017 Cycle:

  – Amendments to MFRS 3 "Business Combinations" (effective from 1 January 2019) clarify that when a party obtains control of a business that is a joint operation, the acquirer should account the transaction as a business combination achieved in stages. Accordingly it should remeasure its previously held interest in the joint operation (rights to the assets and obligations for the liabilities) at fair value on the acquisition date.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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 2019 (continued)

- Annual Improvements to MFRSs 2015 – 2017 Cycle: (continued)

  - Amendments to MFRS 11 "Joint Arrangements" (effective from 1 January 2019) clarify that when a party obtains joint control of a business that is a joint operation, the party should not remeasure its previously held interest in the joint operation.

  - Amendments to MFRS 112 "Income Taxes" (effective from 1 January 2019) clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

  - Amendments to MFRS 123 "Borrowing Costs" (effective from 1 January 2019) clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

- Amendments to MFRS 119 "Plan Amendment, Curtailment or Settlement" (effective from 1 January 2019) requires an entity to use the updated actuarial assumptions from remeasurement of its net defined benefit liability or asset arising from plan amendment, curtailment or settlement, to determine current service cost and net interest for the remaining period after the change to the plan. The amendments will be applied prospectively.

(iii) Financial year beginning on/after 1 July 2021

- MFRS 17 "Insurance Contracts" (effective from 1 January 2021) replaces MFRS 4 "Insurance Contracts".

  MFRS 17 applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, an entity has an accounting policy choice to account for them in accordance with either MFRS 17 or MFRS 15 "Revenue". An entity is allowed to account financial guarantee contracts in accordance with MFRS 17 if the entity has asserted explicitly that it regarded them as insurance contracts. Insurance contracts, (other than reinsurance) where the entity is the policyholder are not within the scope of MFRS 17. Embedded derivatives and distinct investment and service components should be 'unbundled' and accounted for separately in accordance with the related MFRSs. Voluntary unbundling of other components is prohibited.

  MFRS 17 requires a current measurement model where estimates are remeasured at each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. An entity has a policy choice to recognise the impact of changes in discount rates and other assumptions that related to financial risks either in profit or loss or in other comprehensive income.

  Alternative measurement models are provided for the different insurance coverages:

  a) Simplified Premium Allocation Approach if the insurance coverage period is a year or less.

  b) Variable Fee Approach should be applied for insurance contracts that specify a link between payments to the policyholder and the returns on the underlying items.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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 2021 (continued)

- MFRS 17 "Insurance Contracts" (effective from 1 January 2021) replaces MFRS 4 "Insurance Contracts". (continued)

  The requirements of MFRS 17 align the presentation of revenue with other industries. Revenue is allocated to the periods in proportion to the value of the expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components are excluded from revenue and claims.

  Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts.

  The Group has not fully assessed the impact of MFRS 17 on its financial statements.

The adoption of the above new accounting standards, amendments to published standards and interpretations are not expected to give rise to any material financial impact to the Group and the Company except for the cumulative impact on the adoption of MFRS 9 which will be recognised in retained earnings as at 1 July 2018, and enhanced disclosures. The financial impact of adoption of MFRS 16 and MFRS 17 is still being assessed by the Group and the Company.

B CONSOLIDATION

(i) Subsidiaries

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

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

B CONSOLIDATION (CONTINUED)

(i) Subsidiaries (continued)

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.

Non-controlling interest in the results and equity of subsidiaries are shown seperately in the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of financial position respectively.

The Group has consolidated the investment funds that it controls in accordance with MFRS 10 "Consolidated Financial Statements". The third party interest of the funds is recorded as a financial liability in accordance with accounting policy Note F.

(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 2018

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.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

B CONSOLIDATION (CONTINUED)

(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.

If assets, including a subsidiary, joint venture or associate, are transferred by means of a dividend between entities under common control, the transferee recognises the dividend at the fair value of the investments or assets received. Dividends are to be recognised in statements of income.

Investment in debt instrument issued by subsidiary companies at amortised cost are measured in accordance with Note E.

C 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 interest/profit expense over the relevant period. The effective interest/profit 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 using the original effective interest/profit rate.

D 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

D RECOGNITION OF FEES AND OTHER INCOME (CONTINUED)

(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.

(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.

E 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 classification 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

E FINANCIAL ASSETS (CONTINUED)

(i) Classification (continued)

(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 intention 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.

(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 losses previously recognised in other comprehensive income are reclassified to 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 statements of income 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

E FINANCIAL ASSETS (CONTINUED)

(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.

F 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.

Financial liabilities that are derecognised when they have been redeemed or otherwise extinguished.

G 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. 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.

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

G PROPERTY AND EQUIPMENT AND DEPRECIATION (CONTINUED)

Freehold land is not depreciated as it has an infinite life. Other property and equipment are depreciated on a 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 assets under construction 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.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of such a property at the date of transfer is treated in the same way as a revaluation under MFRS 116 "Property, Plant and Equipment". Any resulting increase in the carrying amount of the property is recognised in profit or loss to the extent that it reverses a previous impairment loss, with any remaining increase credited directly to other comprehensive income in revaluation surplus reserve. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognised revaluation surplus reserve, with any remaining decrease charged to profit or loss.

H 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) 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 2018

H INTANGIBLE ASSETS (CONTINUED)

(iii) 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

I 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.

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

(ii) Operating Lease

Leases of assets under which all the risks and 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.

J 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 assets 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.

K CURRENT AND DEFERRED INCOME TAXES

The tax expense for the period comprises current and deferred income 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 liabilities in relation to tax penalties or its associated interest are 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

K CURRENT AND DEFERRED INCOME TAXES (CONTINUED)

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, unused tax losses or unused tax credits 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.

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.

L 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

L DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

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.

(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.

M 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

M CURRENCY TRANSLATIONS (CONTINUED)

(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 statements 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 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 and liabilities such as equities held at fair value through profit or loss are recognised in statements of 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 other comprehensive income.

(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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

N 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 services 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 pay 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.

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 "Financial Instruments: Presentation", 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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

O IMPAIRMENT OF FINANCIAL ASSETS

(i) Assets carried at amortised cost

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

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

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 statements of income. Such loans are written-off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

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

(ii) Assets classified as available-for-sale

The Group and the Company assess at 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 2018

O 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.

P 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.

Q OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and 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.

R 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 amount determined in accordance with MFRS 137 "Provision, Contingent Liabilities and Contingent Assets" and the initial amount, less cumulative amortisation, 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.

S FORECLOSED PROPERTIES

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

T BILLS AND ACCEPTANCES PAYABLE

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

U 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 by another party, 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 value of management's best estimate 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.

V 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.

W 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.

X 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 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 intragroup 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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

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

The Group applies the above policy to an investment or portion of an investment in an associate or joint venture that meets the criteria to be classified as held-for-sale. Where the Group maintains either significant influence or joint control over the investee, any retained portion of the investment that has not been classified as held-for-sale continues to be accounted for, using the equity method of accounting, until the disposal of the portion that is classified as held-for-sale takes place. In cases where significant influence or joint control is lost, the retained interest is accounted for in accordance with MFRS 139 "Financial Instruments: Recognition and Measurement".

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 coordinated 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.

Z 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

Distributions to holders of an equity instrument is recognised directly in equity. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

AA 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.

AB SALE AND REPURCHASE AGREEMENTS

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

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

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

AC 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.

AD 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 2018

AD 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.

AE 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

AF 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.

AG 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

AG INSURANCE CONTRACT LIABILITIES (CONTINUED)

(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.

AH 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.

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.

AI 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

AJ 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.

AK 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.

AL 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.

AM TRUST ACTIVITIES

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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 30, Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur.

2 CASH AND SHORT-TERM FUNDS

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash and balances with banks and other financial institutions	**2,516,788**	2,256,951	**6**	11
Money at call and deposit placements maturing within one month	**7,373,283**	10,515,392	**25,460**	7,710
	9,890,071	12,772,343	**25,466**	7,721

Inclusive in cash and short-term funds of the Group are accounts held in trust for dealer's representative amounting to RM13,799,000 (2017: RM13,786,000).

The Company has placed a fixed deposit of RM Nil (2017: RM900,000) with a bank for the RM150 million short-term loan facility.

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Licensed banks	**9,995,569**	5,913,592	**3,360**	8,400
Other financial institutions	**200,852**	100,366	**–**	–
	10,196,421	6,013,958	**3,360**	8,400

The Company has placed a fixed deposit of RM3,300,000 (2017: RM8,400,000) with a bank for the RM200 million revolving credit facility and RM350 million term loan facility. The Company has agreed not to withdraw the fixed deposits during the tenure of the facility. The bank has a right to set-off any sums placed by the Company in the fixed deposit account.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

4 FINANCIAL ASSETS HELD-FOR-TRADING

	The Group	
	2018 RM'000	2017 RM'000
Money market instruments		
Malaysian Government securities	**2,591,793**	475,794
Malaysian Government investment certificates	**867,698**	715,133
Bankers' acceptances and Islamic accepted bills	**55,084**	–
Negotiable instruments of deposit	**3,983,804**	5,177,899
Cagamas bonds	**–**	1,013
Other Government securities	**655,493**	557,649
	8,153,872	6,927,488
Quoted securities		
Shares in Malaysia	**612,759**	743,504
Shares outside Malaysia	**108,132**	71,073
Unit trust investments	**435,834**	332,260
Foreign currency bonds in Malaysia	**40,093**	195,592
Foreign currency bonds outside Malaysia	**68,847**	62,860
	1,265,665	1,405,289
Unquoted securities		
Foreign currency bonds outside Malaysia	**52,465**	53,087
Malaysia Government sukuk	**–**	191,394
Corporate bonds and sukuk	**1,064,879**	876,179
	1,117,344	1,120,660
Total financial assets held-for-trading	**10,536,881**	9,453,437

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	The Group	
	2018 RM'000	2017 RM'000
Money market instruments		
Malaysia Government securities	**1,357,655**	1,367,665
Malaysia Government investment certificates	**4,523,680**	4,446,014
Other Government securities	**4,268,647**	3,284,010
Khazanah bonds	**673,444**	406,904
Cagamas bonds	**1,490,348**	1,458,370
	12,313,774	10,962,963
Quoted securities		
Shares in Malaysia	**1,665,958**	1,653,070
Shares outside Malaysia	**122,625**	114,374
Foreign currency bonds in Malaysia	**2,996,117**	3,056,104
Foreign currency bonds outside Malaysia	**1,660,272**	1,818,131
Investment-linked funds	**300**	300
Unit trust investments	**558,205**	470,603
	7,003,477	7,112,582
Unquoted securities		
Shares in Malaysia	**469,905**	459,212
Shares outside Malaysia	**12,115**	162,243
Malaysia Government sukuk	**2,385,470**	2,040,793
Corporate bonds and sukuk	**13,650,762**	13,437,539
Foreign currency bonds in Malaysia	**1,048,287**	294,300
Foreign currency bonds outside Malaysia	**1,017,005**	862,710
	18,583,544	17,256,797
	37,900,795	35,332,342
Allowance for impairment losses	**(168,256)**	(168,980)
Total financial investments available-for-sale	**37,732,539**	35,163,362

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

	The Group	
	2018 RM'000	2017 RM'000
As at 1 July	**168,980**	198,063
Allowance made during the financial year*	**72,658**	46,679
Amount written back in respect of recoveries	**–**	(2,566)
Amount written off	**(72,615)**	(74,179)
Exchange fluctuation	**(767)**	983
As at 30 June	**168,256**	168,980

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 RM3,821,124,000 (2017: RM2,808,719,000).

* Included allowance for impairment recognised in insurance fund of RM65,814,000 (2017: RM45,786,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	The Group 2018 RM'000	The Group 2017 RM'000
Money market instruments		
Government treasury bills	**52,950**	57,367
Malaysian Government securities	**1,574,180**	2,764,747
Malaysian Government investment certificates	**11,432,594**	9,482,704
Other Government securities	**383,739**	484,230
	13,443,463	12,789,048
Unquoted securities		
Loan stocks	–	6,095
Malaysia Government sukuk	**1,548,339**	814,591
Corporate bonds and sukuk	**748,201**	805,278
Foreign currency bonds outside Malaysia	**124,810**	247,796
Redeemable preference shares	**30,866**	32,066
	2,452,216	1,905,826
	15,895,679	14,694,874
Allowance for impairment losses	–	(113,844)
Total financial investments held-to-maturity	**15,895,679**	14,581,030

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

	The Group 2018 RM'000	The Group 2017 RM'000
As at 1 July	**113,844**	116,479
Amount written back in respect of recoveries	**(6,454)**	(2,635)
Amount written off	**(107,390)**	–
As at 30 June	–	113,844

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

7 LOANS, ADVANCES AND FINANCING

	The Group 2018 RM'000	The Group 2017 RM'000
Overdrafts	**3,794,584**	3,776,243
Term loans/financing		
- Housing and shop loans/financing	**70,332,643**	65,998,057
- Syndicated term loans/financing	**9,953,665**	9,225,253
- Hire purchase receivables	**17,229,742**	18,159,364
- Other term loans/financing	**7,700,340**	8,135,246
Credit/charge card receivables	**3,899,183**	3,997,701
Bills receivable	**996,560**	1,081,635
Trust receipts	**328,628**	314,042
Policy and premium loans	**564,369**	584,546
Claims on customers under acceptance credits	**7,839,208**	7,451,325
Revolving credits	**6,627,619**	6,611,688
Staff loans/financing	**146,088**	146,737
Other loans/financing	**448,850**	486,255
Gross loans, advances and financing	**129,861,479**	125,968,092
Fair value changes arising from fair value hedges	**(2,540)**	(34)
Unamortised fair value changes arising from terminated fair value hedges	**(13)**	(36)
Allowance for impaired loans, advances and financing		
- Collective assessment allowance	**(805,397)**	(830,407)
- Individual assessment allowance	**(202,295)**	(325,536)
Total net loans, advances and financing	**128,851,234**	124,812,079

Included in loans, advances and financing are housing loans sold to Cagamas with recourse to the Group amounting to RM177,874,000 (2017: RM184,571,000).

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

	The Group 2018 RM'000	The Group 2017 RM'000
Maturing within:		
- one year	**27,426,888**	27,380,609
- over one year to three years	**6,027,852**	5,492,203
- over three years to five years	**9,069,429**	10,265,641
- over five years	**87,337,310**	82,829,639
Gross loans, advances and financing	**129,861,479**	125,968,092

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	The Group 2018 RM'000	The Group 2017 RM'000
Domestic non-bank financial institutions other than stockbroking companies	**597,185**	651,907
Domestic business enterprises:		
- small medium enterprises	**20,480,196**	20,377,345
- others	**16,489,255**	15,491,115
Government and statutory bodies	**19,374**	29,072
Individuals	**85,095,493**	82,063,090
Other domestic entities	**269,937**	79,052
Foreign entities	**6,910,039**	7,276,511
Gross loans, advances and financing	**129,861,479**	125,968,092

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

	The Group 2018 RM'000	The Group 2017 RM'000
Fixed rate		
- Housing and shop loans/financing	**2,583,136**	4,753,971
- Hire purchase receivables	**16,916,260**	17,747,828
- Credit card	**3,899,183**	3,997,701
- Other fixed rate loan/financing	**3,342,464**	3,515,903
Variable rate		
- Base rate/base lending rate plus	**86,079,824**	78,636,505
- Cost plus	**16,635,549**	16,918,373
- Other variable rates	**405,063**	397,811
Gross loans, advances and financing	**129,861,479**	125,968,092

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

	The Group 2018 RM'000	The Group 2017 RM'000
Purchase of securities	**604,109**	700,958
Purchase of transport vehicles	**16,893,711**	17,583,693
Residential property (housing)	**61,370,803**	56,861,181
Non-residential property	**15,553,253**	15,774,407
Purchase of fixed assets (excluding landed properties)	**546,924**	379,050
Personal use	**3,248,454**	3,563,125
Credit card	**3,899,183**	3,997,701
Construction	**1,552,918**	1,238,539
Mergers and acquisition	**362,600**	201,182
Working capital	**23,857,255**	23,216,086
Other purposes	**1,972,269**	2,452,170
Gross loans, advances and financing	**129,861,479**	125,968,092

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	The Group	
	2018 RM'000	2017 RM'000
In Malaysia	**123,335,851**	119,382,844
Outside Malaysia		
- Singapore	**5,097,771**	5,379,133
- Vietnam	**405,063**	397,813
- Cambodia	**1,022,794**	808,302
Gross loans, advances and financing	**129,861,479**	125,968,092

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

	The Group	
	2018 RM'000	2017 RM'000
Purchase of securities	**1,256**	2,196
Purchase of transport vehicles	**134,141**	142,754
Residential property (housing)	**353,270**	307,234
Non-residential property	**170,961**	133,296
Purchase of fixed assets (excluding landed properties)	**3,465**	3,332
Personal use	**46,682**	44,066
Credit card	**39,562**	48,005
Construction	**3,530**	7,209
Working capital	**376,386**	510,724
Other purposes	**3,134**	16,201
Gross impaired loans, advances and financing	**1,132,387**	1,215,017

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

	The Group	
	2018 RM'000	2017 RM'000
As at 1 July	**1,215,017**	957,153
Impaired during the financial year	**1,663,481**	1,824,594
Performing during the financial year	**(889,043)**	(821,519)
Amount written back in respect of recoveries	**(392,039)**	(336,403)
Amount written off	**(460,834)**	(407,656)
Exchange differences	**(4,195)**	(1,152)
As at 30 June	**1,132,387**	1,215,017
Gross impaired loans as a % of gross loans, advances and financing	**0.87%**	0.96%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	The Group 2018 RM'000	The Group 2017 RM'000
In Malaysia	**1,119,695**	1,208,932
Outside Malaysia		
- Singapore	**1,394**	471
- Vietnam	**3,937**	5,098
- Cambodia	**7,361**	516
Gross impaired loans, advances and financing	**1,132,387**	1,215,017

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

	The Group 2018 RM'000	The Group 2017 RM'000
Collective assessment allowance		
As at 1 July	**830,407**	856,971
Net allowance made during the financial year	**300,218**	282,483
Amount transferred to individual assessment allowance	**–**	(729)
Amount written off	**(310,061)**	(298,120)
Unwinding income	**(14,475)**	(10,732)
Exchange differences	**(692)**	534
As at 30 June	**805,397**	830,407
Individual assessment allowance		
As at 1 July	**325,536**	289,844
Allowance made during the financial year	**63,406**	162,679
Amount transferred from collective assessment	**–**	729
Amount written back in respect of recoveries	**(55,505)**	(46,433)
Amount written off	**(119,266)**	(72,260)
Unwinding income	**(7,959)**	(8,741)
Exchange differences	**(3,917)**	(282)
As at 30 June	**202,295**	325,536

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 2018 RM'000	The Group 2017 RM'000
Performing accounts	**523,107**	507,251
Impaired accounts	**2,828**	1,264
	525,935	508,515
Less: Allowances for bad and doubtful debts		
- Individual assessment allowance	**(351)**	(417)
- Collective assessment allowance	**(28)**	(28)
	525,556	508,070

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

8 CLIENTS' AND BROKERS' BALANCES (CONTINUED)

Movements of impaired accounts are as follows:

	The Group 2018 RM'000	The Group 2017 RM'000
As at 1 July	**1,264**	1,390
Impaired during the financial year	**2,311**	574
Written back during the financial year	**(747)**	(700)
As at 30 June	**2,828**	1,264

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

	The Group 2018 RM'000	The Group 2017 RM'000
Individual assessment allowance		
As at 1 July	**417**	282
Allowance made during the financial year	**204**	245
Allowance written back during the financial year	**(270)**	(110)
As at 30 June	**351**	417
Collective assessment allowance		
As at 1 July	**28**	17
Allowance made during the financial year	**–**	11
As at 30 June	**28**	28

9 OTHER RECEIVABLES

	Note	The Group 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
Foreclosed properties		**46**	46	**–**	–
Sundry debtors and other prepayments		**293,418**	181,987	**180**	312
Treasury related receivables		**65,547**	457,935	**–**	–
Cash collateral pledged for derivative transactions		**314,855**	676,156	**–**	–
Fee income receivables net of allowance for impairment losses of RM1,473,000 (2017: RM1,015,000)	(a)	**2,842**	16,076	**–**	–
Other receivables		**275,862**	195,555	**230**	263
		952,570	1,527,755	**410**	575

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

	The Group 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
Individual assessment allowance				
As at 1 July	**1,015**	28	**–**	–
Allowance made during the financial year	**816**	987	**–**	–
Allowance written back during the financial year	**(358)**	–	**–**	–
As at 30 June	**1,473**	1,015	**–**	–

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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	
	Note	2018 RM'000	2017 RM'000
Investment in subsidiary companies, at cost			
Unquoted shares		**262,980**	325,247
Shares quoted in Malaysia		**16,843,880**	16,597,456
		17,106,860	16,922,703
Investment in debt instrument issued by a subsidiary company, at amortised cost			
Multi-currency Additional Tier 1 capital securities		**401,799**	–
Tier 2 subordinated notes		**500,399**	–
		18,009,058	16,922,703
Less: Allowance for impairment loss		**(12,980)**	(12,980)
		17,996,078	16,909,723
As at 1 July		**16,922,703**	16,928,140
Investment in subsidiary companies, at cost			
Distribution on liquidation of a subsidiary	52(d)	**188,057**	–
Redemption of redeemable preference shares	(i)	**(3,900)**	(5,340)
Redemption of redeemable preference shares	(ii)	**–**	(97)
Investment in debt instrument issued by a subsidiary company, at amortised cost			
Multi-currency Additional Tier 1 capital securities	52(b)	**401,799**	–
Tier 2 subordinated notes	52(e)	**500,399**	–
As at 30 June		**18,009,058**	16,922,703

(i) The Company has redeemed 3,900 (2017: 5,340) redeemable preference shares ("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 2018

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 2018 %	2017 %	Principal activities
(a) HLA Holdings Sdn Bhd and its subsidiary companies:	Malaysia	**100.00**	100.00	Investment holding
(i) Hong Leong Assurance Berhad	Malaysia	**70.00**	70.00	Life insurance business
- Unincorporated trust for ESOS Ω*	Malaysia	**–**	–	Special purpose vehicle for ESOS
(ii) Hong Leong Insurance (Asia) Limited*	Hong Kong	**100.00**	100.00	General insurance business
(iii) Hong Leong MSIG Takaful Berhad	Malaysia	**65.00**	65.00	Takaful business
(iv) 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	In member's voluntary liquidation
(c) HLFG Assets Sdn Bhd	Malaysia	**100.00**	100.00	In member's voluntary liquidation
(d) Unincorporated trust for ESOS Ω*	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	In members' voluntary liquidation
(ii) HLG Capital Markets Sdn Bhd	Malaysia	**83.22**	83.22	Investment holding
(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
- 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 ESOS Ω*	Malaysia	**–**	–	Special purpose vehicle for ESOS
(vii) Hong Leong Dana Al-Izdihar Ω*	Malaysia	**–**	83.22	Unit trust funds
(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	Property management
(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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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 2018 %	2017 %	Principal activities
(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	Malaysia	**65.62**	65.62	Dormant
- Chew Geok Lin Finance Sdn Bhd	Malaysia	**65.62**	65.62	Dormant
- Hong Leong Leasing Sdn Bhd*	Malaysia	**65.62**	65.62	Dormant
- HL Leasing Sdn Bhd	Malaysia	**65.62**	65.62	Dormant
- HLB Realty Sdn Bhd	Malaysia	**65.62**	65.62	Property investment
(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	Investment holding
- Promino Sdn Bhd	Malaysia	**65.62**	65.62	Dormant
(xi) Promilia Berhad	Malaysia	**65.62**	65.62	Dormant
(xii) EB Nominees (Tempatan) Sendirian Berhad	Malaysia	**65.62**	65.62	Nominee services
(xiii) EB Nominees (Asing) Sendirian Berhad	Malaysia	**65.62**	65.62	Nominee services
(xiv) EB Realty Sendirian Berhad	Malaysia	**65.62**	65.62	Property investment
(xv) OBB Realty Sdn Bhd	Malaysia	**65.62**	65.62	Property investment
(xvi) Unincorporated trust for ESOS$^{\Omega}$*	Malaysia	**–**	–	Special purpose vehicle for ESOS
(h) Balius Capital Sdn Bhd$^{\Omega}$*	Malaysia	**–**	–	Special purpose vehicle
(i) Hong Leong Wholesale Bond Fund$^{\Omega}$	Malaysia	**96.56**	96.28	Unit trust funds
(j) Hong Leong Money Market Fund$^{\Omega}$	Malaysia	**61.75**	70.95	Unit trust funds

* Not audited by PricewaterhouseCoopers PLT
\+ Audited by member firms of PricewaterhouseCoopers International
$^{\Omega}$ Deemed subsidiary companies pursuant to MFRS 10 "Consolidated Financial Statements"

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

11 INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

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

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

	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	2018	2017	2018	2017	2018	2017
	%	%	RM'000	RM'000	RM'000	RM'000
Hong Leong Bank Berhad	**34.38**	34.38	**907,057**	737,457	**8,216,548**	7,799,245
Hong Leong Capital Berhad	**16.78**	16.78	**11,968**	13,270	**128,545**	125,063
Hong Leong Assurance Berhad	**30.00**	30.00	**63,437**	59,627	**498,245**	471,759
Individually immaterial subsidiaries with non-controlling interests			**4,622**	(235)	**31,939**	27,509
			987,084	810,119	**8,875,277**	8,423,576

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	
	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Total assets	**18,156,616**	16,923,163	**202,890,773**	195,552,522	**4,552,078**	4,263,986
Total liabilities	**(16,496,237)**	(15,351,073)	**(178,998,514)**	(172,867,109)	**(3,786,020)**	(3,518,679)
Net assets	**1,660,379**	1,572,090	**23,892,259**	22,685,413	**766,058**	745,307
Equity attributable to owners of the Company	**(1,162,134)**	(1,100,331)	**(15,675,711)**	(14,886,168)	**(637,513)**	(620,244)
Non-controlling interests	**(498,245)**	(471,759)	**(8,216,548)**	(7,799,245)	**(128,545)**	(125,063)
Revenue	**271,628**	255,182	**6,357,559**	6,163,134	**153,663**	149,654
Profit before taxation	**274,227**	252,037	**3,246,255**	2,748,252	**78,587**	84,037
Taxation	**(62,771)**	(53,283)	**(608,177)**	(603,236)	**(7,265)**	(4,952)
Other comprehensive (loss)/income	**(43,171)**	21,689	**(501,419)**	251,637	**(4,727)**	(5,185)
Total comprehensive income	**168,285**	220,443	**2,136,659**	2,396,653	**66,595**	73,900
Net cash used in investing activities	**(6,464)**	(7,510)	**(4,355,921)**	(1,681,351)	**(102,708)**	(419,775)
Net cash used in financing activities	**(102,500)**	(109,377)	**(189,951)**	(2,522,923)	**(48,487)**	(31,619)
Net cash generated from/(used in) operating activities	**53,135**	76,139	**(1,768,489)**	5,994,038	**11,380**	382,159
Net (decrease)/increase in cash and cash equivalents	**(55,829)**	(40,748)	**(6,314,361)**	1,789,764	**(139,815)**	(69,235)
Profit allocated to non-controlling interests of the Group	**63,437**	59,627	**907,057**	737,457	**11,968**	13,270
Dividends to non-controlling interests of the Group	**24,000**	26,100	**324,550**	289,203	**7,691**	4,857

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

12 INVESTMENT IN ASSOCIATED COMPANIES

	The Group 2018 RM'000	The Group 2017 RM'000
Quoted shares (2017: Unquoted shares) outside Malaysia, at cost	**938,311**	946,505
Unquoted shares in Malaysia, at cost	**618,666**	618,666
Cumulative share of results, net of dividend received	**2,498,670**	2,064,692
Cumulative share of changes in other comprehensive income	**(4,743)**	1,155
Exchange fluctuation reserve	**487,422**	690,607
	4,538,326	4,321,625

(a) Information about associated companies

Name	Country of incorporation	Principal activities	The Group Percentage (%) of equity held 2018 %	2017 %
Bank of Chengdu Co., Ltd	China	Commercial banking	**18**	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 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 HLB.

On 31 January 2018, BOCD was officially listed on the Shanghai Stock Exchange after completing its initial public offering ("IPO") of 361 million shares and raised 2.53 billion yuan. Arising from the IPO, the Group's equity interest of the Enlarged Capital in BOCD is now reduced to 18% from 20% and a dilution loss of RM26.80 million is recognised in statements of income (refer to Note 34).

The market value of BOCD's shares held by the Group is RM3.47 billion at RM5.34 per share as at 30 June 2018.

(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. In November 2014, HLB subscribed to additional 19,950 CCSR Right Issues of RM1 each.

(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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

12 INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

(a) Information about associated companies (continued)

Both CCSR and MSIM 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.

(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	
	2018 RM'000	**2017 RM'000**
Total assets	**292,049,818**	242,523,008
Total liabilities	**(271,754,702)**	(225,188,553)
Net assets	**20,295,116**	17,334,455
Interest income	**10,215,530**	8,185,397
Interest expense	**(4,969,863)**	(3,729,548)
Non-interest income	**1,619,781**	868,127
Profit before taxation	**3,084,753**	2,051,831
Profit after taxation	**2,690,594**	1,714,550
Total comprehensive income	**2,686,344**	1,642,045
Dividends from the associated company	**101,111**	181,953
Share of results of associated company (%)	**18%**	20%
Share of results of associated company (RM'000)	**516,111**	342,910

(ii) MSIG Insurance (Malaysia) Bhd

	The Group	
	2018 RM'000	**2017 RM'000**
Total assets	**5,279,897**	4,929,474
Total liabilities	**(2,322,448)**	(2,080,361)
Net assets	**2,957,449**	2,849,113
Interest income	**54,406**	77,981
Non-interest income	**447,605**	452,130
Profit before taxation	**259,018**	310,854
Profit after taxation	**210,208**	244,838
Total comprehensive income	**193,287**	251,321
Dividends from the associated company	**25,486**	24,986
Share of results of associated company (%)	**30%**	30%
Share of results of associated company (RM'000)	**63,062**	73,451

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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	
	2018 RM'000	2017 RM'000
Opening net assets as at 1 July	**17,334,455**	15,888,840
Effect arising from IPO*	**1,579,992**	–
Profit for the financial year	**2,690,594**	1,714,550
Other comprehensive loss for the financial year	**(4,250)**	(72,505)
Dividends	**(562,040)**	(909,765)
Exchange fluctuation reserve	**(743,635)**	713,335
Closing net assets as at 30 June	**20,295,116**	17,334,455
Interest in associated company (%)	**18%**	20%
Interest in associated company (RM'000)	**3,651,091**	3,466,891

* This includes issuance of additional new shares and dilution of goodwill arising from IPO.

(ii) MSIG Insurance (Malaysia) Bhd

	The Group	
	2018 RM'000	2017 RM'000
Opening net assets as at 1 July	**2,849,113**	2,681,078
Profit for the financial year	**210,208**	244,838
Other comprehensive (loss)/income for the financial year	**(16,921)**	6,483
Dividends	**(84,951)**	(83,286)
Closing net assets as at 30 June	**2,957,449**	2,849,113
Interest in associated company (%)	**30%**	30%
Interest in associated company (RM'000)	**887,235**	854,734

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 2018

13 INVESTMENT IN JOINT VENTURE

	The Group 2018 RM'000	The Group 2017 RM'000
Retained portion		
Unquoted shares outside Malaysia, at cost	**24,657**	24,657
Cumulative share of results, net of dividend received	**26,342**	20,882
Exchange fluctuation reserve	**6,674**	8,842
	57,673	54,381
Equity interest held for sale	**121,753**	114,804
	179,426	169,185

(a) Information about joint venture

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 JV Co 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 was completed upon obtaining approval from CBRC vide its letter dated 3 September 2018. Post completion of the divestment exercise, the Group would continue to equity account the retained interest of 12% as the Group is still deemed to have significant influence in JV Co.

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 RM121,753,000 for the financial year ended 30 June 2018. The foreign currency translation differences accumulated in equity relating to joint venture classified as held for sale amounted to RM14,089,000 for the financial year ended 30 June 2018.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

13 INVESTMENT IN JOINT VENTURE (CONTINUED)

(b) Summarised financial information of joint venture, which is accounted for using the equity method is as follows:

	The Group 2018 RM'000	The Group 2017 RM'000
Total assets	**1,184,983**	783,476
Total liabilities	**(818,808)**	(438,201)
Net assets	**366,175**	345,275
Interest income	**113,659**	86,490
Interest expense	**(29,369)**	(26,608)
Non-interest income	**22,197**	37,263
Profit before taxation	**56,148**	57,740
Profit after taxation	**41,935**	43,169
Dividend from the joint venture	**3,563**	3,428

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

	The Group 2018 RM'000	The Group 2017 RM'000
Opening net assets as at 1 July	**345,275**	295,663
Profit for the financial year	**41,935**	43,169
Dividend	**(7,271)**	(6,996)
Exchange fluctuation reserve	**(13,764)**	13,439
Closing net assets as at 30 June	**366,175**	345,275

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

14 PROPERTY AND EQUIPMENT

The Group 2018	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 2017		796,741	1,150,634	453,272	12,968	126,121	599,591	3,139,327
Exchange fluctuation		(4,233)	(5,477)	(1,602)	(83)	(31)	–	(11,426)
Reclassification/transfer		599,591	85,628	40,692	–	(126,015)	(599,591)	305
Reclassification to investment properties	15	(380,040)	–	–	–	–	–	(380,040)
Reclassification to intangible assets	17	2,761	1,518	(2,760)	–	(8,696)	–	(7,177)
Additions		–	44,836	21,325	1,284	80,840	–	148,285
Disposals/write-off		(1,907)	(55,702)	(30,559)	(1,264)	–	–	(89,432)
As at 30 June 2018		1,012,913	1,221,437	480,368	12,905	72,219	–	2,799,842
Accumulated depreciation								
As at 1 July 2017		142,007	762,603	341,161	9,105	–	–	1,254,876
Exchange fluctuation		(639)	(3,522)	(823)	(77)	–	–	(5,061)
Reclassification to investment properties	15	(80,435)	–	–	–	–	–	(80,435)
Reclassification to intangible assets	17	–	(243)	–	–	–	–	(243)
Disposals/write-off		(562)	(53,022)	(26,067)	(1,134)	–	–	(80,785)
Charge during the financial year		24,236	85,286	26,325	1,814	–	–	137,661
As at 30 June 2018		84,607	791,102	340,596	9,708	–	–	1,226,013
Net book value as at 30 June 2018		928,306	430,335	139,772	3,197	72,219	–	1,573,829

* Land and building consists of the following:

The Group 2018	Note	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 2017		165,344	343,612	44,163	239,696	1,693	2,233	796,741
Exchange fluctuation		–	–	–	(4,233)	–	–	(4,233)
Reclassification		70,500	529,091	–	–	–	–	599,591
Reclassification to investment properties	15	(97,682)	(282,358)	–	–	–	–	(380,040)
Reclassification to intangible assets	17	1,151	1,610	–	–	–	–	2,761
Disposals		(667)	(1,240)	–	–	–	–	(1,907)
As at 30 June 2018		138,646	590,715	44,163	235,463	1,693	2,233	1,012,913
Accumulated depreciation								
As at 1 July 2017		–	93,239	4,660	41,635	1,407	1,066	142,007
Exchange fluctuation		–	–	–	(639)	–	–	(639)
Reclassification to investment properties	15	–	(80,435)	–	–	–	–	(80,435)
Disposals		–	(562)	–	–	–	–	(562)
Charge during the financial year		–	18,959	503	4,722	7	45	24,236
As at 30 June 2018		–	31,201	5,163	45,718	1,414	1,111	84,607
Net book value as at 30 June 2018		138,646	559,514	39,000	189,745	279	1,122	928,306

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

14 PROPERTY AND EQUIPMENT (CONTINUED)

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

* Land and building consists of the following:

The Group 2017	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 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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

14 PROPERTY AND EQUIPMENT (CONTINUED)

The Company 2018	Office and computer equipment RM'000	Furniture, fittings and renovation RM'000	Motor vehicles RM'000	Total RM'000
Cost				
As at 1 July 2017	**727**	**1,512**	**2,466**	**4,705**
Additions	**596**	**4,129**	**–**	**4,725**
Disposals	**–**	**(2)**	**–**	**(2)**
As at 30 June 2018	**1,323**	**5,639**	**2,466**	**9,428**
Accumulated depreciation				
As at 1 July 2017	**669**	**1,337**	**1,281**	**3,287**
Disposals	**–**	**(1)**	**–**	**(1)**
Charge during the financial year	**85**	**226**	**499**	**810**
As at 30 June 2018	**754**	**1,562**	**1,780**	**4,096**
Net book value as at 30 June 2018	**569**	**4,077**	**686**	**5,332**
2017				
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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

15 INVESTMENT PROPERTIES

	The Group 2018 RM'000	The Group 2017 RM'000
Fair value		
As at 1 July	**2,030**	1,940
Fair value (loss)/gain	**(460)**	90
Fair value of investment property at date of transfer	**492,594**	–
As at 30 June	**494,164**	2,030
The analysis of investment properties is as follows:		
Freehold land and building	**492,094**	–
Leasehold land and building	**2,070**	2,030

During the financial year, there was change in use from owner-occupied property to investment properties. The amount transferred from owner-occupied property was RM299,605,000 and the gain attributable to the Group was RM80,156,000 and insurance fund policy holders was RM112,833,000.

The fair value of the properties was estimated at RM494,164,000 based on open market valuation by an independent professional valuer, Raine & Horne International Zaki + Partners Sdn Bhd.

Pursuant to MFRS 13 "Fair Value Measurement", the Group establishes a fair value hierarchy that categories into three levels of inputs to valuation techniques used to measure fair value.

	The Group 2018 RM'000	The Group 2017 RM'000
Level 2	**2,070**	2,030
Level 3	**492,094**	–

Description of valuation techniques used and key inputs to valuation on investment properties measured at Level 3:

Valuation Technique	Unobservable input	The Group 2018	The Group 2017
Comparison and investment method	Term yield	**4.55% - 6.86%**	4.55% - 6.86%
	Revisionary rate	**6.50% - 6.75%**	6.50% - 6.75%

The investment properties generated rental income and incurred the following direct expenses:

	The Group 2018 RM'000	The Group 2017 RM'000
Rental income	**16,773**	118
Direct operating expenses	**9,827**	5

16 GOODWILL ARISING ON CONSOLIDATION

	The Group 2018 RM'000	The Group 2017 RM'000
As at 1 July/30 June	**2,410,644**	2,410,644

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

16 GOODWILL ARISING ON CONSOLIDATION (CONTINUED)

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

	The Group	
	2018 RM'000	2017 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 2018, 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 2019, which is approved by the respective Board of Directors of Hong Leong Bank Berhad and Hong Leong Capital Berhad with a further projection of 2 years (2017: 2 years). Cash flows beyond the 3 year period are extrapolated using an estimated growth rate of 4.68% (2017: 4.59%) 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 8.03% (2017: 7.48%) and 9.38% (2017: 8.16%) 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.

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% (2017: 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 18% (2017: 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

16 GOODWILL ARISING ON CONSOLIDATION (CONTINUED)

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 2018	Note	Core deposit RM'000	Customer relationship RM'000	Computer software RM'000	Total RM'000
Cost or valuation					
As at 1 July 2017		**152,434**	**127,426**	**640,817**	**920,677**
Additions		–	–	**14,119**	**14,119**
Disposals/write-off		–	–	**(11,807)**	**(11,807)**
Exchange fluctuation		–	–	**(2,982)**	**(2,982)**
Reclassification from property and equipment	14	–	–	**7,177**	**7,177**
As at 30 June 2018		**152,434**	**127,426**	**647,324**	**927,184**
Accumulated amortisation and impairment					
As at 1 July 2017		**134,286**	**78,581**	**477,222**	**690,089**
Amortisation during the financial year		**18,148**	**12,743**	**50,701**	**81,592**
Disposals/write-off		–	–	**(11,778)**	**(11,778)**
Exchange fluctuation		–	–	**(1,503)**	**(1,503)**
Reclassification from property and equipment	14	–	–	**243**	**243**
As at 30 June 2018		**152,434**	**91,324**	**514,885**	**758,643**
Net book value as at 30 June 2018		–	**36,102**	**132,439**	**168,541**

2017					
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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

17 INTANGIBLE ASSETS (CONTINUED)

The Company	Computer software 2018 RM'000	Computer software 2017 RM'000
Cost		
As at 1 July	**843**	841
Additions	**–**	2
As at 30 June	**843**	843
Accumulated amortisation and impairment		
As at 1 July	**830**	735
Amortisation during the financial year	**12**	95
As at 30 June	**842**	830
Net book value as at 30 June	**1**	13

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.

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 customer relationships is 3 years (2017: 4 years).

18 DEPOSITS FROM CUSTOMERS

	The Group 2018 RM'000	The Group 2017 RM'000
At amortised cost		
Fixed deposits	**88,068,740**	88,216,001
Negotiable instruments of deposits	**6,892,073**	5,713,184
Short-term placements	**16,624,892**	18,312,314
	111,585,705	112,241,499
Demand deposits	**23,586,919**	21,186,820
Savings deposits	**17,563,850**	17,531,603
Others	**979,288**	1,017,170
	153,715,762	151,977,092
At fair value through profit or loss		
Structured deposits linked to interest rate derivatives	**3,334,428**	2,597,863
Fair value changes arising from designation at fair value through profit or loss*	**(167,278)**	(116,938)
	3,167,150	2,480,925
	156,882,912	154,458,017

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

18 DEPOSITS FROM CUSTOMERS (CONTINUED)

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

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

The carrying amount of the structured deposits of the Group is RM150,847,000 (2017: RM106,355,000) lower than the contractual amount at maturity.

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

	The Group	
	2018 RM'000	2017 RM'000
Due within:		
- six months	**83,100,530**	93,035,057
- six months to one year	**26,160,206**	17,382,345
- one year to five years	**2,324,969**	1,824,097
	111,585,705	112,241,499

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

	The Group	
	2018 RM'000	2017 RM'000
Government and statutory bodies	**4,818,613**	3,395,343
Business enterprises	**61,345,942**	62,087,439
Individuals	**88,185,501**	86,196,444
Others	**2,532,856**	2,778,791
	156,882,912	154,458,017

19 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group	
	2018 RM'000	2017 RM'000
Licensed banks	**7,134,830**	6,262,658
Licensed investment banks	**309,597**	50,004
Other financial institutions	**1,851,968**	1,421,763
	9,296,395	7,734,425

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

20 DERIVATIVE FINANCIAL INSTRUMENTS

	Note	The Group 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
Derivatives at fair value through profit or loss					
- Interest rate swaps		**217,466**	209,298	**–**	–
- Cross currency swaps		**257,817**	428,856	**–**	–
- Foreign currency forwards		**422,423**	280,906	**–**	–
- Foreign currency options		**15,972**	19,761	**–**	–
- Foreign currency swaps		**15,958**	5,883	**–**	–
- Foreign currency spots		**2**	1	**–**	–
- Futures		**1,002**	355	**–**	–
- Futures options		**587**	–	**–**	–
- Equity options		**13,895**	9,203	**–**	–
- Swaption		**–**	23,341	**–**	–
Derivatives designated as cash flow hedge					
- Interest rate swaps		**1,094**	–	**–**	–
Derivatives designated as fair value hedge					
- Interest rate swaps		**24,393**	–	**–**	–
- Foreign currency forwards		**586**	–	**–**	–
Total derivative financial instruments assets		**971,195**	977,604	**–**	–
Derivatives at fair value through profit or loss					
- Interest rate swaps		**(312,803)**	(334,865)	**(327)**	(874)
- Cross currency swaps		**(295,894)**	(717,183)	**–**	–
- Foreign currency forwards		**(343,235)**	(313,274)	**–**	–
- Foreign currency options		**(12,834)**	(17,009)	**–**	–
- Foreign currency swaps		**(31,507)**	(7,346)	**–**	–
- Foreign currency spots		**–**	(3)	**–**	–
- Equity options		**(13,876)**	(8,568)	**–**	–
- Futures		**(4,919)**	(1,228)	**–**	–
- Swaption		**(49,135)**	(78,484)	**–**	–
Derivatives designated as cash flow hedge					
- Interest rate swaps	(a)	**(423)**	(1,405)	**–**	–
Derivatives designated as fair value hedge					
- Interest rate swaps	(b)	**(15,846)**	(199)	**–**	–
- Foreign currency forwards		**(1,668)**	–	**–**	–
Total derivative financial instruments liabilities		**(1,082,140)**	(1,479,564)	**(327)**	(874)

(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 2018

20 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(a) Cash flow hedge (continued)

The cash flows of the hedging instruments and the hedged items are 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 2018					
Cash inflows (hedging instruments)	**1,380**	**2,770**	**4,239**	**8,382**	**34,814**
Cash outflows (hedged items)	**(1,376)**	**(2,524)**	**(3,990)**	**(7,879)**	**(32,374)**
Net cash inflows	**4**	**246**	**249**	**503**	**2,440**
As at 30 June 2017					
Cash inflows (hedging instruments)	1,283	1,767	3,070	6,174	34,679
Cash outflows (hedged items)	(1,279)	(1,563)	(2,801)	(5,638)	(31,188)
Net cash inflows	4	204	269	536	3,491

(b) Fair value hedge

The Group's fair value hedges principally consist of interest rate swaps and foreign currency forwards that are used to protect against changes in the fair value of financial assets due to movement in interest rates and foreign exchange rates. The Group had undertaken fair value hedges on interest rate risk of RM620,481,000 (2017: RM196,429,000) and foreign currency risk of RM185,949,000 on certain receivables using interest rate swaps and foreign currency forwards. The total fair value gain and loss of the said interest rate swaps amounted to gain of RM8,547,000 (2017: loss RM199,000) and of the said foreign currency forwards amounted to loss of RM1,082,000.

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

	The Group	
	2018 RM'000	2017 RM'000
Gain on hedging instruments	**37,203**	32
Gain/(loss) on the hedged items attributable to the hedged risks	**2,311**	(35)
	39,514	(3)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

21 PAYABLES AND OTHER LIABILITIES

	The Group 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
Trade payables	**2,731,351**	2,333,872	**–**	–
Post employment benefits obligation				
- defined contribution plan	**1,855**	1,819	**45**	44
Loan advance payment	**3,229,766**	2,987,067	**–**	–
Treasury and cheque clearing	**50,106**	129,556	**–**	–
Treasury related payables	**231,223**	235,295	**–**	–
Sundry creditors and accruals	**554,916**	332,197	**2,093**	1,276
Provision for bonus and staff related expenses	**226,546**	207,627	**11,474**	8,169
Financial liabilities due to third party investors*	**3,859,209**	1,773,647	**–**	–
Others	**823,219**	529,955	**–**	–
	11,708,191	8,531,035	**13,612**	9,489

* 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 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
Deferred tax (liabilities)/assets				
- to be recovered within 12 months	**109,082**	104,952	**75**	36
- to be recovered more than 12 months	**(187,391)**	(407,469)	**–**	–
	(78,309)	(302,517)	**75**	36

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

	The Group 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
Deferred tax assets				
- Cash flow hedge reserve	**–**	337	**–**	–
- Financial investments available-for-sale	**29,785**	–	**–**	–
- Unutilised tax credit	**82,527**	85,613	**–**	–
- Provision for expenses	**103,911**	91,557	**–**	–
- Other temporary differences	**4,174**	1,296	**75**	36
	220,397	178,803	**75**	36
Deferred tax liabilities				
- Cash flow hedge reserve	**(161)**	–	**–**	–
- Property and equipment	**(82,980)**	(97,759)	**–**	–
- Financial investments available-for-sale	**–**	(183,432)	**–**	–
- Intangible assets	**(8,665)**	(16,079)	**–**	–
- Unallocated surplus	**(206,900)**	(175,696)	**–**	–
- Other temporary differences	**–**	(8,354)	**–**	–
	(298,706)	(481,320)	**–**	–
Deferred tax (liabilities)/assets net	**(78,309)**	(302,517)	**75**	36

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

22 DEFERRED TAXATION (CONTINUED)

The movements in deferred tax assets and liabilities during the financial year are as follows:

The Group 2018	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
As at 1 July		**(97,759)**	**(183,432)**	**337**	**(16,079)**	**85,613**	**–**	**91,557**	**(175,696)**	**(7,058)**	**(302,517)**
Credited/(charged) to statements of income	38	**14,651**	**14,642**	**–**	**7,414**	**(3,086)**	**–**	**12,627**	**(31,204)**	**1,230**	**16,274**
Charged to Insurance funds		**–**	**14,799**	**–**	**–**	**–**	**–**	**–**	**–**	**10,002**	**24,801**
Credited/(charged) to equity		**–**	**183,776**	**(498)**	**–**	**–**	**–**	**–**	**–**	**–**	**183,278**
Exchange difference		**128**	**–**	**–**	**–**	**–**	**–**	**(273)**	**–**	**–**	**(145)**
As at 30 June		**(82,980)**	**29,785**	**(161)**	**(8,665)**	**82,527**	**–**	**103,911**	**(206,900)**	**4,174**	**(78,309)**
2017											
As at 1 July		(108,957)	(147,978)	543	(24,363)	89,692	69,732	65,386	(156,937)	10,645	(202,237)
Credited/(charged) to statements of income	38	11,300	(13,467)	–	8,284	(4,100)	(69,732)	25,886	(18,759)	(5,237)	(65,825)
Credited to Insurance funds		–	(6,007)	–	–	–	–	–	–	(12,466)	(18,473)
Charged 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)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

22 DEFERRED TAXATION (CONTINUED)

The movements in deferred tax assets and liabilities during the financial year are as follows: (continued)

The Company 2018	Note	Other temporary differences RM'000	Total RM'000
As at 1 July		**36**	**36**
Credited to statements of income	38	**39**	**39**
As at 30 June		**75**	**75**
2017			
As at 1 July		330	330
Charged to statements of income	38	(294)	(294)
As at 30 June		36	36

23 BORROWINGS

		The Group		The Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revolving credit	(a)	**210,222**	370,197	**210,222**	370,197
Commercial papers	(b)	**169,610**	149,707	**169,610**	149,707
Medium term notes	(b)	**570,431**	656,088	**655,994**	656,088
Term loans	(c)	**350,108**	350,230	**350,108**	350,230
		1,300,371	1,526,222	**1,385,934**	1,526,222

(a) The revolving credit facilities carried interest rates ranging from 3.45% to 4.38% (2017: ranging from 3.40% to 3.84%) per annum.

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

(b) 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 3.66% to 3.81% (2017: 3.38% to 3.75%).

The MTNs are issued at par and the issue price is calculated in accordance with the FAST Rules, at the tenure which shall be more than one (1) year as the Company may select. The MTNs carry interest rates ranging from 4.50% to 4.80% (2017: 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.

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

(i) The Company has an unsecured short-term loan facility of RM150.0 million maturing on 30 July 2018. The term loan with one month interest period bears interest rates ranging from 3.51% to 3.76% (2017: 3.51% to 3.88%) per annum.

(ii) The Company has an unsecured 1 year term loan of RM200.0 million maturing on 30 July 2018. The term loan with one month interest period bears interest rates ranging from 3.51% to 3.76% (2017: 3.51% to 3.88%) per annum.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

24 SUBORDINATED OBLIGATIONS

	Note	The Group 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
RM1.5 billion Tier 2 subordinated debt, at par	(a)	**861,000**	1,500,000	**–**	–
Add: Interest payable		**964**	1,664	**–**	–
		861,964	1,501,664	**–**	–
Less: Unamortised discounts		**(91)**	(277)	**–**	–
		861,873	1,501,387	**–**	–
RM500 million Tier 2 subordinated debt, at par	(b)	**500,000**	500,000	**–**	–
Add: Interest payable		**8,815**	8,815	**–**	–
		508,815	508,815	**–**	–
Less: Unamortised discounts		**(1,266)**	(1,443)	**–**	–
		507,549	507,372	**–**	–
RM400 million Tier 2 subordinated Sukuk Ijarah, at par	(c)	**379,500**	400,000	**–**	–
Add: Profit payable		**646**	631	**–**	–
		380,146	400,631	**–**	–
Less: Unamortised discounts		**(54)**	(128)	**–**	–
		380,092	400,503	**–**	–
RM500 million Tier 2 subordinated notes, at par	(d)	**500,000**	500,000	**–**	–
Add: Interest payable		**395**	526	**–**	–
		500,395	500,526	**–**	–
Less: Unamortised discounts		**(89)**	(271)	**–**	–
		500,306	500,255	**–**	–
RM50 million Tier 2 subordinated notes, at par	(e)	**50,000**	50,000	**–**	–
Add: Interest payable		**399**	392	**–**	–
		50,399	50,392	**–**	–
Less: Unamortised discounts		**(109)**	(130)	**–**	–
		50,290	50,262	**–**	–
RM500 million Tier 2 subordinated notes, at par	(f)	**500,000**	–	**500,000**	–
Add: Interest payable		**405**	–	**405**	–
		500,405	–	**500,405**	–
Less: Unamortised discounts		**(68)**	–	**(806)**	–
		500,337	–	**499,599**	–
		2,800,447	2,959,779	**499,599**	–

(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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

24 SUBORDINATED OBLIGATIONS (CONTINUED)

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

On 7 February 2013, HLA completed its RM500.0 million Sub-Notes issuance. The Sub-Notes were issued for a period of 12 years on a 12 non-callable 7 basis with a coupon rate of 4.5% 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 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.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

25 INNOVATIVE TIER 1 CAPITAL SECURITIES

	The Group	
	2018 RM'000	2017 RM'000
RM500 million Innovative Tier 1 capital securities, at par	**463,200**	500,000
Add: Interest payable	**11,605**	12,771
	474,805	512,771
Less: Unamortised discounts	**(2,439)**	(4,223)
Fair value adjustments on completion of business combination accounting	**2,246**	7,075
	474,612	515,623

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

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

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

26 MULTI-CURRENCY ADDITIONAL TIER 1 CAPITAL SECURITIES

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
RM400 million Multi-currency Additional Tier 1 capital securities, at par	**400,000**	–	**400,000**	–
Add: Interest payable	**1,834**	–	**1,834**	–
	401,834	–	**401,834**	–
Less: Unamortised discounts	**(465)**	–	**(1,083)**	–
	401,369	–	**400,751**	–

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

27 INSURANCE FUNDS

	The Group	
	2018 RM'000	2017 RM'000
Unearned premium reserves	**63,668**	53,432
Life policyholders' fund	**10,871,955**	10,028,670
Fair value reserves - financial investments available-for-sale	**143,741**	318,055
Life investment-linked unitholders' fund	**2,109,423**	1,821,408
	13,188,787	12,221,565

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.

28 SHARE CAPITAL

	The Group and The Company			
	2018		2017	
	Number of ordinary shares '000	RM'000	Number of ordinary shares '000	RM'000
Issued and fully paid capital				
As at 1 July - ordinary shares of RM1.00 each	**1,147,517**	**2,267,008**	1,147,517	1,147,517
Transfer pursuant to Companies Act, 2016*	**–**	**–**	–	1,119,491
As at 30 June - ordinary shares with no par value	**1,147,517**	**2,267,008**	1,147,517	2,267,008

* 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

29 RESERVES

	Note	The Group 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
Retained profits	(a)	**13,910,419**	12,527,478	**13,206,499**	12,909,636
Regulatory reserves	(b)	**755,010**	680,987	**–**	–
Share options reserve	(c)	**50,254**	29,429	**4,169**	–
Exchange fluctuation reserve	(d)	**521,299**	745,858	**–**	–
Other capital reserve	(e)	**213,314**	134,957	**254,991**	254,991
Fair value reserve	(f)	**109,284**	259,635	**–**	–
Cash flow hedge reserve	(g)	**544**	(703)	**–**	–
		15,560,124	14,377,641	**13,465,659**	13,164,627

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

(b) 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 RM74.0 million (2017: RM78.7 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 RM11.2 million (2017: RM11.2 million) in line with the requirements of the State Bank of Vietnam.

(c) 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 51 to the financial statements.

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

(e) The other capital reserve of the Group arose from the capitalisation of bonus issue, gain on disposal of subsidiary company and assets in certain subsidiary companies, other capital reserve arising from redemption of RPS from the subsidiaries and revaluation gain arising from change in use from owner-occupied properties to investment properties. The capital reserve of the Company arose from gain on disposal of a subsidiary company not recognised in the statements of income due to a common control transaction, and investments and proceeds on issuance of replacement warrants used for bond redemption in previous years.

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

	Note	The Group 2018 RM'000	The Group 2017 RM'000
At 1 July		**259,635**	237,252
Net (loss)/gain from change in fair value		**(222,082)**	125,065
Reclassification to net profit on disposal and impairment		**(181,393)**	(60,140)
Deferred taxation	54	**183,776**	(15,980)
Share of fair value reserve of associated companies		**(5,890)**	(12,556)
Net change in fair value reserve		**(225,589)**	36,389
Attributable to non-controlling interests		**75,238**	(14,006)
At 30 June		**109,284**	259,635

(g) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

30 TREASURY SHARES FOR ESOS

The Company has entered into a Trust for ESOS purposes established via the signing of a Trust Deed on 23 January 2006 with AmTrustee Berhad in conjunction with the establishment of Executive Share Option Schemes ("ESOS"). The trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase the Company's shares from the open market for the purposes of this trust.

MFRS132 - Financial Instruments: Presentation requires that if an entity reacquires its own equity instruments, those instruments shall be deducted from equity and are not recognised as a financial asset regardless of the reason for which they are reacquired.

In accordance with MFRS 132 - Financial Instruments: Presentation, the shares purchased for the benefit of the ESOS holders are recorded as "Treasury Shares for ESOS" in the equity on the balance sheet. The number of shares held by the appointed trustee was 500 shares (2017: 500) at an average price of RM6.31 per share (2017: RM6.31). The total consideration paid, including transaction costs was RM3,156 (2017: RM3,156).

Pursuant to the insurance subsidiary company's ESOS, the insurance subsidiary company also held 2,517,900 (2017: 3,963,900) units of the Company's shares at an average price of RM9.01 (2017: RM9.01) per share with total consideration paid, including transaction costs of RM22,682,753 (2017: 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 51 to the financial statements.

31 INTEREST INCOME

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Loans, advances and financing	**4,657,012**	4,640,525	**–**	–
Money at call and deposit placements with financial institutions	**216,379**	126,591	**1,404**	1,118
Securities purchased under resale agreements	**5,484**	35,504	**–**	–
Financial assets held-for-trading	**419,434**	423,645	**–**	–
Financial investments available-for-sale	**787,842**	687,883	**–**	–
Financial investments held-to-maturity	**408,036**	382,722	**–**	–
Others	**25,023**	19,633	**12,835**	191
	6,519,210	6,316,503	**14,239**	1,309
Of which:				
Accretion of discount less amortisation of premium	**228,294**	183,932	**–**	–
Interest income earned on impaired loans, advances and financing	**52,766**	53,446	**–**	–

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

32 INTEREST EXPENSE

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deposits and placements of banks and other financial institutions	**197,861**	120,048	**–**	–
Deposits from other customers	**2,861,551**	2,780,108	**–**	–
Short-term placements	**344,662**	322,177	**–**	–
Borrowings	**54,188**	91,488	**54,188**	58,631
Subordinated obligations	**117,616**	117,473	**419**	–
Recourse obligation on loans sold to Cagamas	**7,602**	6,727	**–**	–
Innovative Tier 1 capital securities	**38,205**	35,362	**–**	–
Multi-currency Additional Tier 1 capital securities	**13,002**	–	**12,351**	–
Others	**13,915**	21,465	**537**	455
	3,648,602	3,494,848	**67,495**	59,086

33 INCOME FROM ISLAMIC BANKING BUSINESS

	The Group	
	2018 RM'000	2017 RM'000
Income derived from investment of depositors' funds and others	**1,279,994**	1,108,101
Income derived from investment of shareholders' funds	**137,744**	128,043
Total distributable income	**1,417,738**	1,236,144
Income attributable to depositors	**(771,674)**	(686,045)
	646,064	550,099
Of which:		
Financing income earned on impaired financing and advances	**11,941**	7,574

34 NON-INTEREST INCOME

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Insurance income	**283,942**	280,699	**–**	–
Brokerage income	**65,854**	60,368	**–**	–
Fee income				
Commissions	**152,870**	147,075	**–**	–
Service charges and fees	**62,674**	50,262	**–**	–
Guarantee fees	**14,213**	13,663	**–**	–
Credit card related fees	**218,225**	236,211	**–**	–
Corporate advisory fees	**5,926**	7,744	**–**	–
Commitment fees	**33,086**	34,916	**–**	–
Fee on loans, advances and financing	**39,690**	49,046	**–**	–
Placement fees	**1,393**	12,451	**–**	–
Arranger fees	**3,139**	9,633	**–**	–
Unit trust fee income	**34,353**	27,260	**–**	–
Other fee income	**123,302**	118,374	**11,015**	6,847
	688,871	706,635	**11,015**	6,847

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

34 NON-INTEREST INCOME (CONTINUED)

	Note	The Group 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
Net income from securities					
Net realised gain/(loss) from sale/redemption of financial assets:					
- financial assets held-for-trading		**19,671**	19,033	**–**	–
- financial investments available-for-sale		**217,616**	74,568	**–**	–
- financial investments held-to-maturity		**7**	226	**–**	–
- derivative financial instruments		**(20,712)**	49,482	**–**	(80)
Gross dividend income from:					
- financial assets held-for-trading		**5,116**	2,740	**–**	–
- financial investments available-for-sale		**322,433**	294,023	**–**	–
- subsidiary companies		**–**	–	**648,555**	655,150
Net unrealised (loss)/gain on revaluation of:					
- financial assets held-for-trading		**(11,194)**	(352)	**–**	–
- derivative financial instruments		**121,763**	80,896	**547**	581
Amortisation of fair value changes arising from terminated fair value hedges		**(800)**	(115)	**–**	–
Net loss on fair value changes arising from fair value hedges		**(152)**	(3)	**–**	–
		653,748	520,498	**649,102**	655,651
Other income					
Foreign exchange gain		**143,771**	75,366	**–**	1
Rental income		**8,688**	4,618	**–**	–
Net gain on sale of property and equipment (net)		**2,492**	1,295	**1**	–
Net loss on dilution of investment in an associate	12	**(26,800)**	–	**–**	–
Gain on liquidation of a subsidiary		**–**	–	**190,156**	–
Other non-operating income		**13,753**	13,329	**12**	14
		141,904	94,608	**190,169**	15
		1,834,319	1,662,808	**850,286**	662,513

35 OVERHEAD EXPENSES

	Note	The Group 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
Personnel costs	(a)	**1,254,976**	1,257,595	**29,577**	15,598
Establishment costs	(b)	**572,630**	523,299	**2,083**	1,885
Marketing expenses	(c)	**174,923**	166,144	**–**	–
Administration and general expenses	(d)	**292,502**	275,193	**4,149**	3,844
		2,295,031	2,222,231	**35,809**	21,327

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

35 OVERHEAD EXPENSES (CONTINUED)

(a) Personnel costs comprise the following:

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Salaries, bonus and allowances	**1,138,790**	1,131,380	**23,991**	14,300
Medical expenses	**36,532**	35,302	**130**	79
Training and convention expenses	**26,416**	29,528	**25**	15
Staff welfare	**10,462**	12,107	**559**	537
Other employees benefits	**42,776**	49,278	**4,872**	667
	1,254,976	1,257,595	**29,577**	15,598

(b) Establishment costs comprise the following:

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Depreciation of property and equipment	**130,013**	101,045	**810**	650
Amortisation of intangible assets	**78,910**	81,351	**12**	95
Rental of premises	**80,824**	90,034	**860**	760
Information technology expenses	**175,334**	159,122	**117**	134
Security services	**28,896**	28,451	**–**	–
Electricity, water and sewerage	**27,228**	25,034	**51**	45
Hire of plant and machinery	**12,695**	14,588	**6**	31
Others	**38,730**	23,674	**227**	170
	572,630	523,299	**2,083**	1,885

(c) Marketing expenses comprise the following:

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Advertisement and publicity	**41,644**	36,054	**–**	–
Credit card related fees	**107,491**	108,998	**–**	–
Others	**25,788**	21,092	**–**	–
	174,923	166,144	**–**	–

(d) Administration and general expenses comprise the following:

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Teletransmission expenses	**18,165**	18,925	**34**	29
Stationery and printing expenses	**16,583**	18,098	**27**	20
Professional fees	**87,236**	77,153	**1,014**	888
Insurance fees	**41,772**	40,175	**–**	–
Stamp, postage and courier	**15,411**	19,842	**3**	2
Credit card fees	**40,197**	39,601	**–**	–
Travelling and transport expenses	**4,662**	4,300	**110**	112
Registration and license fees	**10,200**	10,077	**–**	–
Brokerage and commission	**8,003**	6,747	**–**	–
Others	**50,273**	40,275	**2,961**	2,793
	292,502	275,193	**4,149**	3,844

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

35 OVERHEAD EXPENSES (CONTINUED)

The above expenditure includes the following statutory disclosures:

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Directors' remuneration (Note 37)	**12,314**	7,332	**11,665**	6,779
Hire of equipment	**12,667**	14,560	**6**	31
Auditors' remuneration*:				
(i) PwC Malaysia firm				
- statutory audit	**3,178**	3,064	**155**	153
- regulatory related fees	**1,049**	903	**32**	32
- other services	**892**	1,192	**32**	25
- tax compliance	**124**	112	**–**	–
(ii) PwC overseas affiliated firms				
- statutory audit	**572**	540	**–**	–
- regulatory related fees	**192**	201	**–**	–
- tax compliance	**159**	142	**–**	–
(iii) Other overseas firm				
- other tax services	**22**	23	**–**	–
Property and equipment written off	**5,241**	808	**–**	–
Intangible assets written off	**21**	57	**–**	–
Options charge arising from ESOS	**23,861**	21,157	**4,169**	–

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

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

	The Group	
	2018 RM'000	2017 RM'000
Allowance for/(writeback of) impairment losses on loans, advances and financing		
- collective assessment allowance	**300,218**	282,483
- individual assessment allowance	**7,901**	116,246
Allowance for/(writeback of) impairment losses on clients' and brokers' balances		
- collective assessment allowance	**–**	11
- individual assessment allowance	**(66)**	135
Allowance for impairment losses on fee income receivables		
- individual assessment allowance	**458**	987
Impaired loans and financing		
- written off	**19,719**	22,520
- recovered	**(250,847)**	(261,156)
	77,383	161,226

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

37 DIRECTORS' REMUNERATION

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

	The Group				The Company			
2018	Salaries, allowances and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits-in-kind RM'000	Total RM'000	Salaries, allowances 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	11,012	–	35	11,047	11,012	–	35	11,047
Non-executive Directors								
YBhg Tan Sri Quek Leng Chan	–	–	28	28	–	–	28	28
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman (Retired with effect from 31 January 2018)	20	262	–	282	5	65	–	70
Ms Lim Lean See	40	425	–	465	14	160	–	174
Mr Saw Kok Wei	12	155	–	167	12	155	–	167
Ms Lim Tau Kien	30	295	–	325	14	165	–	179
	102*	1,137	28	1,267	45*	545	28	618
Total Directors' remuneration	11,114	1,137	63	12,314	11,057	545	63	11,665
Directors of subsidiaries	8,693	3,682	1,152	13,527				

* Directors' meeting allowances

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

37 DIRECTORS' REMUNERATION (CONTINUED)

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

	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:
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 (2017: RM10 million). The total amount of premium paid for the Directors' & Officers' Liability Insurance by the Group was RM67,688 (2017: RM67,688) and the apportioned amount of the said premium paid by the Company was RM3,382 (2017: RM3,382).

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 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 made a part hereof.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

38 TAXATION

	Note	The Group 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
Income tax		**698,720**	538,696	**5,411**	1,770
Deferred taxation	22	**(16,274)**	65,825	**(39)**	294
Under/(over) accrual in prior years*		**1,613**	168,544	**(20)**	(25)
Taxation		**684,059**	773,065	**5,352**	2,039

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 2018 RM'000	The Group 2017 RM'000	The Company 2018 RM'000	The Company 2017 RM'000
Profit before taxation	**3,578,585**	3,089,949	**761,221**	583,409
Tax calculated at a rate of 24% (2017: 24%)	**858,860**	741,588	**182,693**	140,018
Tax effects of:				
- Differences in tax rate of foreign inward and offshore insurance	**(227)**	(1,012)	–	–
- Income not subject to tax	**(89,022)**	(103,521)	**(201,422)**	(157,360)
- Share of net income of associated companies and joint ventures	**(143,933)**	(105,003)	–	–
- Expenses not deductible for tax purposes	**66,025**	84,350	**24,101**	19,406
- Under/(over) accrual in prior years*	**1,613**	168,544	**(20)**	(25)
- Utilisation of unused tax losses and unabsorbed capital allowance previously not recognised	**(2)**	(881)	–	–
- Recognisation of unutilised tax credit previously not recognised	**(11,835)**	(13,341)	–	–
- Origination of temporary differences previously not recognised	**2,580**	2,341	–	–
Taxation	**684,059**	773,065	**5,352**	2,039

* Included in the under accrual in prior years for financial year ended 30 June 2017 was an additional one-off assessment raised by IRB in respect of prior year tax of RM206.3 million of which RM101.8 million is in respect of additional assessment raised on HLB's prior years taxes and RM104.5 million being additional assessment raised on HLAH.

	The Group 2018 RM'000	The Group 2017 RM'000
Tax losses		
Tax losses for which the related tax credit has not been recognised in the financial statements	**62,924**	65,076
Tax credit		
Tax credit which has not been recognised in the financial statements	**96,654**	108,489
Capital allowance		
Deductible temporary differences and unutilised capital allowances for which the related tax credit has not been recognised in the financial statements	**391**	807

The above unabsorbed tax losses of the Group have not been recognised as future realisation is uncertain.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

39 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Weighted average number of ordinary shares ('000)	**1,143,824**	1,143,552	**1,147,516**	1,147,516
Net profit attributable to owners of the parent	**1,907,442**	1,506,765	**755,869**	581,370
Basic earnings per share (sen)	**166.8**	131.8	**65.9**	50.7

Diluted earnings per share

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

40 DIVIDENDS

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

	The Group and The Company	
	2018 RM'000	2017 RM'000
First interim single-tier dividend of 13 sen per share (2017: 13 sen per share)	**149,177**	149,177
Second interim single-tier dividend of 27 sen per share (2017: 25 sen per share)	**309,829**	286,879
	459,006	436,056

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

41 COMMITMENTS AND CONTINGENCIES

(a) Group related commitments and contingencies

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

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

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Commitments and contingencies				
Direct credit substitutes*	**109,341**	82,785	**–**	–
Certain transaction related contingent items	**1,286,782**	1,391,111	**–**	–
Short-term self liquidating trade related contingencies	**836,785**	780,216	**–**	–
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	**662,442**	661,322	**–**	–
Irrevocable commitments to extend credit:				
- less than one year	**16,074,689**	16,098,253	**–**	–
- more than one year	**14,301,856**	13,257,147	**–**	–
Unutilised credit card lines	**6,908,565**	7,001,256	**–**	–
	40,180,460	39,402,090	**–**	–
Derivative financial instruments				
Foreign exchange related contracts^:				
- less than one year	**45,991,115**	37,699,553	**–**	–
- one year to less than five years	**2,640,932**	3,758,574	**–**	–
- five years and above	**517,407**	1,260,525	**–**	–
Interest rate related contracts^:				
- less than one year	**29,754,327**	45,167,380	**–**	–
- one year to less than five years	**50,035,129**	37,794,681	**100,000**	100,000
- five years and above	**7,161,925**	5,807,786	**–**	–
Equity related contracts^:				
- less than one year	**306,258**	155,471	**–**	–
- one year to less than five years	**510,502**	286,187	**–**	–
	136,917,595	131,930,157	**100,000**	100,000
	177,098,055	171,332,247	**100,000**	100,000

* Included in direct credit substitutes are the financial guarantee contracts of RM96,689,047 (2017: RM74,011,530), of which fair value at the time of issuance is nil.

^ These derivatives are revalued at gross position basis and the fair value 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 (2017: RM1 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

42 CAPITAL COMMITMENTS

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

Capital expenditure approved by the Directors but not provided for in the financial statements are as follows:

	The Group 2018 RM'000	The Group 2017 RM'000
Authorised and contracted for	**146,648**	127,909
Authorised but not contracted for	**31,747**	77,115
	178,395	205,024

43 LEASE COMMITMENTS

The Group has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the future minimum lease payments, under non-cancellable operating lease commitment are as follows:

	The Group 2018 RM'000	The Group 2017 RM'000
Not more than one year	**19,616**	7,623
More than one year but less than five years	**5,777**	3,807
More than 5 years	**1,562**	1,848
	26,955	13,278

44 ULTIMATE HOLDING COMPANY

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

45 CAPITAL ADEQUACY

The banking subsidiaries' regulatory capital is governed by BNM Capital Adequacy Framework guidelines. With effect from 1 January 2013, the capital adequacy ratios of the banking subsidiaries are computed in accordance with BNM's Capital Adequacy Framework (Capital Component) reissued on 4 August 2017. The Framework sets out the approach for computing the regulatory capital adequacy ratios, the minimum levels of the ratios at which banking institutions are required to operate as well as requirement on Capital Conservation Buffer ("CCB") and Counter Cyclical Buffer ("CCyB"). The minimum capital adequacy requirements for Common Equity Tier 1 (CET 1) capital ratio, Tier 1 capital ratio and Total Capital ratio are 4.50%, 6.00% and 8.00% respectively. The Group is also required to maintain CCB of up to 2.500% of total risk weighted assets ("RWA"), which is phased in starting with 0.625% in year 2016, 1.250% in year 2017, 1.875% in year 2018 and 2.500% in year 2019. The CCyB which ranges from 0% up to 2.500% is determined as the weighted average of prevailing CCyB rates applied in the jurisdictions in which a financial institution has credit exposures.

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 2018

45 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	
	2018	2017	2018	2017	2018	2017
Before deducting proposed dividends						
CET 1 capital ratio	**13.113%**	13.788%	**12.545%**	13.078%	**33.073%**	29.744%
Tier 1 capital ratio	**13.797%**	14.193%	**12.997%**	13.556%	**33.073%**	29.744%
Total capital ratio	**16.752%**	16.280%	**16.301%**	15.997%	**37.619%**	33.912%
After deducting proposed dividends						
CET 1 capital ratio	**12.614%**	13.286%	**11.949%**	12.486%	**29.115%**	25.398%
Tier 1 capital ratio	**13.298%**	13.691%	**12.401%**	12.964%	**29.115%**	25.398%
Total capital ratio	**16.253%**	15.779%	**15.706%**	15.405%	**33.661%**	29.566%

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

	Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
CET 1 capital						
Paid up share capital	**7,739,063**	7,739,063	**7,739,063**	7,739,063	**252,950**	252,950
Retained profit	**15,184,533**	13,560,582	**11,212,525**	10,245,205	**250,085**	246,910
Other reserves	**868,134**	1,265,223	**298,837**	422,954	**(3,355)**	648
Less: Treasury shares	**(732,267)**	(733,961)	**(732,267)**	(733,961)	**–**	–
Less: Other intangible assets	**(152,541)**	(213,323)	**(137,166)**	(194,870)	**–**	–
Less: Goodwill	**(1,831,312)**	(1,831,312)	**(1,771,547)**	(1,771,547)	**(31,672)**	(33,796)
Less: Deferred tax assets	**(53,067)**	(4,851)	**(47,908)**	–	**(87,582)**	(90,153)
Less: Investment in subsidiary company/associated company/joint venture	**(3,830,517)**	(2,908,861)	**(2,778,569)**	(2,148,516)	**(200)**	(160)
Total CET 1 capital	**17,192,026**	16,872,560	**13,782,968**	13,558,328	**380,226**	376,399
Additional Tier 1 capital						
Multi-currency Additional Tier 1 capital securities	**399,393**	–	**399,393**	–	**–**	–
Innovative Tier 1 capital securities	**497,562**	495,778	**497,562**	495,778	**–**	–
Additional Tier 1 capital before regulatory adjustments	**896,955**	495,778	**896,955**	495,778	**–**	–
Less: Investment in Additional Tier 1 perpetual surbordinated sukuk wakalah	**–**	–	**(400,000)**	–	**–**	–
Additional Tier 1 capital after regulatory adjustments	**896,955**	495,778	**496,955**	495,778	**–**	–
Total Tier 1 capital	**18,088,981**	17,368,338	**14,279,923**	14,054,106	**380,226**	376,399

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

45 CAPITAL ADEQUACY (CONTINUED)

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

	Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Tier 2 capital						
Collective assessment allowance^ and regulatory reserves#	**1,375,082**	1,281,686	**1,130,670**	1,067,705	**2,266**	2,783
Subordinated obligations	**2,499,820**	1,999,723	**2,499,820**	1,999,723	**50,000**	50,000
Tier 2 capital before regulatory adjustments	**3,874,902**	3,281,409	**3,630,490**	3,067,428	**52,266**	52,783
Less: Investment in subsidiary companies/associated company/joint venture	**–**	(727,215)	**–**	(537,129)	**–**	(40)
Total Tier 2 capital	**3,874,902**	2,554,194	**3,630,490**	2,530,299	**52,266**	52,743
Total capital	**21,963,883**	19,922,532	**17,910,413**	16,584,405	**432,492**	429,142

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

Includes the qualifying regulatory reserves for non-impaired loans of Hong Leong Bank Group of RM741,694,000 (2017: RM667,238,000), Hong Leong Bank Berhad of RM637,098,000 (2017: RM571,678,000) and Hong Leong Investment Bank Berhad of RM2,071,000 (2017: RM2,504,000) respectively.

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

	Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Credit risk	**118,853,998**	111,299,987	**98,504,099**	93,397,418	**407,598**	461,963
Market risk	**3,850,444**	3,115,525	**4,140,291**	3,340,119	**457,231**	517,433
Operational risk	**8,403,939**	7,958,340	**7,226,134**	6,934,552	**284,840**	286,064
Total RWA	**131,108,381**	122,373,852	**109,870,524**	103,672,089	**1,149,669**	1,265,460

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

	Hong Leong Islamic Bank Berhad	
	2018	2017
Before deducting proposed dividends		
CET 1 capital ratio	**10.461%**	10.622%
Tier 1 capital ratio	**12.404%**	10.622%
Total capital ratio	**15.477%**	13.946%
After deducting proposed dividends		
CET 1 capital ratio	**10.461%**	10.622%
Tier 1 capital ratio	**12.404%**	10.622%
Total capital ratio	**15.477%**	13.946%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

46 SEGMENTAL INFORMATION

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

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

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

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period.

Business segments

The Group comprises the following main business segments:

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

Business segment reporting

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

The Group 2018	Commercial banking RM'000	Investment banking RM'000	Insurance RM'000	Other operations RM'000	Eliminations/ consolidation adjustments RM'000	Consolidated RM'000
Revenue						
External revenue	4,828,978	191,845	393,475	(63,307)	–	5,350,991
Inter-segment revenue	10,587	3,912	5,711	1,026,175	(1,046,385)	–
Segment revenue	4,839,565	195,757	399,186	962,868	(1,046,385)	5,350,991
Overhead expenses of which:	(2,060,449)	(116,438)	(107,383)	(38,840)	28,079	(2,295,031)
Depreciation of property and equipment	(120,811)	(2,136)	(3,099)	(3,967)	–	(130,013)
Amortisation of intangible assets	(71,841)	(2,799)	(4,257)	(13)	–	(78,910)
Allowance for impairment losses on loans, advances and financing	(76,651)	(732)	–	–	–	(77,383)
Writeback of/(allowance for) impairment losses	7,131	–	(6,844)	–	–	287
Segment results	2,709,596	78,587	284,959	924,028	(1,018,306)	2,978,864
Share of results of associated companies	516,111	–	63,062	–	–	579,173
Share of results of joint ventures	20,548	–	–	–	–	20,548
Profit before taxation	3,246,255	78,587	348,021	924,028	(1,018,306)	3,578,585
Taxation						(684,059)
Net profit for the financial year						2,894,526
Non-controlling interests						(987,084)
Profit attributable to owners of the parent						1,907,442

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

46 SEGMENTAL INFORMATION (CONTINUED)

Business segment reporting (continued)

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

The Group 2018	Commercial banking RM'000	Investment banking RM'000	Insurance RM'000	Other operations RM'000	Eliminations/ consolidation adjustments RM'000	Consolidated RM'000
Other information						
Segment assets	**202,837,706**	**4,463,753**	**19,970,891**	**18,035,015**	**(15,989,814)**	**229,317,551**
Segment liabilities	**178,945,447**	**3,697,695**	**17,132,404**	**2,303,823**	**558,459**	**202,637,828**
Other significant segment items						
Capital expenditure	**136,026**	**14,043**	**7,913**	**4,422**	**–**	**162,404**

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

46 SEGMENTAL INFORMATION (CONTINUED)

Business segment reporting (continued)

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

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
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.

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 2018	Revenue RM'000	Total assets RM'000	Total liabilities RM'000	Capital expenditure RM'000
Malaysia	**5,060,031**	**215,557,147**	**190,005,850**	**156,353**
Overseas operations	**290,960**	**13,760,404**	**12,631,978**	**6,051**
	5,350,991	**229,317,551**	**202,637,828**	**162,404**
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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

47 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Related parties and relationship

In addition to the related party disclosures mentioned elsewhere in the financial statements, other significant related parties transactions 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
HLMG Management Co Sdn Bhd (formerly known as HLI-Hume Management Co Sdn Bhd) ("HLMG"), Hume Cement Sdn Bhd, Hume Construction Sdn Bhd, Hume Plastics (Malaysia) Sdn Berhad, Hume Quarry (Sarawak) Sdn Bhd, Hongvilla Development Sdn Bhd, HIMB Overseas Limited, HIMB Trading Limited and Delta Touch Limited	Subsidiary companies of ultimate holding company
Guoco Group Limited and its subsidiary and associated companies as disclosed in its financial statements ("GGL Group")	Subsidiary and associated companies of ultimate holding company
GuocoLand (Malaysia) Berhad and its subsidiary and associated companies as disclosed in its financial statements ("GLM Group")	Subsidiary and associated companies of ultimate holding company
Subsidiary companies of the Company as disclosed in Note 11	Subsidiary companies of the Company
Key management personnel	The key management personnel of the Group and the Company consists of: - All Directors of the Company - Key management personnel of the Company who are in charge of the HLFG Group
Related parties of key management personnel (deemed as related to the Company)	(i) Close family members and dependents of key management personnel (ii) Entities that are controlled, jointly controlled or significant influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

47 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions

Transactions with related parties are as follows:

	The Group			
2018	**Parent company RM'000**	**Associated companies RM'000**	**Other related companies RM'000**	**Key management personnel RM'000**
Income				
Interest on deposits	–	311	–	–
Interest on loans	–	–	9,526	2
Brokerage fee received	–	–	119	245
Insurance premium received	–	–	1,453	–
Others	–	–	3,448	31
	–	311	14,546	278
Expenditure				
Rental and maintenance	–	–	9,182	–
Interest on deposits	–	–	–	3,486
Interest paid on short-term placements	–	–	8,730	1,591
Interest paid on current account and fixed deposits	–	–	1,614	–
Management fees	–	–	40,449	–
Other miscellaneous expenses	–	–	9,322	–
	–	–	69,297	5,077
Amount due from:				
Current account	–	20,373	–	–
Loans	–	–	158,920	–
Redeemable preference shares	–	–	30,866	–
Insurance premium receivable	–	–	157	–
Credit card	–	–	–	222
Others	–	–	94	–
	–	20,373	190,037	222
Amount due to:				
Current account and fixed deposits	–	–	20,532	110,789
Short-term placements	–	–	1,143,089*	56,505
Others	–	36	225	–
	–	36	1,163,846	167,294

* Transaction with subsidiary companies of ultimate holding company.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

47 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions (continued)

Transactions with related parties are as follows: (continued)

2017	The Group 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	–	–	10,035	2,247
Interest paid on current account and fixed deposits	–	–	1	–
Management fees	–	–	35,522	–
Other miscellaneous expenses	–	–	40,124	–
	–	–	93,090	3,666
Amount due from:				
Deposits and placements	–	4,913	–	–
Current account	–	20,849	–	–
Loans	–	–	201,182	–
Redeemable preference shares	–	–	32,066	–
Insurance premium receivable	–	–	16	–
Credit card	–	–	–	163
Others	–	69	104	–
	–	25,831	233,368	163
Amount due to:				
Current account and fixed deposits	–	–	37,328	112,617
Short-term placements	–	–	1,145,692*	36,821
Others	–	36	1,848	–
	–	36	1,184,868	149,438

* Transaction with subsidiary companies of ultimate holding company.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

47 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions (continued)

Transactions with related parties are as follows: (continued)

2018	The Company Parent company RM'000	Subsidiary companies RM'000	Other related companies RM'000	Key management personnel RM'000
Income				
Dividend income	–	648,555	–	–
Interest on deposits	–	640	–	–
Interest on loans	–	461	–	–
Management fees	–	11,015	–	–
	–	660,671	–	–
Expenditure				
Insurance	–	24	3	–
Interest on derivatives	–	501	–	–
Management fees	–	–	2,237	–
Rental and maintenance	–	864	–	–
Other miscellaneous expenses	–	94	90	–
	–	1,483	2,330	–
Amount due from:				
Money at call and deposit placements	–	260	–	–
Others	–	4,137	12	–
	–	4,397	12	–
Amount due to:				
Derivative liabilities	–	327	–	–
	–	327	–	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

47 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 deposits	–	462	–	–
Interest on loans	–	190	–	–
Management fees	–	6,847	–	–
	–	662,649	–	–
Expenditure				
Insurance	–	13	5	–
Interest on derivatives	–	529	–	–
Management fees	–	–	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	–	–

	The Group	
	2018 RM'000	2017 RM'000
The approved limit on loans, advances and financing for key management personnel	**2,360**	2,210

(c) Key management personnel

Key management compensation

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Salaries and other short-term employee	**14,644**	9,255	**13,995**	8,702
Executive share schemes expenses	**4,169**	–	**4,169**	–

Included in the above is the Directors' compensation which is disclosed in Note 37.

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 2018 and 2017 for loans made to key management personnel.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's financial risk management policies are adopted from its main operating subsidiary companies which are involved in banking and finance, securities and insurance related business.

The Board of Directors ("The Board") of each main operating subsidiary company has the overall responsibility to ensure there is proper oversight of the management of risks in each of the subsidiary company. The Board sets the risk appetite and tolerance level that are consistent with each subsidiary company's overall business objectives and desired risk profile. A number of committees and dedicated risk management functions have been established to address and manage specific areas of risk and implement various risk management policies and procedures.

Specifically, a Board Audit & Risk Management Committee ("BARMC") comprising members of the Directors, has been set up to oversee that risk management at all levels is being managed effectively. They, in turn, report all the risk management activities to the Directors.

Commercial Banking

Integrated Risk Management ("IRM")

The Banking Group has implemented an integrated risk management framework with the objective to ensure the overall financial soundness and stability of the Banking Group's business operations. The Banking Group's integrated risk management framework outlines the overall governance structure, aspiration, values and risk management strategies that balances between risk profiles and returns objectives. Appropriate methodologies and measurements have been developed to manage uncertainties such that deviations from intended strategic objectives are closely monitored and kept within tolerable levels.

From a governance perspective, the Board has the overall responsibility to define the Banking Group's risk appetite and ensure that a robust risk management and compliance culture prevails. The Board is assisted by the Board Risk Management Committee ("BRMC") in approving the Banking Group's integrated risk management framework as well as the attendant capital management framework, risk appetite statement, risk management strategies and risk policies.

Dedicated management level committees are established by the Banking Group to oversee the development and the assessment of effectiveness of risk management policies, to review risk exposures and portfolio composition as well as to ensure appropriate infrastructures, resources and systems are put in place for effective risk management activities.

The BRMC is assisted by the Group Integrated Risk Management and Compliance ("GIRMC") function, which has been established to provide independent oversight on the adequacy, effectiveness and integrity of risk management practices at all levels within the 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 arises as a result of customers or counterparties not being able to or willing to fulfil their financial and contractual obligations as and when they fall due. These obligations arise from lending, trade finance and other activities undertaken by the Group. 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 Credit Supervisory Committee ("CSC") and the BRMC, 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 postapproval 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 CSC. The Board delegates approving and discretionary authority to the MCC and the various personnel of the Bank based on job function and designation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Commercial Banking (continued)

Credit Risk Management (continued)

For any new products, credit risk assessment also forms part of the new product sign-off process 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, small and medium enterprise ("SME"), commercial and corporate customers. The credit assessment for retail customers is managed on a portfolio basis and the risk scoring models and lending templates are designed to assess the credit worthiness and the likelihood of the obligors to repay their debts. The SME, commercial and corporate customers are individually assessed and assigned with a credit rating, which is based on the assessment of relevant factors such as the customer's financial position, industry outlook, types of facilities and collaterals offered.

In addition, the Banking Group also conducts periodic stress testing of its credit portfolios to ascertain credit risk impact to capital under the relevant stress scenarios.

Internal Audit conducts independent post approval reviews on sampling basis to ensure that quality of credit appraisals and approval standards are in accordance with the credit standards and the lending policies and directives established and approved by the Banking Group's management.

Market Risk Management

Market risk is the risk of financial loss arising from exposure to adverse changes in values of financial instruments caused by changes in market prices or rates, which include changes to interest rates.

The Banking Group adopts a systematic approach in managing such risks by types of instruments and nature of exposure. Market risk is primarily controlled via a series of cut-loss limits and potential loss limits, i.e. Value at Risk ("VaR"), set in accordance with the size of positions and risk tolerance appetites.

Portfolios held under the Banking Group's trading books are tracked using daily mark-to-market positions, which are compared against preset limits. The daily tracking of positions is supplemented by sensitivity analysis and stress tests, using VaR and other measurements.

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 is identified, measured and controlled through various types of limit. In addition, the Banking Group regularly review the interest rate outlook and develop strategies to protect the total net interest income from adverse changes in market interest rates. This applies to both interest rate risk exposures in the trading book and the banking book. In managing interest rate risk in the banking book, the Banking Group measures earnings at risk and economic value or capital at risk.

In addition, the Banking Group also conducts periodic stress testing of the respective portfolios and on an overall basis 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.

Besides adhering to the Regulatory Liquidity Requirement, the Group has put in place a robust and comprehensive liquidity risk management framework consisting of risk appetite, policies, triggers and controls which are reviewed and concurred by the Group Asset-Liability Committee, endorsed by the BRMC and approved by the Board. The key elements of the framework cover proactive monitoring and management of cashflow, maintenance of high quality long- term and short-term marketable debt securities, diversification of funding base as well as maintenance of a liquidity compliance buffer to meet any unexpected cash outflows.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Commercial Banking (continued)

Liquidity Risk Management (continued)

The Banking Group has 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 plan sets 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.

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.

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 of Directors 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 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Insurance (continued)

The responsibility for the formulation, establishment and approval of the Insurance Group's investment policies rests with the Board of Directors 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 of Directors. 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. The Insurance Group's 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 due to 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.

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 Insurance Group manages liquidity risk via short term cash flows projection to determine net cash flow required. In addition, the Insurance Group's investible funds are substantially placed in fixed and call deposits and other money market instruments. Should there be any abnormal and unexpected cash out flows required, the Insurance Group is still able to meet its obligation in short period via the liquidation of bond holdings.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(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 financial year end.

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 Increase/(decrease)		The Company Increase/(decrease)	
2018	**Impact on profit after tax RM'000**	**Impact on equity RM'000**	**Impact on profit after tax RM'000**	**Impact on equity RM'000**
+100 basis points ('bps')	**32,569**	**(512,251)**	**209**	**–**
-100 bps	**(20,713)**	**527,372**	**(221)**	**–**
2017				
+100 bps	21,713	(443,923)	888	–
-100 bps	(11,612)	457,815	(927)	–

(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 of the Group and the Company:

	The Group Net receivable/(payable) exposure	
	2018 RM'000	**2017 RM'000**
United States Dollar ("USD")	**392,927**	931,339
Euro ("EUR")	**(88,262)**	23
Great Britain Pound ("GBP")	**(2,158)**	(5,357)
Singapore Dollar ("SGD")	**27,276**	7,817
Chinese Yuan Renminbi ("CNY")	**1,832**	19,071
Hong Kong Dollar ("HKD")	**109,594**	(294,577)
Japanese Yen ("JPY")	**23**	10
Australian Dollar ("AUD")	**8,862**	61,142
Others	**101,653**	(237)
	551,747	719,231

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(ii) Foreign currency risk sensitivity analysis (continued)

An analysis of the exposures to assess the impact of a one per cent change in the RM exchange rates to the profit after tax are as follows:

	The Group	
	2018	2017
	Increase/(decrease)	
	RM'000	RM'000
+ 1%		
United States Dollar ("USD")	**1,088**	5,021
Euro ("EUR")	**(671)**	–
Great Britain Pound ("GBP")	**(17)**	(42)
Singapore Dollar ("SGD")	**190**	(422)
Chinese Yuan Renminbi ("CNY")	**13**	142
Hong Kong Dollar ("HKD")	**145**	(2,644)
Australian Dollar ("AUD")	**(95)**	315
Others	**781**	(27)
	1,434	2,343
- 1%		
United States Dollar ("USD")	**(1,088)**	(5,021)
Euro ("EUR")	**671**	–
Great Britain Pound ("GBP")	**17**	42
Singapore Dollar ("SGD")	**(190)**	422
Chinese Yuan Renminbi ("CNY")	**(13)**	(142)
Hong Kong Dollar ("HKD")	**(145)**	2,644
Australian Dollar ("AUD")	**95**	(315)
Others	**(781)**	27
	(1,434)	(2,343)

(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	Impact on equity
2018	RM'000	RM'000
+ 20% change in equity market price	**10,658**	**37,998**
- 20% change in equity market price	**(10,658)**	**(37,998)**
2017		
+ 20% change in equity market price	11,606	51,566
- 20% change in equity market price	(11,606)	(51,566)

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(iv) Interest/profit rate risk

The tables below summarise the Group's exposure to interest/profit rate risks. Included in the tables are the Group's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest/profit rates and yield curves change over time, the Group may be exposed to loss in earnings due to the effects of interest rates on the structure of the statements of financial position. Sensitivity to interest rate arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding.

2018	The Group Non-trading book 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	7,430,192	–	–	–	–	2,459,879	–	9,890,071
Deposits and placements with banks and other financial institutions	–	3,112,970	7,077,304	–	–	6,147	–	10,196,421
Securities purchased under resale agreements	–	–	35,000	–	–	126	–	35,126
Financial assets held-for-trading	–	–	–	–	–	–	10,536,881	10,536,881
Financial investments available-for-sale	5,728,383	3,007,831	2,501,016	11,785,229	11,206,398	3,503,682	–	37,732,539
Financial investments held-to-maturity	–	221,869	1,959,094	12,404,744	1,082,049	227,923	–	15,895,679
Derivative financial instruments								
- Trading derivatives	–	–	–	–	–	–	969,226	969,226
- Hedging derivatives	–	–	–	1,286	683	–	–	1,969
Loans, advances and financing								
- Performing	106,847,493	1,040,811	631,803	9,037,354	9,978,160	563,625	–	128,099,246
- Impaired^	153,564	6,844	12,206	96,640	482,734	–	–	751,988
Clients' and brokers' balances	–	–	–	–	–	525,556	–	525,556
Other receivables	34,540	–	–	–	–	830,409	–	864,949
Statutory deposits with Central Banks	–	–	–	–	171,369	4,193,613	–	4,364,982
Total financial assets	120,194,172	7,390,325	12,216,423	33,325,253	22,921,393	12,310,960	11,506,107	219,864,633

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

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

The tables below summarise the Group's exposure to interest/profit rate risks. Included in the tables are the Group's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest/profit rates and yield curves change over time, the Group may be exposed to loss in earnings due to the effects of interest rates on the structure of the statements of financial position. Sensitivity to interest rate arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding. (continued)

	The Group Non-trading book							
2018	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	60,937,737	25,875,416	42,341,013	4,048,868	1,409,132	22,270,746	–	156,882,912
Deposits and placements of banks and other financial institutions	6,027,660	2,906,838	335,415	–	–	26,482	–	9,296,395
Obligations on securities sold under repurchase agreements	851,598	3,068,376	–	–	–	11,549	–	3,931,523
Bills and acceptance payable	266,278	28,108	26,182	–	–	223,882	–	544,450
Derivative financial instruments								
- Trading derivatives	–	–	–	–	–	–	1,081,717	1,081,717
- Hedging derivatives	–	–	–	423	–	–	–	423
Clients' and brokers' balances	–	–	–	–	–	350,730	–	350,730
Payables and other liabilities	–	–	–	–	–	11,401,670	–	11,401,670
Recourse obligations on loans sold to Cagamas Berhad	–	–	–	200,057	–	2,895	–	202,952
Provision for claims	–	–	–	–	–	150,478	–	150,478
Borrowings	700,000	121,667	251,667	221,666	–	5,371	–	1,300,371
Multi-currency Additional Tier 1 capital securities	–	–	–	398,819	–	2,550	–	401,369
Subordinated obligations	–	–	1,740,266	500,000	548,964	11,217	–	2,800,447
Innovative Tier 1 capital securities	–	–	–	463,008	–	11,604	–	474,612
Insurance funds	–	–	–	–	–	13,188,787	–	13,188,787
Total financial liabilities	68,783,273	32,000,405	44,694,543	5,832,841	1,958,096	47,657,961	1,081,717	202,008,836
Net interest sensitivity gap	51,410,899	(24,610,080)	(32,478,120)	27,492,412	20,963,297			
Financial guarantees	–	–	–	–	–	617,389		
Credit related commitments and contingencies	–	–	–	–	–	37,952,465		
Treasury related commitments and contingencies (hedging)	–	–	–	500,000	351,786	–		
Net interest sensitivity gap	–	–	–	500,000	351,786	38,569,854		

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

The tables below summarise the Group's exposure to interest/profit rate risks. Included in the tables are the Group's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest/profit rates and yield curves change over time, the Group may be exposed to loss in earnings due to the effects of interest rates on the structure of the statements of financial position. Sensitivity to interest rate arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding. (continued)

	The Group Non-trading book							
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.

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

The tables below summarise the Group's exposure to interest/profit rate risks. Included in the tables are the Group's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest/profit rates and yield curves change over time, the Group may be exposed to loss in earnings due to the effects of interest rates on the structure of the statements of financial position. Sensitivity to interest rate arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding. (continued)

	The Group Non-trading book							
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	–	–	–	–	–	8,283,784	–	8,283,784
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	40,769,750	1,477,961	193,144,813
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 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

The tables below summarise the Company's exposure to interest/profit rate risks. Included in the tables are the Company's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest/profit rates and yield curves change over time, the Company may be exposed to loss in earnings due to the effects of interest rates on the structure of the statements of financial position. Sensitivity to interest rate arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding.

	The Company Non-trading book							
2018	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	25,466	–	–	–	–	–	–	25,466
Deposits and placements with banks and other financial institutions	–	3,360	–	–	–	–	–	3,360
Other receivables	–	–	–	–	–	316	–	316
Amount due from subsidiaries	–	–	–	–	–	4,137	–	4,137
Total financial assets	25,466	3,360	–	–	–	4,453	–	33,279
Financial liabilities								
Derivative financial instruments								
- Trading derivatives	–	–	–	–	–	–	327	327
Payables and other liabilities	–	–	–	–	–	13,006	–	13,006
Borrowings								
- Term loans	350,000	–	–	–	–	108	–	350,108
- Revolving credit	180,000	–	30,000	–	–	222	–	210,222
- Commercial papers	170,000	–	–	–	–	(390)	–	169,610
- Medium term notes	–	150,000	250,000	250,000	–	5,994	–	655,994
Multi-currency Additional Tier 1 capital securities	–	–	–	400,000	–	751	–	400,751
Subordinated obligations	–	–	–	–	500,000	(401)	–	499,599
Total financial liabilities	700,000	150,000	280,000	650,000	500,000	19,290	327	2,299,617
Net interest sensitivity gap	**(674,534)**	**(146,640)**	**(280,000)**	**(650,000)**	**(500,000)**			

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

The tables below summarise the Company's exposure to interest/profit rate risks. Included in the tables are the Company's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest/profit rates and yield curves change over time, the Company may be exposed to loss in earnings due to the effects of interest rates on the structure of the statements of financial position. Sensitivity to interest rate arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding. (continued)

	The Company Non-trading book							
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)	–			

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk

Liquidity risk is defined as the current and prospective risk arising from the inability of the Group and the Company to meet its contractual or regulatory obligations when they become due without incurring substantial losses. The liquidity risk is identified based on concentration, volatility of source of fund and funding maturity structure and it is measured primarily using Bank Negara Malaysia's New Liquidity Framework and depositor's concentration ratios. The Group and the Company seek to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

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

	The Group							
2018	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	5,946,626	3,815,331	–	–	–	–	128,114	9,890,071
Deposits and placements with banks and other financial institutions	120,918	1,429,293	4,920,368	3,682,950	42,892	–	–	10,196,421
Securities purchased under resale agreements	–	–	–	35,126	–	–	–	35,126
Financial assets held-for-trading	707,733	601,228	1,933,495	323,235	201,663	5,612,802	1,156,725	10,536,881
Financial investments available-for-sale	4,609,029	1,119,715	3,012,313	481,800	1,977,802	23,396,711	3,135,169	37,732,539
Financial investments held-to-maturity	–	–	224,749	341,562	1,706,458	13,622,910	–	15,895,679
Derivative financial instruments	35,033	71,181	232,620	171,722	82,312	378,327	–	971,195
Loans, advances and financing	12,692,655	6,087,736	5,250,306	1,788,511	1,159,536	101,872,490	–	128,851,234
Clients' and brokers' balances	316,234	–	–	–	209,322	–	–	525,556
Other receivables	570,883	7,532	9,397	11,550	156,664	16,657	179,887	952,570
Statutory deposits with Central Banks	–	–	–	–	–	–	4,364,982	4,364,982
Tax recoverable	–	–	–	–	–	–	367	367
Investment in associated companies	–	–	–	–	–	–	4,538,326	4,538,326
Investment in joint ventures	–	–	–	–	–	–	179,426	179,426
Property and equipment	–	–	–	–	–	–	1,573,829	1,573,829
Investment properties	–	–	–	–	–	–	494,164	494,164
Goodwill	–	–	–	–	–	–	2,410,644	2,410,644
Intangible assets	–	–	–	–	–	–	168,541	168,541
Total assets	24,999,111	13,132,016	15,583,248	6,836,456	5,536,649	144,899,897	18,330,174	229,317,551

48 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							
2018	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	58,511,507	24,826,996	25,456,739	16,275,729	26,304,184	5,507,757	–	156,882,912
Deposits and placements of banks and other financial institutions	4,858,616	1,190,215	2,911,787	255,415	80,362	–	–	9,296,395
Obligations on securities sold under repurchase agreements	1,594	851,194	3,078,735	–	–	–	–	3,931,523
Bills and acceptances payable	39,140	227,138	28,108	26,182	–	–	223,882	544,450
Derivative financial instruments	105,136	121,041	123,587	208,563	83,452	440,361	–	1,082,140
Clients' and brokers' balances	350,730	–	–	–	–	–	–	350,730
Payables and other liabilities	4,401,635	3,845,106	19,611	2,300	3,306,389	268	132,882	11,708,191
Recourse obligations on loans sold to Cagamas Berhad	–	–	–	–	–	202,952	–	202,952
Provision for claims	–	–	–	–	150,478	–	–	150,478
Provision for taxation	–	–	–	–	30,571	–	213,591	244,162
Deferred tax liabilities	–	–	–	–	–	78,309	–	78,309
Borrowings	–	699,921	153,607	221,886	–	224,957	–	1,300,371
Multi-currency Additional Tier 1 capital securities	–	–	–	–	–	401,369	–	401,369
Subordinated obligations	–	–	8,815	–	1,743,009	1,048,623	–	2,800,447
Innovative Tier 1 capital securities	–	–	–	–	–	474,612	–	474,612
Insurance funds*	–	1,251	1	3	2,754,085	10,292,693	–	13,048,033
Total liabilities	68,268,358	31,762,862	31,780,990	16,990,078	34,452,530	18,671,901	570,355	202,497,074
Total equity	–	–	–	–	–	–	26,679,723	26,679,723
Total liabilities and equity	68,268,358	31,762,862	31,780,990	16,990,078	34,452,530	18,671,901	27,250,078	229,176,797
Net liquidity gap	(43,269,247)	(18,630,846)	(16,197,742)	(10,153,622)	(28,915,881)	126,227,996		

* Excluding AFS Reserve

48 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
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 2018

48 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	1,764,652	8,345	2,307	2,859,477	202	56,738	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	31,964,330	34,403,440	22,351,680	22,721,470	19,161,340	577,344	193,618,481
Total equity	–	–	–	–	–	–	25,032,513	25,032,513
Total liabilities and equity	62,438,877	31,964,330	34,403,440	22,351,680	22,721,470	19,161,340	25,609,857	218,650,994
Net liquidity gap	(36,630,795)	(23,993,394)	(21,981,174)	(14,174,472)	(19,283,195)	125,083,324		

* Excluding AFS Reserve

48 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							
2018	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	25,466	–	–	–	–	–	–	25,466
Deposits and placements with banks and other financial institutions	–	–	3,360	–	–	–	–	3,360
Other receivables	–	2	13	25	140	230	–	410
Amount due from subsidiaries	–	–	–	–	–	–	4,137	4,137
Investment in subsidiary companies	–	–	–	1,799	399	–	17,993,880	17,996,078
Deferred tax assets	–	–	–	–	–	–	75	75
Property and equipment	–	–	–	–	–	–	5,332	5,332
Intangible assets	–	–	–	–	–	–	1	1
Total assets	25,466	2	3,373	1,824	539	230	18,003,425	18,034,859
Liabilities								
Derivative financial instruments	–	–	–	–	–	327	–	327
Payables and other liabilities	–	295	1,295	747	11,214	61	–	13,612
Provison for tax	–	–	–	–	–	–	1,972	1,972
Borrowings								
- Term loans	–	350,108	–	–	–	–	–	350,108
- Revolving credits	–	180,203	30,019	–	–	–	–	210,222
- Commercial papers	–	169,610	–	–	–	–	–	169,610
- Medium term notes	–	–	151,921	250,782	–	253,291	–	655,994
Multi-currency Additional Tier 1 capital securities	–	–	–	–	–	400,751	–	400,751
Subordinated obligations	–	–	–	–	–	499,599	–	499,599
Total liabilities	–	700,216	183,235	251,529	11,214	1,154,029	1,972	2,302,195
Total equity	–	–	–	–	–	–	15,732,664	15,732,664
Total liabilities and equity	–	700,216	183,235	251,529	11,214	1,154,029	15,734,636	18,034,859
Net liquidity gap	25,466	(700,214)	(179,862)	(249,705)	(10,675)	(1,153,799)		

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 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 asset	–	–	–	–	–	–	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
Total equity	–	–	–	–	–	–	15,431,632	15,431,632
Total liabilities and equity	–	870,388	–	407,419	7,904	250,874	15,431,632	16,968,217
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 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The following table shows the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

	The Group					
2018	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	56,237,567	27,509,126	45,627,792	28,162,572	1,584,809	159,121,866
Deposits and placements of banks and other financial institutions	7,292,319	4,178,719	229,564	–	–	11,700,602
Obligations on securities sold under repurchase agreements	791,773	3,205,351	–	–	–	3,997,124
Bills and acceptances payable	485,936	5,517	11,314	–	–	502,767
Derivative financial instruments						
- Gross settled derivatives						
- Inflow	(9,597,591)	(5,234,095)	(4,198,396)	(727,391)	(1,482,113)	(21,239,586)
- Outflow	9,782,683	5,342,571	4,463,480	793,892	1,501,885	21,884,511
- Net settled derivatives	20,465	26,864	114,314	275,028	123,150	559,821
Clients' and brokers' balances	350,730	–	–	–	–	350,730
Payables and other liabilities	8,301,083	18,316	3,082,060	–	211	11,401,670
Recourse obligations on loans sold to Cagamas Berhad	–	3,791	3,853	203,848	–	211,492
Provision for claims	–	–	150,478	–	–	150,478
Borrowings	7,313	135,821	453,766	659,493	180,264	1,436,657
Multi-currency Additional Tier 1 capital securities	–	–	41,440	544,750	–	586,190
Subordinated obligations	19,147	1,343	2,583,398	636,677	98,361	3,338,926
Innovative Tier 1 capital securities	–	20,568	20,568	520,682	–	561,818
Insurance funds*	1,492	609	2,777,563	2,902,387	20,564,444	26,246,495
Total financial liabilities	73,692,917	35,214,501	55,361,194	33,971,938	22,571,011	220,811,561

* Excluding AFS Reserve

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The following table shows the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows. (continued)

	The Group					
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	1,772,193	2,665,230	–	213	8,283,784
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	38,363,106	45,124,570	11,235,947	22,388,762	209,831,364

* Excluding AFS Reserve

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The following table shows the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows. (continued)

	The Company					
2018	**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						
Payables and other liabilities	**1,826**	**–**	**11,180**	**–**	**–**	**13,006**
Derivative financial instruments						
- Net settled derivatives	**–**	**78**	**232**	**78**	**–**	**388**
Borrowings						
- Term loans	**1,154**	**2,235**	**9,843**	**393,879**	**–**	**407,111**
- Revolving credit	**5,592**	**1,383**	**206,512**	**–**	**–**	**213,487**
- Commercial papers	**567**	**1,099**	**4,839**	**25,899**	**180,264**	**212,668**
- Medium term notes	**–**	**159,437**	**261,468**	**268,049**	**–**	**688,954**
Multi-currency Additional Tier 1 capital securities	**–**	**–**	**20,920**	**473,363**	**–**	**494,283**
Subordinated obligations	**–**	**–**	**24,650**	**598,735**	**–**	**623,385**
Total financial liabilities	**9,139**	**164,232**	**539,644**	**1,760,003**	**180,264**	**2,653,282**
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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The following table presents the contractual expiry by maturity of the Group's commitments and contingencies:

	The Group		
2018	**Less than 1 year RM'000**	**Over 1 year RM'000**	**Total RM'000**
Direct credit substitutes	**58,374**	**50,967**	**109,341**
Any commitment that are unconditionally cancelled at anytime by the Group without prior notice	**662,442**	**–**	**662,442**
Short-term self liquidating trade related contingencies	**512,961**	**–**	**512,961**
Irrevocable commitments to extend credit	**16,074,689**	**14,301,856**	**30,376,545**
Unutilised credit card lines	**6,908,565**	**–**	**6,908,565**
Total commitments and contingencies	**24,217,031**	**14,352,823**	**38,569,854**
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

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 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(i) Maximum exposure to credit risk (continued)

The table below shows the maximum exposure to credit risk for the Group and the Company:

	The Group		The Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 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)	**9,769,533**	11,799,904	**28,826**	16,120
Securities purchased under resale agreement	**35,126**	336,003	**–**	–
Financial assets and investments portfolios (exclude shares and unit trust investments)				
- Financial assets held-for-trading	**9,380,156**	8,306,600	**–**	–
- Financial investments available-for-sale	**35,071,347**	32,467,102	**–**	–
- Financial investments held-to-maturity	**15,895,192**	14,580,496	**–**	–
Loans, advances and financing	**128,851,234**	124,812,079	**–**	–
Clients' and brokers' balances	**525,556**	508,070	**–**	–
Other receivables	**830,409**	1,379,553	**316**	322
Amount due from subsidiaries	**–**	–	**4,137**	38,646
Derivative financial instruments	**971,195**	977,604	**–**	–
	201,329,748	195,167,411	**33,279**	55,088
Credit risk exposure relating to off-balance sheet assets:				
Commitments and contingencies	**38,569,854**	37,722,379	**–**	–
Total maximum credit risk exposure	**239,899,602**	232,889,790	**33,279**	55,088

(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 86.08% (2017: 85.28%). 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 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit Quality

The Group assess credit quality of loans and advances using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officers judgement.

The credit quality of financial assets other than loans, advances and financing are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other internationals rating agencies as defined below:

- AAA to AA3
- A1 to A3
- Baa1 to Baa3
- P1 to P3

(a) Loans, advances and financing

Loans, advances and financing are summarised as follows:

	The Group	
	2018 RM'000	**2017 RM'000**
Neither past due nor impaired	**121,207,512**	117,237,531
Past due but not impaired	**7,521,580**	7,515,544
Individually impaired	**1,132,387**	1,215,017
Gross loans, advances and financing	**129,861,479**	125,968,092
Fair value changes arising from fair value hedges	**(2,540)**	(34)
Unamortised fair value changes arising from terminated fair value hedges	**(13)**	(36)
Less: Allowance for impaired loans, advances and financing		
- individual assessment allowance	**(202,295)**	(325,536)
- collective assessment allowance	**(805,397)**	(830,407)
Net loans, advances and financing	**128,851,234**	124,812,079

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(a) Loans, advances and financing (continued)

(i) Loans, advances and financing neither past due nor impaired

Analysis of loans, advances and financing that are neither past due nor impaired analysed based on the Group's credit grading system is as follows:

		The Group 2018 RM'000	The Group 2017 RM'000
Hong Leong Bank Group			
Consumer loans/financing			
Risk Grade			
Good		**87,986,376**	84,893,412
Weakest		**–**	408,017
		87,986,376	85,301,429
Corporates loans/financing			
Risk Grade	Credit Quality		
A	Exceptional	**790,832**	979,207
B+	Superior	**3,419,183**	3,286,343
B	Excellent	**4,924,645**	5,105,050
B-	Strong	**6,504,184**	5,987,873
C+	Good	**6,385,261**	5,179,776
C	Satisfactory	**6,507,306**	6,769,870
C-	Fair	**2,941,250**	2,790,420
D+	Adequate	**502,313**	508,591
D	Marginal	**163,024**	189,345
Un-graded		**297,106**	329,615
		32,435,104	31,126,090
Hong Leong Capital Group			
Risk Grade			
Good		**13,481**	14,695
Un-graded		**208,182**	210,771
		221,663	225,466
HLA Holdings Group			
Risk Grade			
Un-graded		**564,369**	584,546
The Group total neither past due nor impaired		**121,207,512**	117,237,531

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(a) Loans, advances and financing (continued)

(ii) Loans, advances and financing past due but not impaired

A financial asset is defined as "past due" when the counterparty has failed to make a principal or interest payment when contractually due.

Loans, advances and financing less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans, advances and financing by class to customers that were past due but not impaired were as follows:

	The Group 2018 RM'000	The Group 2017 RM'000
Past due less than 30 days	**5,239,220**	5,130,953
Past due 30 to less than 60 days	**1,595,500**	1,667,456
Past due 60 to less than 90 days	**686,860**	717,135
Past due but not impaired	**7,521,580**	7,515,544

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

	The Group 2018 RM'000	The Group 2017 RM'000
Gross amount of impaired loans	**1,132,387**	1,215,017
Less: Individual assessment impairment allowance	**(202,295)**	(325,536)
Less: Collective assessment impairment allowance	**(171,338)**	(215,618)
Total net amount of impaired loans	**758,754**	673,863

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(b) Other financial assets

Analysis of other financial assets by rating agency designation (where applicable), based on Moody's ratings or its equivalent are as follows:

	The Group							
2018	Short-term funds and deposits and placements with banks and other financial institutions* RM'000	Securities purchased under resale agreements^ RM'000	Financial assets held-for-trading# RM'000	Financial investments available-for-sale# RM'000	Financial investments held-to-maturity# RM'000	Clients' and brokers' balances RM'000	Other receivables RM'000	Derivative financial instruments RM'000
Neither past due nor impaired								
AAA to AA3	2,649,431	–	4,697,435	13,609,976	823,209	–	103	307,035
A1 to A3	5,956,196	–	389,443	3,127,509	14,239	–	–	323,682
Baa1 to Baa3	279,441	–	16,018	476,258	22,622	–	–	67,816
P1 to P3	168,250	–	–	–	–	–	1,321	–
Non-rated	716,215	35,126	4,277,260	17,857,604	15,035,122	525,556	827,918	272,662
	9,769,533	35,126	9,380,156	35,071,347	15,895,192	525,556	829,342	971,195
Individually impaired	–	–	–	–	–	–	1,067	–
	9,769,533	35,126	9,380,156	35,071,347	15,895,192	525,556	830,409	971,195

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.

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(b) Other financial assets (continued)

Analysis of other financial assets by rating agency designation (where applicable), based on Moody's ratings or its equivalent are as follows: (continued)

	The Group							
2017	Short-term funds and deposits and placements with banks and other financial institutions* RM'000	Securities purchased under resale agreements^ RM'000	Financial assets held-for-trading# RM'000	Financial investments available-for-sale# RM'000	Financial investments held-to-maturity# RM'000	Clients' and brokers' balances RM'000	Other receivables RM'000	Derivative financial instruments RM'000
Neither past due nor impaired								
AAA to AA3	3,968,432	–	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	1,359,235	220,371
	11,799,904	336,003	8,306,600	32,467,102	14,580,496	508,070	1,379,553	977,604
Individually impaired	–	–	–	–	–	–	–	–
	11,799,904	336,003	8,306,600	32,467,102	14,580,496	508,070	1,379,553	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 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(b) Other financial assets (continued)

Analysis of other financial assets by rating agency designation (where applicable), based on Moody's ratings or its equivalent are as follows: (continued)

	The Company			
2018	**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**
Neither past due nor impaired				
AAA to AA3	**28,826**	–	–	–
A1 to A3	–	–	–	–
Baa1 to Baa3	–	–	–	–
P1 to P3	–	–	–	–
Non-rated	–	**316**	**4,137**	–
	28,826	**316**	**4,137**	–
Individually impaired	–	–	–	–
	28,826	**316**	**4,137**	–
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	–

(iv) Collateral and other credit enhancements obtained

	The Group	
	2018 RM'000	**2017 RM'000**
Properties	**211,505**	146,604

Repossessed properties are made available-for-sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The Group generally does not occupy the premises repossessed for its business use.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(v) Credit risk exposure analysed by industry in respect of the Group's financial assets are set out below:

	The Group												
2018	Short-term funds and placements with banks and other financial institutions RM'000	Securities purchased under resale agreements RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Loans, advances and financing RM'000	Clients' and brokers' balances RM'000	Other receivables RM'000	Derivative financial instruments RM'000	Total credit risk exposures RM'000	Credit related commitments and contingencies RM'000	Undrawn loan commitments and other facilities RM'000	Guarantees, endorsements and other contingent items RM'000
Agriculture	–	–	–	99,232	–	2,665,114	–	–	–	2,764,346	–	952,054	1,009
Mining and quarrying	–	–	–	40,280	–	147,534	–	–	–	187,814	–	187,379	188
Manufacturing	–	–	–	–	–	9,586,845	–	1,003	–	9,587,848	–	6,318,050	238,560
Electricity, gas and water	–	–	99,523	2,917,693	60,949	201,063	–	277	–	3,279,505	–	192,924	46
Construction	–	35,126	65,484	419,791	–	2,742,754	–	88	–	3,263,243	1,000	1,941,674	13,680
Wholesale and retail	–	–	–	39,359	–	10,581,176	–	–	–	10,620,535	–	5,101,312	258,714
Transport, storage and communications	–	–	74,065	472,007	–	3,332,904	–	17	–	3,878,993	–	496,715	5,528
Finance, insurance, real estate and business services	9,044,862	–	4,477,343	17,365,519	319,953	9,531,963	209,322	776,471	971,195	42,696,628	4,914	3,582,847	94,993
Government and government agencies	724,671	–	3,665,357	10,728,252	15,079,749	–	–	6,891	–	30,204,920	–	–	206
Education, health and others	–	–	–	–	–	1,728,563	–	33	–	1,728,596	–	210,314	–
Household	–	–	–	–	–	86,942,754	–	–	–	86,942,754	–	18,169,084	3,465
Purchase of securities	–	–	–	–	–	208,042	316,234	–	–	524,276	662,442	–	–
Others	–	–	998,384	2,989,214	434,541	1,182,522	–	45,629	–	5,650,290	–	132,756	–
	9,769,533	35,126	9,380,156	35,071,347	15,895,192	128,851,234	525,556	830,409	971,195	201,329,748	668,356	37,285,109	616,389

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(v) Credit risk exposure analysed by industry in respect of the Group's financial assets are set out below: (continued)

The Group

2017	Short-term funds and placements with banks and other financial institutions RM'000	Securities purchased under resale agreements RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Loans, advances and financing RM'000	Clients' and brokers' balances RM'000	Other receivables RM'000	Derivative financial instruments RM'000	Total credit risk exposures RM'000	Credit related commitments and contingencies RM'000	Undrawn loan commitments and other facilities RM'000	Guarantees, endorsements and other contingent items RM'000
Agriculture	–	–	–	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	1,310,190	977,604	42,127,069	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	1,379,553	977,604	195,167,411	803,000	36,356,330	563,049

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

48 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(v) Credit risk exposure analysed by industry in respect of the Company's financial assets are set out below:

	The Company				
2018	**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**
Finance, insurance, real estate and business services	**28,826**	**316**	**4,137**	**–**	**33,279**
2017					
Finance, insurance, real estate and business services	16,120	322	38,646	–	55,088

49 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Determination of fair value and fair value hierarchy (continued)

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			
2018	**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	–	8,153,872	–	8,153,872
- Quoted securities	1,265,665	–	–	1,265,665
- Unquoted securities	–	1,117,344	–	1,117,344
Financial investments available-for-sale				
- Money market instruments	–	12,313,774	–	12,313,774
- Quoted securities	6,847,336	–	–	6,847,336
- Unquoted securities	–	18,101,525	469,904	18,571,429
Derivative financial instruments	1,221	956,098	13,876	971,195
	8,114,222	40,642,613	483,780	49,240,615
Financial liabilities				
Derivative financial instruments	4,913	1,063,351	13,876	1,082,140
Financial liabilities designated at fair value				
- Structure deposits linked to interest rate derivatives	–	3,167,150	–	3,167,150
	4,913	4,230,501	13,876	4,249,290

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Determination of fair value and fair value hierarchy (continued)

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

	The Group Fair Value			
2017	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	–	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				
- Structure deposits linked to interest rate derivatives	–	2,480,925	–	2,480,925
	1,228	3,950,693	8,568	3,960,489

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 (2017: RM Nil).

	The Company Fair Value			
2018	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Recurring fair value measurements				
Financial liabilities				
Derivative financial instruments	**–**	**327**	**–**	**327**
2017				
Recurring fair value measurements				
Financial liabilities				
Derivative financial instruments	–	874	–	874

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 (2017: RM Nil).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Determination of fair value and fair value hierarchy (continued)

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy, as below:

	The Group		
	Financial Assets		Financial Liability
2018	Financial investments available-for-sale RM'000	Derivative financial instruments RM'000	Derivative financial instruments RM'000
As at 1 July	**457,152**	**8,568**	**8,568**
Fair value changes recognised in statements of income	**–**	**4,672**	**4,672**
Net fair value changes recognised in other comprehensive income	**162,113**	**–**	**–**
Purchases	**–**	**6,672**	**6,672**
Disposal	**(149,361)**	**–**	**–**
Settlements	**–**	**(6,036)**	**(6,036)**
As at 30 June	**469,904**	**13,876**	**13,876**
Fair value changes recognised in statements of income relating to assets/liability held on 30 June 2018	**–**	**4,672**	**4,672**
Total gain recognised in other comprehensive income relating to assets held on 30 June 2018	**162,113**	**–**	**–**
2017			
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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

49 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)

	The Group					
2018 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	469,904	–	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
	13,876	(13,876)	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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

49 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)

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Determination of fair value and fair value hierarchy (continued)

Sensitivity analysis for level 3

	The Group			
			Effect of reasonable possible alternative assumptions to: Profit or Loss Favourable/Unfavourable changes	
2018	**Type of unobservable input**	**Sensitivity of significant unobservable input**	**Financial assets RM'000**	**Financial liabilities RM'000**
Derivative financial instruments				
- Equity derivatives	Equity volatility	**+10%**	**1,084**	**(1,084)**
		-10%	**(1,113)**	**1,113**
	Equity/FX Correlation	**+10%**	**40**	**(40)**
		-10%	**(14)**	**14**
	Total*		**(3)**	**3**
2017				
Derivative financial instruments				
- Equity derivatives	Equity volatility	+10%	514	(514)
		-10%	(529)	529
	Equity/FX Correlation	+10%	95	(95)
		-10%	(122)	122
	Total*		(42)	42

* 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
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair values of financial instruments not carried at fair value

Set out below is the comparison of the carrying amount and fair value of those financial instruments of the Group and the Company which are not carried at fair value in the financial instruments, but for which fair value is disclosed. It does not include those short term/on demand financial assets and financial liabilities where the carrying amount are reasonable approximation of their fair values:

	The Group			
	Carrying amount 2018 RM'000	Fair value 2018 RM'000	Carrying amount 2017 RM'000	Fair value 2017 RM'000
Financial assets				
Financial investments held-to-maturity				
- Money market instruments	**13,443,463**	**13,313,894**	12,789,048	12,731,455
- Unquoted securities	**2,452,216**	**2,437,337**	1,791,982	1,804,102
Loans, advances and financing	**128,851,234**	**128,965,549**	124,812,079	124,907,609
	144,746,913	**144,716,780**	139,393,109	139,443,166
Financial liabilities				
Deposits from customers	**153,715,762**	**154,122,474**	151,977,092	152,778,933
Recourse obligations on loans sold to Cagamas Berhad	**202,952**	**201,829**	202,926	201,195
Borrowings	**1,300,371**	**1,297,261**	1,526,222	1,524,130
Subordinated obligations	**2,800,447**	**2,789,004**	2,959,779	2,938,556
Multi-currency Additional Tier 1 capital securities	**401,369**	**416,752**	–	–
Innovative Tier 1 capital securities	**474,612**	**495,925**	515,623	550,590
	158,895,513	**159,323,245**	157,181,642	157,993,404

	The Company			
	Carrying amount 2018 RM'000	Fair value 2018 RM'000	Carrying amount 2017 RM'000	Fair value 2017 RM'000
Financial liabilities				
Borrowings	**1,385,934**	**1,382,824**	1,526,222	1,524,130
Subordinated obligations	**499,599**	**502,163**	–	–
Multi-currency Additional Tier 1 capital securities	**400,751**	**411,323**	–	–
	2,286,284	**2,296,310**	1,526,222	1,524,130

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair values of financial instruments not carried at fair value (continued)

The following table analyses within the fair value hierarchy of the Group's and the Company's assets and liabilities not measured at fair value but for which fair value is disclosed:

			The Group		
	Carrying		Fair value		
	amount	Level 1	Level 2	Level 3	Total
2018	RM'000	RM'000	RM'000	RM'000	RM'000
Financial assets					
Financial investments held-to-maturity					
- Money market instruments	13,443,463	–	13,313,894	–	13,313,894
- Unquoted securities	2,452,216	–	2,436,851	486	2,437,337
Loans, advances and financing	128,851,234	–	128,965,549	–	128,965,549
	144,746,913	–	144,716,294	486	144,716,780
Financial liabilities					
Deposits from customers	153,715,762	–	154,122,474	–	154,122,474
Recourse obligations on loans sold to Cagamas Berhad	202,952	–	201,829	–	201,829
Borrowings	1,300,371	–	1,297,261	–	1,297,261
Subordinated obligations	2,800,447	–	2,789,004	–	2,789,004
Multi-currency Additional Tier 1 capital securities	401,369	–	416,752	–	416,752
Innovative Tier 1 capital securities	474,612	–	495,925	–	495,925
	158,895,513	–	159,323,245	–	159,323,245
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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair values of financial instruments not carried at fair value (continued)

The following table analyses within the fair value hierarchy of the Group's and the Company's assets and liabilities not measured at fair value but for which fair value is disclosed: (continued)

		The Company			
	Carrying amount	Fair value			
2018	RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial liabilities					
Borrowings	**1,385,934**	**–**	**1,382,824**	**–**	**1,382,824**
Subordinated obligations	**499,599**	**–**	**502,163**	**–**	**502,163**
Multi-currency Additional Tier 1 capital securities	**400,751**	**–**	**411,323**	**–**	**411,323**
	2,286,284	**–**	**2,296,310**	**–**	**2,296,310**
2017					
Financial liabilities					
Borrowings	1,526,222	–	1,524,130	–	1,524,130

(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 2018

49 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 and capital securities

The fair value of subordinated obligations, senior bonds 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

50 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

	The Group					
				Related amount not set off in the statements of financial position		
2018	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
Financial assets						
Clients' and brokers' balances	867,693	(342,137)	525,556	–	–	525,556
Derivative financial instruments	983,616	(12,421)	971,195	(400,579)	(170,682)	399,934
Securities purchased under resale agreements	541,951	(506,825)	35,126	–	–	35,126
Total	2,393,260	(861,383)	1,531,877	(400,579)	(170,682)	960,616
Financial liabilities						
Clients' and brokers' balances	597,886	(247,156)	350,730	–	–	350,730
Derivative financial instruments	1,094,561	(12,421)	1,082,140	(400,579)	(193,173)	488,388
Obligations on securities sold under resale agreements	4,438,348	(506,825)	3,931,523	(3,931,523)	–	–
Payables and other liabilities	11,803,172	(94,981)	11,708,191	–	–	11,708,191
Total	17,933,967	(861,383)	17,072,584	(4,332,102)	(193,173)	12,547,309

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

50 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

	The Group					
				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
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
Obligations on securities sold under resale 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
Total	14,114,924	(853,859)	13,261,065	(3,468,111)	(647,042)	9,145,912

51 EQUITY COMPENSATION BENEFITS

Executive Share Scheme

The Group established and implemented following Executive Share Schemes.

Executive Share Scheme ("ESS") established using the shares of the Company - The Company and its subsidiary company Hong Leong Assurance Berhad

The ESS of up to ten percent (10%) of the total number of issued shares (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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

51 EQUITY COMPENSATION BENEFITS

Executive Share Scheme (continued)

(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 total number of issued shares (excluding treasury shares) of the Company at any one time.
4. The option price for the options to be granted under the ESOS 2013/2023 shall not be at a discount of more than ten percent (10%) (or such discount as the relevant authorities shall permit) from the 5-day weighted average market price of the shares of the Company preceding the Date of Offer as defined by the ESS Bye-Laws.
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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

51 EQUITY COMPENSATION BENEFITS (CONTINUED)

Executive Share Scheme (continued)

The number and market values of the ordinary shares held by the Trustee are as follows:

	The Group			
	2018		2017	
	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**	3,964,400	35,712,518
Exercise of share option	**(1,446,000)**	**(13,026,435)**	–	–
As at 30 June	**2,518,400**	**22,686,083**	3,964,400	35,712,518

	The Company			
	2018		2017	
	Number of trust shares held unit	Cost RM	Number of trust shares held unit	Cost RM
As at 1 July/30 June	**500**	**3,156**	500	3,156

ESOS 2013/2023

The options granted under the scheme are as follows:

	The Group					
Grant date	As at 1-Jul	Option granted	Exercised	Ceased/ forfeited	Outstanding as at 30-Jun	Exercisable as at 30-Jun
2018						
02-Apr-15	**10,570,183**	**–**	**(1,446,000)**	**(6,955,183)**	**2,169,000**	**–**
30-Mar-18	**–**	**20,450,000**	**–**	**(700,000)**	**19,750,000**	**–**
	10,570,183	**20,450,000**	**(1,446,000)**	**(7,655,183)**	**21,919,000**	**–**
2017						
02-Apr-15	11,688,183	–	–	(1,118,000)	10,570,183	–

	The Company					
Grant date	As at 1-Jul	Option granted	Exercised	Ceased/ forfeited	Outstanding as at 30-Jun	Exercisable as at 30-Jun
2018						
30-Mar-18	**–**	**10,000,000**	**–**	**–**	**10,000,000**	**–**
2017						
02-Apr-15	–	–	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

51 EQUITY COMPENSATION BENEFITS (CONTINUED)

Executive Share Scheme (continued)

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.

The value of share options and the key inputs for share options valuation were as follows:

	Options 2018		Options 2017	
	2018	**2017**	**2018**	**2017**
Fair value of share options (RM)	**2.16 - 4.58**	–	**2.30 - 2.90**	0.94 - 1.97
Share price at valuation date (RM)	**18.00**	–	**18.00**	16.80
Adjusted exercise price (RM)	**–**	–	**16.61**	16.61
Original exercise price (RM)	**17.12**	–	**16.88**	16.88
Expected volatility (%)	**21.37**	–	**21.37**	17.28
Weighted average dividend yield (%)	**2.25**	–	**2.25**	2.28
Weighted average risk free rate (%)	**3.35**	–	**3.35**	3.10

The vesting period of the options granted on 2 April 2015 range from 3.20 to 5.20 years from grant date. The weighted average remaining option life as at 30 June 2018 is 1.29 years.

The vesting period of the options granted on 30 March 2018 range from 1.70 to 5.70 years from grant date. The weighted average remaining option life as at 30 June 2018 is 3.37 years.

Executive Share Scheme ("ESS") established using the shares of subsidiary of the Company - Hong Leong Bank Berhad ("HLB")

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

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 HLB in the annual general meeting held on 29 October 2013 and 25 October 2012. The Board of HLB, 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 HLB which are still subsisting shall not exceed 10% of the issued and paid-up ordinary share capital (excluding treasury shares) of HLB at any one time.

4. The exercise of the options under the ESOS or the vesting of shares under the ESGS may, at the absolute discretion of the HLB's 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.

(i) ESOS

The ESOS which was approved by the shareholders of HLB on 25 October 2012, was established on 12 March 2013 and would be in force for a period of ten (10) years.

On 18 September 2012, HLB announced that Bursa Malaysia Securities Berhad had resolved to approve the listing of new ordinary shares of HLB 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 HLB Group to participate in the equity of HLB.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

51 EQUITY COMPENSATION BENEFITS (CONTINUED)

Executive Share Scheme (continued)

(i) ESOS (continued)

The main features of the ESOS are, inter alia, as follows:

1. The option price for the options to be granted under the ESOS 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 HLB 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 HLB.

2. The options granted to an option holder under the ESOS is exercisable by the option holder during his employment or directorship with the HLB 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 HLB's Board under the Bye-Laws of the ESS.

   During the financial year ended 30 June 2018, 22,750,000 (2017: Nil) share options have been granted under the ESOS with 29,624,263 (2017: 16,853,460) options remain outstanding. The options granted are subject to the achievement of certain performance criteria by the option holders over a performance period concluding at the end of the financial year ending 30 June 2019 ("FY 2019"). The achievement of the performance targets and the number of shares (if any) to be vested shall be determined at the end of FY 2019. The exercise period of the vested options will be up to the 30th month from the vesting date to be determined at the end of FY 2019.

Adjustments on exercise price due to Rights Issue

The fair value of share options granted on 2 April 2015 ("grant date") and modified grant date was estimated using the Black-scholes model, taking into account the terms and conditions upon which the options are granted. On modified grant date, the incremental fair value was computed to incorporate the adjustments on exercise price due to rights issue. The value of share options and the key inputs for share options valuation before and after rights issue were as follows:

	Before Rights Issue	After Rights Issue
Fair value of share options (RM)	1.42-1.67	1.62-1.85
Share price at grant date/modified grant date (RM)	14.3	13.56
Exercise price (RM)	14.24	13.77
Weighted average option life at grant date/modified grant date (Years)	4.55	3.89
Expected volatility (%)	11.74	12.21
Weighted average dividend yield (%)	3.29	3.37
Weighted average risk free rate (%)	3.77	4.01

The fair value of share options after the rights issue is inclusive of incremental fair value arising from adjusted exercise price pursuant to the ESS Bye-Laws. The expected volatility reflects the assumption that the historical volatility was indicative of future trends, which may not necessarily be the actual outcome.

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 3.75 to 5.75 years from grant date. The weighted average remaining option life as at 30 June 2018 is 1.30 years.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

51 EQUITY COMPENSATION BENEFITS (CONTINUED)

Executive Share Scheme (continued)

(i) ESOS (continued)

Adjustments on additional options due to Rights Issue

For the additional options granted on modified grant date due to Rights Issue exercise, the fair value of share options was estimated using the Black scholes model, taking into account the terms and conditions upon which the options are granted. The value of share options and the key inputs for share options valuation were as follows:

	After Rights Issue
Fair value of share options (RM)	1.19-1.48
Share price at grant date/modified grant date (RM)	13.56
Exercise price (RM)	13.77
Weighted average option life at grant date (Years)	3.89
Expected volatility (%)	12.21
Weighted average dividend yield (%)	3.37
Weighted average risk free rate (%)	4.01

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 to 3.09 to 5.10 years from grant date. The weighted average remaining option life as at 30 June 2018 is 1.30 years.

Share options at an exercise price of RM16.46.

The estimated fair value of each share option granted is between RM3.15 and RM4.45 per share. This was calculated using the Black-Scholes model. The model inputs were the share price at grant date of RM18.72, weighted average option life at grant date of 3.6 years, exercise price of RM16.46, expected volatility of 17.94%, weighted average expected dividend yield of 2.15% and a weighted average risk free interest rate of 3.84%.

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 1.25 to 5.25 years from grant date.

(ii) ESGS

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

On 10 September 2013, HLB announced that Bursa Malaysia Securities Berhad had resolved to approve in principle the listing of new ordinary shares of HLB to be issued pursuant to the ESGS.

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

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 HLB Group and subject to any other terms and conditions as may be determined by the HLB's Board.

During the financial year ended 30 June 2018, a total of 229,992 ordinary shares were vested and transferred pursuant to the HLB's ESGS and 322,580 ordinary shares have been granted with 643,176 (2017: 550,558) ordinary shares remaining outstanding.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

52 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(a) In March 2017, the Board of Directors has approved the divestment of 37% of the Group's stake through nonsubscription of the issuance of new share capital by JV Co and selling down the original share capital held by the Group to new strategic investors through an exercise via Southwest United Equity Exchange. The completion of the sale is currently pending the China Banking Regulatory Commission approval. Upon the divestment exercise, the Group would continue to equity account the retained interest of 12% as the Bank is still deemed to have significant influence in JV Co.

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

(c) On 31 January 2018, Bank of Chengdu Co., Ltd ("BOCD"), an associated company of HLB (a subsidiary of HLFG) was officially listed on the Shanghai Stock Exchange after completing its initial public offering ("IPO") of 361 million shares and raised 2.53 billion yuan. Arising from the IPO, HLB's equity interest of the enlarged capital in BOCD is now reduced to 18% from 20%.

(d) On 12 February 2018, the Group announced that it had placed its wholly-owned subsidiaries, Hong Leong Equities Sdn Bhd ("HLE") and HLFG Assets Sdn Bhd ("HLFGA"), under member's voluntary winding-up pursuant to Section 439(1)(b) of the Companies Act, 2016. Upon liquidation of HLE, there was a gain on liquidation amounted to RM190.2 million whereby RM188.1 million is arising from distribution in shares and RM2.1 million is arising from distribution in cash. HLE is an investment holding company and HLFGA is currently dormant. There are no future plans for the subsidiaries.

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

(f) Pursuant to Section 247(3) of the Companies Act 2016, the Companies Commission of Malaysia had on 5 July 2018 granted its approval for Hong Leong Bank Vietnam Limited ("HLBVN"), a wholly-owned subsidiary of HLB 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.

(g) Pursuant to Section 247(3) of the Companies Act 2016, the Companies Commission of Malaysia had on 5 July 2018 granted its approval for Hong Leong Bank (Cambodia) PLC ("HLBCAM"), a wholly-owned subsidiary of HLB 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 Prakas on Annual Audit of Financial Statement of Banks and Financial Institutions issued by the National Bank of Cambodia.

53 SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

There are no material subsequent events after the financial year that require disclosure or adjustments to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

54 INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	The Group		
2018	**Before tax RM'000**	**Tax benefits RM'000**	**Net of tax amount RM'000**
Financial investments available-for-sale - net fair value (loss)/gain	**(403,475)**	**183,776**	**(219,699)**
Cash flow hedge - net fair value gain/(loss)	**2,398**	**(498)**	**1,900**
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

55 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group and the Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Group's and the Company's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below:

(a) Allowance for impairment losses on loans, advances and financing

The Group 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. 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.

56 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 19 September 2018.

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 accompanying financial statements set out on page 76 to 224 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2018 and financial performance of the Group and the Company for the year then ended 30 June 2018, 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
19 September 2018

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 76 to 224 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) **CHEW SEONG AUN**
19 September 2018) MIA No. 10114

Before me,

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 Berhad ("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 2018, 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 2018 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 76 to 224.

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 O of the summary of significant accounting policies, and Notes 7, 36 and 55 to the financial statements. We focused on this area due to the size of the carrying value of loans, advances and financing, which represented 56% 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. **Individual assessment** 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, ship building and wholesale and retail trade 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
	Collective assessment 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 performance;
- Segmental information;
- Hong Leong Financial Group share price;
- Chairman's Statement;
- Management Discussion and Analysis;
- Sustainability Statement;
- Board Audit and Risk Management Committee Report;
- Corporate Governance Overview, Risk Management and Internal Control Statement; 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 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 PLT
LLP0014401-LCA & AF1146
Chartered Accountants

NG YEE LING
03032/01/2019 J
Chartered Accountant

Kuala Lumpur
19 September 2018

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Forty-ninth Annual General Meeting ("AGM") of Hong Leong Financial Group Berhad ("Company") will be held at the Auditorium, Ground Floor, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur on Tuesday, 30 October 2018 at 11.00 a.m. in order:

1. To lay before the meeting the audited financial statements together with the reports of the Directors and Auditors thereon for the financial year ended 30 June 2018.

2. To approve the payment of Directors' Fees of RM589,493 for the financial year ended 30 June 2018 to be divided amongst the Directors in such manner as the Directors may determine and Directors' Other Benefits of up to an amount of RM210,000 from the 49th AGM to the 50th AGM of the Company. **(Resolution 1)**

3. To re-elect the following Directors who retire by rotation pursuant to Clause 115 of the Company's Constitution:-

   (a) Mr Tan Kong Khoon **(Resolution 2)**

   (b) Ms Lim Lean See **(Resolution 3)**

4. To re-appoint PricewaterhouseCoopers PLT as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 4)**

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 subscribe 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 5)**

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 1 October 2018 ("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;

NOTICE OF ANNUAL GENERAL MEETING

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 6)**

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 1 October 2018 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

(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)**

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
1 October 2018

NOTICE OF ANNUAL GENERAL MEETING

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 22 October 2018 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 30, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur not less than 48 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.

EXPLANATORY NOTES

1. **Resolution 1 on Directors' Fees and Directors' Other Benefits**
   - Directors' Fees of RM589,493 are inclusive of Board Committee Fees of RM150,000 and Meeting Allowances of RM45,000.
   - Directors' Other Benefits refer to Directors' & Officers' Liability Insurance coverage based on premium paid/payable, and Directors' training benefits of up to RM120,000 as well as Chairman's car benefits of up to RM90,000.

2. **Resolution 5 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 26 October 2017 and which will lapse at the conclusion of the Forty-ninth 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.

3. **Resolutions 6 and 7 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 1 October 2018 which is dispatched together with the Company's 2018 Annual Report.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

(PURSUANT TO PARAGRAPH 8.27(2) OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD)

- **Details of individuals who are standing for election as Directors**

  No individual is seeking election as a Director at the forthcoming Forty-ninth 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 2 of the Notice of Forty-ninth 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 2018

Total number of issued shares : 1,147,516,890
Class of shares : Ordinary shares
Voting rights : 1 vote for each share held

Distribution Schedule of Shareholders as at 30 August 2018

Size of Holdings	No. of Shareholders	%	No. of Shares	%
Less than 100	323	8.45	7,673	0.00
100 – 1,000	744	19.47	442,181	0.04
1,001 – 10,000	1,659	43.41	6,432,850	0.56
10,001 – 100,000	816	21.35	25,921,167	2.26
100,001 – less than 5% of issued shares	278	7.27	227,612,923	19.83
5% and above of issued shares	2	0.05	887,100,096	77.31
	3,822	100.00	1,147,516,890	100.00

List of Thirty Largest Shareholders as at 30 August 2018

Name of Shareholders		No. of Shares	%
1.	Hong Leong Company (Malaysia) Berhad	595,982,955	51.94
2.	Assets Nominees (Asing) Sdn Bhd - Guoco Assets Sdn Bhd (In Liquidation)	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	13,959,410	1.22
5.	HSBC Nominees (Asing) Sdn Bhd - Exempt AN for BNS Asia Limited	9,009,177	0.79
6.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (Nomura)	6,665,600	0.58
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
9.	Cartaban Nominees (Asing) Sdn Bhd - Exempt AN for State Street Bank & Trust Company (West Clt OD67)	5,623,241	0.49
10.	Tan Sri Dato' Seri Khalid Ahmad Bin Sulaiman	5,544,000	0.48
11.	Tan Sri Quek Leng Chan	5,438,664	0.47

OTHER INFORMATION

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2018 (CONTINUED)

List Of Thirty Largest Shareholders As At 30 August 2018 (Continued)

	Name of Shareholders	No. of Shares	%
12.	Cartaban Nominees (Tempatan) Sdn Bhd - PAMB for Prulink Equity Fund	5,066,450	0.44
13.	Chua Holdings Sdn Bhd	4,967,949	0.43
14.	Citigroup Nominees (Asing) Sdn Bhd - Exempt AN for Citibank New York (Norges Bank 14)	4,870,941	0.42
15.	Hong Bee Hardware Company, Sdn. Berhad	4,630,506	0.40
16.	DB (Malaysia) Nominee (Asing) Sdn Bhd - Exempt AN for Bank of Singapore Limited	4,204,995	0.37
17.	HSBC Nominees (Asing) Sdn Bhd - JPMCB NA for Vanguard Emerging Markets Stock Index Fund	4,075,741	0.36
18.	AMSEC Nominees (Tempatan) Sdn Bhd - AmBank (M) Berhad (Hedging)	3,556,181	0.31
19.	HSBC Nominees (Asing) Sdn Bhd - JPMCB NA for Vanguard Total International Stock Index Fund	2,959,132	0.26
20.	Citigroup Nominees (Asing) Sdn Bhd - CBNY for Dimensional Emerging Markets Value Fund	2,837,334	0.25
21.	Citigroup Nominees (Asing) Sdn Bhd - Exempt AN for Citibank New York (Norges Bank 9)	2,791,336	0.24
22.	MTrustee Berhad - Exempt AN for Hong Leong Financial Group Berhad (HLA-ESOS)	2,517,900	0.22
23.	Quek Kon Sean	2,452,500	0.21
24.	Kheng Lim Holdings Sdn Bhd	2,269,492	0.20
25.	RHB Capital Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Poh Soon Sim (CEB)	2,164,086	0.19
26.	Citigroup Nominees (Tempatan) Sdn Bhd - Exempt AN for AIA Bhd	2,136,223	0.19
27.	Cartaban Nominees (Asing) Sdn Bhd - GIC Private Limited for Government Of Singapore (C)	2,035,636	0.18
28.	Choong Yee How	2,000,000	0.17
29.	Pertubuhan Keselamatan Sosial	1,942,400	0.17
30.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (Affin-Hwg)	1,827,899	0.16
		1,026,742,560	89.48

OTHER INFORMATION

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2018 (CONTINUED)

Substantial Shareholders

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 30 August 2018 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

3. DIRECTORS' INTERESTS AS AT 30 AUGUST 2018

Subsequent to the financial year end, there is no change, as at 30 August 2018, 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 71 and 72 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	Number of Shares	%
YBhg Tan Sri Quek Leng Chan in:		
Hong Leong MSIG Takaful Berhad	97,500,000	65.00

OTHER INFORMATION

LIST OF PROPERTIES HELD AS AT 30 JUNE 2018

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	84	7,436	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	19	2,071	26/06/1997
3	No. 42, Jalan Pending 93450 Kuching Sarawak	Leasehold - 859 years (31/12/2779)	Branch premises	4,425	36	1,525	27/12/1983
4	No. 133, 135 & 137 Jalan Kampong Nyabor 96000 Sibu Sarawak	Freehold	Branch premises	4,871	26	2,895	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	27	1,138	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	1,412	27/12/1994
8	No. 26, Lorong Rahim Kajai 14 Taman Tun Dr Ismail 60000 Kuala Lumpur	Freehold	Branch premises	3,750	32	499	30/12/1986
9	No. 120-122, Jalan Mersing 86000 Kluang Johor Darul Takzim	Leasehold - 99 years (22/08/2063)	Branch premises	3,355	52	546	31/05/1990
10	No. 100, Jalan Gurney 72100 Bahau Negeri Sembilan Darul Khusus	Freehold	Branch premises	5,107	32	2,091	25/06/1992
11	No. 12, 14 & 16 Jalan Wong Ah Fook 80000 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	4,174	27	3,511	25/06/1992

OTHER INFORMATION

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM '000)	Date of acquisition
12	No. 6, Jalan Merdeka 96100 Sarikei Sarawak	Leasehold - 60 years (31/12/2029)	Vacant	2,240	49	56	18/10/1969
13	No. 63 & 65, Jalan SS 23/15 47400 Petaling Jaya Selangor Darul Ehsan	Freehold	Branch premises	4,760	23	3,176	28/04/1997
14	No. 24, Medan Taming 2 Taman Taming Jaya 43300 Balakong Selangor Darul Ehsan	Freehold	Branch premises	3,037	22	975	28/04/1997
15	No. 1, Jalan Takal 15/21 Seksyen 15 40000 Shah Alam Selangor Darul Ehsan	Leasehold - 99 years (29/06/2086)	Branch premises	2,625	31	1,139	26/06/1997
16	Lots 3594 & 3595 Jalan Baru Pak Sabah 23000 Dungun Terengganu Darul Iman	Leasehold - 84 years (02/02/2079)	Branch premises	3,199	24	195	26/06/1997
17	Lot 3073 & 3074 Jalan Abang Galau 97000 Bintulu, Sarawak	Leasehold - 60 years (12/02/2056)	Branch premises	2,582	21	990	26/06/1997
18	Lot 34, Putra Industrial Park 47000 Sungai Buloh Selangor Darul Ehsan	Freehold	Warehouse	96,219	22	2,608	26/01/1995
19	No. 1540, Jalan Sultan Badlishah 05000 Alor Setar Kedah Darul Aman	Leasehold - 60 years (19/07/2030)	Vacant	10,619	43	26	30/06/1977
20	No. 9A & 9B Jalan Kampong Baru 08000 Sungai Petani Kedah Darul Aman	Freehold	Branch premises	9,320	25	767	01/01/1994
21	No. 45, Jalan Burma 10500 Pulau Pinang	Freehold	Branch premises	14,277	40	1,849	24/11/1978
22	No. 33A-C, Lintang Angsana Bandar Baru Air Hitam 11500 Pulau Pinang	Leasehold - 83 years (08/04/2082)	Storage	4,394	23	353	26/12/1995

OTHER INFORMATION

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM '000)	Date of acquisition
23	No. 55-57, Jalan Yang Kalsom 30250 Ipoh Perak Darul Ridzuan	Freehold	Branch premises	11,720	39	968	01/10/1984
24	No. 27, Jalan Dewangsa 31000 Batu Gajah Perak Darul Ridzuan	Leasehold - 79 years (26/02/2078)	Branch premises	4,694	23	245	24/11/1995
25	No. 75, Jalan Sultan Idris Shah 30000 Ipoh Perak Darul Ridzuan	Freehold	Branch premises	1,900	21	602	15/06/1998
26	No. 80 & 82, Jalan Othman 1/14 46000 Petaling Jaya Selangor Darul Ehsan	Leasehold - 90 years (15/06/2089)	Branch premises	9,062	28	870	01/06/1994
27	No. 19, Jalan 54, Desa Jaya 52100 Kepong Selangor Darul Ehsan	Leasehold - 99 years (08/03/2081)	Branch premises	5,859	36	321	29/11/1985
28	No. 55, Jalan Pasar 55100 Kuala Lumpur	Freehold	Branch premises	4,313	38	297	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	38	404	31/07/1988
30	No. 161, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	2,454	22	2,682	14/02/1996
31	No. 8A-C, Jalan Station 80000 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	12,854	25	352	22/10/1977
32	No. 109, Main Road 83700 Yong Peng Johor Darul Takzim	Freehold	Branch premises	2,740	30	202	01/09/1988
33	No. 1, Bentong Heights 28700 Bentong Pahang Darul Makmur	Freehold	Branch premises	5,432	50	32	30/06/1977
34	No. 36, Main Road Tanah Rata 39000 Cameron Highland Pahang Darul Makmur	Leasehold - 99 years (24/11/2039)	Branch premises	1,728	78	95	30/08/1982

OTHER INFORMATION

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM '000)	Date of acquisition
35	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	19	1,199	18/12/1999
36	No. 2828-G-02 & 2828-1-02 Jalan Bagan Luar 12000 Butterworth Pulau Pinang	Freehold	Branch premises	12,173	19	2,279	18/12/1999
37	Plot No 20, Jalan Bidor Raya 35500 Bidor Perak Darul Ridzuan	Freehold	Branch premises	3,243	19	459	23/11/1999
38	No. 1, Persiaran Greentown 2 Greentown Business Centre 30450 Ipoh Perak Darul Ridzuan	Leasehold - 99 years (21/11/2094)	Branch premises	7,870	18	1,529	23/11/1999
39	Lots 39 & 40 Kompleks Munshi Abdullah 75100 Melaka	Leasehold - 99 years (24/02/2084)	Branch premises	5,988	19	1,134	31/05/1991
40	No. 1 & 2 Jalan Raya 09800 Serdang Kedah Darul Aman	Freehold	Branch premises	5,840	17	352	20/09/2000
41	No. 133 & 135, Jalan Gopeng 31900 Kampar Perak Darul Ridzuan	Freehold	Branch premises	4,700	17	326	13/12/2000
42	No. 65-67, Jalan Tun HS Lee 50000 Kuala Lumpur	Freehold	Vacant	2,223	22	4,715	14/10/1996
43	No. 64, Jalan Tun Mustapha 87007 Labuan	Leasehold - 999 years (28/12/2881)	Branch premises	1,370	27	404	30/05/1991
44	No. 159, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	1,688	13	2,546	25/11/2005
45	No. 163, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	1,688	13	2,623	25/10/2005
46	No. 114 & 116, Jalan Cerdas Taman Connaught 56000 Kuala Lumpur	Leasehold - 99 years (16/10/2078)	Branch premises	12,200	12	3,595	07/06/2006

OTHER INFORMATION

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM '000)	Date of acquisition
47	Lot A08-A09 Jalan SS 6/5A Dataran Glomac Pusat Bandar Kelana Jaya 47301 Petaling Jaya	Freehold	Branch premises	9,800	12	2,604	06/07/2006
48	No. 2 Jalan Puteri 2/4 Bandar Puteri Puchong 47100 Selangor Darul Ehsan	Freehold	Branch premises	11,850	11	5,032	26/06/2007
49	Tower A PJ City Development 46100 Petaling Jaya, Selangor	Leasehold - 99 years (14/08/2094)	Branch premises	194,489	10	74,175	21/07/2008
50	OUG No.2, Lorong 2/137C Off Jalan Kelang Lama 58200 Kuala Lumpur	Leasehold - 99 years (year 2088)	Branch premises	17,300	8	4,874	01/04/2011
51	KEP Lot No 77C & 77D Lot No.58529 Jalan Kepong 52100 Kuala Lumpur	Leasehold - 99 years (07/01/2101)	Branch premises	30,613	8	8,402	01/05/2011
52	No. 122, Kapit By-Pass 96807 Kapit, Sarawak	Leasehold - 99 years (29/04/2045)	Branch premises	1,200	25	149	30/04/1985
53	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	31	114	24/05/1983
54	No. 9, Jalan Cheng Lock 50000 Kuala Lumpur Wilayah Persekutuan	Freehold	Vacant	2,199	45	277	18/09/1972
55	No. 3, Jalan Bandar Satu Pusat Bandar Puchong 47100 Puchong Selangor Darul Ehsan	Freehold	Branch premises	4,687	23	1,758	03/04/1997
56	No. 32 & 34, Jalan 21/19 Sea Park 46300 Petaling Jaya Selangor Darul Ehsan	Freehold	Branch premises	3,080	55	2,124	19/08/1997

OTHER INFORMATION

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM '000)	Date of acquisition
57	No. 1, Jalan Goh Hock Huat 41400 Klang Selangor Darul Ehsan	Freehold	Vacant	2,776	35	1,475	09/07/1998
58	No. 26 & 27, Jalan Kenari 1 Bandar Puchong Jaya 47100 Puchong Selangor Darul Ehsan	Freehold	Branch premises	3,600	22	1,395	22/01/1999
59	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	14	3,373	12/02/2005
60	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 (07/06/2087)	2 units apartment	2,088	22	189	21/04/1994
61	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	34	249	29/06/1981
62	No. 105 & 107 Jalan Melaka Raya 24 Taman Melaka Raya 75000 Melaka	Leasehold - 99 years (20/03/2094)	Vacant	3,132	22	496	17/04/1998
63	No. 67 & 69, Jalan Merdeka 75000 Taman Merdeka Raya Melaka	Leasehold - 99 years (07/07/2093)	Branch premises	3,080	23	647	15/08/1999
64	No. 21 & 23, Jalan Indah 15/1 Bukit Indah, 81200 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	5,090	16	1,378	27/05/2002
65	No. 35, 37 & 39 Jalan Johor Satu Taman Desa Cemerlang 81800 Ulu Tiram Johor Darul Takzim	Freehold	Branch premises	13,965	15	1,957	12/02/2003
66	No. 21, Jalan Permas 10/1 Bandar Baru Permas Jaya 81750 Masai Johor Darul Takzim	Freehold	Branch premises	2,624	21	974	05/04/1999

OTHER INFORMATION

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM '000)	Date of acquisition
67	No. B-278 & B-280 Jalan Beserah 25300 Kuantan Pahang Darul Makmur	Freehold	Branch premises	3,208	17	1,387	04/08/1999
68	No. 31, 33, 35 & 37 Jalan Usahaniaga 1 Taman Niagajaya 14000 Bukit Mertajam Seberang Perai Tengah Penang	Freehold	Branch premises	15,844	15	1,138	10/07/2003
69	Lot 171, Jalan Council 95000 Bandar Sri Aman Sarawak	Leasehold - 60 years (20/06/2050)	Branch premises	1,740	22	139	21/06/1990
70	Lot No. 2013, Jalan Pisang Barat 93150 Kuching Sarawak	Leasehold - 99 years (31/12/2038)	Storage	1,390	25	–	23/09/1992
71	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	23	1,700	04/02/1997
72	No. 177, Limbok Hill 70000 Seremban Negeri Sembilan Darul Khusus	Freehold	Single-storey Detached house	6,730	45	11	16/08/1972
73	No. 11, Jalan Emas 2 Taman Emas Cheras 43200 Cheras, Selangor	Freehold	Storage	5,804	25	–	25/05/1993
74	No. 53 & 55, Jalan Sultan Ismail 50250 Kuala Lumpur	Freehold	Branch premises	9,600	21	17,501	01/06/2015
75	No. 9, Jalan Kundang Taman Bukit Pasir 83000 Batu Pahat Johor Darul Takzim	Freehold	Branch premises	7,060	36	2,631	01/06/2015
76	No. 300, Jalan Jelutong 11600 Pulau Pinang	Freehold	Branch premises	16,652	16	14,012	23/06/2015

OTHER INFORMATION

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM '000)	Date of acquisition
77	Lot 1, Block 35 Fajar Commercial Complex Jalan Lembaga 91000 Tawau, Sabah	Leasehold - 998 years (31/12/2895)	Branch premises	13,880	46	4,923	17/08/2015
78	Menara Hong Leong No. 6, Jalan Damanlela Bukit Damansara 50490 Kuala Lumpur	Freehold	Head Office/ Branch	668,331	3	587,599	03/07/2015
79	Lot 942 Jalan Parry 98000 Miri Sarawak	Leasehold - 60 Years (06/04/2057)	Branch premises	5,496	21	819	31/01/1997
80	Lot 1, 2 & 3, Block 18 Bandar Indah Mile 4, North Road Bandar Indah Sandakan, Sabah	Freehold	Branch premises	6,760	18	2,070	08/11/2001
81	No 3 Persiaran Greentown 4 Greentown Business Centre 30450 Ipoh	Leasehold - 99 years (21/11/2094)	Branch Premises	8,846	23	450	04/12/1995
82	Bangunan HLA 7 Jalan Yayasan 86000 Kluang	Leasehold - 99 years (23/03/2084)	Branch Premises	6,019	29	383	30/12/1989
83	Wisma Hong Leong 18 Jalan Perak 50450 Kuala Lumpur	Freehold	Office premises	333,594	17	260,500	13/11/2001
84	Unit 2.1.2, 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 years (17/07/2083)	Condominium	1,904	25	497	30/06/1993
85	Unit 1.1.5, 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 years (17/07/2083)	Condominium	1,815	25	473	30/06/1993
86	14-23 Darul Aman Jalan Tun Ismail 25000 Kuantan Pahang	Freehold	Branch premises	5,610	25	462	21/02/1993

OTHER INFORMATION

No.	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM '000)	Date of acquisition
87	No 1 Persiaran Greentown 4 Pusat Perdagangan Greentown 30450 Ipoh Perak	Leasehold - 99 years (21/11/2094)	Branch premises	5,246	23	475	04/12/1995
88	13-2B 2nd Floor Jalan Perdana 6/6 Pandan Perdana 55300 Kuala Lumpur	Leasehold - 99 years (11/12/2088)	Apartment	468	14	60	2004
89	Block B, PJ City Jalan 219 Seksyen 51A 46100 Petaling Jaya Selangor	Leasehold - 99 years (12/12/2107)	Office premises	202,194	10	61,442	29/04/2008
90	31 & 32 Jalan Kundang Taman Bukit Pasir 46100 Petaling Jaya Selangor	Freehold	Branch premises	8,932	26	1,454	31/12/2013
91	Menara Raja Laut No. 288 Jalan Raja Laut 50350 Kuala Lumpur Wilayah Persekutuan	Freehold	Office premises	839,574	25	231,594	06/04/2015
92	No 2682 Jalan Aston 14000 Bukit Mertajam Pulau Pinang	Freehold	Branch Premises	10,160	0	2,750	14/03/2018
93	51-53, Persiaran Greenhill 0450 Ipoh Perak	Freehold & leasehold -999 year	Branch Premises	4,793	24	1,796	31/12/1993
94	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	23	51,129	22/02/2010

FORM OF PROXY

Hong Leong 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-ninth Annual General Meeting of the Company to be held at the Auditorium, Ground Floor, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur on Tuesday, 30 October 2018 at 11.00 a.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 Directors' Fees and Directors' Other Benefits		
2.	To re-elect Mr Tan Kong Khoon as a Director		
3.	To re-elect Ms Lim Lean See as a Director		
4.	To re-appoint PricewaterhouseCoopers PLT as Auditors of the Company and to authorise the Directors to fix their remuneration		
	Special Business		
5.	To approve the ordinary resolution on Authority to Directors to Allot Shares		
6.	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		
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 Tower Real Estate Investment Trust		

Dated this .... day of .... 2018.

.... 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 22 October 2018 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 30, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur not less than 48 hours before the time and date of the meeting or adjourned meeting.*
9. *In the event two (2) or more proxies are appointed, please fill in the ensuing section:*

Name of Proxies	*% of shareholdings to be represented*

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 will be put to a vote by way of a poll.*

Fold this flap for sealing

Then fold here

Affix
Stamp

The Group Company Secretary

HONG LEONG FINANCIAL GROUP BERHAD
(Company No. 8024-W)

Level 30, Menara Hong Leong
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Malaysia

1st fold here

Hong Leong Financial Group Berhad (8024-W)
Level 30, Menara Hong Leong
6, Jalan Damanlela, Bukit Damansara
50490 Kuala Lumpur
Tel : 03-2080 9888
Fax : 03-2080 9800

www.hlfg.com.my

As part of Hong Leong Financial Group's support for environmental sustainability, this Annual Report is printed on Forest Stewardship Council (FSC) certified paper and recycled paper.