STRICTLY PRIVATE & CONFIDENTIAL **Serial No.**

HONG LEONG FINANCIAL GROUP BERHAD

(Company No. 8024-W)

INFORMATION MEMORANDUM

A MULTI-CURRENCY PERPETUAL NOTES PROGRAMME FOR THE ISSUANCE OF SENIOR NOTES, BASEL III-COMPLIANT TIER 2 SUBORDINATED NOTES AND BASEL III-COMPLIANT ADDITIONAL TIER 1 CAPITAL SECURITIES OF UP TO RM25.0 BILLION (OR ITS EQUIVALENT IN OTHER CURRENCIES) IN NOMINAL VALUE AND A COMMERCIAL PAPERS PROGRAMME FOR THE ISSUANCE OF COMMERCIAL PAPERS OF UP TO RM3.0 BILLION IN NOMINAL VALUE

Principal Adviser, Lead Arranger and Lead Manager

Hong Leong Investment Bank Berhad
(Company No. 10209-W)

This Information Memorandum is dated 2 November 2017

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ATTACHED IS AN ELECTRONIC COPY OF THE INFORMATION MEMORANDUM DATED 2 NOVEMBER 2017 ("INFORMATION MEMORANDUM"), IN RELATION TO (I) A MULTI-CURRENCY PERPETUAL NOTES PROGRAMME FOR THE ISSUANCE OF SENIOR NOTES ("SENIOR NOTES"), BASEL III-COMPLIANT TIER 2 SUBORDINATED NOTES ("SUB-NOTES") AND BASEL III-COMPLIANT ADDITIONAL TIER 1 CAPITAL SECURITIES ("CAPITAL SECURITIES") OF UP TO RM25.0 BILLION (OR ITS EQUIVALENT IN OTHER CURRENCIES) IN NOMINAL VALUE AND (II) A COMMERICAL PAPERS PROGRAMME FOR THE ISSUANCE OF COMMERCIAL PAPERS ("CPS") OF UP TO RM3.0 BILLION IN NOMINAL VALUE BY HONG LEONG FINANCIAL GROUP BERHAD (COMPANY NO. 8024-W) ("HLFG" OR "ISSUER"). THE SENIOR NOTES, THE SUB-NOTES, THE CAPITAL SECURITIES ARE COLLECTIVELY REFERRED TO AS "NOTES" AND THE NOTES TOGETHER WITH THE CPS ARE COLLECTIVELY REFERRED TO AS "MASTER NOTES".

BY OPENING AND ACCEPTING THIS ELECTRONIC TRANSMISSION CONTAINING THE INFORMATION MEMORANDUM, THE RECIPIENT AGREES TO BE BOUND BY ALL THE TERMS AND CONDITIONS BELOW. IF YOU DO NOT AGREE TO ANY OF THE TERMS AND CONDITIONS, PLEASE DELETE THIS ELECTRONIC TRANSMISSION IMMEDIATELY.

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THIS TRANSMISSION SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE MASTER NOTES IN ANY JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL UNDER THE LAWS OF SUCH JURISDICTIONS.

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THE FOREGOING IS IN ADDITION TO AND WITHOUT PREJUDICE TO ALL OTHER DISCLAIMERS AND AGREEMENTS WHICH A RECIPIENT OF THE INFORMATION MEMORANDUM SHALL BE DEEMED TO HAVE AGREED TO OR BE BOUND BY AS PROVIDED IN THE INFORMATION MEMORANDUM.

IMPORTANT NOTICE

Responsibility Statements

HONG LEONG FINANCIAL GROUP BERHAD (Company No. 8024-W) as the issuer ("**HLFG**" or "**Issuer**") and its board of directors respectively accept full responsibility for this Information Memorandum ("**Information Memorandum**") which includes the information and the accuracy of the information contained in this Information Memorandum. The Issuer, after having made all reasonable enquiries, confirms that this Information Memorandum contains all information with respect to the Issuer, which is material in the context of (I) a multi-currency perpetual notes programme for the issuance of senior notes ("**Senior Notes**"), Basel III-compliant Tier 2 subordinated notes ("**Sub-Notes**") and Basel III-compliant Additional Tier 1 capital securities ("**Capital Securities**") (collectively, the "**Notes**") of up to RM25.0 billion (or its equivalent in other currencies) in nominal value ("**Notes Programme**") and (II) a commercial papers programme for the issuance of commercial papers ("**CPs**") of up to RM3.0 billion in nominal value ("**CP Programme**") by the Issuer. The Notes Programme and the CP Programme are collectively referred to as "**Master Programme**", and the Notes and the CPs are collectively referred to as "**Master Notes**".

The Sub-Notes and the Capital Securities are intended to qualify as Tier 2 capital of HLFG and Additional Tier 1 capital of HLFG respectively pursuant to the Capital Adequacy Framework (Capital Components) (as amended from time to time) issued by Bank Negara Malaysia.

The opinions and intentions expressed in this Information Memorandum in relation to the Issuer are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions and there are no other facts in relation to the Issuer or the Master Programme which would, in the context of any Master Notes issuance, make any statement or information in this Information Memorandum false or misleading or from which there is a material omission and all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such statements and information and statements. No representation, warranty or undertaking, expressed or implied, is made such that the information remains unchanged in any respect as of any date or dates after those stated herein, with respect to any matter concerning the Issuer or any statement made in this Information Memorandum.

Important Notice and General Statement of Disclaimer

This Information Memorandum is being furnished on a private and confidential basis solely for the purpose of enabling prospective investors to consider the purchase or subscription of the Master Notes. This Information Memorandum is not intended to be a prospectus.

None of the information contained in this Information Memorandum has been independently verified by Hong Leong Investment Bank Berhad (Company No. 10209-W) ("**HLIB**") as the Principal Adviser ("**PA**"), the Lead Arranger ("**LA**") and the lead manager ("**LM**") in relation to the Master Programme. Accordingly, no representation, warranty or undertaking, express or implied, is given or assumed by the PA/LA/LM as to the authenticity, origin, validity, accuracy or completeness of such information or that the information remains unchanged in any respect after the relevant date or dates shown in this Information Memorandum. The PA/LA/LM have not accepted and will not accept any responsibility for the information contained in this Information Memorandum or otherwise in relation to the Master Programme and to the extent permitted by the law, shall not be liable for any consequences of any person's reliance on any of the information in this Information Memorandum.

The information in this Information Memorandum supersedes all other information and material previously supplied (if any) to the recipients. By taking possession of this Information Memorandum, the recipients are acknowledging and agreeing and are deemed to have acknowledged and agreed that they will not rely on any previous information and material (if any) supplied. No person is authorised to give any information or to make any representation or warranty other than as contained in this Information Memorandum and, if given or made, any such information, representation or warranty must not be relied upon as having been authorised by the Issuer and the PA/LA/LM or any other person.

This Information Memorandum has not been and will not be made to comply with the laws of any jurisdiction other than Malaysia ("**Foreign Jurisdiction**"), and has not been and will not be lodged, registered or approved pursuant to or under any legislation of (or with or by any regulatory authorities or other relevant bodies of) any Foreign Jurisdiction and it does not constitute an issue, offer or sale of, or an invitation to subscribe or purchase the Master Notes or any other securities of any kind by any party in any Foreign Jurisdiction.

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By accepting delivery of this Information Memorandum, each recipient agrees to the terms upon which this Information Memorandum is provided to such recipient as set out in this Information Memorandum, and further agrees and confirms that (a) it will keep confidential all of such information, (b) it is lawful for the recipient to subscribe for or purchase the Master Notes under all jurisdictions to which the recipient is subject, (c) the recipient has complied with all applicable laws in connection with such subscription or purchase of the Master Notes, (d) the Issuer and the PA/LA/LM and their respective directors, officers, employees and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject to as a result of such subscription or purchase of Master Notes, and they shall not have any responsibility or liability in the event that such subscription or purchase of the Notes is or shall become unlawful, unenforceable, voidable or void, (e) it is aware that the Master Notes can only be offered, sold, transferred or otherwise disposed of directly or indirectly in accordance with the relevant Selling Restrictions (as defined below) and all applicable laws, (f) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing or purchasing the Master Notes, and is able and is prepared to bear the economic and financial risks of subscribing in or purchasing the Master Notes, (g) it is subscribing or accepting the Master Notes for its own account, and (h) it is (i) a person to whom an issue, offer or invitation to subscribe or purchase the Master Notes would constitute an excluded offer or excluded issue as specified in Part I of Schedule 6 or Section 229(1)(b) and Part I of Schedule 7 or Section 230(1)(b), read together with Schedule 9 or Section 257(3) or in the case of

Master Notes issued outside Malaysia Schedule 8, of the Capital Markets and Services Act 2007, as amended from time to time ("**CMSA**"), and such other selling restrictions as may be applicable outside Malaysia, at issuance, and Part I of Schedule 6 or Section 229(1)(b), read together with Schedule 9 or Section 257(3) or in the case of Master Notes issued outside Malaysia Schedule 8, of the CMSA and such other selling restrictions as may be applicable outside Malaysia, thereafter; and (ii) in respect of the Notes denominated in foreign currency only, it is a Resident as defined under the Financial Services Act, 2013.

Each recipient is solely responsible for seeking all appropriate expert advice as to the laws of all jurisdictions to which it is subjected to. For the avoidance of doubt, this Information Memorandum shall not constitute an offer or invitation to subscribe or to purchase the Master Notes in relation to any recipient who does not fall within the Selling Restrictions.

This Information Memorandum or any document delivered under or in relation to the issue, offer or invitation to subscribe or purchase the Master Notes is not, and should not be construed as, a recommendation by the Issuer and/or the PA/LA/LM to subscribe or purchase the Master Notes. This Information Memorandum is not a substitute for, and should not be regarded as, an independent evaluation and analysis and does not purport to be all-inclusive. Each recipient should perform and is deemed to have made its own independent investigation and analysis of the Issuer, the Master Notes and all other relevant matters, and each recipient should consult its own professional advisers. The information herein is subject to the detailed provisions of the respective documents referred to herein and is qualified in its entirety by reference to such documents.

Unless otherwise specified in this Information Memorandum, the information contained in this Information Memorandum is current as at the date hereof. Neither the delivery of this Information Memorandum nor the offering, sale or delivery of any Master Notes shall in any circumstance imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Master Notes is correct as of any time subsequent to the date indicated in the document containing the same. None of the PA/LA/LM nor any other advisers to the Master Programme undertake to review the financial condition or affairs of the Issuer or to advise any investor of the Master Notes of any information coming to their attention.

This Information Memorandum includes forward-looking statements and reflects projections of future events which may or may not prove to be correct. All of these statements are based on estimates and assumptions made by the Issuer and its advisers and although believed to be reasonable, are subject to risks and uncertainties that may cause actual events or future results to be materially different than expected or indicated by such statements and estimates, and no assurance can be given that any such statements or estimates will be realised. In light of these and other uncertainties, the inclusion of forward-looking statements in this Information Memorandum should not be regarded as a representation or warranty by the Issuer, its advisers or any other persons that the future events as anticipated by the Issuer will occur. Any such statements are not guarantees of performance and involve risks and uncertainties many of which are beyond the control of the Issuer.

This Information Memorandum includes certain historical information, estimates, or reports thereon derived from sources mentioned in this Information Memorandum and other third parties with respect to the Malaysian economy, the material businesses which the Issuer operate and certain other matters. Such information, estimates, or reports have been included solely for illustrative purposes. No representation or warranty is made as to the accuracy or completeness of any information, estimates and/or reports thereon derived from such sources or from other third party sources.

All discrepancies (if any) in the tables included in this Information Memorandum between the listed amounts and totals thereof are due to, and certain numbers appearing in this Information Memorandum are shown after rounding. Where this Information Memorandum contains or refers to a summary of a document or agreement, the summary is not meant to be exhaustive. The contents of the summary may be subject to some other provisions in the relevant document or agreement.

Acknowledgement

The Issuer hereby acknowledges that it has authorised the PA/LA/LM to circulate or distribute this Information Memorandum on its behalf in respect of or in connection with the proposed issue, offer or invitation to subscribe or purchase the Master Notes to prospective investors and that no further evidence of authorisation is required.

Statements of Disclaimer by the Securities Commission Malaysia

A copy of this Information Memorandum will be deposited with the Securities Commission Malaysia ("**SC**"), which takes no responsibility for its contents.

The issue, offer or invitation to subscribe or purchase the Master Notes in this Information Memorandum or otherwise are subject to the fulfilment of various conditions precedent including without limitation, the lodgement of the documents and information relating to the Master Notes and the Master Programme with the SC in accordance with the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework ("**Lodge and Launch Framework**").

The Issuer has on 2 November 2017 lodged the documents and information relating to the Master Notes and the Master Programme with the SC in accordance with the Lodge and Launch Framework. Please note that lodgement to the SC shall not be taken to indicate that the SC recommends the subscription or purchase of the Master Notes under the Master Programme.

The SC shall not be liable for any non-disclosure on the part of the Issuer and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Information Memorandum.

EACH ISSUANCE OF THE MASTER NOTES WILL CARRY DIFFERENT RISKS AND ALL INVESTORS SHOULD EVALUATE EACH ISSUANCE OF THE MASTER NOTES BASED ON ITS MERITS AND RISKS. INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THEIR INVESTMENT IN THE MASTER NOTES.

IT IS RECOMMENDED THAT PROSPECTIVE INVESTORS CONSULT THEIR FINANCIAL, LEGAL AND OTHER ADVISERS BEFORE PURCHASING OR SUBSCRIBING FOR THE MASTER NOTES.

Documents Incorporated by Reference

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Information Memorandum:

(i) the most recently published audited annual financial statements and, if published later, the most recently published interim financial statements of the Issuer (if any);

(ii) all supplements or amendments to this Information Memorandum circulated by the Issuer, if any, save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Memorandum; and

(iii) any pricing supplements prepared and issued in relation to an issuance of the Master Notes under the Master Programme.

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To the recipient of this Information Memorandum:

This Information Memorandum and its contents are strictly confidential and are made strictly on the basis that it will remain confidential. Accordingly, this Information Memorandum and its contents, or any information, which is made available in connection with any further enquiries, must be held in complete confidence.

In the event that there is any contravention of this confidentiality undertaking or there is a reasonable likelihood that this confidentiality undertaking may be contravened, the Issuer and/or the PA/LA/LM may, at its discretion, apply for any remedy available to the Issuer and/or the PA/LA/LM whether at law or equity, including without limitation, injunctions. Each of the Issuer and/or the PA/LA/LM is entitled to fully recover from the contravening party all costs, expenses and losses incurred and/or suffered. For the avoidance of doubt, it is hereby deemed that this confidentiality undertaking shall be imposed upon the recipient, the recipient's professional advisors, directors, employees and any other persons concerned with the Master Notes and the Master Programme.

The recipient must return this Information Memorandum and all reproductions thereof whether in whole or in part and any other information in connection therewith to the PA/LA/LM promptly upon the PA/LA/LM's request, unless that recipient provides proof of a written undertaking satisfactory to the PA/LA/LM with respect to destroying these documents as soon as reasonably practicable after the said request from the PA/LA/LM.

This Information Memorandum is submitted to prospective investors specifically in reference to the Master Notes and the Master Programme and may not be reproduced or used, in whole or in part, for any purpose, nor furnished to any person other than those to whom copies have been sent by the Issuer and/or PA/LA/LM.

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DEFINITIONS OF KEY TERMS AND ABBREVIATIONS

In this Information Memorandum, the following words or expressions shall have the following meanings except where the context otherwise requires:

Defined Term		Meaning
"ASEAN"	-	Association of South East Asian Nations
"Basel III"	-	"Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" and "Basel III: International Framework for Liquidity Risk Management, Standards and Monitoring" published by BCBS on 16 December 2010 (revised in June 2011), and a press release entitled "Basel Committee issues final elements of the reforms to raise the quality of regulatory capital" issued by BCBS on 13 January 2011 and any applicable framework and guidelines issued by BCBS from time to time
"BCBS"	-	Basel Committee on Banking Supervision
"BNM"	-	Bank Negara Malaysia
"Board"	-	Board of Directors of HLFG
"Bursa Securities"	-	Bursa Malaysia Securities Berhad (635998-W)
"Capital Securities"	-	Basel III-compliant Additional Tier 1 capital securities issued or to be issued under the Notes Programme
"CET1"	-	Common Equity Tier 1
"CMSA"	-	Capital Markets and Services Act, 2007 as amended from time to time and any re-enactment thereof
"Companies Act"	-	Companies Act, 2016 as amended from time to time and any re-enactment thereof
"CP Holders"	-	Holders of the CPs
"CP Programme"	-	A commercial papers programme for the issuance of CPs of up to RM3.0 billion in nominal value
"CPs"	-	Commercial papers issued or to be issued under the CP Programme
"Facility Agent"	-	HLIB
"FSA"	-	Financial Services Act, 2013 as amended from time to time and any re-enactment thereof
"FYE"	-	Financial year ending/ended

Defined Term		Meaning
"HLA"	-	Hong Leong Assurance Berhad (94613-X)
"HLB"	-	Hong Leong Bank Berhad (97141-X)
"HLB Group"	-	Collectively, HLB and its subsidiaries
"HLFG" or "Issuer"	-	Hong Leong Financial Group Berhad (8024-W)
"HLFG Group"	-	Collectively, HLFG and its subsidiaries
"HLIB"	-	Hong Leong Investment Bank Berhad (10209-W)
"HLISB"	-	Hong Leong Islamic Bank Berhad (686191-W)
"IFSA"	-	Islamic Financial Services Act, 2013 as amended from time to time and any re-enactment thereof
"Lead Arranger" or "LA"	-	HLIB
"Lead Manager" or "LM"	-	HLIB
"Lodge and Launch Framework"	-	the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework issued by the SC on 9 March 2015 (effective on 15 June 2015) and revised on 16 January 2017, as modified, revised or substituted from time to time by the SC
"Master Noteholders"	-	Collectively, the Noteholders and the CP Holders, and where the context requires, references to "Master Noteholders" shall mean any of the Noteholders or the CP Holders
"Master Notes"	-	Collectively, the Notes and the CPs, and where the context requires, references to "Master Notes" shall mean any of the Notes or the CPs
"Master Programme"	-	Collectively, the Notes Programme and the CP Programme
"Material Subsidiaries"	-	Collectively, HLB, HLA, HLIB and HLISB
"MDIC"	-	Malaysia Deposit Insurance Corporation
"MDIC Act"	-	Malaysia Deposit Insurance Corporation Act, 2011 as amended from time to time and any re-enactment thereof
"New CA Framework"	-	Capital Adequacy Framework (Capital Components) dated 4 August 2017 issued by BNM, as amended, revised or replaced or substituted from time to time
"Noteholders"	-	Holders of the Notes, and where the context requires, references to "Noteholders" shall mean any holder of the Senior Notes, holder of the Sub-Notes or holder of the Capital Securities

Defined Term		Meaning
"Notes"	-	Collectively, the Senior Notes, the Sub-Notes and the Capital Securities, and where the context requires, references to "Notes" shall mean any of the Senior Notes, the Sub-Notes or the Capital Securities
"Notes Programme"	-	A multi-currency perpetual notes programme for the issuance of Senior Notes, Capital Securities and Sub-Notes of up to RM25.0 billion (or its equivalent in other currencies) in nominal value
"PIDM Act"	-	Malaysia Deposit Insurance Corporation Act 2005 as amended from time to time and any re-enactment thereof
"Principal Adviser" or "PA"	-	HLIB
PTC	-	Principal terms and conditions of the Notes Programme (as set out in Section 2.0 of this Information Memorandum)
"Rating Agency"	-	RAM Rating Services Berhad (763588-T)
"RM"	-	Ringgit Malaysia, the lawful currency of Malaysia
"SC"	-	Securities Commission Malaysia
"Senior Notes"	-	Senior notes issued or to be issued under the Notes Programme
"SME"	-	Small and medium-sized enterprises
"Sub-Notes"	-	Basel III-compliant Tier 2 subordinated notes issued or to be issued under the Notes Programme
"Tier 1 Instruments"	-	At any time, any instrument issued directly or indirectly by the Issuer, other than the ordinary shares, which are eligible to qualify as Tier 1 capital or Additional Tier 1 capital pursuant to the rules and regulations of BNM
"Tier 2 Instruments"	-	At any time, any instrument issued directly or indirectly by the Issuer, which are eligible to qualify as Tier 2 capital pursuant to the rules and regulations of BNM
"Trustee"	-	Malaysian Trustees Berhad (21666-V)

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SECTION 1.0 EXECUTIVE SUMMARY

The information set out in this Section 1.0 is an executive summary of the principal features of the transaction and the Issuer. It is qualified in its entirety by, and must be read in conjunction with, the further detailed information appearing elsewhere in this Information Memorandum.

1.1 Introduction

HLFG was incorporated in Malaysia under the Companies Act, 1965 (as repealed by the Companies Act) on 6 September 1968 as a private limited company under the name of Office Products Sdn Berhad. It subsequently changed its name to Sovran Industries Sdn Berhad on 17 June 1969 and was converted to a public company under the name of Sovran Industries Berhad on 29 July 1969. It was admitted to the Official List of the Kuala Lumpur Stock Exchange (now known as Bursa Securities) on 27 November 1969. On 14 May 1980, its name was changed to Hong Leong Credit Berhad. It assumed its present name on 27 July 2006.

The principal activities of HLFG are those of investment holding and provision of services to its subsidiaries to enhance group value. HLFG Group 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 HLFG's subsidiaries consist of commercial banking, Islamic banking, insurance and takaful, investment banking, futures and stockbroking and asset management.

1.2 Summary of the Master Programme

The Master Programme consists of two separate programmes:

(i) the Notes Programme; and
(ii) the CP Programme.

At any point in time, the aggregate outstanding balance of the Master Notes shall not exceed RM25.0 billion (or its equivalent in other currencies) in nominal value, being the maximum combined limit of the Master Programme.

Notes Programme

Issue size

The Notes Programme will have an issue size of up to RM25.0 billion (or its equivalent in other currencies) in nominal value, provided that the total aggregate nominal value of the Notes and the CPs shall not exceed RM25.0 billion (or its equivalent in other currencies) in nominal value.

Tenure

The tenure of the Notes Programme shall be perpetual, provided that the first issuance of the Notes under the Notes Programme shall be made within sixty (60) business days from the lodgement with the SC in accordance with the Lodge and Launch Framework.

Each issuance of Senior Notes shall have a tenure of more than one (1) year and each issuance of the Sub-Notes shall have a tenure of more than five (5) years. The tenure for each issuance of the Capital Securities shall be perpetual.

Status

The Senior Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer ranking pari-passu without any preference or priority among themselves and at least pari-passu with all other present and future unsecured obligations of the Issuer, save and except for those obligations preferred by law.

The Sub-Notes will constitute direct, unconditional, subordinated and unsecured obligations of the Issuer. The Sub-Notes will, in the event of a winding-up or liquidation of the Issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment with or are subordinate to the Sub-Notes.

The Capital Securities will constitute direct, unconditional, subordinated and unsecured obligations of the Issuer. In the event of a winding-up or liquidation of the Issuer, amounts payable on the Capital Securities will be subordinated in right of payment to the prior payment in full of all deposit liabilities and all other liabilities of the Issuer except, in each case, to those liabilities which by their terms rank equal with or junior to the Capital Securities. Claims in respect of the Capital Securities will rank pari-passu and without preference among themselves and with the most junior class of preference shares (if any) of the Issuer and any security or other similar obligation issued, entered into or guaranteed by the Issuer that constitutes or could qualify as Additional Tier 1 capital of the Issuer on a consolidated basis, pursuant to the relevant requirements set out in BNM's guidelines, or otherwise ranks or is expressed to rank, by its terms or by operation of law, pari-passu with the Capital Securities, but in priority to the rights and claims of holders of the ordinary shares of the Issuer.

Classification as Additional Tier 1 capital and Tier 2 capital

The Capital Securities are intended to qualify as Additional Tier 1 capital of the Issuer, while the Sub-Notes are intended to qualify as Tier 2 capital of the Issuer.

Limitation on payment of Periodic Distribution

The payment of Periodic Distribution (as defined in the PTC) under the Capital Securities shall be at the Issuer's sole and absolute discretion and is subject to:

(a) such payment not resulting in a breach of the capital requirements applicable to the Issuer under the relevant BNM's capital guidelines;

(b) the Issuer is solvent at the time of payment of the Periodic Distribution and the payment of the Periodic Distribution will not result in the Issuer becoming, or likely to become insolvent; and

(c) such payment being made from Distributable Reserves (as defined in the PTC) only.

If the Issuer is unable to meet any of the conditions (a), (b) or (c) above, the Issuer shall cancel the Periodic Distribution which would otherwise have been payable on such

Distribution Payment Date (as defined in the PTC) provided always in the case where conditions (a) and (b) are met but the Distributable Reserves are insufficient to pay the Periodic Distribution in full, the Issuer may elect to pay a part of the Periodic Distribution up to the amount available from the Distributable Reserves and cancel the other part of the Periodic Distribution which would otherwise have been payable on such Distribution Payment Date. Any such cancellation will not constitute or be deemed a default by the Issuer or constitute an Enforcement Event for any purpose whatsoever nor would it trigger a cross-default under any other outstanding Notes issued under the Notes Programme.

Notwithstanding that the Issuer is able to meet all the conditions (a), (b) and (c) above, the Issuer may also, at its sole and absolute discretion:

(i) pay a part of the Periodic Distribution and cancel the other part of the Periodic Distribution which would otherwise have been payable on such Distribution Payment Date; or

(ii) cancel the whole Periodic Distribution which would otherwise have been payable on such Distribution Payment Date,

For the avoidance of doubt, the Issuer has no obligation to pay, and the holders of the Capital Securities have no right to receive, the Periodic Distribution or a part thereof, which has been cancelled at the sole and absolute discretion of the Issuer, at any Distribution Payment Date. Any payment made is at the sole and absolute discretion of the Issuer.

Any such cancellation will not constitute or be deemed a default by the Issuer or constitute an Enforcement Event for any purpose whatsoever nor would it trigger a cross-default under any other outstanding Notes issued under the Notes Programme.

Contingent write-off

The Capital Securities and the Sub-Notes may be subject to a contingent write-off upon the occurrence of a Non-Viability Event (as defined in the PTC), where the BNM shall have the option to require the entire principal outstanding or such portion thereof and all other amount owing under the Sub-Notes and/or Capital Securities (as the case may be) be written off, and if BNM elects to exercise such option, subject to and as of the date of the occurrence of the Non-Viability Event, each of the holders of the Sub-Notes and/or Capital Securities (as the case may be) hereby irrevocably waives its right to receive payment of the principal amount of the Sub-Notes and/or Capital Securities (as the case may be) and also irrevocably waives its right to any coupon/ Periodic Distribution (including coupon/ Periodic Distribution accrued but unpaid up to the date of the occurrence of a Non-Viability Event). For the avoidance of doubt, such write off of Sub-Notes and/or Capital Securities (as the case may be) shall not constitute an event of default or Enforcement Event, nor would it trigger a cross-default under any other Notes issued under the Notes Programme.

In addition, the Capital Securities may be subject to a contingent write-off upon the occurrence of a Capital Trigger Event (as defined in the PTC), where the relevant nominal value of Capital Securities shall be written off such that the effect of such write off, together with the write off or conversion of other relevant Tier 1 Instruments which pursuant to their terms or by operation of law, are capable of being converted into equity, or written off at that time, will return the CET1 capital ratio of the Issuer (at the consolidated level) to be at least 5.75%. Such write off of the Capital Securities, together with the write off or conversion of other relevant Tier 1 Instruments, if any, shall be done on a pro-rata basis.

CP Programme

Issue size

The CP Programme will have an issue size of up to RM3.0 billion in nominal value, provided that the total aggregate nominal value of the Master Notes shall not exceed RM25.0 billion (or its equivalent in other currencies) in nominal value.

Tenure

The tenure of the CP Programme shall be seven (7) years from the date of the first issuance of the CPs under the CP Programme, which shall be made within sixty (60) business days from the lodgement with the SC.

Each issuance of the CPs shall have a tenure of one (1), three (3), six (6), nine (9) or twelve (12) months from the issue date (or such other tenure as the Issuer may select and agree with the Facility Agent), provided that the tenure of the CPs shall not exceed twelve (12) months and that the CPs shall mature on or prior to the expiry of the CP Programme).

Status

The CPs will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer ranking pari-passu without any preference or priority among themselves and at least pari-passu with all other present and future unsecured obligations of the Issuer, save and except for those obligations preferred by law.

1.3 Utilisation of Proceeds

Proceeds from the issuance of each tranche of Master Notes shall be utilised, without limitation, to on-lend to the Issuer's subsidiaries, for investment into the Issuer's subsidiaries, for working capital, general investment and other corporate purposes and/or if required, the refinancing of any existing financing obligations of the Issuer and/or any existing Master Notes issued under the Master Programme.

1.4 Rating

The Senior Notes, the Sub-Notes and the Capital Securities have been accorded a final rating of AA1, AA2 and A1 respectively by the Rating Agency pursuant to its letter to the Issuer dated 30 October 2017.

The CPs have been accorded a final rating of P1 by the Rating Agency pursuant to its letter to the Issuer dated 30 October 2017.

1.5 Selling Restrictions

Selling Restrictions at Issuance:

The Master Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase the Master Notes and to whom the Master Notes are issued would fall within:

(i) Part I of Schedule 6 (or Section 229(1)(b)) and Part I of Schedule 7 (or Section 230(1)(b)); and

(ii) read together with Schedule 9 (or Section 257(3))

of the CMSA, as amended from time to time, and such other selling restrictions as may be applicable outside Malaysia.

<u>Selling Restrictions after Issuance:</u>

The Master Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase the Master Notes and to whom the Master Notes are issued would fall within:

(i) Part I of Schedule 6 (or Section 229(1)(b)); and

(ii) read together with Schedule 9 (or Section 257(3))

of the CMSA, and such other selling restrictions as may be applicable outside Malaysia.

In addition to the above, the Notes denominated in foreign currency may only be offered, sold, transferred or otherwise disposed directly or indirectly to a Resident (as defined under the FSA).

1.6 Regulatory Approval

The Issuer has obtained BNM approval on 15 September 2017 for the establishment of the Notes Programme. It is a condition precedent for the Issuer to obtain prior approval of BNM for each issuance of the Sub-Notes and Capital Securities under the Notes Programme.

The requirements relating to the lodgement of the documents and information relating to the Master Programme in accordance with the Lodge and Launch Framework as specified by the SC have been complied with on 2 November 2017.

1.7 Summary of key financial data of HLFG and HLFG Group

In accordance with the audited accounts for FYE 30 June 2017 and FYE 30 June 2016, a summary of the key financial data of HLFG and HLFG Group are as follows:

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	FYE 30 June 2017		FYE 30 June 2016	
	HLFG Group (RM'000)	**HLFG (RM'000)**	**HLFG Group (RM'000)**	**HLFG (RM'000)**
Statements of Income				
Revenue	**5,034,562**	**604,736**	4,543,328	475,565
Profit before tax	**3,089,949**	**583,409**	2,565,038	450,647
Net profit	**2,316,884**	**581,370**	2,063,544	445,689
Profit attributable to owners of the parent	**1,506,765**	**581,370**	1,358,895	445,689
Statements of Financial Position				
Total assets	**218,962,403**	**16,968,217**	210,474,534	16,938,841
Net loans	**124,812,079**	**-**	120,444,892	-
Total liabilities	**193,929,890**	**1,536,585**	187,297,378	1,652,523
Deposits from customers	**154,458,017**	**-**	149,490,533	-
Shareholders' funds	**16,608,937**	15,431,632	15,341,135	15,286,318
Commitment and contingencies	**171,332,247**	**100,000**	159,472,609	200,000

	FYE 30 June 2017 HLFG Group	**FYE 30 June 2016 HLFG Group**
Key Performance Indicators		
Share price (RM)	**16.80**	14.68
Book value per share (RM)	**14.52**	13.42
Basic earnings per share (sen)	**131.8**	123.2
Net dividend per share (sen)	**38.0**	38.0
Financial Ratios (%)		
Profitability Ratios		
Return on equity	**9.4**	9.6
Return on average assets	**0.7**	0.7
Cost/income ratio	**44.1**	50.3
Asset Quality/Loan Ratios		
Gross loans to deposits ratio	**81.6**	81.3
Gross impaired loans ratio	**1.0**	0.8

SECTION 2.0 PRINCIPAL TERMS AND CONDITIONS OF THE MASTER PROGRAMME

The principal terms and conditions of the Notes Programme and the CP Programme as per the lodgement made to the SC in accordance with the Lodge and Launch Framework are set out below. Words and expressions used and defined in this Section 2.0, in the event of any inconsistency with the definition of this Information Memorandum, shall only be applicable for this Section 2.0.

Notes Programme

(C) DETAILS OF FACILITY/PROGRAMME

(1)	Name of facility/programme	:	A multi-currency perpetual notes programme for the issuance of senior notes ("**Senior Notes**"), Basel III-compliant Tier 2 subordinated notes ("**Sub-Notes**") and Basel III-compliant Additional Tier 1 capital securities ("**Capital Securities**") of up to RM25.0 billion (or its equivalent in other currencies) in nominal value thereunder ("**Notes Programme**").
(2)	One-time issue or programme	:	Programme.
(3)	Facility description	:	Notes Programme pursuant to which the Issuer may from time to time issue Senior Notes, Sub-Notes and/or Capital Securities where the aggregate outstanding nominal value of the Notes (as defined below) shall not exceed RM25.0 billion (or its equivalent in other currencies) at any point in time, subject to the Master Limit (as defined in the paragraph entitled "Expected facility/ programme size"). The Sub-Notes are intended to qualify as Tier 2 capital for the Issuer pursuant to the *Capital Adequacy Framework (Capital Components)* issued by Bank Negara Malaysia ("**BNM**") on 4 August 2017 and as updated from time to time ("**New CA Framework**"). The Capital Securities are intended to qualify as Additional Tier 1 capital for the Issuer pursuant to the New CA Framework. Collectively, Senior Notes, Sub-Notes and Capital Securities shall be referred to as "**Notes**" and the holders of the Senior Notes, Sub-Notes and Capital Securities, are collectively referred to as "**Noteholders**".
(4)	Currency	:	Multi-Currency (including Ringgit Malaysia).
(5)	Expected facility/ programme size	:	Up to RM25,000,000,000.00 (or its equivalent in other currencies)..
(6)	Option to upsize	:	Yes
(7)	Tenure of the facility/ programme	:	Perpetual.
(8)	Availability period for debt/sukuk programme	:	The Notes Programme shall be available for utilisation for a period of thirty (30) years from the date of the first issuance of the Notes under the Notes Programme.

			The first issuance of the Notes shall be within sixty (60) business days from the date of lodgement of the Lodgement Kit with the SC.
(9)	Clearing and settlement platform(s)	:	PayNet
(10)	Mode of issue	:	• Bought deal • Book running • Private placement • <u>Other</u> Each tranche of Notes may be issued via private placement on a best efforts basis, or on a bought deal basis, or book running on a best efforts basis, without prospectus. Issuance of the Notes shall be in accordance with the: (i) the Participation and Operation Rules for Payment Securities Services (“**PayNet Rules**”) issued by PayNet; and (ii) the Operational Procedures for Securities Services issued by PayNet (“**PayNet Procedures**”), as amended or substituted from time to time (collectively, “**PayNet Rules and Procedures**”), subject to such variation, amendments or exemptions (if any) from time to time.
(11)	Selling restrictions	:	• Part 1 of Schedule 6 of the Capital Markets & Services Act, 2007 (“**CMSA**”) • Part 1 of Schedule 7 of the CMSA • Read together with Schedule 9 of CMSA • <u>Other</u> The Notes are tradable and transferable subject to the Selling Restrictions (as described below). (a) <u>Selling Restrictions at issuance</u> The Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase of the Notes and to whom the Notes are issued would fall within: (i) Part I of Schedule 6 (or Section 229(1)(b)) and Part I of Schedule 7 (or Section 230(1)(b)); read together with (ii) Schedule 9 (or Section 257(3))

of the CMSA as amended from time to time.

(b) Selling Restrictions after issuance

The Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase of the Notes and to whom the Notes are issued would fall within:

(i) Part I of Schedule 6 (or Section 229(1)(b)); read together with

(ii) Schedule 9 (or Section 257(3))

of the CMSA as amended from time to time.

In addition to the above, the Notes denominated in foreign currency may only be offered, sold, transferred or otherwise disposed directly or indirectly to a Resident (as defined under the Financial Services Act 2013).

(12)	Tradability and transferability	:	Tradable and transferable.
(13)	Details of security/ collateral pledged, if applicable	:	Unsecured.
(14)	Details of guarantee, if applicable	:	Not guaranteed.
(15)	Convertibility of issuance	:	**Senior Notes** Non-convertible. **Sub-Notes** Non-convertible. **Capital Securities** Non-convertible.
(16)	Exchangeability of issuance and details of the exchangeability	:	Non-exchangeable.
(17)	Call option and details, if applicable	:	Call option, details as follows: **Senior Notes** An issuance of a tranche of the Senior Notes may have a call option ("**Call Option**") if so determined by the Issuer prior to the issuance of such tranche of the Senior Notes. Pursuant to the Call Option, the Issuer shall have the option to redeem the Senior Notes (in whole or in part) on the relevant Call Date (as defined below) at the Call Option Amount (as defined below).

"**Call Date**" means, in relation to a tranche of the Senior Notes where a Call Option is applicable, the date on which such Call Option is exercisable, which shall be determined prior to the issuance of such tranche of the Senior Notes.

"**Call Option Amount**" means the amount payable by the Issuer pursuant to the exercise of a Call Option, which shall be determined prior to each issuance of the Senior Notes with a Call Option.

Sub-Notes and the Capital Securities

Subject to the approval from BNM and the Redemption Conditions (as defined below) being satisfied, the Issuer may exercise its option to redeem the Sub-Notes and Capital Securities pursuant to Optional Redemption, Regulatory Redemption and Tax Redemption (as defined below).

(a) Optional Redemption

The Issuer may, at its option and subject to the Redemption Conditions being satisfied, redeem the Sub-Notes and/or Capital Securities (in whole or in part) at the Redemption Amount (as defined below) on any Optional Redemption Date (as defined below).

(b) Tax Redemption

If there is more than an insubstantial risk that:

(i) the Issuer has or will become obliged to pay Additional Amounts (as defined in the paragraph entitled "Other terms and conditions – Withholding Taxes" or any taxes other than the Additional Amounts (if any), in relation to the Sub-Notes and/or Capital Securities; or

(ii) the Issuer is not able to obtain tax deductions under Malaysian corporation tax for coupon payment (for Sub-Notes) or distribution payment (for Capital Securities) made in respect of the Sub-Notes and/or Capital Securities, and the Issuer cannot, by taking reasonable measures available to it, avoid such additional obligations,

then the Issuer may, at its option, redeem the respective Sub-Notes or Capital Securities, in whole or in part, at the Redemption Amount, subject to the Redemption Conditions being satisfied.

(c) Regulatory Redemption

If any tranche of the Sub-Notes and/or Capital Securities (in whole or in part) no longer, either immediately or with the passage of time or upon either the giving of notice or the fulfilment of a condition, qualify as Tier 2 capital (for Sub-Notes) or Additional Tier 1 capital (for Capital Securities) of the Issuer, for the purposes of BNM's capital adequacy requirements or any regulations applicable to the Issuer, then the Issuer may, at its option, and subject to the Redemption Conditions being met, redeem the respective Sub-Notes or Capital Securities, in whole or in part, at the Redemption Amount.

In this paragraph, the following definitions have the following meanings:

"**Redemption Amount**" means in the case of an Optional Redemption, a Tax Redemption or a Regulatory Redemption:

(i) For Sub-Notes, an amount equal to 100% of the nominal value of the Sub-Notes together with accrued but unpaid coupon (if any) up to (and excluding) the date on which the Sub-Notes are redeemed; or

(ii) For Capital Securities, an amount equal to 100% of the nominal value of the Capital Securities together with accrued but unpaid and uncancelled Periodic Distribution (as defined in the paragraph entitled "Other terms and conditions – Profit / coupon or equivalent rate (%)") (if any) and subject to the provisions contained in the paragraph entitled "Other terms and conditions – Limitation on Payment of Distribution" up to (and excluding) the date on which the Capital Securities are redeemed.

"**Redemption Conditions**" means:

(i) the Issuer is solvent at the time of redemption of a tranche of Sub-Notes and/or Capital Securities or part thereof and immediately thereafter;

(ii) the Issuer:

   (a) shall replace that tranche of Sub-Notes and/or Capital Securities or part thereof to be redeemed with capital of the same or better quality and the replacement of such capital is done at conditions which are sustainable for the income capacity of the Issuer; or

   (b) demonstrates to BNM that its capital position is and can be sustained well above the minimum capital adequacy and capital buffer requirements as imposed by BNM after the redemption; and

(iii) the Issuer has obtained the written approval of BNM prior to redemption of that tranche of Sub-Notes and/or Capital Securities or part thereof.

"**Optional Redemption Date**" means a date to be determined prior to issuance. In the case of a tranche of Sub-Notes and/or Capital Securities under the Notes Programme, a date falling no earlier than the fifth (5^{th}) anniversary of the relevant issue date, and any Periodic Coupon Payment Date (as defined in the paragraph entitled "Other terms and conditions – Profit / coupon payment frequency and basis") or Distribution Payment Date (as defined in the paragraph entitled "Other terms and conditions – Profit / coupon payment frequency and basis") thereafter (as the case may be).

(18)	Put option and details, if applicable	:	No put option
(19)	Details of covenants	:	***Positive Covenants***

Senior Notes

The covenants which shall include (but are not limited to) the following and those required to comply with the SC's *Trust Deeds Guidelines* (revised on 12 July 2011, effective on 12 August 2011 and as amended from time to time) ("**Trust Deeds Guidelines**"):-

(a) Exercise reasonable diligence in carrying on its business and keep in force and effect all licenses, consents and rights necessary for the conduct of its business;

(b) At all times, execute all such further documents and do all such further acts reasonably necessary at any time or times to give effect to the terms and conditions of the Transaction Documents;

(c) Promptly perform and carry out all its obligations under all the Transaction Documents (including but not limited to redeeming the Senior Notes on the relevant maturity date(s) or any other date on which the Senior Notes are due and payable) and ensure that it shall immediately notify the Bond Trustee in the event that the Issuer is unable to fulfil or comply with any of the provisions of the Transaction Documents;

(d) Maintain a paying agent based in Malaysia;

(e) Maintain proper books and accounts and deliver financial statements to the Bond Trustee on a timely manner;

(f) Ensure that there are no amendments to the Constitution of the Issuer in the manner that is inconsistent with the rights and obligations of the Issuer under the Transaction Documents, if applicable;

(g) Conduct its business and affairs with reasonable diligence and in a proper and efficient manner in accordance with sound financial and commercial standards and practices and in accordance with its constitutional documents;

(h) Undertake to maintain all necessary insurances required in respect of its assets and businesses against such risks as is usual industry practice for companies carrying on the same or substantially similar business;

(i) At all times be the single largest (direct or indirect) shareholder of Hong Leong Bank Berhad ("**HLB**");

(j) In addition to and without prejudice to the other provisions, limited so far as required by CMSA and/or so far as directed by the SC, it will comply with the provisions of the CMSA and/or the SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework and/or the directives, written notices, circulars or guidelines issued by the SC from time to time; and

(k) Any other positive covenants as may be advised by the Solicitors and mutually agreed with the Issuer.

<u>Sub-Notes and Capital Securities</u>

The covenants which shall include (but are not limited to) the following and those required to comply with the Trust Deeds Guidelines:-

(a) Exercise reasonable diligence in carrying on its business and keep in force and effect all licenses, consents and rights necessary for the conduct of its business;

(b) Maintain a paying agent based in Malaysia;

(c) Maintain proper books and accounts and deliver financial statements to the Bond Trustee on a timely manner;

(d) Ensure that the Sub-Notes and Capital Securities shall at all times be governed by the guidelines issued and to be issued from time to time by BNM;

(e) Ensure that there are no amendments to the Constitution of the Issuer in the manner that is inconsistent with the rights and obligations of the Issuer under the Transaction Documents, if applicable; and

(f) Any other positive covenants as may be advised by the Solicitors and mutually agreed with the Issuer.

<u>Negative Covenants</u>

<u>Senior Notes</u>

The covenants which shall include (but are not limited to) the following and those required to comply with the Trust Deeds Guidelines, wherein the Issuer shall not without the prior written consent of the holders of the Senior Notes ("**Senior Noteholders**"):-

(a) Grant guarantees, indemnities or similar assurances against financial loss in respect of any indebtedness of any affiliate or third party other than such guarantees, indemnities or similar assurances granted in the ordinary course of the Issuer's business and/or such guarantees, indemnities or similar assurances granted in respect of any indebtedness of any of the Issuer's related companies;

(b) Obtain or permit to exist any loans or advances from its shareholders or associated companies unless these loans and advances are subordinated to the Master Programme;

(c) Enter into any amalgamation, de-merger, reconstruction or winding up of itself or any of its subsidiaries, which has a Material Adverse Effect (as defined in the paragraph entitled "Events of default or enforcement events, where applicable, including recourse available to investors");

(d) Cancel, surrender, abandon or otherwise change in a material manner the nature or scope of its existing business in any way which has a Material Adverse Effect;

(e) Decrease its issued and paid-up share capital by reduction of capital or cancellation of capital or redeem any share capital or otherwise save and except for any redemption of redeemable preference shares and share buyback scheme permitted under any applicable laws. For avoidance of doubt, share buyback which are held as treasury shares for employees share scheme shall not be deemed as reduction in paid-up share capital;

(f) Release, surrender, reduce, waive, amend or vary the amount of any material indebtedness owed to it the consequence of which will have a Material Adverse Effect;

(g) Declare or pay any dividends, make any distribution (whether income or capital in nature) or payments in relation to principal, interest or otherwise on shareholders' loans or advances to its shareholders unless all the following criteria has been met:-

(i) no Event of Default (as defined in the paragraph entitled "Events of defaults or enforcement events, where applicable, including recourse available to investors") or potential Event of Default has occurred and is continuing or would occur if such payment is made; and

(ii) the Issuer is not or will not be in breach of any provisions of the Transaction Documents if such payment is made;

(h) Change or threaten to change the nature or scope of its business save and except for such change of its nature or scope of business arising from a corporate reorganization exercise involving itself and its wholly owned subsidiary companies which would not have a Material Adverse Effect on its consolidated financial position;

(i) Create, incur, assume, suffer or permit to exist or attempt to create, incur, assume or suffer, any security interest to arise on, subsist or affect, all or any part of its present or future rights, title, benefits and interest in all present and future HLB ordinary shares held by the Issuer ("**HLB Shares**") at any point in time (including any income derived from the said HLB Shares) unless the Issuer holds more than 50% of the ordinary share capital of HLB, in which case, the Issuer may create, incur, assume suffer or permit to exist or attempt to create, incur, assume or suffer, any security interest to arise on, subsist or affect, all or any part of its present or future rights, title, benefits and interest in all present and future, HLB Shares which are in excess of an aggregate amount of HLB Shares which comprises of 50% of the ordinary share capital of HLB and one (1) ordinary share in HLB;

(j) Dispose of any assets in excess of an aggregate value equivalent to 25% of the Issuer's net assets, based on the latest annual audited financial statements, in any financial year, unless (1) the asset disposal is solely for the purpose of facilitating any Shariah concepts used in Islamic financing facilities granted to the Issuer; (2) it does not result in a downgrade or negative rating watch of the rating of the Senior Notes based on the rating immediately prior to the date of announcement of such asset disposal; and (3) the Issuer is not or will not be in breach of any provisions of the Transaction Documents as a result of such asset disposal. For the avoidance of doubt, any transfer of assets between the Issuer and its subsidiaries, or transfer of assets amongst the subsidiaries, as part of a corporate exercise shall not be deemed as a disposal; and

(k) Any other negative covenants as may be advised by the Solicitors and mutually agreed with the Issuer.

Sub-Notes and Capital Securities

No negative covenants

Financial Covenant

Senior Notes, Sub-Notes and Capital Securities

No financial covenants

Information covenants

Senior Notes, Sub-Notes and Capital Securities

The covenants which shall include (but are not limited to) the following and those required to comply with the Trust Deeds Guidelines:-

(a) The Issuer shall deliver to the Bond Trustee:

(i) as soon as they become available (and in any event within one hundred and eighty (180) days after the end of each of its financial year), copies of its consolidated financial statements for that year, which shall contain the balance sheet, income statement and cashflow statement of the Issuer and which are audited and certified by a firm of independent certified public accountants of international repute;

(ii) as soon as they become available (and in any event within 90 days after the end of the first half of its financial year), copies of its consolidated unaudited half-yearly financial statements which shall contain the balance sheet, profit and loss statement and cashflow statement, which are duly certified by any one of its directors;

(iii) any other accounts, report, notice, statement, circular or other documents issued by the Issuer to its shareholders;

(iv) to the extent permitted by applicable laws such additional financial or other information relating to the

Issuer's business and its operations, shareholders or creditors as the Bond Trustee may from time to time reasonably request;

(v) deliver to the Bond Trustee and the Facility Agent, any information which the Bond Trustee or the Facility Agent may require in order to discharge its duties and obligations as trustee or facility agent (as the case may be) to the extent permitted by law;

(vi) at least on an annual basis together with its annual audited accounts, a certificate signed by a director confirming that:

(A) it has observed, performed and complied with all its covenants, representations, warranties and obligations under the Transaction Documents; and

(B) no Event of Default has occurred since the date of first issue of the Senior Notes or the date of the last certificate (as the case may be) or if an Event of Default has occurred or did exist since the date stipulated above, the Issuer shall provide the details of such Event of Default and the steps taken by the Issuer to rectify the Event of Default;

Any such accounts, reports, notices, statements or circulars delivered to the Bond Trustee in accordance with this clause may be circulated by the Bond Trustee at its discretion to the Noteholders as well as the Credit Rating Agency;

(b) promptly notify the Bond Trustee in the event the Issuer becomes aware of:

(i) the occurrence of any Event of Default or such other right or remedy under the terms, provisions or covenants of the Transaction Documents have become immediately enforceable and it shall take all reasonable steps and/or such other steps as may reasonably be requested by the Bond Trustee to remedy and/or mitigate the effect of the Event of Default;

(ii) any circumstances that has occurred that would materially prejudice the Issuer;

(iii) any substantial change in the nature of the business of the Issuer;

(iv) any change in the withholding tax position or taxing jurisdiction of the Issuer;

(v) any change in the utilisation of proceeds from the Notes Programme; or

(vi) any matter that may materially prejudice the interest of the Noteholders;

(c) deliver to the Credit Rating Agency all such reports and/or information as may be required by the Credit Rating Agency in respect of the Notes;

(d) promptly notify the Bond Trustee in the event of:

(i) any change in the person or signatories of the Issuer who are authorised to act for and on behalf of the Issuer in respect of the Transaction Documents;

(ii) the Issuer ceases to be the single largest (direct or indirect) shareholder in HLB;

(iii) any event of default in relation to other indebtedness of the Issuer or any occurrence that in its reasonable opinion might adversely affect its ability to perform and fully comply with its obligations under the Transaction Documents;

(iv) any circumstance that has occurred that would prejudice the Trust Deed and of any litigation or other proceedings of any nature whatsoever being initiated against the Issuer before any court or tribunal or administrative agency which will have a Material Adverse Effect; and

(v) any event or circumstances which will have a Material Adverse Effect or which may materially and/or adversely impact the operating performance of the Issuer; and

(e) Any other information covenants as may be advised by the Solicitors and mutually agreed with the Issuer.

(20)	Details of designated account(s), if applicable	:	No designated account.
(21)	Credit rating(s) of facility/programme, if applicable	:	<u>Rated as follows:</u> **<u>Senior Notes</u>** Credit rating agency: RAM Credit rating: AA1 Final/Indicative rating: Final rating Partial: No Amount rated: RM25,000,000,000.00 **<u>Sub-Notes</u>** Credit rating agency: RAM Credit rating: AA2 Final/Indicative rating: Final rating Partial: No Amount rated: RM25,000,000,000.00 **<u>Capital Securities</u>** Credit rating agency: RAM Credit rating: A1

Final/Indicative rating: Final rating
Partial: No
Amount rated: RM25,000,000,000.00

(22)	Conditions precedent	:	To include but not limited to the following (all of which shall be in form and substance acceptable to the Lead Arranger):

(a) A legal opinion from the Solicitors addressed to the Lead Arranger advising with respect to, among others, the legality, validity and enforceability of the Transaction Documents;

(b) A written confirmation from the Solicitors addressed to the Lead Arranger that all the conditions precedent have been fulfilled or waived as the case may be and where required, all the necessary Transaction Documents have been presented for registration with the relevant registries;

(c) Certified copies of the following:

(i) the certificate of incorporation, memorandum and articles of association or constitution (if any), latest Forms 24, 44 and 49 (or any equivalent forms as prescribed under the Companies Act 2016) and any other constitutive documents of the Issuer; and

(ii) the resolution(s) of the Board of Directors of the Issuer authorising issuance of the Notes, the execution of documents relating to the Notes and the entry into and performance of the transactions contemplated thereby;

(d) The requirements relating to the lodgement of the documents and information relating to the Notes in accordance with Section A and Part 3 (Corporate Bonds and Sukuk) of Section B of the Lodge and Launch Framework issued by the SC have been complied with;

(e) The Transaction Documents have been signed and, where applicable, stamped (unless otherwise exempted) and presented for registration;

(f) The approval from BNM to establish the Notes Programme;

(g) The Issuer has obtained a minimum long term rating of AA1 for the Senior Notes from RAM;

(h) The Issuer has obtained a minimum long term rating of AA2 for the Sub-Notes from RAM;

(i) The Issuer has obtained a minimum long term rating of A1 for the Capital Securities from RAM;

(j) Should a rating by international rating agency(ies) for the non-RM denominated Notes be required by the investor(s), receipt of such rating(s) acceptable to the Lead Manager;

(k) A report of the relevant company search of the Issuer;

(l) A report of the relevant winding up search or the relevant statutory declaration of the Issuer (in form and substance acceptable to the Lead Arranger) signed by a director of the Issuer declaring that the Issuer is not wound up and that no winding up petition has been presented against the Issuer;

(m) Evidence that the Trustees' Reimbursement Account has been opened and that a sum of Ringgit Thirty Thousand (RM30,000.00) will be deposited into it from the issuance proceeds of the Notes upon first issuance;

(n) Legal due diligence report on the Issuer satisfactory to the Lead Arranger; and

(o) Such other conditions precedent as may be advised by the Solicitors to the Lead Arranger.

(23) Representation and warranties : Representation and warranties will include such representation and warranties customary and standard for a facility of this nature and shall include, but not limited to the following:

(a) The Issuer is duly incorporated, validly in existence and has the power and authority to carry out its business;

(b) The Issuer has the power to enter into the Transaction Documents and exercise its rights and to perform its obligations under the Transaction Documents;

(c) Entry into and the exercise of the Issuer's rights and obligations under the Transaction Documents do not violate any existing law or regulation;

(d) The Transaction Documents create valid, binding and enforceable obligations on the part of the Issuer;

(e) All necessary actions, authorisations and consents required under the Transaction Documents and the Notes have been obtained and remain in full force and effect;

(f) The audited financial statements of the Issuer are prepared in accordance with generally accepted accounting principles and standards and represent a true and fair view;

(g) Save as disclosed in the Information Memorandum, there is no litigation which would have a material adverse effect on the Issuer's ability to perform its obligations under the Transaction Documents; and

(h) Such other representation and warranties as may be advised by the Solicitors.

(24) Events of default or enforcement events, where applicable, including recourse available to investors : <u>Events of defaults applicable to Senior Notes</u>

The events of default (each an "**Event of Default**") which shall include (but are not limited) to the following and those required to comply with the Trust Deeds Guidelines:-

(a) The Issuer fails to pay any amount due from it under the Senior Notes and the Transaction Documents and the

Issuer does not remedy such default within a period of seven (7) business days;

(b) There is a breach by the Issuer of any term or condition of the Senior Notes or provision of the Transaction Documents (other than item a) above) and in the case of a breach capable of being remedied, the Issuer has not remedied the said breach within sixty (60) days after the Issuer has become aware or has been notified of the breach;

(c) The Issuer makes or enters into a general assignment or arrangement or composition with or for the benefit of its creditors, or a moratorium is declared on any of its indebtedness (whether pursuant to section 366 of the Companies Act 2016 ("**Act**") or otherwise), or any creditors' scheme of arrangement under section 366 of the Act is instituted against the Issuer;

(d) The Issuer is wound up, or is declared insolvent or consents to the appointment of a custodian or a receiver over the whole or a substantial part of the assets of the Issuer;

(e) Any other indebtedness for borrowed moneys of the Issuer becomes due or payable or capable of being declared due or payable prior to its stated maturity or any guarantee or similar obligations of the Issuer is not discharged at maturity or when called and such declaration of indebtedness being due or payable or such call on the guarantee or similar obligations is not discharged or disputed in good faith by the Issuer in a court of competent jurisdiction within sixty (60) days from the date of such declaration or call, or any security created to secure such indebtedness becomes enforceable;

(f) Any step is taken for the winding up, dissolution or liquidation of the Issuer or a petition for winding up is presented against the Issuer and the Issuer has not taken any action in good faith to set aside such petition within sixty (60) days from the date of service of such winding up petition;

(g) All or a substantial portion of the assets, undertakings, rights or revenue of the Issuer are seized, nationalised, expropriated or compulsorily acquired by or under the authority of any governmental body which will have a Material Adverse Effect (as defined below);

(h) There is a revocation, withholding or modification of a license, authorisation or approval that would materially and adversely impair or prejudice the Issuer's ability to comply with the terms and conditions of the Senior Notes and/or the Transaction Documents;

(i) Any representation or warranty which is made (or acknowledged in writing to have been made) or given by the Issuer under the Transaction Documents or which is contained in any certificate, document or statement furnished at any time pursuant to the terms of the Senior

Notes and/or any of the Transaction Documents proves to have been incorrect or misleading in any material respect on or as of the date made or given or deemed made or given, or if repeated at any time with reference to the facts and circumstances subsisting at such time, would not be accurate in all material respects and has a Material Adverse Effect on the Notes Programme;

(j) A distress, execution, sequestration or other process is levied or enforced upon or sued out against any of the undertakings, assets, rights or revenues of the Issuer and is not discharged or disputed in good faith in a court of competent jurisdiction within thirty (30) days after being levied, enforced or sued out and Provided That such distress, execution, sequestration or other process has or will have a Material Adverse Effect on the Issuer; and

(k) Such other events of default as may be advised by the Solicitors.

Upon the occurrence of an Event of Default, and the Event of Default being capable of remedy, is not remedied within the relevant remedy period specifically provided, or if not provided, within thirty (30) days of receipt of notice to do so from the Facility Agent and/or the Bond Trustee, the Bond Trustee may or shall (if directed to do so by a special resolution of the Senior Noteholders) declare the Senior Notes immediately due and payable, whereby no further issuance of Senior Notes may be made under the Notes Programme and the whole of the principal sums of the Senior Notes outstanding together with all other sums payable under the Senior Notes shall become immediately due and payable.

"**Material Adverse Effect**" means, in relation to the Issuer, any material adverse effect on the financial condition of the Issuer or the occurrence of any event, which may adversely affect the ability of the Issuer to perform any of its material obligations under any of the Transaction Documents.

<u>Enforcement events applicable to the Sub-Notes and Capital Securities.</u>

There are no events of default under the Sub-Notes and Capital Securities. The "**Enforcement Event**" means the occurrence of any of the following:-

(i) a default is made in payment of any principal amount or any periodic payment on the due date and the Issuer does not remedy such default within a period of seven (7) business days; or

(ii) an order is made for the winding up of the Issuer and such order is not stayed or set aside within sixty (60) days of such order being made or, where so stayed, such stay lapses, or an effective resolution is passed for winding up of the Issuer except where such order is made or such resolution is passed for the purpose of a reconstruction or amalgamation, the terms of which have been approved by the holders of the Sub-Notes and/or Capital Securities (as the case may be) by way of special resolution.

			Upon the occurrence of item (i) above, subject to the terms of the Trust Deed, the Bond Trustee may or shall (if so directed by a special resolution of the relevant holders of the Sub-Notes or Capital Securities (as the case may be)) institute proceedings to enforce the obligations of the Issuer for payment due under the relevant Sub-Notes or Capital Securities (as the case may be) and may institute proceedings in Malaysia for the winding up of the Issuer, provided that neither the Bond Trustee nor any of the holders of the Sub-Notes or Capital Securities (as the case may be) shall have the right to accelerate payment of the relevant Sub-Notes or Capital Securities (as the case may be) in the case of a default in the payment of any amount owing under the relevant Sub-Notes or Capital Securities (as the case may be) or any non-performance of any condition, provision or performance of any covenant under the Trust Deed. Upon occurrence of item (ii) above, subject to the terms of the Trust Deed, the Bond Trustee may or shall (if directed to do so by a special resolution of the holders of the Sub-Notes or Capital Securities (as the case may be)), by notice in writing to the Issuer, declare that notwithstanding the maturity date of the Sub-Notes or Capital Securities (as the case may be), all outstanding amounts due from the Issuer on the Sub-Notes or Capital Securities(as the case may be) shall become due and immediately payable. For the avoidance of doubt, the occurrence of item (i) above for any tranches of the Sub-Notes or Capital Securities (as the case may be) will not trigger an Enforcement Event for other tranches of the Sub-Notes or Capital Securities (as the case may be) outstanding. However, occurrence of item (ii) above will trigger an Enforcement Event for all tranches of the Sub-Notes or Capital Securities (as the case may be) outstanding. In relation to the Capital Securities, for the avoidance of doubt, no Periodic Distribution shall be due and payable if such Periodic Distribution or part thereof has been (i) cancelled or is deemed cancelled (in each case, in whole or in part) under the paragraph entitled "Other terms and conditions – "Limitation On Payment of Distribution" or (ii) deferred by the Issuer pursuant to the provision on the "Circumstances for Cumulative Distribution" under the paragraph entitled "Other terms and conditions – Limitation on Payment of Distribution".
(25)	Governing laws	:	<u>For Notes issued in Malaysia</u> The Notes will be governed by, and shall be construed in accordance with the laws of Malaysia. <u>For Notes issued outside Malaysia</u> The laws of such jurisdiction as shall be agreed upon by the Issuer and the Lead Manager.
(26)	Provisions on buy-back, if applicable	:	<u>Provisions on buy-back, details as follows:</u> <u>**Senior Notes**</u>

			The Issuer or any of its subsidiaries or agents of the Issuer may at any time purchase the Senior Notes or part thereof at any price in the open market or by private treaty. If purchase is made by tender, such tender must (subject to any applicable rules and regulations) be made available to all holders of the Senior Notes equally. The Senior Notes purchased by the Issuer or its subsidiaries or agents of the Issuer (other than in the ordinary course of business) shall be cancelled and shall not be resold. **<u>Sub-Notes and Capital Securities</u>** Subject to the prior approval of BNM (but which approval shall not be required for a purchase done in the ordinary course of business), the Issuer or any of its subsidiaries or agents of the Issuer may at any time purchase the Sub-Notes and/or the Capital Securities or part thereof at any price in the open market or by private treaty provided no Non-Viability Event (as defined in the paragraph entitled "Other terms and conditions" – "Non Viability Loss Absorption") has occurred prior to the date of such purchase. If purchase is made by tender, such tender must (subject to any applicable rules and regulations) be made available to (i) in the case of the Sub-Notes, all holders of Sub-Notes equally and (ii) in the case of the Capital Securities, all holders of Capital Securities equally. The Sub-Notes and/or the Capital Securities purchased by the Issuer or its subsidiaries or agents of the Issuer (other than in the ordinary course of business) shall be cancelled and shall not be resold. The Notes purchased by other related corporations (other than its subsidiaries) or any interested person of the Issuer, which includes the directors, major shareholders and chief executive officer, need not be cancelled but they will not entitle such related corporations or interested person of the Issuer to vote under the terms of the Notes subject to any exceptions in the Trust Deeds Guidelines.
(27)	Provisions on early redemption, if applicable	:	<u>Provisions on early redemption, details as follows:</u> Please refer to the paragraph entitled "Call option and details, if applicable".
(28)	Voting	:	Voting by the Noteholders shall be carried out on a "per tranche" basis and not on a collective basis. The Noteholders shall have no voting rights in any way whatsoever that are of an equivalent nature to those of the shareholders of the Issuer.
(29)	Permitted investments, if applicable	:	No permitted investments.
(30)	Other terms and conditions	:	
	(a) Expected facility/ programme size	:	The combined limit of the Notes Programme and the commercial papers ("**CPs**") programme of RM3.0 billion in nominal value ("**New CP Programme**") shall be RM25.0 billion

or its equivalent in other currencies in nominal value ("**Master Limit**"). The Notes Programme and the New CP Programme shall collectively be referred to as the "**Master Programme**".

(b)	Tenure of the Notes	:	**<u>Senior Notes</u>** Each issuance of Senior Notes shall have a tenure of more than one (1) year. **<u>Sub-Notes</u>** Each issuance of Sub-Notes shall have a tenure of more than five (5) years. **<u>Capital Securities</u>** The tenure for each issuance of the Capital Securities shall be perpetual.
(c)	Profit / coupon or equivalent rate (%)	:	**<u>Senior Notes</u>** The Senior Notes will bear a periodic coupon rate to be determined and agreed prior to each issuance, including a step up rate (if Call Option is applicable). **<u>Sub-Notes</u>** The Sub-Notes will bear a periodic coupon rate to be determined and agreed prior to each issuance. The periodic coupon rate which is based on a fixed rate is applicable throughout the tenure of the relevant Sub-Notes (i.e. there shall be no step-up coupon rate). **<u>Capital Securities</u>** Subject to the paragraph entitled "Other terms and conditions - Limitation on Payment Distribution", the Capital Securities confer a right to receive **Periodic Distribution** Amount (as defined below) from (and including) the issue date at the Distribution Rate (as defined below) ("**Periodic Distribution**"). "**Periodic Distribution Amount**" shall be calculated at the Distribution Rate on the outstanding nominal value of the Capital Securities based on the actual number of days elapsed over 365 days basis (actual/365) or in any event, in accordance with the rules issued by PayNet. The rate of the Periodic Distribution ("**Distribution Rate**") shall be determined prior to the issuance of each tranche of Capital Securities. The Distribution Rate shall be either (a) a fixed rate applicable throughout the tenure of the Capital Securities, OR (b) a floating rate based on the aggregate of a benchmark rate plus a credit spread subject to a reset of the benchmark rate PROVIDED that (i) the credit spread in the Distribution Rate shall be maintained at all times; (ii) the first reset date and frequency of subsequent resets shall be determined prior to each issuance; and (iii) the basis for determining the benchmark rate shall be the same throughout the tenure of the

		Capital Securities. Should the Issuer opt for a floating rate, in relation to the first tranche of Capital Securities, the first reset date shall be the Distribution Payment Date falling five (5) years after the issue date (with subsequent resets every five (5) years) or such later date (and such longer subsequent reset period) as may be agreed to between the Issuer and the PA/LA prior to issuance of such tranche of Capital Securities, and in relation to any other tranche of Capital Securities, such date and reset period as shall be agreed to between the Issuer and the PA/LA prior to issuance of such tranche of Capital Securities. For avoidance of doubt, the benchmark rate and the credit spread shall be agreed upfront prior to issuance of any Capital Securities with floating rate.
(d) Profit / coupon payment frequency and basis	:	**<u>Senior Notes</u>** Periodic coupon payment will be payable quarterly or semi-annually in arrears, to be determined prior to issuance of each tranche of Senior Notes. **<u>Sub-Notes</u>** Periodic coupon payment will be payable quarterly or semi-annually in arrears ("**Periodic Coupon Payment Date**"), to be determined prior to issuance of each tranche of Sub-Notes. **<u>Capital Securities</u>** Subject always to the paragraph entitled "Other terms and conditions" – "Limitation on Payment Distribution", Periodic Distribution will be payable quarterly or semi-annually in arrears ("**Distribution Payment Date**"), to be determined prior to issuance of each tranche of Capital Securities.
(e) Profit / coupon payment basis	:	<u>Ringgit denominated Notes:</u> Actual / 365 <u>Foreign currency denominated Notes:</u> Such other convention as may be agreed between the Issuer and the Lead Manager(s) prior to issuance.
(f) Details on utilisation of proceeds	:	Proceeds from the issuance of each tranche of Notes shall be utilised, without limitation, to on-lend to the Issuer's subsidiaries, for investment into the Issuer's subsidiaries, for working capital, general investment and other corporate purposes and/or if required, the refinancing of any existing financing obligations of the Issuer and/or any existing Notes issued under the Notes Programme.
(g) Limitation on Payment of Distribution	:	The payment of Periodic Distribution under the Capital Securities shall be at the Issuer's sole and absolute discretion and is subject to: (i) Such payment not resulting in a breach of the capital requirements applicable to the Issuer under the relevant

BNM's capital guidelines;

(ii) The Issuer is solvent at the time of payment of the Periodic Distribution and the payment of the Periodic Distribution will not result in the Issuer becoming, or likely to become insolvent; and

(iii) Such payment being made from Distributable Reserves (as defined below) only.

"**Distributable Reserves**" means at any time, the amounts for the time being available to the Issuer for distribution as a dividend as of the date of the Issuer's latest audited financial statements in compliance with section 131 of the Companies Act 2016 (or its equivalent under any successor laws) provided that if the Issuer reasonably believes that the available amounts as of any Distribution Determination Date (as defined below) are lower than the available amounts as of the date of the Issuer's latest audited financial statements and are insufficient to pay the Periodic Distribution and for payments of any dividends or other distributions in respect of other liabilities or obligations of the Issuer which by their terms or by operation of law, rank pari passu with the Capital Securities, on the relevant Distribution Payment Date, then two (2) directors of the Issuer shall provide a certificate to the Bond Trustee (acting on behalf of the holders of the Capital Securities), on or prior to the relevant Distribution Payment Date, setting out the available amounts as of such Distribution Determination Date (which certificate of the two (2) directors will be binding absent manifest error) and the Distributable Reserves as of such Distribution Determination Date for the purposes of such Periodic Distribution will mean the available amounts as set forth in such certificate.

"**Distribution Determination Date**" means, with respect to any Distribution Payment Date, the day falling five (5) business days prior to that Distribution Payment Date.

If the Issuer is unable to meet any of the conditions (i), (ii) or (iii) above, the Issuer shall cancel the Periodic Distribution which would otherwise have been payable on such Distribution Payment Date provided always in the case where conditions (i) and (ii) are met but the Distributable Reserves are insufficient to pay the Periodic Distribution in full, the Issuer may elect to pay a part of the Periodic Distribution up to the amount available from the Distributable Reserves and cancel the other part of the Periodic Distribution which would otherwise have been payable on such Distribution Payment Date. Any such cancellation will not constitute or be deemed a default by the Issuer or constitute an Enforcement Event for any purpose whatsoever nor would it trigger a cross-default under any other outstanding Senior Notes, Sub-Notes and Capital Securities issued under the Notes Programme respectively.

Notwithstanding that the Issuer is able to meet all the conditions (i), (ii) and (iii) above, the Issuer may also, at its sole and absolute discretion:

(iii) pay a part of the Periodic Distribution and cancel the other part of the Periodic Distribution which would otherwise have been payable on such Distribution Payment Date; or

(iv) cancel the whole Periodic Distribution which would otherwise have been payable on such Distribution Payment Date,

For the avoidance of doubt, the Issuer has no obligation to pay, and the holders of the Capital Securities have no right to receive, the Periodic Distribution or a part thereof, which has been cancelled at the sole and absolute discretion of the Issuer, at any Distribution Payment Date. Any payment made is at the sole and absolute discretion of the Issuer.

If the Issuer does not make a Periodic Distribution on the relevant Distribution Payment Date (or if the Issuer elects to make a payment of a portion, but not all, of such Periodic Distribution), such non-payment or part-payment shall serve as evidence of the Issuer's exercise of its discretion to cancel such Periodic Distribution (or the portion of such Periodic Distribution not paid), and accordingly such Periodic Distribution (or the portion thereof not paid) shall not be due and/or accrued, and shall not be payable.

If practicable, the Issuer shall provide notice of any cancellation of Periodic Distribution (in whole or in part) to the holders of the Capital Securities (via the Bond Trustee) on or prior to the relevant Distribution Payment Date. If practicable, the Issuer shall endeavour to provide such notice at least three (3) business days prior to the relevant Distribution Payment Date. Failure to provide such notice will not have any impact on the effectiveness of, or otherwise invalidate, any such cancellation of Periodic Distribution, or give the holders of the Capital Securities any rights as a result of such failure.

Any such cancellation will not constitute or be deemed a default by the Issuer or constitute an Enforcement Event for any purpose whatsoever nor would it trigger a cross-default under any other outstanding Senior Notes, Sub-Notes and Capital Securities issued under the Notes Programme respectively.

Circumstances for Cumulative Distribution

Notwithstanding the above, if (i) the Capital Securities or any tranche thereof no longer qualify as Additional Tier 1 capital of the Issuer, (in whole and not in part) for the purposes of BNM’s minimum capital adequacy requirements under any applicable regulations, and such disqualification has been confirmed by BNM in writing, and (ii) the Issuer is not in breach of BNM’s minimum capital adequacy ratio requirements applicable to the Issuer, any Periodic Distribution payable after the date of notification from BNM of such disqualification (“**Disqualification Date**”) may be deferred, in whole or in part, at the Issuer’s sole and absolute discretion but shall not be cancelled in accordance with the provisions of this paragraph. Any portion of the Periodic Distribution payable on a Distribution Payment Date occurring after the Disqualification Date, but deferred at the Issuer’s sole and absolute discretion shall start to become cumulative and compounding at the Distribution Rate from (and including) the said Distribution

Payment Date ("**Deferred Distribution Date**") up to the date of actual payment of such deferred Periodic Distribution. In such circumstances, the deferred Periodic Distribution, together with accrued amounts will become due and payable no later than ten (10) years from the Deferred Distribution Date, or upon redemption of the Capital Securities, whichever is earlier.

For the avoidance of doubt, any Periodic Distribution payable prior to the Disqualification Date shall be paid or cancelled in accordance with the paragraph entitled "Other terms and conditions" – Limitation on Payment of Distribution".

If the Issuer does not make a Periodic Distribution on the relevant Distribution Payment Date (or if the Issuer elects to make a payment of a portion, but not all, of such Periodic Distribution), such non-payment or part-payment shall serve as evidence of the Issuer's exercise of its discretion to defer such Periodic Distribution (or the portion of such Periodic Distribution not paid).

If practicable, the Issuer shall provide notice of the deferment of Periodic Distribution (in whole or in part) to the holders of the Capital Securities (via the Bond Trustee) on or prior to the relevant Distribution Payment Date. If practicable, the Issuer shall endeavour to provide such notice at least three (3) business days prior to the relevant Distribution Payment Date. Failure to provide such notice will not have any impact on the effectiveness of, or otherwise invalidate, any such deferment of Periodic Distribution, or give the holders of the Capital Securities any rights as a result of such failure.

Any such deferment will not constitute or be deemed a default by the Issuer or constitute an Enforcement Event for any purpose whatsoever nor would it trigger a cross-default under any other outstanding Senior Notes, Sub-Notes and Capital Securities issued under the Notes Programme respectively.

(h) Dividend and Capital Stopper : In respect of the Capital Securities only, in the event that the Issuer has not made a full payment of any Periodic Distribution on a Distribution Payment Date, then (i) the Issuer shall not pay any dividends to its shareholders or make any payment or distribution on any security or instruments ranking pari passu with or junior to the Capital Securities and which terms do not require the Issuer to make such payment or distribution ("**Dividend Stopper**"); and (ii) the Issuer shall not redeem, purchase, reduce or otherwise acquire any of its ordinary shares, preference shares, securities or instruments ranking pari passu with or junior to the Capital Securities, or any securities of any of its subsidiary benefiting from a guarantee from the Issuer, ranking, as to the right of redemption of principal, or in the case of any such guarantee, as to the payment of sums under such guarantee, pari passu with or junior to the Capital Securities ("**Capital Stopper**").

The Dividend Stopper and the Capital Stopper shall continue to apply, as the case may be, until either of the conditions below is met:

(i) the Issuer has paid full Periodic Distribution scheduled for two (2) consecutive semi-annual Distribution Payment

Dates or four (4) consecutive quarterly Distribution Payment Dates (as the case may be) after the application of the Dividend Stopper and the Capital Stopper;

(ii) the Issuer has irrevocably set aside in a separately designated trust account of the Issuer for payment to the holders of the Capital Securities, an amount sufficient to provide for the full Periodic Distribution scheduled for two (2) consecutive semi-annual Distribution Payment Dates or four (4) consecutive quarterly Distribution Payment Dates (as the case may be) after the application of the Dividend Stopper and the Capital Stopper and if upon determination of the amount of each of such Periodic Distribution there is a shortfall in the amounts set aside in such separately designated trust account with reference to the amounts so determined, an amount at least equal to such shortfall shall be paid or irrevocably set aside in the same manner; or

(iii) an Optional Distribution (as defined below) has, at the option of the Issuer and subject to BNM's approval, been paid to all holders of the Capital Securities equal to, (without duplication of amounts previously paid to the holders of the Capital Securities) amounts outstanding (if any) on the Capital Securities which were scheduled to be paid in the twelve (12) months before the date of payment of the Optional Distribution.

"**Optional Distribution**" means an amount, equal to any Unpaid Distribution Amount, scheduled to have been paid during the twelve (12) month period immediately preceding the date on which the Issuer shall pay the Optional Distribution.

"**Unpaid Distribution Amount**" means any Periodic Distribution which is cancelled by the Issuer pursuant to the paragraph entitled "Other terms and conditions – Limitation on Payment of Distribution".

(i) Non Viability Loss Absorption : Following the occurrence of the following trigger events (each a "**Non-Viability Event**"), whichever is earlier:

(i) BNM, jointly with the Malaysia Deposit Insurance Corporation ("**PIDM**"), so long as the Issuer is a Member Institution (as defined in the Malaysia Deposit Insurance Corporation Act 2011), or BNM, if the Issuer is not a Member Institution ("**Relevant Malaysian Authority**") have notified the Issuer in writing that they are of the view that the principal write off of the Sub-Notes and/or write off of the Capital Securities, together with the conversion or write off of any other Tier 2 Instruments and Tier 1 Instruments which, pursuant to their terms or by operation of law, are capable of being converted into equity, or written off at that time, is necessary, without which the Issuer and its subsidiaries ("**HLFG Group**") would cease to be viable; or

(ii) The Relevant Malaysian Authority publicly announces that a decision has been made by BNM, PIDM or any other federal or state government in Malaysia, to provide a capital injection or equivalent support to the Issuer, without which the HLFG Group would cease to be viable, the Relevant Malaysian Authority shall have the option to require the entire principal outstanding or such portion thereof and all other amount owing under the Sub-Notes and/or Capital Securities (as the case may be) be written off, and if the Relevant Malaysian Authority elect to exercise such option, subject to and as of the date of the occurrence of the Non-Viability Event, each of the holders of the Sub-Notes and/or Capital Securities (as the case may be) hereby irrevocably waives its right to receive payment of the principal amount of the Sub-Notes and/or Capital Securities (as the case may be) and also irrevocably waives its right to any coupon / Periodic Distribution (including coupon / Periodic Distribution accrued but unpaid up to the date of the occurrence of a Non-Viability Event).

Such write off of Sub-Notes and/or Capital Securities (as the case may be) shall not constitute an event of default or Enforcement Event, nor would it trigger a cross-default under any other outstanding Senior Notes, Sub-Notes and Capital Securities issued under the Notes Programme respectively.

A Non-Viability Event shall be deemed to have occurred on the day on which the Issuer received the notification from the Relevant Malaysian Authority.

Upon the occurrence of a Non-Viability Event, the Issuer is required to give notice to the holders of the Sub-Notes and/or Capital Securities (as the case may be, via the Bond Trustee) and the Rating Agency, if applicable, in accordance with the terms of the Sub-Notes and/or Capital Securities, that as of the relevant write-off date (as the case may be):

(i) the write-off shall reduce:

   (1) the claim of the Sub-Notes and/or Capital Securities (as the case may be) in liquidation. The holders of the Sub-Notes and/or Capital Securities (as the case may be) will be automatically deemed to irrevocably waive their right to receive, and no longer have any rights against the Issuer with respect to, any payment of the aggregate principal amount of the Sub-Notes and/or Capital Securities written-off (as the case may be);

   (2) the amount to be re-paid when a redemption is exercised pursuant to the Optional Redemption, Regulatory Redemption and/or Tax Redemption; and

   (3) coupon payment/ Periodic Distribution (as the case may be);

(ii) the write-off shall be permanent and the whole or part (as the case may be) of the principal amount of the Sub-Notes and/or Capital Securities (as the case may be) will automatically be written-off to zero and the whole or part (as the case may be) of the Sub-Notes and/or Capital Securities (as the case may be) will be cancelled.

(j) Capital Trigger Event : In respect of the Capital Securities only, a Capital Trigger Event occurs when the Common Equity Tier 1 Ratio of the

Issuer (at the consolidated level) falls below 5.125% as of the relevant quarterly reporting date where the quarterly unaudited consolidated financial results of the Issuer are published, announced and made publicly available ("**Capital Trigger Event Date**").

"**Common Equity Tier 1 Ratio**" means the common equity tier 1 capital ratio as determined by the New CA Framework.

(k) Capital Trigger Event Write Off : In respect of the Capital Securities only, upon the occurrence of a Capital Trigger Event, such nominal value of Capital Securities shall be written off such that the effect of such write off, together with the write off or conversion of other relevant Tier 1 Instruments which pursuant to their terms or by operation of law, are capable of being converted into equity, or written off at that time, will return the Common Equity Tier 1 Ratio of the Issuer (at the consolidated level) to be at least 5.75%. Such write off of the Capital Securities, together with the write off or conversion of other relevant Tier 1 Instruments, if any, shall be done on a pro-rata basis.

(l) Ranking : **Senior Notes**

The Senior Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer ranking pari-passu without any preference or priority among themselves and at least pari-passu with all other present and future unsecured obligations of the Issuer, save and except for those obligations preferred by law.

Sub-Notes

The Sub-Notes will constitute direct, unconditional, subordinated and unsecured obligations of the Issuer. The Sub-Notes will, in the event of a winding-up or liquidation of the Issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment with or are subordinate to the Sub-Notes

Capital Securities

The Capital Securities will constitute direct, unconditional, subordinated and unsecured obligations of the Issuer.

In the event of a winding-up or liquidation of the Issuer, amounts payable on the Capital Securities will be subordinated in right of payment to the prior payment in full of all deposit liabilities and all other liabilities of the Issuer except, in each case, to those liabilities which by their terms rank equal with or junior to the Capital Securities.

Claims in respect of the Capital Securities will rank pari passu and without preference among themselves and with the most junior class of preference shares (if any) of the Issuer and any security or other similar obligation issued, entered into or guaranteed by the Issuer that constitutes or could qualify as Additional Tier 1 capital of the Issuer on a consolidated basis, pursuant to the relevant requirements set out in BNM's guidelines, or otherwise ranks or is expressed to rank, by its terms or by operation of law, pari passu with the Capital Securities, but in priority to the rights and claims of holders of the ordinary shares of the Issuer.

(m) Setting off	:	No holder of the Notes may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with, the Notes, and the Noteholders shall, by virtue of his holding of any Notes, be deemed to have waived all such rights of set-off, deduction, withholding or retention against the Issuer in relation to the Notes to the fullest extent permitted by law. If at any time the Noteholders receives payment or benefit of any sum in respect of the Notes (including any benefit received pursuant to any such set-off, deduction, withholding or retention) other than in accordance with the terms of the Notes, the payment of such sum or receipt of such benefit shall, to the fullest extent permitted by law, be deemed void for all purposes and the Noteholders by virtue of his holding of any Notes, shall, agree as a separate and independent obligation to immediately pay an amount equal to the amount of such sum or benefit so received to the Issuer (or, in the event of its winding-up or administration, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer) and accordingly any payment of such sum or receipt of such benefit shall be deemed not to have discharged any of the obligations under the Notes.
(n) Withholding taxes	:	All payments in respect of the Notes by or on behalf of the Issuer shall be made in full without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or government charges of whatever nature imposed, levied, collected, withheld or assessed by or within any relevant jurisdiction, unless the withholding or deduction of the taxes is required by law. In the event such taxes are imposed, the Issuer will not have to pay additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction.
(o) Amendments to the Terms and Conditions of the Notes	:	Amendments to the terms and conditions of the Notes shall only be made with the prior approval of BNM where such proposed amendments could impact its eligibility as Tier 2 capital or Additional Tier 1 capital of the Issuer (as the case may be).
(p) Transaction Documents	:	The Notes shall be evidenced by, inter alia, the following: 1. the Notes (in the form of global certificates and/or definitive certificates); 2. the Securities Lodgement Form; 3. each Subscription Agreement; 4. the Trust Deed;

5. the Programme Agreement; and

6. all other documents relating to the Notes as advised by the Solicitors.

(q) Option to Upsize	:	The Issuer shall have the option to upsize the Notes Programme limit provided that (a) there is no adverse impact on the rating of the Notes Programme, if rating requirements are applicable; and (b) the relevant regulatory approvals have been obtained (including but not limited to the approval from BNM). For the avoidance of doubt, no consent from the existing holders of the outstanding Notes at that time is required for the purposes of the upsizing of the programme limit.
(r) Clearing and settlement platform and mode of issue (for Notes issued outside Malaysia)	:	**<u>Clearing and settlement platform</u>** Such clearing and settlement platform customary in the relevant market for such issuance. **<u>Mode of issue</u>** The Notes shall be issued in accordance with the procedures and rules of the relevant jurisdiction.
(s) Tradability and transferability	:	The Notes are transferable (subject to the Selling Restrictions described above) and tradable under, in the case of Notes issued in Malaysia, the Rules on Scripless Securities under the RENTAS operated by PayNet, and in the case of Notes issued outside Malaysia, the procedures and rules of the relevant jurisdiction.
(t) Name of credit rating agency and credit rating	:	In relation to the paragraph entitled "Credit rating(s) of facility/programme, if applicable", the credit rating details contained therein are applicable to the Senior Notes, the Sub-Notes and the Capital Securities denominated in Ringgit and foreign currency. Please refer to the following credit rating details: **<u>Senior Notes</u>** Credit rating agency: RAM Credit rating: AA1 Final/Indicative rating: Final rating Partial: No Amount rated: RM25,000,000,000.00 (or its equivalent in other currencies) **<u>Sub-Notes</u>** Credit rating agency: RAM Credit rating: AA2 Final/Indicative rating: Final rating Partial: No Amount rated: RM25,000,000,000.00 (or its equivalent in other currencies) **<u>Capital Securities</u>** Credit rating agency: RAM Credit rating: A1

Final/Indicative rating: Final rating
Partial: No
Amount rated: RM25,000,000,000.00 (or its equivalent in other currencies)

In the future, the non-ringgit denominated Notes may be rated by international rating agency(ies).

The Issuer may at its discretion, in relation to each tranche of the Notes, determine prior to the issuance of the Notes, to issue unrated Notes ("**Unrated Notes**"). The rating details above are not applicable to Unrated Notes issued under the Notes Programme.

For the avoidance of doubt, subject to there being no outstanding rated Senior Notes, Sub-Notes and/or Capital Securities (where applicable), the Issuer may elect to remove the credit rating of the Senior Notes, Sub-Notes and/or Capital Securities and any subsequent Senior Notes, Sub-Notes and/or Capital Securities to be issued under the Notes Programme will be unrated. Such election will not require the Noteholders' consent.

(u)	Trustees' Reimbursement Account	:	The Issuer shall, or the Bond Trustee shall on behalf of the Issuer, open and maintain, throughout the tenure of the Notes, a trustees' reimbursement account for the Noteholder's actions (the "**Trustees' Reimbursement Account**") and the credit balance of the Trustees' Reimbursement Account must be no less than RM30,000.00 which amount is to be obtained from the proceeds of issuance of the Notes. The Trustees' Reimbursement Account shall be operated by the Bond Trustee and the money shall only be used strictly by the Bond Trustee in carrying out its duties in relation to the acceleration of the Notes pursuant to an Enforcement Event in the manner as provided in the Trust Deed. Any unutilised monies in the Trustees' Reimbursement Account shall be returned to the Issuer upon full redemption of the Notes if no acceleration of the Notes pursuant to an Enforcement Event takes place.
(v)	Disclosure of the following:	:	
(i)	If the issuer or its board members have been convicted or charged with any offence under any security laws, corporation laws or other laws involving fraud or dishonesty in		None.

	a court of law, or if any action has been initiated against the issuer or its board members for breaches of the same, for the past 10 years prior to the lodgement/since incorporation, for issuer incorporated less than 10 years; and	
(ii)	If the issuer has been subjected to any action by the stock exchange for any breach of the listing requirements or rules issued by the stock exchange, for the past five years prior to lodgement	None.

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<u>CP Programme</u>

(C) DETAILS OF FACILITY/PROGRAMME

(1)	Name of facility/programme	:	A commercial papers programme for the issuance of commercial papers ("**CPs**") of up to RM3.0 billion in nominal value thereunder ("**CP Programme**")
(2)	One-time issue or programme	:	Programme.
(3)	Facility description	:	CP Programme pursuant to which the Issuer may from time to time issue the CPs where the aggregate outstanding nominal value of the CPs shall not exceed RM3.0 billion in nominal value at any point in time ("**CP Programme Limit**"), subject to the Master Limit (as defined in the paragraph entitled "Expected facility/ programme size").
(4)	Currency	:	Ringgit Malaysia ("**RM**").
(5)	Expected facility/ programme size	:	Up to RM3,000,000,000.00.
(6)	Option to upsize	:	Yes
(7)	Tenure of the facility/ programme	:	The tenure of the CP Programme shall be seven (7) years from the date of the first issuance of the CPs under the CP Programme.
(8)	Availability period for debt/sukuk programme	:	The CP Programme shall be available for utilisation for a period of seven (7) years from the date of the first issuance of the CPs under the CP Programme. The first issuance of the CPs shall be within sixty (60) business days from the date of lodgement of the Lodgement Kit with the SC.
(9)	Clearing and settlement platform	:	PayNet
(10)	Mode of issue	:	• Other The CPs may be issued via competitive tender or on a private placement on a best efforts basis, or on a bought deal basis, or book running on a best efforts basis, without prospectus. Issuance of the CPs shall be in accordance with the: (i) the Participation and Operation Rules for Payment Securities Services ("**PayNet Rules**") issued by PayNet; and (ii) the Operational Procedures for Securities Services issued by PayNet ("**PayNet Procedures**"), as amended or substituted from time to time (collectively, "**PayNet Rules and Procedures**"), subject to such variation, amendments or exemptions (if any) from time to time.
(11)	Selling restrictions	:	• Part 1 of Schedule 6 of the Capital Markets & Services Act, 2007 ("**CMSA**")

- Part 1 of Schedule 7 of the CMSA
- Read together with Schedule 9 of CMSA
- Other
  The CPs are tradable and transferable subject to the Selling Restrictions (as described below).

  (a) Selling Restrictions at issuance

  The CPs may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase of the CPs and to whom the CPs are issued would fall within:

  (i) Part I of Schedule 6 (or Section 229(1)(b)) and Part I of Schedule 7 (or Section 230(1)(b)); read together with

  (ii) Schedule 9 (or Section 257(3))

  of the CMSA as amended from time to time.

  (b) Selling Restrictions after issuance

  The CPs may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase of the CPs and to whom the CPs are issued would fall within:

  (i) Part I of Schedule 6 (or Section 229(1)(b)); read together with

  (ii) Schedule 9 (or Section 257(3))

  of the CMSA as amended from time to time.

(12)	Tradability and transferability	:	Tradable and transferable.
(13)	Details of security/ collateral pledged, if applicable	:	Unsecured.
(14)	Details of guarantee, if applicable	:	Not guaranteed.
(15)	Convertibility of issuance	:	Non-convertible.
(16)	Exchangeability of issuance and details of the exchangeability	:	Non-exchangeable.

(17)	Call option and details, if applicable	:	No call option, unless the Issuer obtains the consent from the holders of the CPs ("**CP Holders**") (by way of special resolution) to early redeem (in whole or in part) a tranche of the CPs.
(18)	Put option and details, if applicable	:	No put option.
(19)	Details of covenants	:	***<u>Positive Covenants</u>***

The covenants which shall include (but are not limited to) the following and those required to comply with the SC's *Trust Deeds Guidelines* (revised on 12 July 2011, effective on 12 August 2011 and as amended from time to time) ("**Trust Deeds Guidelines**"):-

(a) Exercise reasonable diligence in carrying on its business and keep in force and effect all licenses, consents and rights necessary for the conduct of its business;

(b) At all times, execute all such further documents and do all such further acts reasonably necessary at any time or times to give effect to the terms and conditions of the Transaction Documents;

(c) Promptly perform and carry out all its obligations under all the Transaction Documents (including but not limited to redeeming the CPs on the relevant maturity date(s) or any other date on which the CPs are due and payable) and ensure that it shall immediately notify the Bond Trustee in the event that the Issuer is unable to fulfil or comply with any of the provisions of the Transaction Documents;

(d) Maintain a paying agent based in Malaysia;

(e) Maintain proper books and accounts and deliver financial statements to the Bond Trustee on a timely manner;

(f) Ensure that there are no amendments to the Constitution of the Issuer in the manner that is inconsistent with the rights and obligations of the Issuer under the Transaction Documents, if applicable;

(g) Conduct its business and affairs with reasonable diligence and in a proper and efficient manner in accordance with sound financial and commercial standards and practices and in accordance with its constitutional documents;

(h) Undertake to maintain all necessary insurances required in respect of its assets and businesses against such risks as is usual industry practice for companies carrying on the same or substantially similar business;

(i) At all times be the single largest (direct or indirect) shareholder of Hong Leong Bank Berhad ("**HLB**");

(j) In addition to and without prejudice to the other provisions, limited so far as required by CMSA and/or so far as directed by the SC, it will comply with the provisions of the

CMSA and/or the SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework and/or the directives, written notices, circulars or guidelines issued by the SC from time to time; and

(k) Any other positive covenants as may be advised by the Solicitors and mutually agreed with the Issuer.

Negative Covenants

The covenants which shall include (but are not limited to) the following and those required to comply with the Trust Deeds Guidelines, wherein the Issuer shall not without the prior written consent of the CP Holders:-

(a) Grant guarantees, indemnities or similar assurances against financial loss in respect of any indebtedness of any affiliate or third party other than such guarantees, indemnities or similar assurances granted in the ordinary course of the Issuer's business and/or such guarantees, indemnities or similar assurances granted in respect of any indebtedness of any of the Issuer's related companies;

(b) Obtain or permit to exist any loans or advances from its shareholders or associated companies unless these loans and advances are subordinated to the Master Programme;

(c) Enter into any amalgamation, de-merger, reconstruction or winding up of itself or any of its subsidiaries, which has a Material Adverse Effect (as defined in the paragraph entitled "Events of default or enforcement events, where applicable, including recourse available to investors");

(d) Cancel, surrender, abandon or otherwise change in a material manner the nature or scope of its existing business in any way which has a Material Adverse Effect;

(e) Decrease its issued and paid-up share capital by reduction of capital or cancellation of capital or redeem any share capital or otherwise save and except for any redemption of redeemable preference shares and share buyback scheme permitted under any applicable laws. For avoidance of doubt, share buyback which are held as treasury shares for employees share scheme shall not be deemed as reduction in paid-up share capital;

(f) Release, surrender, reduce, waive, amend or vary the amount of any material indebtedness owed to it the consequence of which will have a Material Adverse Effect;

(g) Declare or pay any dividends, make any distribution (whether income or capital in nature) or payments in relation to principal, interest or otherwise on shareholders' loans or advances to its shareholders unless all the following criteria has been met:-

(i) no Event of Default (as defined in the paragraph entitled "Events of defaults or enforcement events, where applicable, including recourse available to investors") or potential Event of Default has occurred and is continuing or would occur if such payment is made; and

(ii) the Issuer is not or will not be in breach of any provisions of the Transaction Documents if such payment is made;

(h) Change or threaten to change the nature or scope of its business save and except for such change of its nature or scope of business arising from a corporate reorganization exercise involving itself and its wholly owned subsidiary companies which would not have a Material Adverse Effect on its consolidated financial position;

(i) Create, incur, assume, suffer or permit to exist or attempt to create, incur, assume or suffer, any security interest to arise on, subsist or affect, all or any part of its present or future rights, title, benefits and interest in all present and future HLB ordinary shares held by the Issuer ("**HLB Shares**") at any point in time (including any income derived from the said HLB Shares) unless the Issuer holds more than 50% of the ordinary share capital of HLB, in which case, the Issuer may create, incur, assume suffer or permit to exist or attempt to create, incur, assume or suffer, any security interest to arise on, subsist or affect, all or any part of its present or future rights, title, benefits and interest in all present and future, HLB Shares which are in excess of an aggregate amount of the ordinary share capital of HLB which comprises of 50% of HLB Shares and one (1) ordinary share in HLB;

(j) Dispose of any assets in excess of an aggregate value equivalent to 25% of the Issuer's net assets, based on the latest annual audited financial statements, in any financial year, unless (1) the asset disposal is solely for the purpose of facilitating any Shariah concepts used in Islamic financing facilities granted to the Issuer; (2) it does not result in a downgrade or negative rating watch of the rating of the CPs based on the rating immediately prior to the date of announcement of such asset disposal; and (3) the Issuer is not or will not be in breach of any provisions of the Transaction Documents as a result of such asset disposal. For the avoidance of doubt, any transfer of assets between the Issuer and its subsidiaries, or transfer of assets amongst the subsidiaries, as part of a corporate exercise shall not be deemed as a disposal; and

(k) Any other negative covenants as may be advised by the Solicitors and mutually agreed with the Issuer.

Financial Covenant

No financial covenants.

Information covenants

The covenants which shall include (but are not limited to) the following and those required to comply with the Trust Deeds Guidelines:-

(a) The Issuer shall deliver to the Bond Trustee:

(i) as soon as they become available (and in any event within one hundred and eighty (180) days after the end of each of its financial year), copies of its consolidated financial statements for that year, which shall contain the balance sheet, income statement and cashflow statement of the Issuer and which are audited and certified by a firm of independent certified public accountants of international repute;

(ii) as soon as they become available (and in any event within 90 days after the end of the first half of its financial year), copies of its consolidated unaudited half-yearly financial statements which shall contain the balance sheet, profit and loss statement and cashflow statement, which are duly certified by any one of its directors;

(iii) any other accounts, report, notice, statement, circular or other documents issued by the Issuer to its shareholders;

(iv) to the extent permitted by applicable laws such additional financial or other information relating to the Issuer's business and its operations, shareholders or creditors as the Bond Trustee may from time to time reasonably request;

(v) deliver to the Bond Trustee and the Facility Agent, any information which the Bond Trustee or the Facility Agent may require in order to discharge its duties and obligations as trustee or facility agent (as the case may be) to the extent permitted by law;

(vi) at least on an annual basis together with its annual audited accounts, a certificate signed by a director confirming that:

(A) it has observed, performed and complied with all its covenants, representations, warranties and obligations under the Transaction Documents; and

(B) no Event of Default has occurred since the date of first issue of the CPs or the date of the last certificate (as the case may be) or if an Event of Default has occurred or did exist since the date stipulated above, the Issuer shall provide the details of such Event of Default and the steps taken by the Issuer to rectify the Event of Default;

Any such accounts, reports, notices, statements or circulars delivered to the Bond Trustee in accordance with this clause may be circulated by the Bond Trustee at its discretion to the CP holders as well as the Credit Rating Agency;

(b) promptly notify the Bond Trustee in the event the Issuer becomes aware of:

(i) the occurrence of any Event of Default or such other right or remedy under the terms, provisions or covenants of the Transaction Documents have become immediately enforceable and it shall take all reasonable steps and/or such other steps as may reasonably be requested by the Bond Trustee to remedy and/or mitigate the effect of the Event of Default;

(ii) any circumstances that has occurred that would materially prejudice the Issuer;

(iii) any substantial change in the nature of the business of the Issuer;

(iv) any change in the withholding tax position or taxing jurisdiction of the Issuer;

(v) any change in the utilisation of proceeds from the CP Programme; or

(vi) any matter that may materially prejudice the interest of the CP holders;

(c) deliver to the Credit Rating Agency all such reports and/or information as may be required by the Credit Rating Agency in respect of the CPs;

(d) promptly notify the Bond Trustee in the event of:

(i) any change in the person or signatories of the Issuer who are authorised to act for and on behalf of the Issuer in respect of the Transaction Documents;

(ii) the Issuer ceases to be the single largest (direct or indirect) shareholder in HLB;

(iii) any event of default in relation to other indebtedness of the Issuer or any occurrence that in its reasonable opinion might adversely affect its ability to perform and fully comply with its obligations under the Transaction Documents;

(iv) any circumstance that has occurred that would prejudice the Trust Deed and of any litigation or other proceedings of any nature whatsoever being initiated against the Issuer before any court or tribunal or administrative agency which will have a Material Adverse Effect; and

(v) any event or circumstances which will have a Material Adverse Effect or which may materially and/or adversely impact the operating performance of the Issuer; and

(e) Any other information covenants as may be advised by the Solicitors and mutually agreed with the Issuer.

(20)	Details of designated account(s) , if applicable	:	No designated account.

(21)	Credit rating(s) of facility/programme, if applicable	:	**<u>CPs</u>** Credit rating agency: RAM Credit rating: P1 Final/Indicative rating: Final rating Partial: No Amount rated: RM3,000,000,000.00
(22)	Conditions precedent	:	To include but not limited to the following (all of which shall be in form and substance acceptable to the Lead Arranger):

(a) A legal opinion from the Solicitors addressed to the Lead Arranger advising with respect to, among others, the legality, validity and enforceability of the Transaction Documents;

(b) A written confirmation from the Solicitors addressed to the Lead Arranger that all the conditions precedent have been fulfilled or waived as the case may be and where required, all the necessary Transaction Documents have been presented for registration with the relevant registries;

(c) Certified copies of the following:

(i) the certificate of incorporation, memorandum and articles of association or constitution (if any), latest Forms 24, 44 and 49 (or any equivalent forms as prescribed under the Companies Act 2016) and any other constitutive documents of the Issuer; and

(ii) the resolution(s) of the Board of Directors of the Issuer authorising issuance of the CPs, the execution of documents relating to the CPs and the entry into and performance of the transactions contemplated thereby;

(d) The requirements relating to the lodgement of the documents and information relating to the CPs in accordance with Section A and Part 3 (Corporate Bonds and Sukuk) of Section B of the Lodge and Launch Framework issued by the SC have been complied with;

(e) The Transaction Documents have been signed and, where applicable, stamped (unless otherwise exempted) and presented for registration;

(f) The Issuer has obtained a minimum short term rating of P1 for the CPs from RAM;

(g) A report of the relevant company search of the Issuer;

(h) A report of the relevant winding up search or the relevant statutory declaration of the Issuer (in form and substance acceptable to the Lead Arranger) signed by a director of the Issuer declaring that the Issuer is not wound up and that no winding up petition has been presented against the Issuer;

(i) Evidence that the Trustees' Reimbursement Account has been opened and that a sum of Ringgit Thirty Thousand (RM30,000.00) will be deposited into it from the issuance proceeds of the CPs upon first issuance;

(j) Legal due diligence report on the Issuer satisfactory to the Lead Arranger; and

(k) Such other conditions precedent as may be advised by the Solicitors to the Lead Arranger.

(23)	Representation and warranties	:	Representation and warranties will include such representation and warranties customary and standard for a facility of this nature and shall include, but not limited to the following:

(a) The Issuer is duly incorporated, validly in existence and has the power and authority to carry out its business;

(b) The Issuer has the power to enter into the Transaction Documents and exercise its rights and to perform its obligations under the Transaction Documents;

(c) Entry into and the exercise of the Issuer's rights and obligations under the Transaction Documents do not violate any existing law or regulation;

(d) The Transaction Documents create valid, binding and enforceable obligations on the part of the Issuer;

(e) All necessary actions, authorisations and consents required under the Transaction Documents and the CPs have been obtained and remain in full force and effect;

(f) The audited financial statements of the Issuer are prepared in accordance with generally accepted accounting principles and standards and represent a true and fair view;

(g) Save as disclosed in the Information Memorandum, there is no litigation which would have a material adverse effect on the Issuer's ability to perform its obligations under the Transaction Documents; and

(h) Such other representation and warranties as may be advised by the Solicitors.

(24)	Events of default or enforcement events, where applicable, including recourse available to investors	:	<u>Events of defaults</u> The events of default (each, an "**Event of Default**") which shall include (but are not limited) to the following and those required to comply with the Trust Deeds Guidelines:-

(a) The Issuer fails to pay any amount due from it under the CPs and the Transaction Documents and the Issuer does not remedy such default within a period of seven (7) business days;

(b) There is a breach by the Issuer of any term or condition of the CPs or provision of the Transaction Documents (other than item a) above) and in the case of a breach capable of being remedied, the Issuer has not remedied the said breach within sixty (60) days after the Issuer has become aware or has been notified of the breach;

(c) The Issuer makes or enters into a general assignment or arrangement or composition with or for the benefit of its creditors, or a moratorium is declared on any of its indebtedness (whether pursuant to section 366 of the Companies Act 2016 ("**Act**") or otherwise), or any creditors' scheme of arrangement under section 366 of the Act is instituted against the Issuer;

(d) The Issuer is wound up, or is declared insolvent or consents to the appointment of a custodian or a receiver over the whole or a substantial part of the assets of the Issuer;

(e) Any other indebtedness for borrowed moneys of the Issuer becomes due or payable or capable of being declared due or payable prior to its stated maturity or any guarantee or similar obligations of the Issuer is not discharged at maturity or when called and such declaration of indebtedness being due or payable or such call on the guarantee or similar obligations is not discharged or disputed in good faith by the Issuer in a court of competent jurisdiction within sixty (60) days from the date of such declaration or call, or any security created to secure such indebtedness becomes enforceable;

(f) Any step is taken for the winding up, dissolution or liquidation of the Issuer or a petition for winding up is presented against the Issuer and the Issuer has not taken any action in good faith to set aside such petition within sixty (60) days from the date of service of such winding up petition;

(g) All or a substantial portion of the assets, undertakings, rights or revenue of the Issuer are seized, nationalised, expropriated or compulsorily acquired by or under the authority of any governmental body which will have a Material Adverse Effect (as defined below);

(h) There is a revocation, withholding or modification of a license, authorisation or approval that would materially and adversely impair or prejudice the Issuer's ability to comply with the terms and conditions of the CPs and/or the Transaction Documents;

(i) Any representation or warranty which is made (or acknowledged in writing to have been made) or given by the Issuer under the Transaction Documents or which is contained in any certificate, document or statement furnished at any time pursuant to the terms of the CPs and/or any of the Transaction Documents proves to have been incorrect or misleading in any material respect on or as of the date made or given or deemed made or given, or if repeated at any time with reference to the facts and circumstances subsisting at such time, would not be accurate in all material respects and has a Material Adverse Effect on the CP Programme;

(j) A distress, execution, sequestration or other process is levied or enforced upon or sued out against any of the undertakings, assets, rights or revenues of the Issuer and is not discharged or disputed in good faith in a court of competent jurisdiction within thirty (30) days after being levied, enforced or sued out and Provided That such distress, execution, sequestration or other process has or will have a Material Adverse Effect on the Issuer; and

(k) Such other events of default as may be advised by the Solicitors.

Upon the occurrence of an Event of Default, and the Event of Default being capable of remedy, is not remedied within the relevant remedy period specifically provided, or if not provided, within thirty (30) days of receipt of notice to do so from the Facility Agent and/or the Bond Trustee, the Bond Trustee may or shall (if directed to do so by a special resolution of the CP holders) declare the CPs immediately due and payable, whereby no further issuance of CPs may be made under the CP Programme and the whole of the principal sums of the CPs outstanding together with all other sums payable under the CPs shall become immediately due and payable.

"**Material Adverse Effect**" means, in relation to the Issuer, any material adverse effect on the financial condition of the Issuer or the occurrence of any event, which may adversely affect the ability of the Issuer to perform any of its material obligations under any of the Transaction Documents.

(25)	Governing laws	:	The CPs will be governed by, and shall be construed in accordance with the laws of Malaysia.
(26)	Provisions on buy-back, if applicable	:	<u>Provisions on buy-back, details as follows:</u> The Issuer or any of its subsidiaries or agents of the Issuer may at any time purchase the CPs or part thereof at any price in the open market or by private treaty. If purchase is made by tender, such tender must (subject to any applicable rules and regulations) be made available to all CP Holders equally. The CPs purchased by the Issuer or its subsidiaries or agents of the Issuer (other than in the ordinary course of business) shall be cancelled and shall not be resold. The CPs purchased by other related corporations (other than its subsidiaries) or any interested person of the Issuer, which includes the directors, major shareholders and chief executive officer, need not be cancelled but they will not entitle such related corporations or interested person of the Issuer to vote under the terms of the CPs subject to any exceptions in the Trust Deeds Guidelines.
(27)	Provisions on early redemption, if applicable	:	<u>Provisions on early redemption, details as follows:</u> Please refer to the paragraph entitled "Call option and details, if applicable".
(28)	Voting	:	Voting by the CP holders shall be carried out on a "per tranche" basis and not on a collective basis. The CP holders shall have no voting rights in any way whatsoever that are of an equivalent nature to those of the shareholders of the Issuer.

(29)	Permitted investments, if applicable	:	No permitted investments
(30)	Other terms and conditions	:	
	(a) Expected facility/ programme size		The combined limit of the CP Programme and the senior notes, subordinated notes and capital securities programme of up to RM25.0 billion in nominal value ("**Notes Programme**") shall be RM25.0 billion or its equivalent in other currencies in nominal value ("**Master Limit**"). The CP Programme and the Notes Programme shall collectively be referred to as the "**Master Programme**".
	(b) Tenure of the CPs	:	Each issuance of CPs shall have a tenure of one (1), three (3), six (6), nine (9) or twelve (12) months from the issue date (or such other tenure as the Issuer may select and agree with the Facility Agent), provided that the tenure of the CPs shall not exceed twelve (12) months and that the CPs shall mature on or prior to the expiry of the CP Programme.
	(c) Profit / coupon or equivalent rate (%)	:	Not applicable as the CPs will be issued at a discount to its nominal value
	(d) Profit / coupon payment frequency and basis	:	Not applicable as the CPs will be issued at a discount to its nominal value
	(e) Profit / coupon payment basis	:	Not applicable as the CPs will be issued at a discount to its nominal value
	(f) Tender and Issuing conditions	:	The CPs may be issued in multiples of RM1,000,000.00 but subject to the Rules on Fully Automated System For Issuing / Tendering issued by BNM, as may be amended from time to time ("**FAST Rules**") and other customary conditions including but not limited to the following: (i) a minimum issue size of RM5,000,000.00 for each issue; (ii) the issue notice shall be given to the Facility Agent at least seven (7) business days (for the first issue) or five (5) business days (for subsequent issues) prior to and excluding the date of the proposed issue, or such other shorter period as agreed by the Lead Arranger; (iii) any amount redeemed may be reissued during the tenure of the CP Programme, provided an Event of Default(s) has not occurred and subject always to the CP Programme Limit and that the maturity date of such issue shall not extend beyond the last day of the CP Programme tenure; and (iv) no new issuance or additional issuance shall be allowed on the occurrence of an Event of Default(s) under the CP Programme.
	(g) Tendering System	:	The tender shall be conducted in accordance with the FAST Rules. In the event the tendered rates are not acceptable to the Issuer, the Issuer shall terminate the request for the issuance.

			The Issuer shall have the right to accept all or part of the amount tendered and shall also have the right to accept more than that is stated in the issue request, subject always to the CP Programme Limit.
(h)	Tendering Mechanism for CP	:	The Facility Agent shall invite a selection of banks, other financial institutions and other persons falling within the Selling Restrictions to participate as TPM to competitively bid for the CPs. Composition of the TPM may be varied from time to time by the Facility Agent in consultation with the Issuer. Allocation of the CPs to bidders shall be based on ascending order of yield or descending order of price, as the case may be. The Issuer shall have the right to reject any or all bids received from the TPM without assigning any reasons thereof.
(i)	Details on utilisation of proceeds	:	Proceeds from the issuance of each tranche of CPs shall be utilised, without limitation, to on-lend to the Issuer's subsidiaries, for investment into the Issuer's subsidiaries, for working capital, general investment and other corporate purposes and/or if required, the refinancing of any existing financing obligations of the Issuer and/or any existing CPs issued under the CP Programme.
(j)	Ranking	:	The CPs will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer ranking pari-passu without any preference or priority among themselves and at least pari-passu with all other present and future unsecured obligations of the Issuer, save and except for those obligations preferred by law.
(k)	Setting off	:	No holder of the CPs may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with, the CPs, and the CP Holders shall, by virtue of his holding of any CPs, be deemed to have waived all such rights of set-off, deduction, withholding or retention against the Issuer in relation to the CPs to the fullest extent permitted by law. If at any time the CP Holders receives payment or benefit of any sum in respect of the CPs (including any benefit received pursuant to any such set-off, deduction, withholding or retention) other than in accordance with the terms of the CPs, the payment of such sum or receipt of such benefit shall, to the fullest extent permitted by law, be deemed void for all purposes and the CP Holders by virtue of his holding of any CPs, shall, agree as a separate and independent obligation to immediately pay an amount equal to the amount of such sum or benefit so received to the Issuer (or, in the event of its winding-up or administration, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer) and accordingly any payment of such sum or receipt of such benefit shall be deemed not to have discharged any of the obligations under the CPs.
(l)	Withholding taxes	:	All payments in respect of the CPs by or on behalf of the Issuer shall be made in full without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or government charges of whatever nature imposed, levied,

collected, withheld or assessed by or within any relevant jurisdiction, unless the withholding or deduction of the taxes is required by law. In the event such taxes are imposed, the Issuer will not have to pay additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the CP Holders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the CPs in the absence of the withholding or deduction.

(m) Transaction Documents	:	The CPs shall be evidenced by, inter alia, the following: 1. the CPs (in the form of global certificates and/or definitive certificates); 2. the Securities Lodgement Form; 3. each Subscription Agreement (if any); 4. the Trust Deed; 5. the Programme Agreement; 6. the Tender Panel Agreement; and 7. all other documents relating to the CPs as advised by the Solicitors.
(n) Option to Upsize	:	The Issuer shall have the option to upsize the CP Programme Limit provided that (a) there is no adverse impact on the rating of the CP Programme, if rating requirements are applicable; and (b) the relevant regulatory approvals have been obtained. For the avoidance of doubt, no consent from the existing holders of the outstanding CPs at that time is required for the purposes of the upsizing of the CP Programme Limit.
(o) Tradability and transferability	:	The CPs are transferable (subject to the Selling Restrictions described above) and tradable under, in the case of CPs issued in Malaysia, the Rules on Scripless Securities under the RENTAS operated by PayNet, and in the case of CPs issued outside Malaysia, the procedures and rules of the relevant jurisdiction.
(p) Name of credit rating agency and credit rating	:	**CPs** Credit rating agency: RAM Credit rating: P1 Final/Indicative rating: Final rating Partial: No Amount rated: RM3,000,000,000.00 The Issuer may at its discretion, in relation to each tranche of the CPs, determine prior to the issuance of the CPs, to issue unrated CPs ("**Unrated CPs**"). The rating details above are not applicable to Unrated CPs issued under the CP Programme. For the avoidance of doubt, subject to there being no outstanding rated CPs, the Issuer may elect to remove the credit rating of the CPs and any subsequent CPs to be issued

			under the CP Programme will be Unrated CPs. Such election will not require the CP Holders' consent.
(q)	Trustees' Reimbursement Account	:	The Issuer shall, or the Bond Trustee shall on behalf of the Issuer, open and maintain, throughout the tenure of the CPs, a trustees' reimbursement account for the Noteholder's actions (the "**Trustees' Reimbursement Account**") and the credit balance of the Trustees' Reimbursement Account must be no less than RM30,000.00 which amount is to be obtained from the proceeds of issuance of the CPs. The Trustees' Reimbursement Account shall be operated by the Bond Trustee and the money shall only be used strictly by the Bond Trustee in carrying out its duties in relation to the acceleration of the CPs pursuant to an Event of Default in the manner as provided in the Trust Deed. Any unutilised monies in the Trustees' Reimbursement Account shall be returned to the Issuer upon full redemption of the CPs if no acceleration of the CPs pursuant to an Event of Default takes place.
(r)	Disclosure of the following:	:	
	(i) If the issuer or its board members have been convicted or charged with any offence under any security laws, corporation laws or other laws involving fraud or dishonesty in a court of law, or if any action has been initiated against the issuer or its board members for breaches of the same, for the past 10 years prior to the lodgement/ since incorporation, for issuer incorporated less than 10 years; and		None.
	(ii) If the issuer has		None.

been subjected to any action by the stock exchange for any breach of the listing requirements or rules issued by the stock exchange, for the past five years prior to lodgement

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SECTION 3.0 INVESTMENT CONSIDERATIONS

Prospective investors of the Master Notes should consider carefully all information set out in this Information Memorandum and, in particular, the following risks involved. The Master Notes are subject to certain risks that could adversely affect the business of the HLFG. Furthermore, each issuance of the Master Notes under the Master Programme will carry different risks and all potential investors are strongly encouraged to evaluate each Master Notes issuance on its own merit. This Section 3.0 does not purport to be complete or exhaustive. Prospective investors should undertake their own investigations and analysis on the Issuer, its business and risks associated with the Master Notes.

3.1 Risks associated with the Master Programme and the Master Notes

3.1.1 No prior market for the Master Notes

The Master Notes comprise a new issue of securities for which there is currently no available market. There can be no assurance as to the liquidity of any market that may develop for the Master Notes, the ability of the Master Noteholders to sell the Master Notes or the process at which Noteholders would be able to sell the Master Notes. The Master Noteholders should also take note that the Master Notes will not be listed on the Bursa Securities and there are selling restrictions governing the Master Notes as described under "Selling restrictions" as described in Section 1.5 of this Information Memorandum.

3.1.2 Rating of the Master Notes

The Senior Notes, the Sub-Notes and the Capital Securities have been accorded a final rating of AA1, AA2 and A1 respectively by the Rating Agency pursuant to its letter to the Issuer dated 30 October 2017. The CPs have been accorded a final rating of P1 by the Rating Agency pursuant to its letter to the Issuer dated 30 October 2017.

A rating is not a recommendation to purchase, hold or sell the Master Notes. There is no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant. In the event that the rating initially assigned to the Master Notes are subsequently lowered or withdrawn for any reason, no person or entity will be obligated to provide any additional credit enhancement with respect to the Master Notes. Any downgrade or withdrawal of a rating may have an adverse effect on the liquidity and market price of the Master Notes but would not constitute an event of default or an event obliging the Issuer to prepay the Master Notes.

3.1.3 Issuer's ability to meet its obligations under the Master Notes

The ability of the Issuer to meet its obligations to pay the coupon and principal sum of the Master Notes depend on its income, revenue and return on its investment portfolio, which in turn is dependent on the financial performance of HLFG Group. Repayment of the Master Notes will be the Issuer's obligation alone. In particular, the Master Notes will not be the obligations or responsibilities of, or guaranteed by the PA/LA/LM, the Facility Agent, the Trustee or any affiliate company thereof, and any other person involved or interested in the transaction envisaged under the Master Programme. None of such person will accept any liability whatsoever to the Master Noteholders in respect of any failure by the Issuer to pay any amount due under the Master Notes.

3.1.4 The market value of Master Notes may be subject to fluctuation

Trading prices of the Master Notes are subject to fluctuations and may be influenced by numerous factors, including the prevailing interest rates, the market for similar securities, the operating results and/or the financial condition of the Issuer and HLFG Group, political, economic, financial and any other factors that can affect the capital markets or the industry in which HLFG and HLFG Group are operating in. Consequently, any sale of the Master Notes by the Master Noteholders in any secondary market which may develop may be at prices that may be higher or lower than the initial offering price. Adverse economic developments could also have a material adverse effect on the market value of the Master Notes.

3.1.5 An investment in the Master Notes is subject to interest rate risks

The Master Noteholders may suffer unforeseen losses due to fluctuations in interest rates. The Master Notes are fixed income securities and may therefore see their prices fluctuate due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in bond prices. The Master Notes may be similarly affected resulting in a capital loss for the Master Noteholders. Conversely, when interest rates fall, bond prices and the prices at which the Master Notes trade may rise. The Master Noteholders may enjoy a capital gain but the profit received may be reinvested for lower returns.

3.1.6 An investment in the Master Notes is subject to inflation risk

The Master Noteholders may suffer erosion on the return of their investments due to inflation. The Master Noteholders would have an anticipated rate of return based on expected inflation rates on the purchase of the Master Notes. An unexpected increase in inflation could reduce the actual return to the Master Noteholders.

3.1.7 Suitability of investments

The Master Notes may not be a suitable investment for all investors. Each potential Master Noteholder must determine the suitability of that investment in light of its own circumstances. In particular, each potential Master Noteholder should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Master Notes, the merits and risks of investing in the Master Notes and the information contained in this Information Memorandum;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Master Notes and the impact the Master Notes will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Master Notes, including where the currency of payment is different from the potential Master Noteholders' currency;

(d) understand thoroughly the terms of the Master Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a legal, financial and other adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The Master Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or to enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in Master Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a legal, financial and other adviser) to evaluate how the Master Notes will perform under changing conditions, the resulting effects on the value of such Master Notes and the impact this investment will have on the potential investor's overall investment portfolio.

3.1.8 The Issuer may raise other capital which affects the price of the Master Notes

The Issuer may raise additional capital through the issue of other securities or other means. There are no restrictions, contractual or otherwise, on the amount of securities or other liabilities which the Issuer may issue or incur and which rank senior to, or pari passu with, the Master Notes, and there are no restrictions on the Issuer issuing securities with similar, different or no loss absorption event provisions. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by the Master Noteholders on a dissolution or winding-up. The issue of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the trading price of the Master Notes and/or the ability of the Master Noteholders to sell their Master Notes.

3.1.9 Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) the Master Notes are legal investments for it, (b) the Master Notes can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Master Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Master Notes under any applicable risk-based capital or similar rules.

3.1.10 Global financial turmoil has led to volatility in international capital markets which may adversely affect the market price of the Master Notes

Global financial turmoil has resulted in substantial and continuing volatility in international capital markets. Any deterioration in global financial conditions could have a material adverse effect on worldwide financial markets, which may adversely affect the prices of the Master Notes.

3.1.11 No right of set-off under the Master Notes

No Master Noteholder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with, the Master Notes, and the Master Noteholders shall, by virtue of his holding of any Master Notes, be deemed to have waived all such rights of set-off, deduction, withholding or retention against the Issuer in relation to the Master Notes to the fullest extent permitted by law. If at any time the Master Noteholders receives payment or benefit of any sum in respect of the Master Notes (including any benefit received pursuant to any such set-off, deduction, withholding or retention) other than in accordance with the terms of the Master Notes, the payment of such sum or receipt of such benefit shall, to the fullest extent permitted by law, be deemed void for all purposes and the Master Noteholders by virtue of his holding of any Master Notes, shall, agree as a separate and independent obligation to immediately pay an amount equal to the amount of such sum or benefit so received to the Issuer (or, in the event of its winding-up or administration, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer) and accordingly any payment of such sum or receipt of such benefit shall be deemed not to have discharged any of the obligations under the Master Notes

3.2 Risks associated with the Capital Securities, the Sub-Notes and/or the Senior Notes

3.2.1 The Capital Securities are perpetual securities and investors have no right to require redemption

The Capital Securities are perpetual and have no maturity date. The holders of the Capital Securities have no ability to require the Issuer to redeem their Capital Securities whereas the Issuer may, subject to prior approval from BNM and the Redemption Conditions (as defined in the PTC) being satisfied, at its sole discretion, may elect to exercise its option to redeem the Capital Securities pursuant to Optional Redemption, Regulatory Redemption and/or Tax Redemption (all as defined in the PTC). However, the Issuer is under no obligation to redeem the Capital Securities at any time.

This means that the holders of the Capital Securities have no ability to cash in their investment, except if the Issuer exercises its right to redeem the Capital Securities or by selling their Capital Securities. There can be no guarantee that the Issuer will be able to meet the Redemption Conditions. The holders of the Capital Securities who wish to sell their Capital Securities may not be able to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Capital Securities.

3.2.2 The Capital Securities shall be written-off upon breach of CET1 capital ratio

A Capital Trigger Event occurs when the CET1 capital ratio of the Issuer at the consolidated level falls below 5.125% as of the relevant quarterly reporting date where the quarterly unaudited consolidated financial results of the Issuer are published, announced and made publicly available.

Upon the occurrence of a Capital Trigger Event, the relevant nominal value of Capital Securities shall be written off such that the effect of such write off, together with the write off or conversion of other relevant Tier 1 Instruments which pursuant to their terms or by operation of law, are capable of being converted into equity, or written off at that time, will return the CET1 capital ratio of the Issuer (at the consolidated level) to be at least 5.75%. Such write off of the Capital Securities, together with the write off or conversion of other relevant Tier 1 Instruments, if any, shall be done on a pro-rata basis.

As there is no precedent for the application of such write-off requirement in respect of a financial holding company in Malaysia, there is uncertainty as to the manner in which such requirement would be applied and the results thereof. The holders of the Capital Securities should note that any amount that is written-off upon the occurrence of a Capital Trigger Event in accordance with the terms of the Capital Securities is permanent and will not be restored under any circumstances, even after the CET1 capital ratio is restored to at least 5.75%.

Accordingly, there is a potential risk that a holder of the Capital Securities will lose all or some of his investment and will not receive a full or any return of the principal amount or any unpaid amounts due under the Capital Securities.

3.2.3 *The Periodic Distribution of the Capital Securities are discretionary, non-cumulative and may be cancelled*

The Issuer may, at its option, cancel the Periodic Distribution which would otherwise have been payable on such Distribution Payment Date, where the right of the holders of the Capital Securities to receive such distribution shall be lost and the Issuer shall have no obligation to pay the holders of the Capital Securities the Periodic Distribution which would otherwise have been payable on such Distribution Payment Date. Further, payment of Periodic Distribution under the Capital Securities shall also be subject to (a) such payment not resulting in a breach of the capital requirements applicable to the Issuer under the relevant BNM's capital guidelines; (b) the Issuer is solvent at the time of payment of the Periodic Distribution and the payment of the Periodic Distribution will not result in the Issuer becoming, or likely to become insolvent; and (c) such payment being made from Distributable Reserves only. Any Periodic Distribution that has been cancelled shall no longer be due and payable at any time thereafter by the Issuer and shall not accrue thereafter, whether or not funds are or subsequently become available. The holders of the Capital Securities will have no right thereto whether in a winding up situation or otherwise. Any such cancellation will not constitute or be deemed a default by the Issuer or constitute an Enforcement Event for any purpose whatsoever nor would it trigger a cross-default under any other outstanding Notes issued under the Notes Programme.

In addition, in the event the Issuer elects to pay its Periodic Distribution, such payment shall only been made from its Distribution Reserves only. As a holding company, the level of the Issuer's Distributable Reserves is affected by a number of factors, principally its ability to receive funds, directly or indirectly, from its operating subsidiaries in a manner which creates Distributable Reserves for the Issuer. The ability of the Issuer's subsidiaries to pay dividends or other distributions and the Issuer's ability to receive distributions and other payments from its investments in other entities is subject to applicable local laws and other restrictions, including their respective regulatory, capital and leverage requirements, statutory reserves, financial and operating performance and applicable tax laws. These laws and restrictions could limit the payment of dividends, distributions and other payments to the Issuer by its subsidiaries, which could in turn restrict the Issuer's ability to maintain or increase its Distributable Reserves. The Issuer's Distributable Reserves, and therefore its ability to make Distributions, may also be adversely affected by the performance of the Issuer's business in general, factors affecting its financial position (including capital and leverage), the economic environment in which HLFG Group operates and other factors outside of HLFG Group's control.

If Periodic Distributions are not paid for whatever reason, the Capital Securities may trade at a lower price. If a holder of the Capital Securities sells his Capital Securities during such a period, he may not receive the same return on investment as a holder of the Capital Securities who continues to hold his Capital Securities until Periodic Distributions are resumed.

3.2.4 *The Issuer's obligations under the Capital Securities and the Sub-Notes are subordinated*

The Capital Securities will constitute direct, unconditional, subordinated and unsecured obligations of the Issuer. In the event of a winding-up or liquidation of the Issuer, amounts payable on the Capital Securities will be subordinated in right of payment to the prior payment in full of all deposit liabilities and all other liabilities of the Issuer except, in each case, to those liabilities which by their terms rank equal with or junior to the Capital Securities. Claims in respect of the Capital Securities will rank pari passu and without preference among themselves and with the most junior class of preference shares (if any) of the Issuer and any security or other similar obligation issued, entered into or guaranteed by the Issuer that constitutes or could qualify as Additional Tier 1 capital of the Issuer on a consolidated basis, pursuant to the relevant requirements set out in BNM's guidelines, or otherwise ranks or is expressed to rank, by its terms or by operation of law, pari passu with the Capital Securities, but in priority to the rights and claims of holders of the ordinary shares of the Issuer.

The Sub-Notes will constitute direct, unconditional, subordinated and unsecured obligations of the Issuer. The Sub-Notes will, in the event of a winding-up or liquidation of the Issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment with or are subordinate to the Sub-Notes.

Further, the obligations or responsibilities under the Capital Securities and the Sub-Notes will not be imposed on any other person other than the Issuer and shall not be imposed on any of the Issuer's subsidiaries or affiliates or any other person involved or interested in the Capital Securities and the Sub-Notes. None of such persons will accept any liability whatsoever to the holders of the Capital Securities and the Sub-Notes in respect of any failure by the Issuer to pay any amount due under the Capital Securities and the Sub-Notes.

3.2.5 Issuer may redeem the Notes early under certain circumstances

The Issuer may, subject to prior approval from BNM and the Redemption Conditions being satisfied, at its sole discretion, elect to exercise its option to redeem the Capital Securities and/or the Sub-Notes pursuant to Optional Redemption, Regulatory Redemption and/or Tax Redemption.

In the event that any tranche of the Senior Notes has the feature of a call option, the Issuer may elect to exercise its option to redeem the relevant Senior Notes.

The Notes purchased by the Issuer or its subsidiaries or agents of the Issuer (other than in the ordinary course of business) shall be cancelled and shall not be resold.

Further, there is a risk that the amount received on redemption may be less than the current market value of the relevant Notes or the timing of such redemption may not accord with the relevant Noteholders' individual financial circumstances or tax position. Investors must be able to bear any risk associated with an uncertain level of principal repayments, especially during a decreasing interest rate environment. There can be no assurance as to the availability of adequate substitute investments at the time the relevant Noteholder receives repayments of principal.

3.2.6 Limited remedies for non-payment under the Capital Securities and the Sub-Notes

The Capital Securities and the Sub-Notes, being Additional Tier 1 and Tier 2 capital instruments respectively, do not provide for any events of default which would ordinarily under other securities issuance trigger a right to accelerate the securities. Notwithstanding any of the provisions relating to non-payment defaults, the only remedy for non-payment is to institute proceedings for winding-up of the Issuer.

3.2.7 The Capital Securities and the Sub-Notes may be written off upon occurrence of a Non-Viability Loss Absorption Event

The purpose of the Basel III rules is to ensure greater stability of the banking institutions by requiring them to hold more capital to serve as a buffer against losses and reduce the likelihood of bank failures, and, ultimately, government intervention. The Basel III rules are intended to ensure that all classes of capital instruments can, as fully as possible, absorb losses at the point in time of non-viability of the banking institution.

The New CA Framework require that the terms and conditions of all Additional Tier 1 and Tier 2 capital instruments issued from 1 January 2013 onwards must contain features that ensure loss absorbency at the point of non-viability. All Additional Tier 1 and Tier 2 capital instruments shall have a provision that requires such instruments to be either written-off in whole or in part or converted in whole or in part into ordinary shares upon the occurrence of a Non-Viability Event.

The terms of the Capital Securities and the Sub-Notes provide that upon the occurrence of a Non-Viability Event, the instrument will be fully or partially written off, the terms of which are further described below.

Following the occurrence of any of the following Non-Viability Events, whichever is earlier:

(a) BNM has notified the Issuer in writing that they are of the view that the principal write off of the Sub-Notes and/or write off of the Capital Securities, together with the conversion or write off of any other Tier 2 Instruments and Tier 1 Instruments which, pursuant to their terms or by operation of law, are capable of being converted into equity, or written off at that time, is necessary, without which HLFG Group would cease to be viable; or

(b) BNM publicly announces that a decision has been made by BNM, PIDM or any other federal or state government in Malaysia, to provide a capital injection or equivalent support to the Issuer, without which the HLFG Group would cease to be viable,

BNM shall have the option to require the entire principal outstanding or such portion thereof and all other amount owing under the Capital Securities and/or Sub-Notes (as the case may be) be written off, and if BNM elects to exercise such option, subject to and as of the date of the occurrence of the Non-Viability Event, each of the holders of the Capital Securities and/or Sub-Notes (as the case may be) hereby irrevocably waives its right to receive payment of the principal amount of the Capital Securities and/or Sub-Notes (as the case may be) and also irrevocably waives its right to any coupon / Periodic Distribution (including coupon / Periodic Distribution accrued but unpaid up to the date of the occurrence of a Non-Viability Event).

Such write off of the Capital Securities and/or Sub-Notes (as the case may be) shall not constitute an event of default or Enforcement Event, nor would it trigger a cross-default under any other outstanding Notes issued under the Notes Programme.

A Non-Viability Event shall be deemed to have occurred on the day on which the Issuer received the notification from BNM.

Upon the occurrence of a Non-Viability Event, the Issuer is required to give notice to the holders of the Capital Securities and/or Sub-Notes (as the case may be, via the Trustee) and the Rating Agency, if applicable, in accordance with the terms of the Capital Securities and/or Sub-Notes (as the case may be), that as of the relevant write-off date (as the case may be):

(i) the write off shall reduce (A) the claim of the Capital Securities and/or Sub-Notes (as the case may be) in liquidation. The holders of the Capital Securities and/or Sub-Notes (as the case may be) will be automatically deemed to irrevocably waive their right to receive, and no longer have any rights against the Issuer with respect to, any payment of the aggregate principal amount of the Sub-Notes and/or Capital Securities written-off (as the case may be); (B) the amount to be re-paid when a redemption is exercised pursuant to the Optional Redemption, Regulatory Redemption and/or Tax Redemption; and (C) coupon payment/ Periodic Distribution (as the case may be); and

(ii) the write-off shall be permanent and the whole or part (as the case may be) of the principal amount of the Capital Securities and/or Sub-Notes (as the case may be) will automatically be written-off to zero and the whole or part (as the case may be) of the Capital Securities and/or Sub-Notes (as the case may be) will be cancelled.

Upon the occurrence of a Non-Viability Event, there is a risk that an investor in the Capital Securities and/or Sub-Notes (as the case may be) will lose all or some of its investment in the Capital Securities and/or Sub-Notes (as the case may be) and will not receive a full repayment of the principal amount or any unpaid amounts due under the Capital Securities and/or Sub-Notes (as the case may be). The Issuer, PA/ LA and the Trustee are not liable for any liabilities arising upon the occurrence of a Non-Viability Event.

Potential investors should consider the risk that the relevant Noteholders may lose all of their investment in the Capital Securities and/or Sub-Notes (as the case may be), including the principal amount plus any accrued but unpaid interest, in the event that a Non-Viability Event occurs.

3.2.8 The occurrence of a Non-Viability Event may be inherently unpredictable and may depend on a number of factors which may be outside of the Issuer's control

The occurrence of a Non-Viability Event is dependent on a determination by BNM. As a result, BNM may require or may cause a write-off in circumstances that are beyond the control of the Issuer and with which the Issuer does not agree. Due to the inherent uncertainty regarding BNM's determination of whether a Non-Viability Event exists, it will be difficult to predict when, if at all, a write-off will occur. Accordingly, the trading behaviour in respect of Capital Securities and/or Sub-Notes (as the case may be) which have the non-viability loss absorption feature is not necessarily expected to follow trading behaviour associated with other types of securities. Any indication that the Issuer may potentially be moving towards a Non-Viability Event could have a material adverse effect on the market price of the relevant Capital Securities and/or Sub-Notes (as the case may be).

3.2.9 Regulations on non-viability loss absorption are new, untested and subject to interpretation and application by BNM

The regulations on non-viability loss absorption are untested, and will be subject to the interpretation and application by BNM. It is uncertain how BNM would determine the occurrence of a Non-Viability Event, and it is possible that the grounds that constitute Non-Viability Events may change (including that additional grounds may be introduced).

Accordingly, the operation of any such future legislation, guidelines or regulations may have an adverse effect on the Capital Securities and/or Sub-Notes (as the case may be) and the interests of the relevant Noteholders.

A potential investor should not invest in the Capital Securities and/or Sub-Notes (as the case may be) unless it has the knowledge and expertise to evaluate how the Capital Securities and/or Sub-Notes (as the case may be) will perform under changing conditions, the resulting effects on the likelihood of a write-down and the value of the Capital Securities and/or Sub-Notes (as the case may be), and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Information Memorandum.

3.2.10 No limitation on issuing other Additional Tier 1 capital instruments, Tier 2 capital instruments or senior indebtedness

There are no restrictions on the amount or number of other Additional Tier 1 or Tier 2 capital instruments that the Issuer may issue which rank pari passu with the Capital Securities and/or Sub-Notes (as the case may be) or on the amount of indebtedness that the Issuer may incur which rank senior to the Capital Securities and/or Sub-Notes (as the case may be). The creation and issue of further Additional Tier 1 or Tier 2 capital instruments ranking pari passu with the Capital Securities and/or Sub-Notes (as the case may be) or the incurrence of indebtedness ranking senior to the Capital Securities and/or Sub-Notes (as the case may be) do not require the consent of the relevant Noteholders. The issue of such Additional Tier 1 or Tier 2 capital instruments and/or incurrence of such indebtedness may reduce the amount recoverable by the relevant Noteholders in the event of the winding-up of the Issuer. The issue of any such securities or the incurrence of any such other indebtedness may also have an adverse impact on the trading price of the Capital Securities and/or Sub-Notes (as the case may be) and/or the ability of the holders of the Capital Securities and/or Sub-Notes (as the case may be) to sell their Capital Securities and/or Sub-Notes (as the case may be).

3.2.11 No step-up in the Periodic Distribution or coupon for the Capital Securities and the Sub-Notes

In respect of the Capital Securities and the Sub-Notes, the coupon/periodic distribution rate will be determined prior to each issuance of the Capital Securities and the Sub-Notes. There shall be no step-up of coupon or periodic distribution rate.

3.3 Risks associated with HLFG Group

3.3.1 Competition

The face of the financial services industry is changing rapidly. Deregulation has opened up possibilities for banks to diversify their income from non-banking businesses such as bancassurance. At the same time, liberalisation has also brought greater competition among market players, driven by the emergence of large local and foreign players.

HLFG Group faces competition from other institutions in the financial services sector in Malaysia, both domestic and foreign. The level of competition in the Malaysian financial services industry has been heightened with the gradual liberalisation of the industry.

In particular, the Malaysian banking industry operates in a very competitive environment fostered by BNM's policies, including, *inter alia,* foreign licensed Islamic banks and domestic Islamic banks which are now allowed to offer/perform products and services that are similar to those of the HLFG Group. Further, BNM announced in 2009, further measures to liberalise the Malaysian financial sector, including a framework for the issuance of up to 5 new commercial banking licences and 2 new Islamic banking licences to foreign financial institutions and the increase of foreign equity limits to 70% for existing domestic Islamic banks, investment banks, insurance companies and takaful companies ("**BNM Announcement**").

From the date of the BNM Announcement up to 22 August 2011, BNM further announced the issuance of 2 commercial banking licences and 1 Islamic banking licence (separate from the banking licences contemplated under the BNM Announcement). These measures will further intensify the competition that the HLFG Group faces. Any increased competition could have an adverse effect on the HLFG Group's operations in the form of reduced margins, smaller market share and reduced income generally. Going forward, competition is expected to intensify further, forcing financial institutions to work efficiently on shrinking margins. These financial institutions must improve their profitability, efficiency and technology and explore cost effective solutions.

In addition, the HLFG Group's future growth will be subject to competition from other service providers in the markets in which the HLFG Group operates. As such, there can be no assurance that the HLFG Group will be able to maintain or increase its present market share in the future or that increased competition will not materially and adversely affect the HLFG Group's business, financial condition, results of operations and prospects.

The HLFG Group is committed towards business integrity and professionalism and firmly supports effective corporate governance and development of best practices. HLFG's Board through various committees manages the business and affairs of its various businesses in a manner consistent with the objectives of good corporate governance and accountability towards the enhancement of shareholder value. HLFG Group's senior management team comprise of members with broad range of experiences and an average of more than 10 years' service in their respective fields. The stable and experienced senior management team allows effective planning and execution of HLFG Group's long-term vision.

3.3.2 Holding company structure

HLFG relies on dividend income from its subsidiaries and affiliates to meet its obligations under the Master Programme. The ability of its subsidiaries and affiliates to pay dividends to HLFG is dependent on its subsidiaries and affiliates maintaining profitable operations and all applicable laws and restrictions on the said payments contained in relevant financing or other agreements.

3.3.3 HLFG Group's business is inherently subject to the risk of market fluctuations

HLFG Group's business is inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of exchange rates, interest rates, inflation rates, credit spreads, commodity, equity, bond and property prices and the risk that its customers act in a manner which is inconsistent with business, pricing and hedging assumptions. In particular, as a result of the HLFG Group's expansion into foreign markets, the HLFG Group may become increasingly exposed to changes in, and increased volatility of, foreign currency exchange rates.

Market movements may have an impact on HLFG Group in a number of key areas. For example, changes in interest rate levels, yield curves and spreads affect the interest rate margin realised between lending and borrowing costs and/or the actuarial reserves. Historically, there have been periods of high and volatile interbank lending margins over official rates (to the extent banks have been willing to lend at all), which has exacerbated these risks. In relation to HLFG Group's banking business, competitive pressures on rates in existing loans and deposits sometimes restrict HLFG Group in its ability to change interest rates charged to customers in response to changes in official and wholesale market rates. In connection with HLFG Group's business involving investments, a prolonged low interest rate regime will also affect investment returns.

Also, fluctuations in interest rates will affect HLFG's earnings stream and level of income through changes in net interest income. Adverse impact on net interest income resulting from interest rate movements can be caused by differences in the timing of accrual changes (repricing risk), changing rate and yield curve relationships (basis and yield curve risks).

Measures such as interest rate risk limits have been established to control and manage the potential loss of income from adverse interest rate movements. Strategies and mitigating actions are regularly reviewed and executed interchangeably to improve the net interest income under various interest rate scenarios. Strategies adopted include repricing or adjusting the maturity tenor of assets and liabilities, re-strategising new business growth, securing long term fixed rate funding and entering into interest rate derivative contracts.

Any failure by the HLFG Group to implement, or consistently follow, its risk management systems may adversely affect its financial condition and results of operations. In addition, the HLFG Group's risk management systems may not be fully effective or adequate in the future in mitigating risk exposure in all market environments or against all types of risks, including risks that are unidentified or unanticipated. Some methods of managing risk are based upon observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicated.

3.3.4 HLFG Group may be required to raise additional capital if its capital adequacy ratio deteriorates in the future or in order to comply with any new regulatory capital framework, but it may not be able to do so on favourable terms, or at all

HLFG Group is subject to, inter alia, the capital adequacy framework and risk-based capital framework issued by BNM (and revised from time to time) and failure to maintain its capital ratios may result in administrative actions or sanctions against it which may impact HLFG Group's ability to fulfil its obligations under the Master Notes.

On 4 August 2017, BNM issued the New CA Framework under which (i) conventional banking institutions are to maintain at entity and consolidated levels and (ii) financial holding companies are to maintain at consolidated levels, the following minimum capital adequacy ratio requirements at all times in the periods specified under the New CA Framework:

(a) CET1 capital ratio of at least 4.5%;

(b) Tier 1 capital ratio of at least 6.0%; and

(c) Total capital ratio of at least 8.0%.

In addition to complying with the minimum capital adequacy ratio requirements, conventional banking institutions and financial holding companies ("**Financial Institutions**") are to, at all times in the periods specified under the New CA Framework, maintain at both the entity and consolidated levels, a capital conservation buffer above the minimum capital adequacy ratio requirements. The capital conservation buffer began at 0.625% in 2016, increasing by an additional 0.625% in each subsequent year, to reach 2.5% in 2019.

BNM may specify an additional buffer requirement for Financial Institutions, having regard to the specific risk profile of the institution.

In addition to the above, the Financial Institutions are to, at all times in the periods specified under the New CA Framework, maintain, at both entity and consolidated levels, a countercyclical buffer ranging from 0% and 2.5% above the minimum CET1 capital ratio, minimum Tier 1 capital ratio and minimum total capital ratio.

The New CA Framework also provides for the gradual phasing out of the regulatory capital recognition of outstanding non-CET1 and Tier 2 capital instruments that no longer meet, in full, the requirements set out in the New CA Framework. Fixing the base at the nominal amount of such instruments outstanding (such base being the outstanding amount as at 1 January 2013) that is eligible to be included in the relevant tiers of capital under the previous iterations of New CA Framework, their recognition is capped at 90% with effect from 1 January 2013, with this cap being reduced by 10 percentage points in each subsequent year, eventually resulting in such instruments fully derecognised by 1 January 2022.

There are similar capital adequacy requirements under the Capital Adequacy Framework for Islamic Banks ("**CAFIB**") issued by BNM on 4 August 2017 that are applicable to Islamic banking institutions.

BNM had on 31 March 2015 issued its Liquidity Coverage Ratio ("**LCR**") framework as per Basel III requirements, which calls on banking institutions to maintain sufficient stock of high quality liquid assets to buffer an acute liquidity stress scenario over a 30-day period. BNM has also provided guidance and instructions on its proposed Net Stable Funding Ratio ("**NSFR**") which will be effective on 1 January 2019. In addition, BNM had on 16 August 2017 published an Exposure Draft on the Leverage Ratio ("**LR**") framework as per Basel III requirements which seek to restrict the build-up of excessive levels of leverage in banking institutions to avoid destabilising and deleveraging processes that can damage the broader financial system and reinforce the risk-based New CA Framework and CAFIB with a non-risk adjusted based backstop measure. The LR is expected to come into effect on 1 January 2018.

Pursuant to BNM's Risk-Based Capital Framework for Insurers issued on 31 May 2017, insurers in Malaysia are also required to maintain a minimum capital adequacy ratio of at least 130.0%.

HLFG Group's CET1 capital ratio, Tier 1 capital ratio and Total capital ratio as at 30 June 2017 are 10.004%, 10.516% and 12.235% respectively. The capital ratios are computed in full compliance with the New CA Framework.

The capital adequacy ratio of HLFG Group (on a consolidated level) may deteriorate in the future if its results of operations or financial condition deteriorate for any reason, including as a result of any deterioration in the value of invested assets. HLFG Group may be required to obtain additional capital in order to remain in compliance with the applicable capital adequacy guidelines. However, there is no assurance that HLFG Group may be able to obtain additional capital on favourable terms. If the regulatory capital, liquidity and/or leverage requirements applied to HLFG Group continue to increase in the future, HLFG Group's return on equity and profitability could be adversely affected. Any failure by HLFG Group to satisfy such increased regulatory capital, liquidity and/or leverage requirements within the applicable timeline could result in administrative actions or sanctions, which in turn may have a material adverse effect on HLFG Group's business, financial condition and results of operations.

3.3.5 HLFG Group is dependent on its directors and key management

HLFG Group to a significant extent relies on some of its directors and senior management for its business directions and effective implementation of business strategy. The loss of existing directors or key members of this management team could adversely affect its ability to operate its business or to compete in the industry, and in turn, affect its financial performance and prospects. Every effort is being made to groom younger members of the senior management team to ensure a smooth transition in the management team, should change occur.

Whilst there is no assurance that there would be continuity in HLFG's present management team throughout the tenure of the Master Notes, HLFG will endeavour to maintain its current prudent management philosophy whilst adhering to a high standard of corporate governance, accountability and disclosure practices.

3.3.6 Challenges arising in connection with further consolidation of HLFG Group's businesses or its pending or future acquisitions or mergers may have a material adverse effect on HLFG Group

In the event HLFG Group undertakes any mergers or acquisitions exercises, the HLFG Group may be faced with challenges such as the integration of the relevant businesses and operations into its current operations, which could adversely affect the business, financial condition, results of operations and prospects of HLFG Group. In particular, if HLFG Group makes a decision relating to any acquisition or merger in uncertain or highly competitive economic or market conditions, respectively, or for a substantial consideration, such an acquisition or a merger may result in an increase in risk or a depletion of the resources of HLFG Group, which could have an adverse effect on the business, financial condition, results of operations and prospects of HLFG Group.

3.3.7 The application of the Malaysian Financial Reporting Standards 9 "Financial Instruments" ("MFRS 9") may affect HLFG Group's future financial performance

The International Accounting Standards Board ("**IASB**"), which is responsible for developing and revising international accounting standards, issued the International Financial Reporting Standard 9 "Financial Instruments" ("**IFRS 9**") and a series of amendments in November 2009, October 2010 and July 2014. The new standard will take effect on 1 January 2018 and replace the existing standard IAS 39. The Malaysian Accounting Standards Board ("**MASB**") has issued MFRS 9 which is equivalent to IFRS 9, including the effective and issuance dates. Entities that comply with MFRS 9 will simultaneously be in compliance with IFRS 9. MFRS 9 is a new accounting standard that will replace the existing International Accounting Standard 39/Financial Reporting Standard 139 "Financial Instruments: Recognition and Measurement" ("**IAS 39**").

MFRS 9 introduces probability weighted forward-looking economic scenario based expected credit loss models in estimating loss allowances for significant financial assets not measured in fair value through profit and loss portfolios. On the first day of adoption, there is no guarantee that the credit costs of HLFG Group will not increase. Any increase in credit cost may result in the reduction of HLFG Group's capital adequacy ratios. Meanwhile, HLFG Group's financial performance for subsequent financial years will be more sensitive to prevailing economic conditions and the future economic outlook in addition to the credit risk profile of the financial assets in scope.

3.3.8 Certain economic, market and political market and political factors are outside the HLFG Group's control

Economic external factors beyond the HLFG Group's control could cause volatility in and adversely affect demand for the HLFG Group's financial services and operating margins. Examples of such external factors include, but are not limited to:

(a) entry of new competitors and other actions by new and existing competitors;

(b) general economic, political and social conditions;

(c) consumer spending patterns;

(d) foreign currency exchange rate and interest rate fluctuations;

(e) international events and circumstances such as wars, terrorist attacks and political instability; and

(f) changes in legal regimes and governmental regulations, such as licensing and approvals, taxation, duties and tariffs, in Malaysia and abroad.

There can be no assurance that adverse economic, market and political factors will not have a material adverse effect on the HLFG Group's business, financial condition, results of operations and prospects.

3.3.9 A significant deterioration in the HLFG Group's asset quality could adversely affect the financial condition, results of operations or prospects of the HLFG Group if its credit and risk management policies are ineffective for any reason

Asset quality is a key driver of HLFG Group's performance. While HLFG Group adopts prudent credit risk management policies to manage its asset quality, there can be no assurance that the policies will remain effective or adequate in the future. A significant deterioration of asset quality or material non-compliance with its credit risk management policies or asset quality management system may adversely affect the business, financial condition and results of operations of the HLFG Group.

3.3.10 Deterioration in collateral values, in particular the value of real estate, or inability to realise collateral value may necessitate an increase in the HLFG Group's provisions

HLFG Group's largest concentration of loans, advances and financings are housing and shop loans/financing, which comprised approximately 52.39% of the HLFG Group's gross loans, advances and financings as at 30 June 2017. Consequently, a significant portion of the HLFG Group's loans are secured by collateral such as real estate, the value of which, in some cases, may decline due to economic deterioration or general worsening of the current global market outlook.

This may result in a portion of the HLFG Group's loans exceeding the value of the underlying collateral. Any such deterioration in the value of the collateral securing the HLFG Group's loans or its inability to obtain additional collateral or inability to realise the value of existing collateral may require the HLFG Group to increase its loan provisions, which may adversely affect the business, financial condition and results of operations of the HLFG Group and may necessitate write-offs which may materially and adversely impact its capital adequacy ratio.

3.3.11 Significant fraud, system failures, calumniates or security breaches could materially and adversely impact the HLFG Group's business

Operational risks and losses can result from fraud, error by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, the failure of internal systems, equipment and external systems (such as those of the HLFG Group's counterparties or vendors) and the occurrence of natural disasters. Although the HLFG Group has implemented risk controls and loss mitigation strategies and substantial resources are devoted to developing efficient procedures, there can be no assurance that such measures will be successful.

In addition, the HLFG Group seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by the HLFG Group's increased use of the Internet. Computer break-ins and power disruptions could affect the security of information stored in, and transmitted through, these computer systems and network infrastructure. The HLFG Group employs security systems, including firewalls and password encryption, designed to minimise the risk of security breaches. There can be no assurance that these security measures will be adequate or successful.

A significant fraud, system failure, calamity or failure in security measures could have a material adverse effect on the HLFG Group's business, financial condition, results of operations and prospects. In addition, the HLFG Group's reputation could be adversely affected by significant frauds committed by employees, customers or other third parties.

3.3.12 HLFG Group may be unable to adapt to rapid technological changes on a timely basis

The HLFG Group's future success and ability to compete with other competing entities will depend, in part, on its ability to respond to technological advances and emerging banking industry standards and practices on a cost-effective and timely basis. While the HLFG Group has dedicated significant resources to implementing the latest technological advances to improving the accessibility of its services, there can be no assurance that the HLFG Group will successfully implement new technologies effectively or adapt its transaction-processing systems to customer requirements or industry standards, which may, in turn, have a material adverse effect on its business and financial condition.

3.3.13 Liquidity shortfalls may increase the cost of funds

In relation to HLFG Group's banking business, HLFG Group's funding resources to support its loan and investment operations are characterised by short-term customer deposits comprising demand deposits, savings deposit, fixed deposits and short-term loans from financial institutions. Historically, the HLFG Group's deposits resources have contained a significant level of core deposits. There can be no assurance that its stable deposit resources will continue. For instance, if significant deposits are withdrawn or not rolled over upon maturity, the HLFG Group's liquidity position could be adversely affected and HLFG Group may need to borrow from alternative short-term or long-term sources at a higher cost to fund its operations. Such funding may not be available on commercially reasonable terms, or at all. This may materially and adversely affect the HLFG Group’s business, financial condition, results of operations and prospects.

3.3.14 The business, financial conditions, results of operations and prospects of HLFG Group’s banking business may be adversely affected by changes to the Malaysian banking, regulatory and accounting environment

HLFG Group’s banking business is subject to regulatory purview and measures imposed by the relevant regulatory agencies. Banking activity in Malaysia is regulated by BNM under the FSA and IFSA. Regulatory measures imposed on banks in Malaysia include measures requiring maintenance of reserves and minimum capital adequacy requirements.

HLFG Group’s banking institutions are regulated by BNM, the central bank of Malaysia which is directly involved in the regulation and supervision of Malaysia’s financial system. Its principal functions are to (i) formulate and conduct monetary policy in Malaysia; (ii) issue currency in Malaysia; (iii) regulate and supervise financial institutions which are subject to the laws enforced by BNM; (iv) provide oversight over money and foreign exchange markets; (v) exercise oversight over payment systems; (vi) promote a sound, progressive and inclusive financial system; (vii) hold and manage the foreign reserves of Malaysia; (viii) promote an exchange rate regime consistent with the fundamentals of the economy; and (ix) act as financial adviser, banker and financial agent of the Government of Malaysia.

BNM and the Minister of Finance of Malaysia have extensive powers under the FSA and IFSA, which are the principal statutes that sets out the laws for the licensing and regulation of institutions carrying on banking, finance company, merchant banking and other financial businesses. In addition to the FSA and IFSA, Malaysian licensed banks and financial institutions are subject to guidelines, practice notes and standards issued by BNM from time to time.

Accordingly, potential investors should be aware that BNM could, in the future, set interest rates at levels or restrict credit in a way which may be adverse to the operations, financial condition or asset quality of banks and financial institutions in Malaysia, including HLB Group, and may otherwise significantly restrict the activities of HLFG Group, Malaysian banks and financial institutions generally.

The regulatory measures presently imposed, and as may be introduced from time to time, by the regulatory agencies could affect HLFG Group’s banking business activities. For example:

(a) BNM had issued Single Counterparty Exposure Limit (“**SCEL**”) policies with the objective of representing a non-risk adjusted back-stop measure to ensure that exposures to a single counterparty and persons connected to it are within a prudent limit at all times, impose a maximum permissible credit exposure to a single customer group, maximum sectorial credit in respect of financing activity, limits on the interest rates charged by banks on certain types of loans, caps on lending to certain sectors of the Malaysian economy and has established priority lending guidelines in furtherance of certain social and economic objectives. A change in credit policies by BNM may restrict certain banking businesses of HLFG Group and could require

HLFG Group to scale down its operations in a particular business area;

(b) On 3 November 2010, BNM announced, with immediate effect, a maximum loan-to-value ratio of 70.00%, which is applicable to a loan taken out by a borrower to finance their third property. On 18 March 2011, BNM placed further restrictions on credit cards provided to low income individuals, raising the minimum income eligibility requirement to RM24,000 per annum (from RM18,000 per annum) and stipulating that persons earning RM36,000 per annum or below may only hold cards from a maximum of two (2) card issuers and that the maximum credit limit on each card must not exceed two (2) times the monthly income of the cardholder;

(c) On 18 November 2011, BNM issued new guidelines to financial institutions aiming to promote prudent, responsible and transparent retail financing practices which took effect on 1 January 2012. At present, loans with a loan-to-value ratio greater than 90.00% will now have to carry a risk weightage of 100.00%, compared with 75.00% previously; and

(d) BNM had, on 16 December 2013 issued its latest SCEL policy to address and clarify, among others, prudential limits and definition of “single counterparty” based on feedback received on its earlier issued SCEL policy dated 28 February 2013.

These regulations place restrictions on the banking business of HLFG Group and may cause HLFG Group to scale down operations in the areas of its business most affected by these regulations.

BNM also has broad investigative and enforcement powers. Contravention of BNM regulations and guidelines may expose the Issuer to enquiries from an investigation by BNM and other Malaysian regulatory agencies. These enquiries or investigations may result in sanctions including fines, corrective orders, restriction of business lines and possible loss of licenses required for HLFG Group to operate its banking businesses and, in addition, may cause HLFG Group’s reputation to be adversely affected. Contravention of regulations, policies or guidelines of BNM (or any other regulatory agency) therefore carries with it financial and reputational risks that could materially and adversely affect HLFG Group’s business, financial condition, results of operations and prospects.

The FSA and IFSA are the new legislations that provide for the regulation and supervision of financial institutions in Malaysia, payment systems and other relevant entities and also the oversight of the money market and foreign exchange market. These new legislations generally provide for a stricter financial services regime, including the increase in duties and responsibilities of financial institutions and enhanced level of governance and disclosure.

HLFG Group has put in place compliance procedures to ensure compliance with the new legislations, and effort is taken to ensure HLFG Group meets the requirements of new regulations. There are no certainties or indications on the approach that will be taken by our regulators, and there is additional compliance cost to HLFG Group with the changing and increasing regulation.

Failure to comply with such rules and regulations may result in penalties, loss of regulatory licenses and permits and damage to business reputation, which may have a material adverse effect on HLFG Group’s business, prospects, financial condition and/or results of operations.

3.3.15 Any changes to the scope and cost of deposit insurance in Malaysia may have an adverse effect on HLFG Group's banking business

In relation to HLFG Group's banking business, BNM is not required to act as lender of last resort to meet liquidity needs in the banking system generally or for specific institutions, although it has, in the past and on a case-by-case basis, provided a safety net for individual banks with an isolated liquidity crisis. However, there can be no assurance that BNM will provide such assistance in the future. On 1 September 2005, BNM introduced a deposit insurance system ("**Deposit Insurance System**") pursuant to the establishment of an independent statutory body namely MDIC, under the PIDM Act and all licensed commercial banks (including subsidiaries of foreign banks operating in Malaysia) and Islamic banks are member institutions of the Deposit Insurance System.

On 16 October 2008, the Government moved to guarantee all bank deposits in an effort to shore up confidence in the Malaysian financial system to curb potentially damaging capital outflows. BNM announced the guarantee for all local and foreign currency deposits from 16 October 2008 until 31 December 2010. With effect from 31 December 2010, the MDIC Act came into effect and replaced the PIDM Act.

The MDIC Act was enacted to implement an enhanced financial consumer protection package, whereby, amongst other changes, the deposit insurance limit was increased to RM250,000.00 per depositor per member bank. In addition, under the MDIC Act, foreign currency deposits will now benefit from deposit insurance protection.

Under the Deposit Insurance System, explicit deposit protection is provided to eligible deposits up to the prescribed limit of RM250,000.00 per depositor, per member institution and such amount is inclusive of principal and interest effective as of 31 December 2010. The RM250,000.00 limit provides for 99.0% of existing depositors to be protected in full. A separate coverage for the same amount is provided for Islamic deposits (i.e. those accepted under Shariah principles), accounts held under joint ownership and trust accounts, sole proprietorships and partnerships. It is envisaged that the level of coverage will provide protection for up to 95.0% of such depositors.

Notwithstanding the aforesaid, the fact that deposits exceeding the prescribed limits are not insured up to their full amount could lead to or exacerbate liquidity problems, which, if severe, could have an adverse effect on HLFG Group's business, financial condition, results of operations or prospects, or on the Malaysian financial markets generally.

3.3.16 Failure to comply with the regulatory guidelines applicable to HLFG Group's insurance business

HLFG Group's insurance business operations are subject to rules and regulations of the insurance industry. The insurance industry is regulated by the government. A failure to comply with any of these regulations could result in regulatory investigations, fines or other sanctions. In Malaysia, insurance companies are generally subject to the supervision and regulation of BNM. BNM is vested with comprehensive legal powers under various laws to regulate and supervise the Malaysian financial systems. These requirements and regulations may limit HLFG Group's insurance business activities or result in high compliance costs.

No assurance can be given that any future changes to present law, regulation or any introduction of new regulation by relevant authorities will not have a material adverse impact on HLFG Group's insurance business.

3.3.17 Reliance on agency channels

In relation to HLFG Group's insurance business, while HLA has a number of distribution channels, the agency channel is still the major contributor to premiums. Although all agents are appointed under formal agency agreements, there is no assurance that the level of support from each agent will remain consistent under a changing business environment from time to time. However, this uncertainty is mitigated by the long-standing business relationship, management efforts, and agency friendly policies of HLA that involve continuous upgrading of facilities for agents to do business with HLA. Additionally, for HLA, it is continuously growing its bancassurance channel, exploring alternative distribution channels and seeking to further expand the existing agency network to minimise over-dependence on any single group of agents.

3.3.18 Life insurance underwriting risks

In relation to HLFG Group's insurance business, underwriting risk represents the inherent risk in insurance of incurring higher claims costs than expected. This is due to the random nature of claims, changes in legal or economic conditions or behavioural patterns affecting the frequency and severity of claims. HLA manages underwriting risks through the following means:

(a) Maintaining a measure of conservatism with respect to the adequacy of insurance premium rate levels and provisions with respect to insurance liabilities;

(b) Observing underwriting guidelines, which cover exclusions and cover limits; and

(c) Transferring risks through a program of reinsurance that seeks to limit the exposure to any one risk or life as well as protect the overall retained portfolio from a general deterioration in claims as well as catastrophic events.

3.4 General Considerations

3.4.1 Forward-looking statements

Certain statements in this Information Memorandum are based on historical data which may not be reflective of future results. This Information Memorandum also contains forward-looking statements which are subject to uncertainties and contingencies. All statements other than statements of historical facts included in this Information Memorandum, including, without limitation, those regarding HLFG's financial position, business strategy, plans and objectives of the management for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of HLFG, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding HLFG's present and future business strategies and the environment in which it will operate in the future. Such factors include, inter-alia, general economic and business conditions, competitions, the impact of new laws and regulations affecting HLFG Group and the industry, changes in interest rates and changes in foreign exchange rates.

In light of these uncertainties, the inclusion of such forward-looking statements in this Information Memorandum should not be regarded as a representation or warranty by HLFG or its advisers that such plans and objectives will be achieved.

3.4.2 Change of law

The issue of the Master Notes is based on Malaysian law, tax and administrative practice in effect at the date hereof. No assurance can be given that Malaysian law, tax or administrative practice will not change after the closing date or that such change will not adversely impact the structure of the transaction and the treatment of the Master Notes.

3.4.3 Force majeure

An event of force majeure is an event which is not within the control of the party affected, which that party is unable to prevent, avoid or remove and shall include war and acts of terrorism, riot and disorders, natural catastrophes and others. Force majeure events do not include economic downtown, non- availability or insufficient or lack of financing on the part of the Issuer. The occurrence of a force majeure event may have a material impact on the Issuer's business.

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4.1 Corporate History and Principal Activities

HLFG was incorporated in Malaysia under the Companies Act, 1965 (as repealed by the Companies Act) on 6 September 1968 as a private limited company under the name of Office Products Sdn Berhad. It subsequently changed its name to Sovran Industries Sdn Berhad on 17 June 1969 and was converted to a public company under the name of Sovran Industries Berhad on 29 July 1969. It was admitted to the Official List of the Kuala Lumpur Stock Exchange (now known as Bursa Securities) on 27 November 1969. On 14 May 1980, the name was changed to Hong Leong Credit Berhad. It assumed its present name on 27 July 2006.

The principal activities of HLFG are those of investment holding and provision of services to its subsidiaries to enhance group value. HLFG Group 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 HLFG's subsidiaries consist of commercial banking, Islamic banking, insurance and takaful, investment banking, futures and stockbroking and asset management.

HLFG Group offers an integrated suite of conventional and Islamic financial products and services which enables it to reach out and connect with customers not only in Malaysia, but throughout the region. Through HLB, the HLFG Group provides comprehensive offerings in personal financial services, business banking, treasury, transaction banking and wealth management. With an extensive distribution network of branches and self-service terminals throughout Malaysia, HLB is well positioned to offer effective, sound and responsible financial solutions to Malaysians from all walks of life.

HLB's regional footprint is marked by branches in Singapore and Hong Kong, wholly owned subsidiaries in Vietnam and Cambodia, as well as a representative office in Nanjing. Additionally, HLB has a 20% shareholding in the Bank of Chengdu Co. Ltd., in China and is also a joint venture partner with the Bank of Chengdu in operating a licensed consumer finance company in central and Western China.

Islamic banking and wealth management services are offered through HLISB, a full-fledged Islamic bank and wholly-owned subsidiary of HLB. By leveraging on HLB's extensive network, as well as its own dedicated branches, HLISB provides easy access to customers seeking Shariah compliant alternatives to conventional banking products and services. A full suite of products on offer includes investment banking, business banking, personal financial services and wealth management, all of which encapsulate the tenets and principles of Shariah law.

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

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

4.2 Share Capital Structure of HLFG

As at 30 September 2017, the share capital of HLFG is RM2,267,008,045* comprising 1,147,516,890 ordinary shares.

Note:
* *This is inclusive of existing share premium of RM1,119,491,155 pursuant to Section 618(2) of the Companies Act.*

4.3 Substantial Shareholders of HLFG

The substantial shareholders of HLFG as at 30 September 2017 are as follows:

Name	No. of Shares			
	Direct	%	Indirect	%
Hong Leong Company (Malaysia) Berhad ("**HLCM**")	595,982,955	51.94	291,121,141	25.37*
Tan Sri Quek Leng Chan	5,438,664	0.47	893,706,226	77.88#
HL Holdings Sdn Bhd	-	-	887,104,096	77.31@
Kwek Holdings Pte Ltd	-	-	891,834,602	77.72#
Kwek Leng Beng	1,315,841	0.11	891,834,602	77.72#
Hong Realty (Private) Limited	-	-	891,834,602	77.72#
Hong Leong Investment Holdings Pte Ltd	-	-	891,834,602	77.72#
Davos Investment Holdings Private Limited	-	-	891,834,602	77.72#
Kwek Leng Kee	-	-	891,834,602	77.72#
Guoco Assets Sdn Bhd	291,117,141	25.37	-	-
GuoLine Overseas Limited	-	-	291,117,141	25.37^
Guoco Group Limited	-	-	291,117,141	25.37^
GuoLine Capital Assets Limited	-	-	291,117,141	25.37^

Notes:
* *Held through subsidiary(ies).*
\# *Held through HLCM and company(ies) in which the substantial shareholder has interest.*

@ *Held through HLCM.*
^ *Held through Guoco Assets Sdn Bhd.*

4.4 Profiles of Directors of HLFG

As at 30 September 2017, the profiles of the directors of HLFG are as follows:

Name	Profile
Tan Sri Quek Leng Chan *Chairman/Non-Executive/Non-Independent*	YBhg Tan Sri Quek Leng Chan, aged 74, a Malaysian, qualified as a Barrister-at-Law from Middle Temple, United Kingdom. He has extensive business experience in various business sectors, including financial services, manufacturing and real estate. YBhg Tan Sri Quek is the Chairman of HLFG and was appointed to the 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 HLCM, a public company; Chairman of HLB, HLCB and GuocoLand (Malaysia) Berhad, companies listed on the Main Market of Bursa Securities; and Chairman of HLA and Hong Leong Foundation, both public companies.
Tan Kong Khoon *President & Chief Executive Officer/Non-Independent*	Mr Tan Kong Khoon, aged 60, a Singaporean, holds a Bachelor of Business Administration degree from Bishop's University, Canada and is an alumnus of the Harvard Business School Advance Management Program. Mr Tan is the President & Chief Executive Officer of HLFG. He was the Group Managing Director/Chief Executive Officer of HLB from 1 July 2013 to 4 February 2016. Prior to joining HLB, Mr Tan was the Group Executive, Consumer Banking Group of the Development Bank of Singapore ("**DBS**") from 1 December 2010 to 15 April 2013 where he led and managed strategy formulation and execution for consumer banking globally across the DBS Group. Mr Tan began his banking career with DBS in 1981. Since then, he has successfully built consumer banking franchises across multiple markets in Asia for Citibank, Standard Chartered Bank and ANZ Bank. From March 2007 to December 2009, Mr Tan was President and Chief Executive Officer of Bank of Ayudhya, the fifth largest bank in Thailand listed on the Thailand Stock Exchange. Mr Tan was appointed to the Board on 5 February 2016.

Name	Profile
	Mr Tan is a Director of HLB and HLCB, both companies listed on the Main Market of Bursa Securities. He is also a Director of HLA and HLIB, both public companies.
Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman *Non-Executive Director/Non-Independent*	YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, aged 81, a Malaysian, was educated in England and was called to the English Bar at Middle Temple in 1964. He was admitted to the Malaysian Bar in 1965 and Singapore Bar in 1970. He was a founding partner of K Ahmad & Yong, a legal firm in Penang in 1970 and was a Senior Partner till June 2008. He was a Consultant with K Ahmad & Yong from 2008 to June 2016. He was the Chairman of the Advocates and Solicitors Disciplinary Board from 2005 to 2013. He was the Penang State Executive Councilor from 1974 to 1982 and was the acting Penang Chief Minister in 1979 and has also served on various statutory boards. YBhg Tan Sri Khalid was appointed to the Board on 1 July 1982. YBhg Tan Sri Khalid is also a Director of HLCB, a company listed on the Main Market of Bursa Securities, and the Chairman of HLIB, a public company.
Lim Tau Kien *Non-Executive Director/Independent*	Ms Lim Tau Kien, aged 61, a Malaysian, graduated with a Bachelor of Accountancy from the University of Glasgow, Faculty of Law and is a Chartered Accountant registered with the Institute of Chartered Accountants of Scotland. Ms Lim 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.

Name	Profile
Saw Kok Wei *Non-Executive Director/Independent*	Mr Saw Kok Wei, aged 54, a Malaysian, holds a B.Sc (Hons) in Accounting and Finance degree from the University of Warwick, United Kingdom. Mr Saw is currently the Chief Financial Officer of Jurong Port Pte Ltd, a leading international multi-purpose port operator headquartered in Singapore. Prior to joining Jurong Port Pte Ltd, he was with Electrolux Major Appliances – Asia Pacific for nine years during which time he held the positions of Deputy Head of Strategy, Asia Pacific, based in Singapore from July 2011 to September 2013, Chief Financial Officer of Electrolux China, based in Shanghai from October 2008 to June 2011, General Manager of P.T. Electrolux Indonesia from January 2007 to September 2008 and before that from March 2004 to December 2006, he was the Vice President, Finance & Administration – East Asia. Before joining Electrolux, Mr Saw was with Merck Sharp & Dohme (I.A.) Corp from 2001 to 2003 and Nike Southeast Asia from 1999 to 2001, where he held the position of Finance Director in both companies. Mr Saw was appointed to the Board on 22 August 2011 and is a member of the BARMC and RC of HLFG.
Lim Lean See *Non-Executive Director/Independent*	Ms Lim Lean See, aged 64, a Malaysian, holds an Associateship in Accounting and an Associateship in Secretarial and Administrative Practice both from the Curtin University, Australia. Her professional qualifications include being a Fellow of the Australian Society of Certified Practicing Accountants, Registered Accountant with the Malaysian Institute of Accountants, a Trade Member of Financial Planning Association of Malaysia and a member of the Asian Institute of Chartered Bankers. Ms Lim has 33 years' experience in the banking industry and has held various senior positions including the Head of Corporate Banking and Head of Business Banking Division, the last being the Chief Representative of a foreign bank Representative Office with the corporate rank of an Executive Director. Ms Lim was appointed to the Board 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.

4.5 Profiles of Key Senior Management of HLFG Group

As at 30 September 2017, the profiles of the key senior management of HLFG Group are as follows:

Name	Profile
Chew Seong Aun *Group Chief Financial Officer*	Mr Chew Seong Aun, aged 53, a Malaysian, 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 Bhd, a public company.
Domenic Fuda *Group Managing Director/Chief Executive Officer of HLB*	Mr Domenic Fuda, aged 50, an Australian, 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 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, 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-

Name	Profile
	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.
Lee Jim Leng *Group Managing Director/Chief Executive Officer of HLIB*	Ms Lee Jim Leng, aged 54, a Malaysian, 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.
Loh Guat Lan *Group Managing Director/Chief Executive Officer of HLA*	Ms Loh Guat Lan, aged 52, a Malaysian, 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

Name	Profile
	Berhad and Hong Leong Insurance (Asia) Limited, all public companies.

4.6 HLFG Group Structure

As at 30 September 2017, the group structure of HLFG Group is shown below:

Name of Company	Percentage of equity %
Hong Leong Financial Group Berhad and its subsidiary companies:	
(a) HLA Holdings Sdn Bhd	100.00
and its subsidiary companies:	
(i) Hong Leong Assurance Berhad	70.00
(ii) Hong Leong Insurance (Asia) Limited	100.00
(iii) Hong Leong MSIG Takaful Berhad	65.00
(iv) RC Holdings Sdn Bhd	100.00
(v) HL Assurance Pte. Ltd.	100.00
(b) Hong Leong Equities Sdn Bhd	100.00
(c) HLFG Assets Sdn Bhd	100.00
(d) HLFG Principal Investments (L) Limited	100.00
(e) Hong Leong Capital Berhad	81.33
and its subsidiary companies:	
(i) HLG Securities Sdn Bhd	100.00
(ii) HLG Capital Markets Sdn Bhd	100.00
(iii) Hong Leong Investment Bank Berhad and its subsidiary companies:	100.00
- HLIB Nominees (Tempatan) Sdn Bhd	100.00
- HLIB Nominees (Asing) Sdn Bhd	100.00
- SSSB Jaya (1987) Sdn Bhd (In Creditors' Voluntary Winding-Up)	100.00
(iv) HLCB Assets Sdn Bhd	100.00
(v) Hong Leong Asset Management Bhd	100.00
(f) Hong Leong Bank Berhad	64.37*
and its subsidiary companies	
(i) Hong Leong Islamic Bank Berhad	100.00
(ii) Hong Leong Bank Vietnam Limited	100.00
(iii) Hong Leong Bank (Cambodia) PLC	100.00
(iv) HLF Credit (Perak) Bhd and its subsidiary companies:	100.00

Name of Company		Percentage of equity %
	- Gensource Sdn Bhd and its subsidiary company:	100.00
	• Pelita Terang Sdn Bhd	100.00
	- WTB Corporation Sdn Bhd	100.00
	- Chew Geok Lin Finance Sdn Bhd	100.00
	- Hong Leong Leasing Sdn Bhd	100.00
	- HL Leasing Sdn Bhd	100.00
	- HLB Realty Sdn Bhd	100.00
(v)	HLB Nominees (Tempatan) Sdn Bhd	100.00
(vi)	HLB Nominees (Asing) Sdn Bhd	100.00
(vii)	HL Bank Nominees (Singapore) Pte Ltd	100.00
(viii)	HLB Trade Services (Hong Kong) Limited	100.00
(ix)	HLB Principal Investments (L) Limited and its subsidiary company:	100.00
	- Promino Sdn Bhd	100.00
(x)	Promilia Berhad	100.00
(xi)	EB Nominees (Tempatan) Sendirian Berhad	100.00
(xii)	EB Nominees (Asing) Sendirian Berhad	100.00
(xiii)	DC Tower Sdn Bhd	100.00
(xiv)	EB Realty Sendirian Berhad	100.00
(xv)	OBB Realty Sdn Bhd	100.00

Note:
* *inclusive of indirect interest through subsidiaries.*

4.7 HLFG Group Risk Management

Responsibility of the Board

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

The controls built into the Risk Management Framework of HLFG 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 HLFG Group's financial position or its operations.

The Board has received assurance from the President & Chief Executive Officer and Group Chief Financial Officer that HLFG 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 HLFG 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 HLFG 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.

The Risk Management Framework

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

- identifying the significant risks faced by HLFG 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 financial year ended 30 June 2017.

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

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

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

Internal Control Review and Regulatory Compliance Procedures

HLFG Group Internal Audit Division ("**GIAD**"), under the direction of the BARMC, provides the BARMC and the Board the assurance it requires regarding the adequacy and integrity of the system of internal controls. GIAD undertakes periodic and systematic reviews of internal control systems and the review of compliance with the business objectives, policies, reporting standards and control procedures of HLFG Group. This is to provide reasonable assurance to the Board on the proper functioning of the Risk Management Framework.

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

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 HLFG Group.

The vision and mission statements of HLFG 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.

HLFG'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 HLFG Group will only be made after being reviewed by the BARMC and approved by the Board.

HLFG Group has a well-defined organisational structure with clearly defined authorities, accountability and segregation of duties. The respective heads of the operating subsidiaries of HLFG Group operate their respective units within the policies, functional, financial and operating reporting standards and control procedures developed by HLFG 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.

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

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5.1 Hong Leong Bank Berhad

5.1.1 Corporate history and principal activities of HLB

HLB was originally incorporated as Kwong Lee Mortgage and Remittance Company in 1905 in Kuching, Sarawak and later as Kwong Lee Bank Limited in 1934, bearing heritage of the oldest local financial institution in Malaysia. Kwong Lee Bank Berhad was acquired by the MUI Group in May 1982 and renamed Malayan United Bank Berhad on 2 February 1983. In 1989, it was renamed as MUI Bank. Under the MUI Bank banner, it grew from 11 to 35 branches nationwide. On 3 January 1994, Hong Leong Group acquired MUI Bank Berhad through Hong Leong Credit Berhad (now known as Hong Leong Financial Group Berhad) and renamed it Hong Leong Bank Berhad. HLB was listed on the Kuala Lumpur Stock Exchange (now known as Bursa Securities) on 17 October 1994 and since then has grown by leaps and bounds, organically as well as through mergers and acquisitions. Its merger with EON Bank Group in 2011 placed HLB as Malaysia's fifth largest banking group, with over RM190 billion in assets as at 30 June 2017.

HLB is principally engaged in all aspects of commercial banking business and in the provision of related services.

5.1.2 HLB Group's business

As the fifth largest commercial bank in Malaysia by assets, HLB has a strong market presence in mortgages, deposits, cards and wealth management. As at 30 October 2017, it has one of the most extensive branch networks in the country with 297 branches throughout Malaysia, with 1 branch each in Singapore and Hong Kong, 3 branches and 1 transaction office in Vietnam, 5 branches in Cambodia and a representative office in Nanjing.

HLB Group's business operations, inclusive of its Islamic operations, are divided into the following key business pillars:

(a) Personal Financial Services

The principal business activities of Personal Financial Services cover the provision of retail loans, deposit products, wealth management and priority banking services to individuals.

(b) Business and Corporate Banking

The principal business activities of Business and Corporate Banking ("**BCB**") include the provision of business banking solutions including working capital and term loans, deposit and liability management products and cash management and trade finance services as well as debt capital market solutions to businesses and companies.

(c) Global Markets

Global Markets' principal activities include assisting customers on their investment and hedging needs through various treasury products, ranging from foreign exchange, money market, derivatives including interest rate swaps and interest rate swap options, to structured investment products.

(d) Islamic Financial Services

A wholly owned subsidiary of HLB, HLISB, focuses on Shariah-compliant commercial banking, Islamic wholesale and investment banking, transactional banking services, as well as Islamic wealth management.

5.1.3 HLB Group business strategy

The banking business is expected to remain resilient with sufficient liquidity, stable asset quality, and strong capitalisation despite margin compression from ongoing competition. Nevertheless, HLB remains focused on its digital strategy to transform and optimise its business to enhance customer experience and deliver operational excellence. HLB will continue to grow its domestic franchise and regional business through its Community Banking approach and differentiate itself via its multi-channel banking services to cater to the evolving needs of its customers.

5.1.4 HLB Group's outlook and business plan

In view of the heightened competition and moderate economic growth outlook, HLB will continue to pursue sustainable growth in its domestic and regional business by embedding itself in the community and strengthening its digital offerings. At the same time, HLB remains committed to drive rapid and continuous improvement in its business and strives to pursue operational excellence through strategic cost management whilst channeling some of these savings into investment in digital initiatives to transform its products and services and provide a seamless and personalised banking experience to its customers.

5.2 Hong Leong Islamic Bank Berhad

5.2.1 Corporate history and principal activities of HLISB

HLISB was incorporated on 28 March 2005 under the Companies Act, 1965 (as repealed by the Companies Act) as a public company limited by shares. In November 2011, HLISB completed its merger with EONCap Islamic Bank Berhad as part of a larger merger between HLB and EON Bank Berhad. This milestone marked the first of such mergers between 2 Islamic banks in Malaysia and had provided HLISB with improved scale and a deepened foothold within the highly competitive Islamic banking industry. HLISB is a wholly-owned subsidiary of HLB.

HLISB is principally engaged in Islamic banking business and related financial services.

5.2.2 HLISB's business

HLISB currently operates through full-fledged Islamic branches, in addition to a shared network with HLB branches, self-service terminals nationwide and a full service call centre. As such, it naturally benefits from a strong distribution network in offering Islamic banking products and services as a Shariah compliant alternative to conventional banking. HLISB offers a comprehensive suite of Shariah compliant products and services in areas such as Personal Financial Services, Business and Corporate Banking and Islamic Global Markets.

Strategically focused on the provision of holistic solutions based on the tenets and principles of Shariah law, HLISB offers its customers a wide range of innovative solutions which amongst others includes structured finance, business and corporate banking, personal financial services, Islamic global markets and wealth management. HLISB has since expanded on its scope and breadth of banking solutions to include the wider, non-Muslim customers fulfilling the needs of the larger Malaysian population.

5.3 Hong Leong Investment Bank Berhad

5.3.1 Corporate history and principal activities of HLIB

HLIB was incorporated as International Merchant Bankers Berhad on 3 December 1970 under the Companies Act, 1965 (as repealed by the Companies Act). On 1 February 1971, HLIB changed its name to Malaysian International Merchant Bankers Berhad. Subsequently on 14 December 2006, HLIB changed its name to MIMB Investment Bank Berhad and assumed its present name on 1 October 2012. HLIB is a wholly-owned subsidiary of Hong Leong Capital Berhad, which is listed on the Main Market of Bursa Securities.

HLIB is principally engaged in investment banking, stockbroking business and related financial services.

5.3.2 HLIB's business

HLIB consists of two main divisions, namely the Investment Banking division and the Stockbroking division. The core activities of the Investment Banking Division include arranging and managing debt and equity fund raising and other corporate related advisory work. The Investment Banking Division also offers debt and equity underwriting, deposit taking, treasury-related solutions as well as trading and distribution services.

The Stockbroking Division of HLIB provides a complete range of broking services for a wide range of clients, ranging from institutional and retail, to high net worth investors. Supported by a dedicated client centric sales team committed to providing timely advice and good trade execution, as well as a research team and supported by a professional team of industry specialists, HLIB strives to deliver groundbreaking insights and fresh perspectives on investing ideas.

5.4 Hong Leong Assurance Berhad

5.4.1 Corporate history and principal activities of HLA

HLA was incorporated under the Companies Act, 1965 (as repealed by the Companies Act) on 20 December 1982 as a private limited company under the name of Hong Leong Assurance Sendirian Berhad to carry out life and general insurance businesses. HLA later converted into a public company limited by shares and changed its name to Hong Leong Assurance Berhad on 6 March 1993. Following the transfer of its general insurance business to MSIG Insurance (Malaysia) Bhd under a strategic partnership, a life insurance license was issued to HLA by Ministry of Finance on 31 January 2011, replacing its composite insurance license. HLA is a 70%-owned subsidiary of HLA Holdings Sdn Bhd, which is wholly-owned by HLFG.

HLA is principally engaged in the underwriting of life insurance business.

5.4.2 HLA's business

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

HLA is engaged principally in the underwriting of life insurance business. It is a well-established and respected Malaysian brand offering financial planning and protection solutions to meet the various needs of Malaysians at different stages of their lives. Commitment to the customer is the key to HLA's success, where services are provided through a large network of branches, agents and brokers throughout the country as well as bancassurance and alternative distribution channels.

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6.1 Funding

HLFG Group's primary source of funding is customer deposits, accounting for 79.65% and 79.81% of the Issuer's total liabilities as at 30 June 2017 and 30 June 2016, respectively, with other sources of funding including deposits and placements of banks and other financial institutions.

HLFG's banking subsidiaries have in place liquidity contingency funding plans and stress test programmes to minimise the liquidity risk that may arise due to unforeseen adverse changes in the marketplace. Contingency funding plans set out the crisis escalation process and the various strategies to be employed to preserve liquidity including an orderly communication channel during liquidity crisis scenarios. Liquidity stress tests are conducted regularly to ensure there is adequate liquidity contingency fund to meet the shortfalls during liquidity crisis scenarios. The comprehensive liquidity risk management framework, consisting of risk appetite, policies, triggers, limits and controls, covers proactive monitoring and management of the diversification of our funding base as well as maintains a liquidity compliance buffer to meet any unexpected cash outflows.

Customer deposits

HLFG Group's total customer deposit structure as at 30 June 2017 primarily comprises fixed deposits, demand deposits and short-term placements representing approximately 58.05%, 13.94% and 12.05% respectively of HLFG Group's gross deposits.

As at 30 June 2016, HLFG's total customer deposit comprises predominantly of fixed deposits, demand deposits and savings deposits, representing approximately 57.90%, 13.89% and 11.20% respectively of HLFG Group's gross deposits.

As at 30 June 2017 and 30 June 2016, approximately 82.89% and 81.95% respectively, of HLFG Group's fixed deposits, negotiable instruments of deposits and short-term placements had maturities of less than six months. Further, 15.49% and 15.27% respectively, of HLFG Group's fixed deposits, negotiable instruments of deposits and short-term placements respectively were due within the period of six months to a year as at 30 June 2017 and 30 June 2016.

The following tables illustrate the profile of HLFG Group's customer deposits and the maturity structure of fixed deposits, negotiable instruments of deposits and short-term placements as at 30 June 2017 and 30 June 2016.

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	Audited As at 30 June 2017	Audited As at 30 June 2016
	(RM'000)	
Deposits from customers by type of deposits		
Fixed Deposits	**88,216,001**	85,737,639
Short-term placements	**18,312,314**	16,429,616
Negotiable instruments of deposits	**5,713,184**	7,816,740
Demand deposits	**21,186,820**	20,559,745
Savings deposits	**17,531,603**	16,581,412
Others	**1,017,170**	943,462

	Audited As at 30 June 2017	Audited As at 30 June 2016
	(RM'000)	
Maturity structures of fixed deposits, negotiable instruments of deposits and short-term placements		
Due within six months	**93,035,057**	90,130,671
Six months to one year	**17,382,345**	16,791,342
One year to five years	**1,824,097**	3,044,069
More than five years	**-**	17,913
	112,241,499	109,983,995

Interbank deposits

HLFG Group has the capacity to obtain funds comprising deposits and placements from banks and other financial institutions. HLFG Group obtains interbank funds primarily from other Malaysian banks at prevailing interbank rates and maintains similar credit lines for the usage of other Malaysian banks.

As at 30 June 2017 and 30 June 2016, deposits and placements from financial institutions accounted for approximately 3.99% and 4.33% respectively of the HLFG Group's total liabilities.

6.2 Capital Adequacy

HLFG's banking subsidiaries regulatory capital is governed by the capital adequacy framework issued by BNM (as revised from time to time). The risk-weighted assets of the banking subsidiaries have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for the Operational Risk computation.

HLFG Group's CET1 capital ratio, Tier 1 capital ratio and Total capital ratio as at 30 June 2017 are 10.004%, 10.516% and 12.235% respectively. The capital ratios are computed in full compliance with the New CA Framework.

The following tables set out the summary of capital adequacy ratios and the sources of capital of HLB Group, HLB and HLIB at 30 June 2017 and 30 June 2016.

Capital adequacy ratios

	HLB Group		HLB		HLIB	
	Audited As at 30 June 2017	**Audited As at 30 June 2016**	**Audited As at 30 June 2017**	**Audited As at 30 June 2016**	**Audited As at 30 June 2017**	**Audited As at 30 June 2016**
Before deducting proposed dividends						
Common equity tier 1 ratio	**13.788%**	13.176%	**13.078%**	12.493%	**29.744%**	29.202%
Tier 1 ratio	**14.193%**	13.577%	**13.556%**	12.961%	**29.744%**	29.202%
Total capital ratio	**16.280%**	15.104%	**15.997%**	14.858%	**33.912%**	33.576%
After deducting proposed dividends						
Common equity tier 1 ratio	**13.286%**	12.745%	**12.486%**	11.991%	**25.398%**	24.986%
Tier 1 ratio	**13.691%**	13.146%	**12.964%**	12.458%	**25.398%**	24.986%
Total capital ratio	**15.779%**	14.673%	**15.405%**	14.355%	**29.566%**	29.360%

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Components of CET1, Tier 1 and Tier 2 capital

	HLB Group		HLB		HLIB	
	Audited As at 30 June 2017 RM'000	**Audited As at 30 June 2016 RM'000**	**Audited As at 30 June 2017 RM'000**	**Audited As at 30 June 2016 RM'000**	**Audited As at 30 June 2017 RM'000**	**Audited As at 30 June 2016 RM'000**
CET1 capital						
Paid up share capital	**7,739,063**	2,167,718	**7,739,063**	2,167,718	**252,950**	165,000
Share premium	**-**	5,571,345	**-**	5,571,345	**-**	87,950
Retained profit	**13,560,582**	8,412,365	**10,245,205**	6,035,024	**246,910**	36,357
Other reserves	**1,265,223**	4,939,875	**422,954**	3,727,869	**648**	199,404
Less: Treasury shares	**(733,961)**	(735,040)	**(733,961)**	(735,040)	**-**	-
Less: Other intangible assets	**(213,323)**	(264,766)	**(194,870)**	(246,784)	**-**	-
Less: Goodwill	**(1,831,312)**	(1,831,312)	**(1,771,547)**	(1,771,547)	**(33,796)**	(34,379)
Less: Deferred tax assets	**(4,851)**	(3,957)	**-**	-	**(90,153)**	(91,882)
Less: Investment in subsidiary companies/ associated company/ joint venture	**(2,908,861)**	(1,993,586)	**(2,148,516)**	(1,531,798)	**(160)**	(217)
Total CET 1 capital	**16,872,560**	16,262,642	**13,558,328**	13,216,787	**376,399**	362,233
Additional Tier 1 capital						
Innovative Tier 1 capital securities	**495,778**	494,142	**495,778**	494,142	**-**	-
Total additional Tier 1 capital	**495,778**	494,142	**495,778**	494,142	**-**	-
Total Tier 1 capital	**17,368,338**	16,756,784	**14,054,106**	13,710,929	**376,399**	362,233

	HLB Group		HLB		HLIB	
	Audited As at 30 June 2017 RM'000	**Audited As at 30 June 2016 RM'000**	**Audited As at 30 June 2017 RM'000**	**Audited As at 30 June 2016 RM'000**	**Audited As at 30 June 2017 RM'000**	**Audited As at 30 June 2016 RM'000**
Tier 2 Capital						
Collective assessment allowance^ and regulatory reserves#	**1,281,686**	1,214,681	**1,067,705**	1,029,079	**2,783**	4,394
Subordinated obligations	**1,999,723**	1,999,411	**1,999,723**	1,999,411	**50,000**	50,000
Tier 2 capital before regulatory adjustments	**3,281,409**	3,214,092	**3,067,428**	3,028,490	**52,783**	54,394
Less: Investment in subsidiary companies/ associated company/ joint venture	**(727,215)**	(1,329,057)	**(537,129)**	(1,021,198)	**(40)**	(144)
Total Tier 2 capital	**2,554,194**	1,885,035	**2,530,299**	2,007,292	**52,743**	54,250
Total capital	**19,922,532**	**18,641,819**	**16,584,405**	**15,718,221**	**429,142**	**416,483**

Notes:

^ *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 HLB Group of RM667,238,000 (2016: RM587,527,000), HLB of RM571,678,000 (2016: RM495,008,000) and HLIB of RM2,504,000 (2016: RM3,563,000) respectively

The breakdown of risk-weighted assets ("**RWA**") by each major risk category is as follows:

	HLB Group		**HLB**		**HLIB**	
	Audited As at 30 June 2017 RM'000	**Audited As at 30 June 2016 RM'000**	**Audited As at 30 June 2017 RM'000**	**Audited As at 30 June 2016 RM'000**	**Audited As at 30 June 2017 RM'000**	**Audited As at 30 June 2016 RM'000**
Credit risk	**111,299,987**	111,838,090	**93,397,418**	95,233,431	**461,963**	520,091
Market risk	**3,115,525**	3,951,986	**3,340,119**	3,857,577	**517,433**	416,042
Operational risk	**7,958,340**	7,633,295	**6,934,552**	6,698,869	**286,064**	304,287
Total RWA	**122,373,852**	123,423,371	**103,672,089**	105,789,877	**1,265,460**	1,240,420

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7.1 Financing Portfolio

HLFG Group has a stable and diversified portfolio of loans, advances and financing, with its largest exposures being term loans/financing. As at 30 June 2017 and 30 June 2016, HLFG Group's total gross loans, advances and financings were approximately RM125.97 billion and RM121.59 billion respectively.

Financing by types

The following table sets out a breakdown of HLFG Group's loans, advances and financing portfolio by product type as at 30 June 2017 and 30 June 2016.

	Audited As at 30 June 2017	Audited As at 30 June 2016
	(RM'000)	
Overdrafts	**3,776,243**	3,857,485
Term loans/financing:		
- Housing and shop loans/financing	**65,998,057**	60,462,347
- Syndicated term loan/financing	**9,225,253**	9,339,212
- Hire purchase receivables	**18,159,364**	18,682,098
- Other term loans/financing	**8,135,246**	8,605,184
Credit/charge card receivables	**3,997,701**	3,755,348
Bills receivable	**1,081,635**	1,107,690
Trust receipts	**314,042**	381,531
Claims on customers under acceptance credits	**7,451,325**	7,439,144
Revolving credits	**6,611,688**	6,757,003
Policy and premium loans	**584,546**	614,679
Staff loans/financing	**146,737**	164,914
Other loans/financing	**486,255**	425,856
Gross loans, advances and financing	**125,968,092**	121,592,491
Fair value changes arising from fair value hedges	**(34)**	-
Unamortised fair value changes arising from terminated fair value hedges	**(36)**	(784)
Allowance for impaired loans, advances and financing:		
- Collective assessment allowance	**(830,407)**	(856,971)
- Individual assessment allowance	**(325,536)**	(289,844)
Total net loans, advances and financing	**124,812,079**	120,444,892

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

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Financing by economic purpose

The following table sets out a breakdown of HLFG Group's gross loans, advances and financing portfolio by economic purpose as at 30 June 2017 and 30 June 2016.

	Audited As at 30 June 2017	**Audited As at 30 June 2016**
	(RM'000)	
Purchase of securities	**700,958**	856,080
Purchase of transport vehicles	**17,583,693**	18,445,657
Residential property (housing)	**56,861,181**	51,510,277
Non-residential property-	**15,774,407**	14,986,782
Purchase of fixed assets (excluding landed properties)	**379,050**	434,041
Personal use	**3,563,125**	3,766,429
Credit card	**3,997,701**	3,755,348
Purchase of consumer durables	**-**	387
Construction	**1,238,539**	1,386,003
Mergers and acquisition	**201,182**	233,364
Working capital	**23,216,086**	23,529,783
Other purpose	**2,452,170**	2,688,340
Gross loans, advances and financing	**125,968,092**	121,592,491

Purchase of residential properties

HLFG Group's largest concentration of loans, advance and financing, as at 30 June 2017 and 30 June 2016, was for the purchase of residential properties. This sector accounted for approximately 45.14% and 42.36% respectively, of HLFG Group's total gross loans, advance and financing as at 30 June 2017 and 30 June 2016.

Working capital

HLFG Group's second largest concentration of loans, advance and financing as at 30 June 2017 and 30 June 2016, was granted for working capital purposes. This sector accounted for approximately 18.43% and 19.35% respectively, of HLFG Group's total gross loans, advances and financing portfolio as at 30 June 2017 and 30 June 2016.

Purchase of transport vehicles

The third largest concentration of HLFG Group's loans, advance and financings as at 30 June 2017 and 30 June 2016 was granted for transport vehicles acquisition purposes, which made up approximately 13.96% and 15.17% respectively of HLFG Group's total gross loans, advances and financing portfolio as at 30 June 2017 and 30 June 2016.

Financing maturity by profile

As at 30 June 2017 and 30 June 2016, HLFG Group's loans, advances and financing maturing within one year constituted approximately 21.74% and 22.90% of its gross loans, advances and financings, respectively. As at 30 June 2017 and 30 June 2016, approximately 4.36% and 4.47% of loans, advances and financing, respectively, had maturities of one to less than three years, while approximately 8.15% and 8.81%, respectively, had maturities of three years to less than five years. Loans, advances and financing maturing five years and more as at 30 June

2017 and 30 June 2016 constituted 65.75% and 63.82% respectively of HLFG's Group's gross loans, advances and financing.

The following table sets out HLFG Group's gross loans, advances and financing portfolio by residual contractual maturity as at 30 June 2017 and 30 June 2016.

	Audited As at 30 June 2017	Audited As at 30 June 2016
	(RM'000)	
Within one year	**27,380,609**	27,848,217
One year to less than three years	**5,492,203**	5,434,573
Three years to less than five years	**10,265,641**	10,710,736
Five years and more	**82,829,639**	77,598,965
	125,968,092	121,592,491

7.2 Allowances for Impairment Losses on Loans, Advances and Financing

The HLFG Group regularly reviews its loan portfolio to assess impairment. It is the policy of the HLFG Group to establish, through charges against profit, individual and collective assessment impairment allowances in respect of estimated and inherent credit losses in its portfolio.

In determining individual assessment impairment allowances for loans/financing above the set threshold, management considers objective evidence of impairment and exercises judgement in estimating cash flows and collateral value. Whilst, management's judgement is guided by the relevant BNM guidelines, judgement is made in estimation of the amount and timing of future cash flows in assessing allowance for impairment of financial assets. Among the factors considered are the net realisable value of the underlying collateral value, the viability of the customer's business model and the capacity to generate sufficient cash flows to service debt obligations.

The movements in HLFG Group's allowance for impaired loans, advances and financing, as at 30 June 2017 and 30 June 2016 are set out below.

	Audited As at 30 June 2017	Audited As at 30 June 2016
	(RM'000)	
Collective assessment allowance		
As at beginning of the financial year	**856,971**	969,925
Net allowance made during the financial year	**282,483**	263,678
Amount transferred to individual assessment allowance	**(729)**	(109)
Amount written off	**(298,120)**	(365,615)
Unwinding income	**(10,732)**	(11,465)
Exchange differences	**534**	557
As at end of the financial year	**830,407**	856,971
Collective assessment allowance (inclusive of regulatory reserve) as % of gross loans, advances and financing less individual impairment allowance	**1.2%**	1.2%

	Audited As at 30 June 2017	Audited As at 30 June 2016
	(RM'000)	
<u>Individual assessment allowance</u>		
As at beginning of the financial year	**289,844**	323,071
Net allowance made during the financial year	**162,679**	57,180
Amount transferred from collective assessment allowance	**729**	109
Amount transferred to allowance for impairment losses on securities	**-**	(2,566)
Amount written back in respect of recoveries	**(46,433)**	(61,626)
Amount written off	**(72,260)**	(22,014)
Unwinding income	**(8,741)**	(4,404)
Exchange differences	**(282)**	94
As at end of the financial year	**325,536**	289,844

7.3 Profile of Impaired Loans

HLFG Group's gross impaired loans, advances and financing stood at RM1.22 billion and RM957.15 million as at 30 June 2017 and 30 June 2016 respectively, representing 0.96% and 0.79% of total gross loans, advances and financing as at 30 June 2017 and 30 June 2016 respectively.

The table below illustrates the movements of the Issuer's impaired loans, advances and financing as at 30 June 2017 and 30 June 2016.

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

Impaired loans by economic purpose

HLFG Group's 3 largest components of impaired loans, advances and financing were for working capital, purchase of residential properties and purchase of transport vehicles, which constituted approximately 42.03%, 25.29% and 11.75% respectively as at 30 June 2017, and approximately 36.21%, 24.40% and 15.20% respectively as at 30 June 2016, of the gross impaired loans, advances and financing.

The following table sets out HLFG Group's impaired loans by economic purpose as at 30 June 2017 and 30 June 2016.

	Audited As at 30 June 2017	**Audited As at 30 June 2016**
	(RM'000)	
Purchase of securities	**2,196**	225
Purchase of transport vehicles	**142,754**	145,528
Residential property (housing)	**307,234**	233,566
Non-residential property	**133,296**	99,145
Purchase of fixed assets (excluding landed properties)	**3,332**	22,872
Personal use	**44,066**	36,909
Credit card	**48,005**	44,308
Construction	**7,209**	9,138
Working capital	**510,724**	346,555
Other purpose	**16,201**	18,907
Gross impaired loans, advances and financing	**1,215,017**	957,153

7.4 Financial Assets and Investments Portfolio

Financial Assets Held-For-Trading

Financial assets at fair value through profit or loss comprise of financial assets held-for-trading and other financial assets designated by HLFG Group and HLFG 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.

As at 30 June 2017 and 30 June 2016, the financial assets Held-For-Trading constituted approximately 4.32% and 4.05% of HLFG Group's total assets, respectively. HLFG Group's financial assets Held-For-Trading comprised mainly money market instruments, more specifically negotiable instruments of deposit which constitutes 54.77% and 56.87% of its total financial assets Held-For-Trading as at 30 June 2017 and 30 June 2016 respectively.

HLFG Group's financial assets Held-For-Trading as at 30 June 2017 and 30 June 2016 are set out below.

	Audited As at 30 June 2017	**Audited As at 30 June 2016**
	(RM'000)	
Money market instruments:		
Government treasury bills	**-**	119,332
Malaysian Government securities	**475,794**	239,083
Negotiable instruments of deposit	**5,177,899**	4,848,396
Malaysian Government investment certificates	**715,133**	320,952
Cagamas bonds	**1,013**	55,474
Other government securities	**557,649**	158,666

	Audited As at 30 June 2017	Audited As at 30 June 2016
	(RM'000)	
	6,927,488	5,741,903
Quoted securities:		
Shares in Malaysia	**743,504**	478,460
Shares outside Malaysia	**71,073**	66,899
Foreign currency bonds in Malaysia	**195,592**	488,718
Foreign currency bonds outside Malaysia	**62,860**	-
Unit trust investments	**332,260**	241,851
	1,405,289	1,275,928
Unquoted securities:		
Foreign currency bonds in Malaysia	**-**	53,001
Foreign currency bonds outside Malaysia	**53,087**	134,406
Malaysia Government sukuk	**191,394**	-
Corporate bonds and sukuk	**876,179**	1,319,435
	1,120,660	1,506,842
Total financial assets held-for-trading	**9,453,437**	8,524,673

Financial Assets 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 held-for-trading and financial investments held-to-maturity.

Financial investments available-for-sale constituted approximately 16.06% and 16.99% of HLFG Group's total assets as at 30 June 2017 and 30 June 2016 respectively and comprised mainly of unquoted securities, more specifically corporate bonds and sukuk which constituted approximately 38.21% and 30.77% of its total financial assets available-for-sale as at 30 June 2017 and 30 June 2016 respectively.

HLFG Group's financial assets available-for-sale as at 30 June 2017 and 30 June 2016 are set out below.

	Audited As at 30 June 2017	Audited As at 30 June 2016
	(RM'000)	
Money market instruments:		
Government treasury bills	**-**	69,206
Malaysian Government securities	**1,367,665**	1,040,565
Malaysian Government investment certificates	**4,446,014**	3,547,351
Khazanah bonds	**406,904**	334,686
Cagamas bonds	**1,458,370**	1,019,398
Other government securities	**3,284,010**	1,790,368
	10,962,963	7,801,574
Quoted securities:		

	Audited As at 30 June 2017	Audited As at 30 June 2016
	(RM'000)	
Shares in Malaysia	**1,653,070**	1,513,057
Shares outside Malaysia	**114,374**	146,706
Foreign currency bonds in Malaysia	**3,056,104**	3,606,238
Foreign currency bonds outside Malaysia	**1,818,131**	1,954,369
Unit trust investments	**470,603**	7,079,657
	7,112,282	14,300,027
Unquoted securities:		
Shares in Malaysia	**459,212**	427,399
Shares outside Malaysia	**162,243**	16,301
Foreign currency bonds in Malaysia	**294,300**	1,125,156
Foreign currency bonds outside Malaysia	**862,710**	468,925
Investment-linked funds	**300**	300
Malaysia Government sukuk	**2,040,793**	820,552
Corporate bonds and sukuk	**13,437,539**	11,004,921
	17,257,097	13,863,554
	35,332,342	35,965,155
Allowance for impairment losses	**(168,980)**	(198,063)
Total financial assets available-for-sale	**35,163,362**	35,767,092

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

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

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

Financial Investments Held-To-Maturity

Financial investments held-to-maturity are non-derivative instruments with fixed or determinable payments and fixed maturities that HLFG Group and HLFG's management has the intent and ability to hold to maturity. If HLFG Group or HLFG 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.

Financial investments held-to-maturity constituted approximately 6.66% and 6.13% of HLFG

Group's total assets as at 30 June 2017 and 30 June 2016 respectively and comprised mainly of money market instruments, more specifically Malaysian Government investment certificates which constituted approximately 65.03% and 59.88% of its total financial assets available-for-sale as at 30 June 2017 and 30 June 2016 respectively.

HLFG Group's financial assets held-to-maturity as at 30 June 2017 and 30 June 2016 are set out below.

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

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

	Audited As at 30 June 2017	**Audited As at 30 June 2016**
	(RM'000)	
As at the beginning of the financial year	**116,479**	126,317
Amount written back in respect of recoveries	**(2,635)**	(9,838)
As at 30 June	**113,844**	116,479

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

8.1 The Malaysian Economy

Overview

The global economy continued to expand in the second quarter of 2017. Growth was also becoming more synchronised across the advanced and emerging economies. Indicators such as the manufacturing purchasing managers' index ("**PMI**") and industrial production expanded at a faster pace, particularly in the advanced economies. Similarly, manufacturing PMIs in Asia have remained above the usual trend observed since the global financial crisis. This indicates that global recovery has become more entrenched. Global financial markets remained volatile in the second quarter. Investor sentiments were affected by uncertainties surrounding the timing and magnitude of interest rate normalisation by the US Federal Reserve ("**Fed**") and adverse developments surrounding the Greek debt crisis. In Asia, equity markets were further weighed down by concerns over weaker-than-expected economic data releases in the region. In People's Republic China ("**PRC**"), equity markets rose during the earlier part of the quarter supported by capital market liberalisation measures introduced since the fourth quarter of last year and continued easing measures by the government to support economic growth. Nevertheless, this trend reversed in mid-June following concerns over an overvaluation in Chinese stocks.

Going forward, the global economy is projected to remain on a moderate growth path, with diverging growth momentum across major economies. Overall global growth is expected to continue to benefit from low oil prices, but the impact will vary across economies. In Asia, with export growth remaining moderate, domestic demand is expected to remain the key driver of growth. Global growth, however, has become more vulnerable to increased downside risks. Any adverse developments in Europe, increased uncertainty over policy adjustments in the advanced and emerging economies and a re-emergence of geopolitical tensions could result in further international financial market volatility.

The Malaysian economy grew by 5.8% in the second quarter of 2017

The Malaysian economy recorded a stronger growth of 5.8% in the second quarter of 2017 (1Q 2017: 5.6%). Private sector spending continued to be the main driver of growth. On the external front, growth was further supported by the robust expansion in real exports of goods and services (9.6%; 1Q 2017:9.8%) following strong demand for manufactured and commodity products. Real imports moderated slightly to 10.7% (1Q 2017: 1.8%).

Domestic demand grew by 5.7% in the second quarter of the year (1Q 2017: 7.7%), supported by continued expansion in both private sector expenditure (7.2%; 1Q 2017: 8.2%) and public sector spending (0.2%; 1Q 2017: 5.8%). Private consumption recorded a growth of 7.1% (1Q 2017: 6.6%), supported by the improvement in private sector wages amid continued strength in employment growth. During the quarter, consumer sentiments continued to improve, providing further impetus to household spending. Private investment expanded by 7.4% in the second quarter (1Q 2017: 12.9%), mainly in the services and manufacturing sectors.

Public consumption growth moderated to 3.3% (1Q 2017: 7.5%) following slower growth in the spending on emoluments, and supplies and services. Public investment declined by 5.0% in the second quarter (1Q 2017: 3.2%). This was attributable to the lower spending on fixed assets by public corporations, which more than offset the higher expenditure by the Federal Government.

On the supply side, all economic sectors continued to expand. The services sector registered higher growth during the quarter. Growth in the wholesale and retail sub-sector improved, driven by higher household spending. The finance and insurance sub-sector also continued to benefit from the improvement in performance of the capital market and insurance segment. In the transportation and storage subsector, growth was principally supported by robust external trade and higher air passenger traffic. The manufacturing sector growth was driven by both the export and domestic-oriented industries. The strong performance of electronics and electrical segment, in line with higher global demand for semiconductors, continued to spur the export oriented industries. The domestic-oriented industries benefitted from the strength in demand for food related products in view of the improved consumer sentiments, and higher production of construction related materials supported by robust construction activity.

Inflation during the quarter was not pervasive. The percentage of items in the Consumer Price Index ("**CPI**") basket registering inflation of more than 2% remained unchanged at 33%. However, the sustained increase in the prices of food away from home and rental led to the slightly higher core inflation of 2.5% in second quarter of 2017 (1Q 2017: 2.4%).

The current account surplus widened to RM9.6 billion in the second quarter of 2017 (1Q 2017: RM5.3 billion) accounting for 3.0% of GNI (1Q 2017: 1.7% of GNI). The higher surplus was due to a larger goods surplus and smaller deficit in the services and primary income account. The goods surplus widened to RM27.0 billion in the second quarter of 2017 (1Q 2017: RM25.3 billion) as exports continued its robust pace, while intermediate and capital imports moderated from the first quarter of 2017. The deficit in the services account was lower at RM5.0 billion (1Q 2017: a deficit of RM6.2 billion). The travel account recorded a larger surplus of RM8.3 billion (1Q 2017: RM7.6 billion). During the quarter, construction services exports also increased, reflecting receipts from civil engineering construction projects in Cambodia, India, Qatar and Vietnam. This was partly offset by higher net payments for transportation services, and telecommunications, computer and information services. The smaller deficit in the primary income account in the second quarter of 2017 (RM8.2 billion; 1Q 2017: RM9.9 billion) was largely attributable to higher income generated by Malaysian firms investing abroad (RM12.4 billion; 1Q 2017: RM11.4 billion). Profits accrued to foreign investors in Malaysia were broadly unchanged (RM19.4 billion; 1Q 2017: RM20.0 billion). The deficit in the secondary income account was slightly higher at RM4.2 billion (1Q 2017: RM3.9 billion). Outward remittances increase to RM8.7 billion (1Q 2017: RM8.5 billion) while inward remittances slowed to RM4.4 billion (1Q 2017: RM4.6 billion).

Investor sentiments improved during the quarter, supported by the announcement of initiatives to develop the onshore financial market, stronger ringgit performance, expectations of better corporate earnings outlook and domestic growth prospects. Resident portfolio investment registered a lower net outflow of RM2.8 billion (1Q 2017: net outflow of RM9.0 billion), as the continued net acquisition of equity securities abroad by domestic fund managers was partially offset by net liquidation of debt securities overseas. The overall balance of payments registered a surplus of RM2.7 billion in the second quarter (1Q 2017: a deficit of RM1.8 billion). Errors and omissions, which include the revaluation changes on reserves, amounted to RM14.3 billion or 3.3% of total trade.

Malaysia's external debt amounted to RM877.5 billion, equivalent to USD202.3 billion or 66.9% of GDP as at end-June 2017 (end-March 2017: RM897.0 billion or USD200.8 billion). The lower external debt largely reflects the valuation effects following the strengthening of the ringgit against selected major and regional currencies and net repayment of interbank borrowing during the second quarter. There were also net repayment of intercompany loans and redemption of maturing bond and Capital Securities by the private sector. These declines were partly offset by an increase in non-resident holdings of domestic debt securities, especially MGS, and a small increase in non-resident deposits. Malaysia's external debt remains manageable given its currency and maturity profiles, as well as the availability of large external assets. About one-third of total external debt is denominated in ringgit (32.8%), mainly in the form of NR holdings of domestic debt securities and ringgit deposits in domestic banking institutions. As such, these liabilities are not subjected to valuation changes from the fluctuations in the ringgit exchange rate. The remaining external debt of RM589.9 billion (67.2%) is denominated in foreign currency ("**FC**") and most are hedged, either naturally through foreign currency earnings or through the use of financial instruments. The bulk of these obligations are off shore borrowings, raised mainly to expand productive capacity and to better manage financial resources within corporate groups. As at end-June 2017, the off shore borrowing remained low at 39.7% of gross domestic product ("**GDP**") compared to 60.0% of GDP during the Asian Financial Crisis.

The MPC maintained the OPR at 3.00%

At the May and July Monetary Policy Committee ("**MPC**") meetings, the MPC maintained the Overnight Policy Rate ("**OPR**") at 3.00%. By mid-year, there was firmer indication that the Malaysian economy would register higher growth in 2017. The global economy continued to strengthen, with more synchronised growth across economies driven by sustained private consumption growth. This stronger domestic and global demand conditions, together with improved sentiments, are supporting a more favourable investment outlook globally. For Malaysia, the positive spillovers from the stronger external sector performance have been felt through both the income and investment channels. The sustained private expenditure growth will remain supported by higher wages and employment, and new and ongoing infrastructure projects. Headline inflation is expected to continue moderating in the second half of the year after peaking in March, mainly reflecting the waning effect of global cost factors. Underlying inflation, as measured by core inflation, is expected to be sustained by the more robust domestic demand. Nevertheless, underlying inflation is expected to remain contained, after increasing from 2.1% in 2016 to 2.5% in the first half of 2017.

Monetary and financial conditions remained resilient and supportive of economic activity. The ringgit has remained stable with a more balanced demand and supply of foreign currencies following the implementation of the two financial market development measures. Liquidity conditions have improved, with an increase in net banking system liquidity following the net portfolio inflows during the quarter. The MPC is cognisant of the recent positive growth developments and will continue to assess the sustainability of this growth momentum, which is dependent on incoming information. At the same time, the MPC will continue to monitor for any signs of demand-pull inflationary pressures. In this regard, the MPC will assess the balance of risks surrounding the outlook for domestic growth and inflation.

(*Source: BNM's Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2017*)

8.2 The Malaysian Banking Industry

The Financial System in Malaysia

The Malaysian financial system comprises of a diversified range of institutions to serve the more varied and complex needs of the domestic economy. The financial system consists of the conventional financial system and the Islamic financial system which co-exists and operates in parallel.

(Source: Invest in Malaysia: Banking, Finance and Exchange Administration, http://www.mida.gov.my)

The Central Bank of Malaysia

BNM is at the apex of the monetary and financial structure of the country. The principal objective of BNM is to promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy. Its primary functions as set out in the newly enacted Central Bank of Malaysia Act 2009 are to:

- formulate and conduct monetary policy in Malaysia;
- issue currency in Malaysia;
- regulate and supervise financial institutions which are subject to the laws enforced by the BNM;
- provide oversight over money and foreign exchange markets;
- exercise oversight over payment systems;
- promote a sound, progressive and inclusive financial system;
- hold and manage the foreign reserves of Malaysia;
- promote an exchange rate regime consistent with the fundamentals of the economy; and
- act as financial adviser, banker and financial agent of the Government.

To achieve its mandates, BNM is vested with powers under various laws to regulate and supervise the banking institutions and other non-bank financial intermediaries. BNM also administers the country's foreign exchange regulations.

(Source: Invest in Malaysia: Banking, Finance and Exchange Administration, http://www.mida.gov.my)

Licensed Banking Institutions in Malaysia

The following table provides an overview of the number of licensed banking institutions in Malaysia:

Banking Institution	***Total***	***Malaysian-Controlled Institutions***	***Foreign-Controlled Institutions***
Commercial Banks	27	8	19
Islamic Banks	16	10	6
International Islamic Banks	2	-	2
Investment Banks	11	11	-
Other Financial Institutions	2	2	-

(Source: List of Licensed Financial Institutions, http://www.bnm.gov.my)

Overview

Financial sector withstands external headwinds

Monetary conditions remained accommodative and supportive of economic activity with resilient financial system and sufficient liquidity despite heightening external uncertainties. The expectation of interest rate increase by the United States (US) Federal Reserve (Fed) and China's economic slowdown has raised investors' concern on the stability of the domestic financial system. Over the years, the Government has taken several initiatives to strengthen the banking system as well as the domestic capital market which includes the development of the Financial Sector Blueprint 2011-2020 and the Capital Market Masterplan 2. In addition, effective from 1 February 2016, Bank Negara Malaysia ("**BNM**") reduced the Statutory Reserve Requirement ("**SRR**") ratio by 50 basis points to 3.50% to ensure sufficient liquidity in the domestic financial system and to support the orderly functioning of the domestic capital markets. Furthermore, on 13 July 2016, the OPR was reduced by 25 basis points to 3.00% to ensure the domestic economy continues on a steady growth path. This is in line with the monetary policy stance to achieve price stability and sustainable growth. The Government's economic policy has contributed to the GDP growth of 4.1% for the first half of 2016. In addition, average inflation for the first eight months recorded 2.3%. Meanwhile, the ringgit appreciated against most major and regional currencies in the first eight months of 2016. To ensure that the domestic financial system is fully integrated with the global financial market, BNM also established the Financial Markets Committee ("**FMC**") in May 2016. The committee aims to broaden industry engagement with a focus in reviewing and formulating comprehensive strategies for the financial markets.

The capital market has continued to support the financing needs of the Malaysian economy. Fundraising in this capital market was sustained in 2016, supported by higher corporate bond issuances. Domestic financial asset prices continued to be affected by external developments and movements in global capital flows. Nevertheless, Malaysia's deep and diversified capital market has been able to accommodate the shifts in global liquidity and withstand bouts of volatility. In 2015, the bond market was the third largest in Asia, after Japan and Republic of Korea with the size of RM1.2 trillion, equivalent to 97% of GDP. Malaysia leads in global sukuk outstanding as at end-June 2016. The success of the Government's fifth USD-denominated global sukuk issuance in April 2016 proved investors' continued confidence in Malaysia's economic stability.

Financial institutions are operating with adequate liquidity buffers to ensure the orderly functioning of domestic financial markets. Efforts are also underway to further leverage technology in facilitating business transactions to be processed quickly and conveniently through the use of online applications or smart devices. Given these developments, the well-capitalised banking system and deep capital market will continue to integrate with regional and international financial markets. This will provide ample liquidity and efficient financial intermediation to meet the needs of the economy.

Financial Sector Developments

Sustained demand for financing

During the first seven months of 2016, credit growth in the banking system remained moderate, consistent with the pace of domestic economic activity. The total loan applications recorded marginal increase to RM461.5 billion (January – July 2015: RM461.4 billion). However, total loan approvals and loan disbursements by the banking system declined significantly by 16% to

RM192.6 billion and 3.1% to RM598.5 billion, respectively (January - July 2015: 3.1%; RM229.4 billion; 2.8%; RM617.8 billion). Meanwhile, total loans outstanding grew 5.1% to RM1,467.3 billion as at end-July 2016 (end-2015: 7.9%; RM1,445.1 billion).

Lending to businesses grew marginally during the first seven months of 2016. Loan applications for business sector expanded 2.9% to RM219.3 billion (January - July 2015: 1.2%: RM213.2 billion), while loan approvals dropped 10% to RM92 billion (January - July 2015: 3.9%: RM441.1 billion).The business sector accounted for a significant share of total loans disbursed at 72.8%, mainly channeled to manufacturing (19.1%), wholesale and retail trade, restaurants and hotels (18.7%) as well as finance, insurance and business activities (10.1%) sectors. Total loans outstanding to the business sector increased 3.7% to RM532.6 billion as at end-July 2016 (end-2015: 8%; RM533 billion).

Financing to SMEs recorded a decline in applications, approvals and disbursements at 8.6%, 5.3% and 4.4% respectively (January - July 2015: 5.6%; 3.8%; 15.1%). However, total SME loans outstanding grew 9.2% to RM270.4 billion, accounting for 36.3% of the total loans to businesses as at end-July 2016 (end-July 2016 (end-2015: 15%; RM259.7 billion; 36.9%). The bulk of the loans to SMEs were mainly channeled to the finance, insurance and business activities (30.7%), wholesale and retail trade, restaurants and hotels (24.6%) as well as manufacturing (15%) sectors.

BNM also provides financing at reasonable rates for SMEs through special revolving funds. Loans were approved to 69,274 SMEs amounting to RM28.6 billion (end-July 2015: 65,610 SMEs; RM26.7 billion) with the average utilization rate stood at 76.2% as at end-July2016 (end-July 2015: 69.8%). Loan approvals were granted to 3,256 SMEs amounting to RM1.3 billion for the first seven months of 2016 (January – July 2015: 4,363 SMEs; RM1.4 billion).

Microenterprises continued to receive financial support through Pembiayaan Mikro Scheme. During the first seven months of 2016, a total of 9,660 microenterprise loans amounting to RM213 million were approved (January - July 2015; 10,169 accounts; RM203.9 million). Total loans outstanding under the scheme grew 6.2% to RM940.8 million as at end-July 2016 (end-2015: 5.7%; RM912.5 million). Bank Simpanan Nasional ("**BSN**"), Agrobank and Bank Rakyat remained as the main financial institutions in providing support to mircrofinance activities, accounting for 84.8% or RM797.5 million of total loans outstanding as at end-July 2016 (end-2015: 86.1%; RM786 million). During the first seven months of 2016, a total of 7,388 accounts amounting to RM169.1 million was approved by these banks (January - July 2015: 8,371 accounts; RM174.2 million).

Household loans continued to moderate with loan applications declining 2.4% to RM242.1 billion during the first seven months of 2016 (end-2015: -1.3%; RM430.4 billion). Loan approvals and disbursements also decreased 20.9% and 8%, respectively (end-2015: -11.6%; -1%). In terms of share, loans disbursed to the household sector were mainly utilized for consumption credit, totaling RM76.6 billion or 12.8% (end-2015: RM132.1 billion; 12.1%), followed by the purchase of residential properties at RM44.7 billion or 7.5% of total household disbursements during the same period (end-2015: RM84.7 billion; 7.8%). Total household loans outstanding grew 5.7% to RM841.4 billion and accounted for 57.3% of total loans outstanding in the banking system as at end-July 2016 (end-2015: 7.7%; RM820.9 billion; 56.8%).

Total household debt continued to register a moderate growth. As at end-July 2016, total household debt grew to RM1,059.2 billion, an increase of 5.9% (end-July 2015: RM999.8 billion; 8.1%), which accounted for 89.1% of GDP (end-July 2015: 88.1%). On an aggregate level, household balance sheet remained healthy. A large portion of the household debt comprised of asset-backed loans. As at end-July 2016, households continued to accumulate more financial assets than debt. Household financial assets grew RM45.3 billion, compared with an increase RM28.6 billion in household debt. However, higher cost of living has made households to be cautious in taking on new debt. As a proactive measure to assist borrowers in financial difficulties, Credit Counseling and Management Agency ("**AKPK**") continues to provide financial advisory through counseling, debt restructuring services as well as finance education.

Banking system remains strong

The banking system remained resilient supported by strong capital position. As at end-July 2016, the CET 1 capital ratio, tier 1 capital ratio and total capital ratio stood at 13.3%, 14.3% and 16.9%, respectively (end-July 2015: 12.7%; 13.5%; 15.6%). Approximately 80% banks' total capital consists of high quality capital in the form of retained earnings, paid-up capital and reserves. Total capital buffers in excess of minimum regulatory requirement were sustained at above RM128 billion (end-July 2015: RM106 billion). The liquidity in the banking system was enhanced through the reduction in the SRR on 1 February 2016, which released about RM8 billion into the banking system. The LCR, one of the liquidity requirement introduced under Basel III stood at 124.7% as at end-July 2016 (end-2015: 130%) to ensure all banks are more robust. Currently, all banks reported having levels comfortably above the current minimum regulatory requirement of 70%.The minimum requirement will be progressively increased 10% each year to reach 100% beginning 1 January 2019 through phased transitioning.

The overall quality of banking system loans remained sound as reflected by the stable delinquency and impairment levels. As at end-July 2016, delinquency and impairment levels. As at end-July 2016, delinquency and net impairment ratios were at 2.2% and 1.3%, respectively (end-July 2015: 2.3%; 1.2%). Banks continued to maintain sufficient buffers for potential credit losses evidenced by loan loss coverage ratio of 88.7%, Earnings remained resilient with pre-tax profit of RM19 billion for the first seven months of 2016 (January - July 2015: RM17 billion), mainly driven by income from financing activities supported by steady growth of income from fee-based, trading and investment activities.

In line with the aspiration of the Financial Sector Blueprint 2011-2020, Malaysia's financial sector has progressively become more integrated and diversified with regional and international financial markets. Malaysia's banking sector continues to have significant presence of foreign banks, accounting for 21.8% of banking sector assets as at end-July 2016. Currently, there are 28 locally incorporated foreign banks operating in Malaysia from a total of 57 banking institutions, which include commercial banks, investment banks and Islamic banks. Following the launching of the ASEAN Banking Integration Framework ("**ABIF**") in 2015, additional Heads of Agreement ("**HOA**") was signed in March 2016 to outline the areas on market access and operational flexibilities that may be accorded to Qualified ASEAN Banks ("**QABs**") in the respective jurisdictions.

Malaysia's continuous improvement on the regulatory framework of the financial sector has created a more transparent and predictable environment for financial players to benefit from higher connectivity and digital technology. Financial institutions have been applying technological innovations in their products and services to increase efficiency, offer higher quality of service and enhance ease of doing business. The emergence of financial technology ("**Fintech**") solutions, typically developed by startup companies, is providing alternative avenues to incumbent financial institutions that are traditionally less reliant on technology to improve their financial intermediation function. BNM is enhancing its regulatory framework with the introduction of Regulatory Sandbox ("**Sandbox**") to facilitate the development of innovative Fintech solutions. Under the Sandbox, financial institutions and Fintech companies may be granted certain regulatory flexibilities to experiment the innovative solutions in a production or live environment to stipulated conditions to preserve financial stability and to protect consumers.

(*Source: Chapter 5: Monetary and Financial Developments, Economic Report 2016/2017, Ministry of Finance Malaysia*)

8.3 The Malaysian Insurance Industry

Insurance industry remains sound

The insurance industry maintained strong levels of capitalisation in the first seven months of 2016. The capital adequacy ratio remained strong at 234.9% (January – July 2015: 239%). Similarly, total capital buffers in excess of the minimum requirement rose slightly to RM29.8 billion for the same period (January – July 2015: RM28.4 billion).

For the life insurance sector, new business premiums grew 5.9% to RM5.5 billion (January – July 2015: 2%; RM5.2 billion). This was largely supported by growth of non-participating life policies and annuities. However, new business premiums for investment-linked policies declined 5.1% (January – July 2015: -3.9%) following heightened domestic financial market volatility since 2015. Meanwhile, the life insurance claims rose 2.3% to RM12.1 billion during the first seven months of 2016 (January – July 2015: 20.7%; RM11.8 billion). Despite the increase in claims, the excess of income over outgo also rose RM8 billion during the period (January – July 2015: RM6.5 billion), with higher net capital gain of RM2.3 billion (January – July 2015: RM1 billion). At the same time, the market penetration rate of life insurance stood at 40.1% for the same period in 2016 (January – July 2015: 40.8%).

Operating profit for the general insurance sector remained steady at RM1.6 billion (January – July 2015: RM1.3 billion) mainly due to lower claims, with claims ratio stood at 54.1% (January – July 2015: 56.7%). This was largely contributed by the motor segment with claims of RM2.9 billion and the claim ratio at 65.7%, respectively (January – July 2015: RM3.1 billion; 73.6%). The gross direct premiums increased slightly by 0.8% to RM10.7 billion (January – July 2015: 2.8%; RM10.6 billion), on account of higher new businesses in the fire segment. Meanwhile, growth in gross direct premiums for the motor segment was flat at 0.3% (January – July 2015: 2.2%), reflecting lower sales for passenger and commercial vehicles.

As at end-July 2016, total assets of the life insurance expanded 5.8% to RM207 billion (end-2015: 5.4%; RM200.8 billion). The bulk of assets comprised of corporate bonds, accounting for 46.5% of the total insurance fund assets, followed by equities at 19.6%. Likewise, the general insurance sector's assets also increased 2.4% to RM32.3 billion. Cash and deposits continued to account for the largest asset class held by the general insurers at 23.6% of total assets.

The liberalisation of Motor and Fire Tariffs, with the first phase commencing on 1 July 2016, provides greater flexibility towards a more market-driven approach in the provision and pricing of motor and fire products. The phased deregulation of tariffs in the initial period allows general insurers and takaful operators to offer new products and optional add-on cover at market rate while public access to existing tariff products continues. Effective from 1 July 2017, premium rates for both Motor Comprehensive and Motor Third Party Fire and Theft products will be liberalised and determined by the market, while Motor Third Party as well as Fire products will be subject to premium adjustments as decided by BNM. The transition to a more competitive market-based pricing environment is expected to benefit consumers through a variety of competitively priced products, while the industry will benefit from a more risk-oriented price setting.

(*Source: Chapter 5: Monetary and Financial Developments, Economic Report 2016/2017, Ministry of Finance Malaysia*)

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

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

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SECTION 10.0 OTHER INFORMATION

10.1 Material Litigation

Neither the Issuer nor any of its Material Subsidiaries is or has been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or its Material Subsidiaries is aware) as at 30 September 2017 which may have or has had a material adverse effect on the financial position or business of the Issuer or HLFG Group.

10.2 Material Contracts

Neither the Issuer nor any of its Material Subsidiaries is engaged in any contracts outside its ordinary course of business which may materially affect the financial position or business of the Issuer or HLFG Group.

10.3 Related Party Transactions

Save as disclosed in the Audited Financial Statements for the FYE 30 June 2017 of the Issuer, the Board has confirmed that as at 30 September 2017 there are no other significant related party transactions. The Board is of the opinion that those transactions have been entered into in the normal course of business and established on commercial terms.

10.4 Material Commitment and Contingent Liabilities

Save as those disclosed in the Audited Financial Statements for the FYE 30 June 2017 of the Issuer, the Board has confirmed that as at 30 September 2017 it is not aware of any material commitment and contingent liabilities which upon becoming enforceable may have a substantial impact on the financial position and the business of the Issuer or HLFG Group.

10.5 Conflict of Interest Situations and Appropriate Mitigating Measures

A. HLIB

There may be a potential conflict-of-interest from the appointment of HLIB as the PA/LA/LM as well as the Facility Agent for the Master Programme in view that both HLIB and the Issuer are part of the HLFG.

Notwithstanding the above, HLIB as the PA/LA/LM and Facility Agent of the Master Programme has considered the factors involved and believes the objectivity and independence in carrying out its role has been and/or will be maintained at all times for the following reasons:

(a) the conduct of HLIB is regulated by the FSA, the CMSA and HLIB has in place its own internal controls and checks with regards to transactions involving its related corporations;

(b) HLIB is a licensed investment bank and its appointment as the PA/LA/LM and Facility Agent is in the ordinary course of its business. The appointments are governed by various mandate letters, agreements and/or documents which set out the rights, duties and obligations of HLIB acting in such capacities; and

(c) a due diligence review pursuant to the Master Programme has been undertaken by professional and independent advisers,

and in order to further mitigate or address any such potential conflict of interest, the following measures have been/will be taken:

(i) the potential conflict of interest situation has been brought to the attention of the Board and hence the Board is fully aware of the same. The Board has acknowledged and confirmed that having considered the above situation, the Board is agreeable to proceed with the implementation of the Master Programme based on the present arrangement and terms; and

(ii) the potential conflict of interest situation will also be disclosed by the Issuer to prospective subscribers

B. Malaysia Trustees Berhad

After making enquiries as were reasonable in the circumstances, Malaysian Trustees Berhad has confirmed that it is not aware of any circumstances that would give rise to a conflict-of-interest situation or potential conflict-of-interest situation in its capacity as the trustee in relation to the Master Programme.

C. Adnan Sundra & Low

After making enquiries as were reasonable in the circumstances, Adnan Sundra & Low has confirmed that it is not aware of any circumstances that would give rise to a conflict-of-interest situation or potential conflict-of-interest situation in its capacity as the solicitors acting for the PA/LA in relation to the Master Programme.

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APPENDIX I

Audited Financial Statements of the Issuer for the financial year ended 30 June 2017

Hong Leong Financial Group Berhad

Company no: 8024-W

(Incorporated in Malaysia)

Reports and financial statements
for the financial year ended 30 June 2017

Hong Leong Financial Group Berhad

Company no: 8024-W

(Incorporated in Malaysia)

Reports and financial statements for the financial year ended 30 June 2017

Contents

Hong Leong Financial Group Berhad

Company No: 8024-W
(Incorporated in Malaysia)

Directors' report
for the financial year ended 30 June 2017

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 30 June 2017.

Principal activities

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

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

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

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

Financial results

	The Group RM'000	**The Company RM'000**
Net profit after taxation:		
- Owners of the parent	1,506,765	581,370
- Non-controlling interests	810,119	-
	2,316,884	581,370

Dividends

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

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

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

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

Significant events during the financial year

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

Subsequent events after the financial year

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

Directors' report
for the financial year ended 30 June 2017 (continued)

Credit Rating

On 17 August 2017, Malaysian Rating Corporation Berhad ("MARC") has reaffirmed a MARC-1/AA ratings to Hong Leong Financial Group Berhad ("HLFG")'s Commercial Paper and Medium Term Notes Programmes with a combined limit of RM1.8 billion. The rating outlook for the long-term rating is stable. The ratings are based on the continued ability of HLFG's enlarged banking subsidiary, Hong Leong Bank Berhad, to generate strong earnings and the well-capitalised positions of both its banking and insurance subsidiaries.

Details of the ratings are as follows:

RM1,800 million Commercial Paper and Medium Term Notes Programmes

Date accorded	Rating action	Rating classification	Definition
August 2017	Affirmed	Short-term rating: MARC-1	Highest category; indicates a very high likelihood that principal and interest will be paid on a timely basis.
August 2017	Affirmed	Long-term rating: AA	Indicates a very strong ability to repay principal and pay interest on a timely basis, with limited incremental risk compared to issues rated in the highest category.

Reserves and provisions

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

Corporate Governance

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

Directors

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

YBhg Tan Sri Quek Leng Chan	(Chairman, Non-Executive Non-Independent)
Mr Tan Kong Khoon	(President & Chief Executive Officer, Non-Independent)
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	(Non-Independent Non-Executive Director)
Ms Lim Tau Kien	(Independent Non-Executive Director)
Ms Lim Lean See	(Independent Non-Executive Director)
Mr Saw Kok Wei	(Independent Non-Executive Director)
Mr Quek Kon Sean (Resigned with effect from 9 July 2016)	(Non-Independent Non-Executive Director)

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

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

Directors' report
for the financial year ended 30 June 2017 (continued)

Directors' interests

According to the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act, 2016, the Directors holding office at the end of the financial year who had beneficial interests in the ordinary shares and/or preference shares and/or loan stocks and/or options over ordinary shares of the Company and/or its related corporations during the financial year are as follows:

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

Directors' report
for the financial year ended 30 June 2017 (continued)

Directors' interests (continued)

	Nominal value per share RM (unless indicated)	Shareholdings in which Directors have deemed interests Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising from the exercise of options*/ conversion of redeemable convertible unsecured loan stocks** or redeemable convertible cumulative preference shares***			
		As at 01.07.2016	Acquired	Sold	As at 30.06.2017
Interests of YBhg Tan Sri Quek Leng Chan in :					
Hong Leong Company (Malaysia) Berhad	(1)	13,233,455 (7)	-	(5,532,000) (13)	7,701,455 (7)
Hong Leong Financial Group Berhad	(1)	898,436,732	2,452,500 (12)	(4,730,506) (13)	896,158,726 (7)
Hong Leong Capital Berhad	(1)	200,805,058	-	-	200,805,058
Hong Leong Bank Berhad	(1)	1,346,237,169	-	-	1,346,237,169
Hong Leong MSIG Takaful Berhad	(1)	65,000,000	-	-	65,000,000
Hong Leong Assurance Berhad	(1)	140,000,000	-	-	140,000,000
Hong Leong Industries Berhad	(1)	245,435,003 (7)	-	(2,019,333) (13)	243,415,670 (7)
		200,000 *(7)	-	-	200,000 *(7)
Hong Leong Yamaha Motor Sdn Bhd	(1)	17,352,872	-	-	17,352,872
Guocera Tile Industries (Meru) Sdn Bhd	(1)	19,600,000	-	-	19,600,000
Hong Leong Maruken Sdn Bhd (In members' voluntary liquidation)	(1)	1,750,000	-	(1,750,000) (10)	-
Century Touch Sdn Bhd (In members' voluntary liquidation)	(1)	6,545,001	-	-	6,545,001
Varinet Sdn Bhd (In members' voluntary liquidation)	(1)	10,560,627	-	-	10,560,627
Malaysian Pacific Industries Berhad	(1)	112,217,857 (7)	-	(2,509,850) (7) (757,250) (13)	108,950,757
Carter Resources Sdn Bhd	(1)	5,640,607	-	-	5,640,607
Carsem (M) Sdn Bhd	(1)	84,000,000	-	-	84,000,000
	(1)	22,400 (8)	-	-	22,400 (8)
Hume Industries Berhad	(1)	353,447,487 (7)	-	(1,029,950) (11) (2,185,879) (13)	350,231,658 (7)
		100,000 *(7)	-	-	100,000 *(7)
Guoco Group Limited	USD0.50	237,124,930	-	-	237,124,930
GuocoLand Limited	(2)	817,911,030	-	-	817,911,030
		100,000 *(7)	320,000 *(7)	-	420,000 *(7)
Southern Steel Berhad ("SSB")	(1)	299,541,202	-	(7,371,493) (13)	292,169,709
	(1)	141,627,296 **	-	(1,550,959) **	140,076,337 **
Southern Pipe Industry (Malaysia) Sdn Bhd	(1)	118,822,953	4,550,000	-	123,372,953
	(1)	20,000,000 ***(9)	-	(20,000,000) ***(9)&(16)	-
TPC Commercial Pte. Ltd. (formerly known as Belmeth Pte. Ltd.)	(2)	40,000,000	149,600,000	-	189,600,000
TPC Hotel Pte. Ltd. (formerly known as Guston Pte. Ltd.)	(2)	8,000,000	-	-	8,000,000
Wallich Residence Pte. Ltd. (formerly known as Perfect Eagle Pte. Ltd.)	(2)	24,000,000	-	-	24,000,000
GLL Chengdu Pte Ltd	(2)	149,597,307 (14)	-	-	149,597,307 (15)
Beijing Minghua Property Development Co., Ltd (In members' voluntary liquidation)	(3)	150,000,000	-	-	150,000,000
Shanghai Xinhaojia Property Development Co., Ltd	(3)	3,150,000,000	-	-	3,150,000,000
Shanghai Xinhaozhong Property Development Co., Ltd	(4)	19,600,000	-	-	19,600,000

Directors' report
for the financial year ended 30 June 2017 (continued)

Directors' interests (continued)

	Nominal value per share RM (unless indicated)	Shareholdings in which Directors have deemed interests Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising from the exercise of options*/ conversion of redeemable convertible unsecured loan stocks** or redeemable convertible cumulative preference shares*** As at 01.07.2016	Acquired	Sold	As at 30.06.2017
Interests of YBhg Tan Sri Quek Leng Chan in (continued) **:**					
Lam Soon (Hong Kong) Limited	(6)	140,008,659	-	-	140,008,659
Guangzhou Lam Soon Food Products Limited	(5)	6,570,000	-	-	6,570,000
GuocoLand (Malaysia) Berhad	(1)	455,698,596	376,200	(500,000) (13)	455,574,796
Guoman Hotel & Resort Holdings Sdn Bhd	(1)	277,000,000	-	-	277,000,000
JB Parade Sdn Bhd	(1)	28,000,000	-	-	28,000,000
	(1)	68,594,000 (8)	-	-	68,594,000 (8)
Continental Estates Sdn Bhd	(1)	34,408,000	-	-	34,408,000
	(1)	123,502,605 (8)	-	-	123,502,605 (8)
GL Limited	USD0.20	933,073,825	4,258,300	(11,578,991) (13)	925,753,134
		100,000 *(7)	-	-	100,000 *(7)
The Rank Group Plc	GBP13 8/9 p	219,282,221	-	-	219,282,221
Interests of YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman in :					
Hong Leong Financial Group Berhad	(1)	3,600 (12)	-	-	3,600 (12)
Hong Leong Bank Berhad	(1)	68,000 (12)	-	-	68,000 (12)

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

Directors' report
for the financial year ended 30 June 2017 (continued)

Directors' benefits

Since the end of the previous financial year, none of the Directors of the Company received or became entitled to receive any benefit (other than the benefits shown under Directors' Remuneration in Note 36 to the financial statements, included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in the financial statements or as fixed salary of a full-time employee of the Company or of related corporations) by reason of a contract made by the Company or its related corporations with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except for YBhg Tan Sri Quek Leng Chan, who may be deemed to derive a benefit by virtue of those transactions, contracts and agreements for the acquisition and/or disposal of stocks and shares, stocks-in-trade, products, parts, accessories, plants, chattels, fixtures, buildings, land and other properties or any interest in any properties; and/or for the provision of services, including but not limited to project and sales management and any other management and consultancy services; and/or for construction, development, leases, tenancy, licensing, dealership and distributorship; and/or for the provision of treasury functions, advances in the conduct of normal trading, banking, insurance, investment, stockbroking and/or other businesses between the Company or its related corporations and corporations in which YBhg Tan Sri Quek Leng Chan is deemed to have interests.

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

Executive Share Scheme ("ESS")

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

(a) **ESOS**

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

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

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

(b) **ESGS**

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

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

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

Executive Share Scheme ("ESS") (continued)

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

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

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

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

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

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

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

Share capital

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

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

Statutory information regarding the Group and the Company

(a) As at the end of the financial year

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

- to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of provision for doubtful debts and financing and had satisfied themselves that all known bad debts and financing had been written off and that adequate provision had been made for doubtful debts and financing; and
- to ensure that any current assets, which were unlikely to be realised in the ordinary course of business including the value of current assets as shown in the accounting records of the Group and of the Company had been written down to an amount which the current assets might be expected so to realise.

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

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

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

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

(ii) In the opinion of the Directors:

- the results of the operations of the Group and the Company for the financial year ended 30 June 2017 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and
- no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and the Company to meet their obligations as and when they fall due.

(c) As at the date of this report

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

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

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

Disclosure of Shariah Advisory Committee

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

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

Ultimate holding company

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

Subsidiaries

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

Directors' Remuneration

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

Auditors' Remuneration

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

Auditors

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

Signed on behalf of the Board of Directors in accordance with their resolution dated 18 September 2017.

Tan Kong Khoon
Director

Lim Tau Kien
Director

Kuala Lumpur
18 September 2017

Statements of Financial Position
as at 30 June 2017

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

Statements of Financial Position as at 30 June 2017 (continued)

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

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

Hong Leong Financial Group Berhad

Company No: 8024-W
(Incorporated in Malaysia)

Statements of Income
for the financial year ended 30 June 2017

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

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

Hong Leong Financial Group Berhad

Company No: 8024-W
(Incorporated in Malaysia)

Statements of Comprehensive Income for the financial year ended 30 June 2017

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

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

Hong Leong Financial Group Berhad

Company No: 8024-W
(Incorporated in Malaysia)

Statements of changes in equity
for the financial year ended 30 June 2017

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

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

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

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

Statements of changes in equity
for the financial year ended 30 June 2017 (continued)

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

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

Statements of changes in equity
for the financial year ended 30 June 2017 (continued)

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

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

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

Hong Leong Financial Group Berhad

Company No: 8024-W

(Incorporated in Malaysia)

Consolidated statements of cash flows for the financial year ended 30 June 2017

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

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

Hong Leong Financial Group Berhad

Company No: 8024-W
(Incorporated in Malaysia)

Consolidated statements of cash flows for the financial year ended 30 June 2017 (continued)

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

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

Consolidated statements of cash flows for the financial year ended 30 June 2017 (continued)

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

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

Company statements of cash flows
for the financial year ended 30 June 2017

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

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

Company statements of cash flows for the financial year ended 30 June 2017 (continued)

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

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017

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

A Basis of preparation of the financial statements

The financial statements of the Group and the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The financial statements incorporate the activities relating to the Islamic banking and takaful businesses which have been undertaken by its subsidiaries, Hong Leong Islamic Bank Berhad ("HLISB") and Hong Leong MSIG Takaful Berhad ("HLMT") in compliance with Shariah principles. Islamic banking business refers generally to the acceptance of deposits and granting of financing under Shariah principles while takaful business refers generally to underwriting of Islamic insurance under the Shariah principles.

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

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

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 54.

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

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

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

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 July 2017. The Group and the Company will apply these standards, amendments to published standards and interpretations from:

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

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

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

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

  The amendments shall be applied retrospectively.

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

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

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

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

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

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

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

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

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)

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 July 2017. The Group and the Company will apply these standards, amendments to published standards and interpretations from (continued):

(ii) 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".

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

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

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

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

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

  A new five-step process is applied before revenue can be recognised:
  - Identify contracts with customers;
  - Identify the separate performance obligations;
  - Determine the transaction price of the contract;
  - Allocate the transaction price to each of the separate performance obligations; and
  - Recognise the revenue as each performance obligation is satisfied.

  Key provisions of the new standard are as follows:
  - Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

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)

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 July 2017. The Group and the Company will apply these standards, amendments to published standards and interpretations from (continued):

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

Key provisions of the new standard are as follows (continued)
- 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.

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

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

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

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

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

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

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

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

A Basis of preparation of the financial statements (continued)

(c) Changes in regulatory requirements

(i) Companies Act, 2016

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

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

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

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

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

(ii) BNM guideline on capital funds

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

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

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

B Consolidation

(i) Subsidiaries

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

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017 (continued)

B Consolidation (continued)

(i) Subsidiaries (continued)

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.

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.

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

B Consolidation (continued)

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as 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.

(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.

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

B Consolidation (continued)

(iv) Joint arrangements (continued)

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.

(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.

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

B Consolidation (continued)

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

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

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

C Goodwill

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

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

D Property and equipment and depreciation

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

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statements of income during the financial period in which they are incurred.

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

D Property and equipment and depreciation (continued)

Freehold land is not depreciated as it has an infinite life. Other property, plant and equipment are depreciated on the straight-line method to allocate the cost or the revalued amounts, to their residual values over their estimated useful lives summarised as follows:

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

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

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

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

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

E Investment properties

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

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

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

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.

Summary of Significant Accounting Policies
for the financial year ended 30 June 2017 (continued)

F Intangible assets

(i) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 years to 8 years.

(ii) Other intangible assets

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

Core deposit: 7 years
Customer relationships: 10 years

G Leases

(i) Finance Lease

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

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

(ii) Operating Lease

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

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

H Financial Assets

(i) Classification

The Group and the Company classify their financial assets into the following categories: at fair value through profit or loss, loans and receivables, financial investments available-for-sale and financial investments held-to-maturity. The classification depends on the purpose for which the financial assets are acquired. Management determines the classifications at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

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

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

H Financial Assets (continued)

(i) Classification (continued)

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

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

(b) Loans and receivables

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

(c) Financial investments held-to-maturity

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

(d) Financial investments available-for-sale

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

(ii) Recognition and initial measurement

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

(iii) Subsequent measurement

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

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

H Financial Assets (continued)

(iii) Subsequent measurement (continued)

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

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

(iv) Reclassification of financial assets

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

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

I Financial liabilities

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

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

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

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

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

I Financial liabilities (continued)

(ii) Financial liabilities at amortised cost

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

J Derecognition of financial assets and financial liabilities

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

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

K Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statements of financial position where there is a legally enforceable right to offset the recognised amounts and there is intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

L Foreclosed properties

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

M Derivative financial instruments and hedge accounting

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

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

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

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

M 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.

N 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 2017 (continued)

O Provisions

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

(i) the Group and the Company have a present legal or constructive obligation as a result of past events;
(ii) it is probable that an outflow of resources to settle the obligation will be required; and
(iii) a reliable estimate of the amount of obligation can be made.

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

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

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

P Borrowings

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

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

Q General takaful contract liabilities

(a) Contribution liabilities

Contribution liabilities refer to the higher of:

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

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

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

Q General takaful contract liabilities (continued)

(a) Contribution liabilities (continued)

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

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

(b) Claims liabilities

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

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

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

R Benefits, claims and expenses

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

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

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

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

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

S Insurance Contract Liabilities

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

(i) Actuarial liabilities

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

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

S Insurance Contract Liabilities (continued)

(i) Actuarial liabilities (continued)

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

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

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

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

(ii) Unallocated surplus

Surplus of contracts with DPF is distributable to policyholders and shareholders in accordance with the relevant terms under the insurance contracts. The insurance subsidiary, however, has discretion over the amount and timing of the distribution of these surpluses to policyholders and shareholders. Surplus of contracts without DPF is attributable wholly to the shareholders and is classified as equity of the Group and the insurance subsidiary. However, the amount and timing of the distribution of surplus of contracts without DPF to the shareholders is subject to the recommendation of the insurance subsidiary's appointed actuary. Unallocated surpluses of DPF, where the amounts of surplus are yet to be allocated or distributed to either policyholders or shareholders by the end of the financial year, are held within the insurance contract liabilities.

(iii) Fair value adjustment on AFS financial asset

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

T Life Insurance Contract

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

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.

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

U Insurance product classification

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

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

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

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

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

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

V Family takaful fund

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

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

W General takaful fund

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

X Income and deferred taxes

The tax expense for the period comprises current and deferred tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in statements of income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively. The liability in relation to tax penalties is included within the taxation liability on the statement of financial position and any associated change within the tax expense in the statements of income as under accrual of prior year tax.

Current income tax expense is determined according to the tax laws enacted or substantially enacted at the end of the reporting period of each jurisdiction in which the Group operates and generates taxable income and includes all taxes based upon the taxable profits.

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

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

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

Deferred tax liability is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates and joint ventures. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference, a deferred tax liability is not recognised.

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

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

Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

Y Recognition of interest/profit income and interest/profit expense

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

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

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

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

Z Recognition of fees and other income

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

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

(iii) Dividends from financial assets held-for-trading, financial investments available-for-sale and subsidiary companies are recognised when the rights to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

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

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

(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.

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

Z Recognition of fees and other income (continued)

(viii) Management expenses, commission expenses and wakalah fees.

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

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

(ix) Contribution - general takaful fund

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

(x) Premium/contribution - life insurance and family takaful fund

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

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

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

AA Insurance commission and agency expenses

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

AB Impairment of financial assets

(i) Assets carried at amortised cost

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

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

AB Impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

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

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

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

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

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

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

AB Impairment of financial assets (continued)

(ii) Assets classified as available-for-sale

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Group uses criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

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

AC Employee benefits

(i) Short-term employee benefits

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

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

(ii) Defined contribution plans

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

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

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

AC Employee benefits (continued)

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

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

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

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

AD Currency translations

(i) Functional and presentation currency

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

(ii) Foreign currency transactions and balances

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

AD Currency translations (continued)

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

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

(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 2017 (continued)

AE Cash and cash equivalents

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

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

AF Impairment of non-financial assets

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

The impairment loss is charged to the statements of income unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount of non-financial assets (other than goodwill) is recognised in the statements of income unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

AG Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors as the collective body of chief operating decision makers.

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

AH Financial guarantee contracts

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

AH Financial guarantee contracts (continued)

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

AI Share capital

(i) Classification

Ordinary shares are classified as equity. Other shares are classified as equity and/or liability according to the substance of the particular instrument.

(ii) Share issue costs

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

(iii) Dividends

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

(iv) Purchase of own shares

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

(v) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

AI Share capital (continued)

(v) Earnings per share (continued)

Diluted earnings per share

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

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

AJ Sale and repurchase agreements

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

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

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

AK Contingent assets and contingent liabilities

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

AL Trust activities

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

Summary of Significant Accounting Policies for the financial year ended 30 June 2017 (continued)

AM Non-current assets/disposal groups held-for-sale

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

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

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

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

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

Notes to the financial statements for the financial year ended 30 June 2017

1 General information

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

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

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

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

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

2 Cash and short-term funds

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

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

The Company has placed a fixed deposit of RM900,000 (2016: RM900,000) with a bank for the RM150 million short-term loan facility. The Company has agreed not to withdraw the fixed deposits during the tenure of the facility. The bank has a right to set-off any sums placed by the Company in the fixed deposit account.

3 Deposits and placements with banks and other financial institutions

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

As at 30 June 2017, the Company has placed a fixed deposit of RM8,400,000 (2016: RM8,400,000) with a bank for the RM100 million revolving credit facility and RM200 million term loan facility. The Company has agreed not to withdraw the fixed deposits during the tenure of the facility. The bank has a right to set-off any sums placed by the Company in the fixed deposit account.

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

4 Financial assets held-for-trading

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

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

5 Financial investments available-for-sale

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

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

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

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

6 Financial investments held-to-maturity

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

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

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

7 Loans, advances and financing

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

7 Loans, advances and financing (continued)

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

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

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

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

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

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

7 Loans, advances and financing (continued)

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

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

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

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

7 Loans, advances and financing (continued)

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

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

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

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

7 Loans, advances and financing (continued)

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

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

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

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

8 Clients' and brokers' balances

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

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

Movements of impaired accounts are as follows:

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

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

9 Other receivables

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

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

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

10 Statutory deposits with Central Banks

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

11 Investment in subsidiary companies

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

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

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

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

11 Investment in subsidiary companies (continued)

(i) Information about principal subsidiaries:

The subsidiary companies of the Company are as follows:

Name of companies	Place of incorporation	Effective percentage of ownership 2017 %	2016 %	Principal activities
(a) HLA Holdings Sdn Bhd and its subsidiary companies:	Malaysia	**100.00**	100.00	Investment holding
(i) Hong Leong Assurance Berhad	Malaysia	**70.00**	70.00	Life insurance business
- Unincorporated trust for 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	Investment holding
(c) HLFG Assets Sdn Bhd	Malaysia	**100.00**	100.00	Investment dealing
(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	Investment holding
(ii) HLG Capital Markets Sdn Bhd and its subsidiary company:	Malaysia	**83.22**	83.22	Investment holding
- HLG Principal Investments (L) Limited	Labuan	**-**	83.22	Dissolved
(iii) Hong Leong Investment Bank Berhad and its subsidiary companies:	Malaysia	**83.22**	83.22	Investment banking, stockbroking business, futures broking and related financial services
- HLG Nominee (Tempatan) Sdn Bhd	Malaysia	**-**	83.22	Dissolved
- HLG Nominee (Asing) Sdn Bhd	Malaysia	**-**	83.22	Dissolved

Notes to the financial statements
for the financial year ended 30 June 2017 (continued)

11 Investment in subsidiary companies (continued)

(i) Information about principal subsidiaries: (continued)

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

Name of companies	Place of incorporation	Effective percentage of ownership 2017 %	2016 %	Principal activities
- 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$^{\Omega *}$	Malaysia	**-**	-	Special purpose vehicle for ESOS
(vii) Hong Leong Dana Al-Izdihar$^{\Omega *}$	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	Real property investment

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

11 Investment in subsidiary companies (continued)

(i) Information about principal subsidiaries: (continued)

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

Name of companies	Place of incorporation	Effective percentage of ownership **2017** **%**	2016 %	Principal activities
(iii) Hong Leong Bank Vietnam Limited*	Vietnam	**65.62**	65.62	Commercial banking business
(iv) Hong Leong Bank (Cambodia) PLC+	Cambodia	**65.62**	65.62	Commercial banking business
(v) HLF Credit (Perak) Bhd and its subsidiary companies:	Malaysia	**65.62**	65.62	Investment holding
- Gensource Sdn Bhd and its subsidiary company:	Malaysia	**65.62**	65.62	Investment holding
- Pelita Terang Sdn Bhd	Malaysia	**65.62**	65.62	Dormant
- WTB Corporation Sdn Bhd and its subsidiary companies:	Malaysia	**65.62**	65.62	Investment holding
- Wah Tat Nominees (Tempatan) Sdn Bhd	Malaysia	**-**	65.62	Dissolved
- Wah Tat Nominees (Asing) Sdn Bhd	Malaysia	**-**	65.62	Dissolved
- Chew Geok Lin Finance Sdn Bhd	Malaysia	**65.62**	65.62	Investment holding
- Hong Leong Leasing Sdn Bhd*	Malaysia	**65.62**	65.62	Investment holding
- HL Leasing Sdn Bhd	Malaysia	**65.62**	65.62	Investment holding
- HLB Realty Sdn Bhd	Malaysia	**65.62**	65.62	Real property investment and investment holding
(vi) HLB Nominees (Tempatan) Sdn Bhd	Malaysia	**65.62**	65.62	Agent and nominee for Malaysian clients
(vii) HLB Nominees (Asing) Sdn Bhd	Malaysia	**65.62**	65.62	Agent and nominee for foreign clients
(viii) HL Bank Nominees (Singapore) Pte Ltd+	Singapore	**65.62**	65.62	Agent and nominee for clients
(ix) HLB Trade Services (Hong Kong) Limited+	Hong Kong	**65.62**	65.62	Ceased operations
(x) HLB Principal Investments (L) Limited and its subsidiary company:	Malaysia	**65.62**	65.62	Holding of or dealings in offshore securities and investment holding
- Promino Sdn Bhd	Malaysia	**65.62**	65.62	Ceased operations

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

11 Investment in subsidiary companies (continued)

(i) Information about principal subsidiaries: (continued)

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

Name of companies	Place of incorporation	Effective percentage of ownership 2017 %	2016 %	Principal activities
(xi) Prominic Berhad	Malaysia	**-**	65.62	Dissolved
(xii) Promilia Berhad	Malaysia	**65.62**	65.62	Dormant
(xiii) EB Nominees (Tempatan) Sendirian Berhad	Malaysia	**65.62**	65.62	Nominee services
(xiv) EB Nominees (Asing) Sendirian Berhad	Malaysia	**65.62**	65.62	Nominee services
(xv) EB Realty Sendirian Berhad	Malaysia	**65.62**	65.62	Property investment
(xvi) OBB Realty Sdn Bhd	Malaysia	**65.62**	65.62	Property investment
(xvii) Unincorporated trust for ESOS$^{\Omega *}$	Malaysia	**-**	-	Special purpose vehicle for ESOS
(h) Halcyon Capital Sdn Bhd$^{\Omega *}$	Malaysia	**-**	-	Ceased control during the year
(i) Balius Capital Sdn Bhd$^{\Omega *}$	Malaysia	**-**	-	Special purpose vehicle
(j) Hong Leong Wholesale Bond Fund$^{\Omega}$	Malaysia	**-**	-	Unit trust funds
(k) Hong Leong Money Market Fund$^{\Omega}$	Malaysia	**-**	-	Unit trust funds

* Not audited by PricewaterhouseCoopers
\+ Audited by member firms of PricewaterhouseCoopers International which is a separate and independent legal entity from PricewaterhouseCoopers Malaysia
$^{\Omega}$ Deemed subsidiary companies pursuant to MFRS 10 "Consolidated Financial Statements"

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

11 Investment in subsidiary companies (continued)

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

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

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

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

12 Investment in associated companies

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

(a) Information about associated companies

Name	Country of incorporation	Principal activities	The Group Percentage (%) of equity held 2017 %	2016 %
Bank of Chengdu Co., Ltd	China	Commercial banking	**20**	20
Community CSR Sdn Bhd	Malaysia	Investment holding	**20**	20
MSIG Insurance (Malaysia) Bhd	Malaysia	Insurance	**30**	30

Nature of relationship

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

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

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

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

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

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

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

The Group deems BOCD and MSIM as material associated companies.

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

12 Investment in associated companies (continued)

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

(i) Bank of Chengdu Co., Ltd

	The Group	
	2017	2016
	RM'000	RM'000
Total assets	**242,523,008**	210,788,236
Total liabilities	**(225,188,553)**	(194,899,396)
Net assets	**17,334,455**	15,888,840

	The Group	
	2017	2016
	RM'000	RM'000
Interest income	**8,185,397**	8,591,993
Interest expense	**(3,729,548)**	(3,682,577)
Non-interest income	**868,127**	751,728
Profit before taxation	**2,051,831**	2,164,939
Profit after taxation	**1,714,550**	1,560,890
Dividends paid by the associated company during the financial year	**909,765**	489,440
Shares of results of associated company (%)	**20%**	20%
Shares of results of associated company (RM'000)	**342,910**	312,178

(ii) MSIG Insurance (Malaysia) Bhd

	The Group	
	2017	2016
	RM'000	RM'000
Total assets	**4,929,474**	4,916,992
Total liabilities	**(2,080,361)**	(2,235,914)
Net assets	**2,849,113**	2,681,078

	The Group	
	2017	2016
	RM'000	RM'000
Interest income	**77,981**	77,252
Non-interest income	**452,130**	436,204
Profit before taxation	**310,854**	285,013
Profit after taxation	**244,838**	229,597
Dividends paid by the associated company during the financial year	**83,286**	99,943
Shares of results of associated company (%)	**30%**	30%
Shares of results of associated company (RM'000)	**73,451**	68,879

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

12 Investment in associated companies (continued)

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

(i) Bank of Chengdu Co., Ltd

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

(ii) MSIG Insurance (Malaysia) Bhd

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

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

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

13 Investment in joint ventures

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

13 Investment in joint ventures (continued)

(a) Information about joint ventures

Name	Country of incorporation	Principal activities	The Group Percentage (%) of equity held 2017 %	2016 %
Sichuan Jincheng Consumer Finance Limited Company	China	Consumer finance	**49**	49
Bangsar Capital Holdings (L) Limited (Incorporated in the Federal Territory of Labuan)	Malaysia	Dissolved	**-**	50

Nature of relationship

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

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

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

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

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

On 28 June 2014, HLFG Principal Investments (L) Limited ("HLFGPI"), a wholly-owned subsidiary of HLFG, had entered into a joint venture agreement with CIMB Strategic Assets Sdn Bhd (“CIMBSA”), a wholly-owned subsidiary of CIMB Group Holdings Berhad, to establish a joint venture investment holding company to be incorporated in Labuan (“Joint Venture Entity”), in which CIMBSA and HLFGPI would each hold 50% of the equity interests respectively. The Joint Venture Entity, BCH, has been incorporated to establish and manage a private equity fund. The Joint Venture Entity has commenced liquidation previously and dissolved during the financial year.

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

13 Investment in joint ventures (continued)

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

(i) Sichuan Jincheng Consumer Finance Limited Company

	The Group 2017 RM'000	2016 RM'000
Total assets	**783,476**	959,061
Total liabilities	**(438,201)**	(663,398)
Net assets	**345,275**	295,663

	The Group 2017 RM'000	2016 RM'000
Interest income	**86,490**	114,510
Interest expense	**(26,608)**	(40,666)
Non-interest income	**37,263**	41,059
Profit before taxation	**57,740**	57,513
Profit after taxation	**43,169**	43,320
Dividend paid by the joint venture during the financial year	**6,996**	7,663
Shares of results of joint venture (%)	**49%**	49%
Shares of results of joint venture (RM'000)		
- Retained portion	**6,799**	21,227
- Held for sale	**14,354**	-
	21,153	21,227

(ii) Bangsar Capital Holdings (L) Limited

	The Group 2017 RM'000	2016 RM'000
Total assets	**-**	788
Total liabilities	**-**	(172)
Net assets	**-**	616

	The Group 2017 RM'000	2016 RM'000
Loss before taxation	**-**	(352)
Loss after taxation	**-**	(352)
Shares of results of joint venture (%)	**-**	50%
Shares of results of joint venture (RM'000)	**-**	(176)

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

13 Investment in joint ventures (continued)

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

(i) Sichuan Jincheng Consumer Finance Limited Company

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

(ii) Bangsar Capital Holdings (L) Limited

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

14 Property and equipment

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

* 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 2017 (continued)

14 Property and equipment (continued)

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

* Land and building consists of the following:

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

Notes to the financial statements
for the financial year ended 30 June 2017 (continued)

14 Property and equipment (continued)

The Company	**Office and computer equipment**	**Furniture, fittings renovation**	**Motor vehicles**	**Total**
2017	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cost				
As at 1 July 2016	**788**	**1,512**	**2,139**	**4,439**
Additions	**12**	**-**	**327**	**339**
Write-off	**(73)**	**-**	**-**	**(73)**
As at 30 June 2017	**727**	**1,512**	**2,466**	**4,705**
Accumulated depreciation				
As at 1 July 2016	**657**	**1,230**	**823**	**2,710**
Write-off	**(73)**	**-**	**-**	**(73)**
Charge during the financial year	**85**	**107**	**458**	**650**
As at 30 June 2017	**669**	**1,337**	**1,281**	**3,287**
Net book value as at 30 June 2017	**58**	**175**	**1,185**	**1,418**
2016				
Cost				
As at 1 July 2015	778	1,512	2,139	4,429
Additions	10	-	-	10
As at 30 June 2016	788	1,512	2,139	4,439
Accumulated depreciation				
As at 1 July 2015	554	1,104	396	2,054
Charge during the financial year	103	126	427	656
As at 30 June 2016	657	1,230	823	2,710
Net book value as at 30 June 2016	131	282	1,316	1,729

15 Investment properties

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

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

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

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

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

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

16 Goodwill arising on consolidation

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

Allocation of goodwill to cash-generating units

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

	The Group	
	2017	2016
	RM'000	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

16 Goodwill arising on consolidation (continued)

Impairment test for goodwill

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

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

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

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

(ii) Insurance CGU

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

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

(a) The present value of future shareholders' earnings is discounted at 9% (2016: 9%).
(b) Future earnings are projected based on actuarial assumptions that are determined in accordance with generally accepted actuarial best practice and are appropriate to the business and risk profile of the business.
(c) Allowance for tax of 17% (2016: 17%) has been made on the assumptions that the application of current tax legislation and tax rates will continue unchanged.
(d) The current actuarial reserving methods and bases have been assumed to continue unaltered.
(e) The current risk-based capital requirement has been assumed to continue unaltered.
(f) Required risk-based capital are at the management's capital adequacy ratio target level.
(g) The cost of capital is the cost of holding the required capital at the internal capital adequacy ratio allowing for future investment return on the capital held.

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

17 Intangible assets

The Group 2017	Note	Core deposit RM'000	Customer relationship RM'000	Computer software RM'000	Total RM'000
Cost or valuation					
As at 1 July 2016		**152,434**	**127,426**	**612,205**	**892,065**
Additions		**-**	**-**	**22,912**	**22,912**
Write-off		**-**	**-**	**(1,488)**	**(1,488)**
Exchange fluctuation		**-**	**-**	**1,990**	**1,990**
Reclassification from property and equipment	14	**-**	**-**	**5,198**	**5,198**
As at 30 June 2017		**152,434**	**127,426**	**640,817**	**920,677**
Accumulated amortisation and impairment					
As at 1 July 2016		**112,510**	**65,838**	**428,746**	**607,094**
Amortisation during the financial year		**21,776**	**12,743**	**49,014**	**83,533**
Write-off		**-**	**-**	**(1,431)**	**(1,431)**
Exchange fluctuation		**-**	**-**	**893**	**893**
As at 30 June 2017		**134,286**	**78,581**	**477,222**	**690,089**
Net book value as at 30 June 2017		**18,148**	**48,845**	**163,595**	**230,588**
2016					
Cost or valuation					
As at 1 July 2015		152,434	127,426	585,516	865,376
Additions		-	-	25,223	25,223
Disposals/write-off		-	-	(4,953)	(4,953)
Exchange fluctuation		-	-	1,669	1,669
Reclassification from property and equipment	14	-	-	4,750	4,750
As at 30 June 2016		152,434	127,426	612,205	892,065
Accumulated amortisation and impairment					
As at 1 July 2015		90,734	53,095	383,705	527,534
Amortisation during the financial year		21,776	12,743	46,114	80,633
Disposals/write-off		-	-	(1,565)	(1,565)
Exchange fluctuation		-	-	623	623
Reclassification from property and equipment	14	-	-	(131)	(131)
As at 30 June 2016		112,510	65,838	428,746	607,094
Net book value as at 30 June 2016		39,924	61,588	183,459	284,971

17 Intangible assets (continued)

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

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

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

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

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

The discount rate used in discounting incremental cash flow was based on the risk associated with the identified intangible assets. The remaining amortisation period of core deposits and customer relationships are 2 to 5 years respectively.

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

18 Deposits from customers

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

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

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

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

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

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

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

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

19 Deposits and placements of banks and other financial institutions

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

20 Derivative financial instruments

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

20 Derivative financial instruments (continued)

(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.

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

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

			The Group		
	Up to 1 month RM'000	**> 1 - 3 months RM'000**	**> 3 - 6 months RM'000**	**> 6 - 12 months RM'000**	**> 1 - 5 years RM'000**
As at 30 June 2017					
Cash inflows (assets)	**1,283**	**1,767**	**3,070**	**6,174**	**34,679**
Cash outflows (liabilities)	**(1,279)**	**(1,563)**	**(2,801)**	**(5,638)**	**(31,188)**
Net cash inflows	**4**	**204**	**269**	**536**	**3,491**

			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 2016					
Cash inflows (assets)	1,384	464	1,867	3,433	18,586
Cash outflows (liabilities)	(1,346)	(454)	(1,811)	(3,271)	(17,812)
Net cash inflows	38	10	56	162	774

(b) Fair value hedge

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

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

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

21 Payables and other liabilities

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

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

22 Deferred taxation

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

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

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

	The Group		The Company	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Deferred tax assets				
- Cash flow hedge reserve	**337**	543	**-**	-
- Unutilised tax credit	**85,613**	89,692	**-**	-
- Senior bonds	**-**	69,732	**-**	-
- Provision for expenses	**91,557**	65,386	**-**	-
- Other temporary differences	**1,296**	10,645	**36**	330
	178,803	235,998	**36**	330
Deferred tax liabilities				
- Property and equipment	**(97,759)**	(108,957)	**-**	-
- Financial investments available-for-sale	**(183,432)**	(147,978)	**-**	-
- Intangible assets	**(16,079)**	(24,363)	**-**	-
- Unallocated surplus	**(175,696)**	(156,937)	**-**	-
- Other temporary differences	**(8,354)**	-	**-**	-
	(481,320)	(438,235)	**-**	-
Deferred tax (liabilities)/assets net	**(302,517)**	(202,237)	**36**	330

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

22 Deferred taxation (continued)

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

22 Deferred taxation (continued)

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

23 Borrowings

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

(a) The revolving credit facilities carried interest rates ranging from 3.40% to 3.84% (2016: ranging from 3.64% to 3.92%) per annum.

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

(b) On 14 October 2011, the Company entered into RM1.8 billion CP/MTNs Programme comprising a seven (7) years Commercial Papers (CP) programmes and a twenty (20) years Medium Term Notes (MTNs) programmes which were constituted by a Trust Deed between the Company and Malaysian Trustees Berhad as trustee. The CPs are issued at a discount and the issue price is calculated in accordance with the Rules on Fully Automated System for Issuing/Tendering ("FAST") issued by Bank Negara Malaysia at the tenure of one (1), two (2), three (3), six (6), nine (9) or twelve (12) months as the Company may select. The CPs carry interest rate ranging from 3.38% to 3.75% (2016: 3.58% to 3.86%).

The MTNs are issued at par and the issue price is calculated in accordance with the FAST Rules, at the tenure which shall be more than one (1) year as the Company may select. The MTNs carry interest rates ranging from 4.30% to 4.80% (2016: 4.30% to 4.80%) per annum.

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

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

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

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

(d) Senior bonds

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

Notes to the financial statements
for the financial year ended 30 June 2017 (continued)

23 Borrowings (continued)

(d) Senior bonds (continued)

(i) On 20 April 2012, HLB completed its inaugural US dollar senior unsecured notes issuance of USD300.0 million (the "Senior Notes") under its Euro Medium Term Note Programme of up to USD1.5 billion (or its equivalent in other currencies) in nominal value (the "Programme") which was established on 9 April 2012.

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

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

24 Subordinated obligations

		The Group	
		2017	2016
	Note	**RM'000**	RM'000
RM1.5 billion Tier 2 subordinated debt, at par	(a)	**1,500,000**	1,500,000
Add: Interest payable		**1,664**	1,480
		1,501,664	1,501,480
Less: Unamortised discounts		**(277)**	(589)
		1,501,387	1,500,891
RM500 million Tier 2 subordinated debt, at par	(b)	**500,000**	500,000
Add: Interest payable		**8,815**	8,692
		508,815	508,692
Less: Unamortised discounts		**(1,443)**	(1,620)
		507,372	507,072
RM400 million Tier 2 subordinated Sukuk Ijarah, at par	(c)	**400,000**	400,000
Add: Profit payable		**631**	736
		400,631	400,736
Less: Unamortised discounts		**(128)**	(254)
		400,503	400,482
RM500 million Tier 2 subordinated notes, at par	(d)	**500,000**	500,000
Add: Interest payable		**526**	526
		500,526	500,526
Less: Unamortised discounts		**(271)**	(577)
		500,255	499,949
RM50 million Tier 2 subordinated notes, at par	(e)	**50,000**	50,000
Add: Interest payable		**392**	407
		50,392	50,407
Less: Unamortised discounts		**(130)**	(160)
		50,262	50,247
		2,959,779	2,958,641

24 Subordinated obligations (continued)

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

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

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

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

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

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

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

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

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

24 Subordinated obligations (continued)

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

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

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

25 Innovative Tier 1 capital securities

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

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

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

26 Insurance funds

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

The main insurance risks that the Group is exposed to are the following:

- Mortality risk – risk of loss arising due to policyholder's death experience being different than expected.
- Morbidity risk – risk of loss arising due to policyholder's health experience being different than expected.
- Longevity risk – risk of loss arising due to the annuitants living longer than expected.
- Investment return/interest rate risk – risk of loss arising from actual returns being different than expected.
- Expense risk – risk of loss arising from expense experience being different than expected.
- Lapse risk – risk of loss arising due to policyholder surrender experience being different than expected.

The risks vary in relation to the location of the risk insured by the Group, type of risk insured or by industry.

27 Share capital

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

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

28 Reserves

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

28 Reserves (continued)

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

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

29 Treasury shares for ESOS

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

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

In accordance with MFRS 132 - Financial Instruments: Presentation, the shares purchased for the benefit of the ESOS holders are recorded as "Treasury Shares for ESOS" in the equity on the balance sheet. As at 30 June 2017, the number of shares held by the appointed trustee was 500 shares (2016: 500) at an average price of RM6.31 per share (2016: RM6.31). The total consideration paid, including transaction costs was RM3,156 (2016: RM3,156).

Pursuant to the insurance subsidiary company's ESOS, the insurance subsidiary company also held 3,963,900 (2016: 3,963,900) units of the Company's shares at an average price of RM9.01 (2016: RM9.01) per share with total consideration paid, including transaction costs of RM35,709,188 (2016: RM35,709,188), which have been classified as treasury shares held for ESOS at the Group level.

The main features of the ESOS are disclosed in the Director's Report and details of the ESOS are disclosed in Note 50 to the financial statements.

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

30 Interest income

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

31 Interest expense

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

32 Income from Islamic banking business

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

33 Non-interest income

	The Group		The Company	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Insurance income	**280,699**	214,705	**-**	-
Brokerage income	**60,368**	58,165	**-**	-
Fee income				
Commissions	**147,075**	139,557	**-**	-
Service charges and fees	**50,262**	51,963	**-**	-
Guarantee fees	**13,663**	17,219	**-**	-
Credit card related fees	**236,211**	256,917	**-**	-
Corporate advisory fees	**7,744**	7,212	**-**	-
Commitment fees	**34,916**	34,624	**-**	-
Fee on loans, advances and financing	**49,046**	56,944	**-**	-
Placement fees	**12,451**	9,001	**-**	-
Arranger fees	**9,633**	15,428	**-**	-
Unit trust fee income	**27,260**	20,750	**-**	-
Other fee income	**118,374**	80,057	**6,847**	10,410
	706,635	689,672	**6,847**	10,410
Net income from securities				
Net realised gain/(loss) from sale/redemption of financial assets:				
- financial assets held-for-trading	**19,033**	54,224	**-**	16
- financial investments available-for-sale	**74,568**	103,435	**-**	-
- financial investments held-to-maturity	**226**	31	**-**	-
- derivative financial instruments	**49,482**	(19,444)	**(80)**	(1,237)
Gross dividend income from:				
- financial assets held-for-trading	**2,740**	7,151	**-**	3,031
- financial investments available-for-sale	**294,023**	226,516	**-**	-
- subsidiary companies	**-**	-	**655,150**	513,534
Net unrealised gain/(loss) on revaluation of:				
- financial assets held-for-trading	**(352)**	(13,444)	**-**	-
- derivative financial instruments	**80,896**	(87,006)	**581**	(1,038)
Amortisation of fair value changes arising from terminated fair value hedges	**(115)**	(519)	**-**	-
Net loss on fair value changes arising from fair value hedges	**(3)**	-	**-**	-
	520,498	270,944	**655,651**	514,306
Other income				
Foreign exchange gain	**75,366**	184,139	**1**	1
Rental income	**4,058**	9,051	**-**	-
Gain on sale of property and equipment (net)	**1,295**	1,967	**-**	-
Other non-operating income	**13,889**	6,277	**14**	188
	94,608	201,434	**15**	189
	1,662,808	1,434,920	**662,513**	524,905

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

34 Overhead expenses

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

(a) Personnel costs comprise the following:

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

(b) Establishment costs comprise the following:

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

(c) Marketing expenses comprise the following:

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

34 Overhead expenses (continued)

(d) Administration and general expenses comprise the following:

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

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

The above expenditure includes the following statutory disclosures:

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

35 Allowance for/(writeback of) impairment losses on loans, advances and financing and other losses

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

36 Directors' remuneration

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

2017	The Group Salaries and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits-in-kind RM'000	Total RM'000	The Company Salaries and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits-in-kind RM'000	Total RM'000
Executive Directors								
Mr Tan Kong Khoon	6,160	-	35	6,195	6,160	-	35	6,195
Non-executive Directors								
YBhg Tan Sri Quek Leng Chan	-	-	28	28	-	-	28	28
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	-	325	-	325	-	106	-	106
Ms Lim Lean See	-	389	-	389	-	150	-	150
Mr Saw Kok Wei	-	164	-	164	-	145	-	145
Ms Lim Tau Kien	-	231	-	231	-	155	-	155
Mr Quek Kon Sean (Resigned on 9 July 2016)	-	-	-	-	-	-	-	-
	-	1,109	28	1,137	-	556	28	584
Total Directors' remuneration	6,160	1,109	63	7,332	6,160	556	63	6,779
Directors of subsidiaries	15,798	3,097	118	19,013				

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

36 Directors' remuneration (continued)

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

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

The movement and details of the Directors of the Company in office and interests in shares and share options are reported in the Directors' Report.

Included in the Non-Executive Directors' remunerations are amounts paid to Directors in their capacities as Executive Directors for certain subsidiary companies.

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

37 Taxation

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

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

A reconciliation of income tax applicable to profit before taxation at the statutory income tax rate to income tax expenses of the Group and the Company is as follows:

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

	The Group 2017 RM'000	The Group 2016 RM'000
Tax losses		
Tax losses for which the related tax credit has not been recognised in the financial statements	**65,076**	69,681
Tax credit		
Tax credit which has not been recognised in the financial statements	**108,489**	121,830
Capital allowance		
Deductible temporary differences and unutilised capital allowances for which the related tax credit has not been recognised in the financial statements	**807**	807

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

Notes to the financial statements
for the financial year ended 30 June 2017 (continued)

38 Earnings per share

Basic earnings per share

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

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

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential ordinary shares. For the share options, calculation is done to determine the number of shares that could been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options. The Group's dilutive potential ordinary shares is share option, of which the impact of dilution is as below:

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

39 Dividends

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

40 Commitments and contingencies

(a) Group related commitments and contingencies

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

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

	The Group		The Company	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Commitments and contingencies				
Direct credit substitutes*	**82,785**	121,679	**-**	-
Certain transaction related contingent items	**1,391,111**	1,621,014	**-**	-
Short-term self liquidating trade related contingencies	**780,216**	766,350	**-**	-
Obligations under underwriting agreement	**130,000**	-	**-**	-
Any commitments that are unconditionally cancellable at any time by the Group without prior notice				
- less than one year	**661,322**	686,780	**-**	-
Irrevocable commitments to extend credit:				
- less than one year	**16,098,253**	17,515,111	**-**	-
- more than one year	**13,257,147**	16,125,773	**-**	-
Unutilised credit card lines	**7,001,256**	7,503,020	**-**	-
	39,402,090	44,339,727	**-**	-
Derivative financial instruments				
Foreign exchange related contracts^:				
- less than one year	**37,699,553**	30,866,808	**-**	-
- one year to less than five years	**3,758,574**	4,950,940	**-**	-
- five years and above	**1,260,525**	895,329	**-**	-
Interest rate related contracts^:				
- less than one year	**45,167,380**	35,439,838	**-**	100,000
- one year to less than five years	**37,794,681**	39,926,819	**100,000**	100,000
- five years and above	**5,807,786**	2,532,411	**-**	-
Equity related contracts^:				
- less than one year	**155,471**	296,489	**-**	-
- one year to less than five years	**286,187**	219,299	**-**	-
Commodity related contracts^:				
- less than one year	**-**	4,949	**-**	-
	131,930,157	115,132,882	**100,000**	200,000
	171,332,247	159,472,609	**100,000**	200,000

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

40 Commitments and contingencies (continued)

(b) Other commitments and contingencies - unsecured

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

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

41 Capital commitments

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

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

42 Lease commitments

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

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

43 Ultimate holding company

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

44 Capital adequacy

The banking subsidiaries' regulatory capital is governed by BNM Capital Adequacy Framework guidelines. With effect from 1 January 2013, the capital adequacy ratios of the banking subsidiaries are computed in accordance with BNM's Capital Adequacy Framework issued on 28 November 2012 and its revised version on 13 October 2015 (the “Framework”). The Framework sets out the approach for computing the regulatory capital adequacy ratios, the minimum levels of the ratios at which banking institutions are required to operate as well as requirement on Capital Conservation Buffer ("CCB") and Counter Cyclical Buffer ("CCyB"). The minimum capital adequacy requirements for Common Equity Tier I (CET I) capital ratio, Tier I capital ratio and Total Capital ratio are 4.50%, 6.00% and 8.00% respectively. The Group are also required to maintain CCB of up to 2.50% of total risk weighted assets (“RWA”), which is phased in starting with 0.625% in year 2016, 1.250% in year 2017, 1.875% in year 2018 and 2.500% in year 2019. The CCyB which ranges from 0% up to 2.50% is determined as the weighted average of prevailing CCyB rates applied in the jurisdictions in which a financial institution has credit exposures. There is no BNM announcement on the CCyB rates yet.

Individual entities within the Group comply with all externally imposed capital requirements to which they are subject to. The risk-weighted assets (“RWA”) of the banking subsidiaries have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk computation.

(a) The capital adequequacy ratios of the banking subsidiaries are as follows:

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

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

	Hong Leong Bank Group		**Hong Leong Bank Berhad**		**Hong Leong Investment Bank Berhad**	
	2017	2016	**2017**	2016	**2017**	2016
	RM’000	RM’000	**RM’000**	RM’000	**RM’000**	RM’000
CET I capital						
Paid up share capital	**7,739,063**	2,167,718	**7,739,063**	2,167,718	**252,950**	165,000
Share premium	**-**	5,571,345	**-**	5,571,345	**-**	87,950
Retained profit	**13,560,582**	8,412,365	**10,245,205**	6,035,024	**246,910**	36,357
Other reserves	**1,265,223**	4,939,875	**422,954**	3,727,869	**648**	199,404
Less: Treasury shares	**(733,961)**	(735,040)	**(733,961)**	(735,040)	**-**	-
Less: Other intangible assets	**(213,323)**	(264,766)	**(194,870)**	(246,784)	**-**	-
Less: Goodwill	**(1,831,312)**	(1,831,312)	**(1,771,547)**	(1,771,547)	**(33,796)**	(34,379)
Less: Deferred tax assets	**(4,851)**	(3,957)	**-**	-	**(90,153)**	(91,882)
Less: Investment in subsidiary company/ associated company/joint venture	**(2,908,861)**	(1,993,586)	**(2,148,516)**	(1,531,798)	**(160)**	(217)
Total CET I capital	**16,872,560**	16,262,642	**13,558,328**	13,216,787	**376,399**	362,233
Additional Tier I capital						
Innovative Tier 1 capital securities	**495,778**	494,142	**495,778**	494,142	**-**	-
Total additional Tier 1 capital	**495,778**	494,142	**495,778**	494,142	**-**	-
Total Tier I capital	**17,368,338**	16,756,784	**14,054,106**	13,710,929	**376,399**	362,233
Tier II Capital						
Collective assessment allowance^ and regulatory reserves#	**1,281,686**	1,214,681	**1,067,705**	1,029,079	**2,783**	4,394
Subordinated obligations	**1,999,723**	1,999,411	**1,999,723**	1,999,411	**50,000**	50,000
Tier II capital before regulatory adjustments	**3,281,409**	3,214,092	**3,067,428**	3,028,490	**52,783**	54,394
Less: Investment in subsidiary companies/ associated company/joint venture	**(727,215)**	(1,329,057)	**(537,129)**	(1,021,198)	**(40)**	(144)
Total Tier II capital	**2,554,194**	1,885,035	**2,530,299**	2,007,292	**52,743**	54,250
Total capital	**19,922,532**	18,641,819	**16,584,405**	15,718,221	**429,142**	416,483

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

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

44 Capital adequacy (continued)

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

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

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

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

45 Segmental information

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

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

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

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

Business segments

The Group comprises the following main business segments:

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

45 Segmental information (continued)

Business segment reporting

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

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

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

45 Segmental information (continued)

Business segment reporting (continued)

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

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

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

45 Segmental information (continued)

The Group operates in two main geographical areas:

- Malaysia, the home country of the Group, which includes all the areas of operations in the primary business segments.

- Overseas operations, which includes branch, subsidiary, associate and joint ventures operations in Singapore, Hong Kong, China, Vietnam and Cambodia. The overseas operations are mainly in commercial banking and insurance business.

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

46 Significant related party transactions

(a) Related parties and relationship

The related parties of and their relationship with the Company are as follows:

Related parties	Relationship
Hong Leong Company (Malaysia) Berhad ("HLCM")	Ultimate holding company
HLCM Capital Sdn Bhd, Hong Leong Share Registration Services Sdn Bhd, HL Management Co Sdn Bhd and GuoLine Capital Assets Limited ("HLCM Group")	Subsidiary companies of ultimate holding company
Guardian Security Consultants Sdn Bhd ("GSC")	Associated company of ultimate holding company
Hong Leong Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements ("HLI Group")	Subsidiary and associated companies of ultimate holding company
Malaysian Pacific Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements ("MPI Group")	Subsidiary and associated companies of ultimate holding company
Hume Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements ("Hume Group")	Subsidiary and associated companies of ultimate holding company
HLMG Management Co Sdn Bhd (formerly known as HLI-Hume Management Co Sdn Bhd) ("HLMG"), Hume Cement Sdn Bhd, Hume Construction Sdn Bhd, Hume Plastics (Malaysia) Sdn Berhad, Hume Quarry (Sarawak) Sdn Bhd, Hongvilla Development Sdn Bhd, HIMB Overseas Limited, HIMB Trading Limited and Delta Touch Limited	Subsidiary companies of ultimate holding company
Guoco Group Limited and its subsidiary and associated companies as disclosed in its financial statements ("GGL Group")	Subsidiary and associated companies of ultimate holding company
GuocoLand (Malaysia) Berhad and its subsidiary and associated companies as disclosed in its financial statements	Subsidiary and associated companies of ultimate holding company
Subsidiary companies of the Company as disclosed in Note 11	Subsidiary companies of the Company
Key management personnel	The key management personnel of the Group and the Company consists of: - All Directors of the Company - Key management personnel of the Company who are in charge of the HLFG Group
Related parties of key management personnel (deemed as related to the Company)	(i) Close family members and dependents of key management personnel (ii) Entities that are controlled, jointly controlled or significant influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

46 Significant related party transactions (continued)

(b) Related party transactions

Transactions with related parties are as follows:

	The Group			
2017	**Parent company RM'000**	**Associated companies RM'000**	**Other related companies RM'000**	**Key management personnel RM'000**
Income				
Interest on deposits	**-**	**312**	**-**	**-**
Interest on loans	**-**	**-**	**9,443**	**-**
Brokerage fee received	**-**	**-**	**218**	**145**
Insurance premium received	**-**	**-**	**659**	**-**
Others	**-**	**-**	**3,532**	**25**
	-	**312**	**13,852**	**170**
Expenditure				
Rental and maintenance	**-**	**-**	**7,408**	**-**
Interest on deposits	**-**	**-**	**-**	**1,419**
Interest paid on short-term placements	**-**	**-**	**10,036**	**2,247**
Management fees	**-**	**-**	**35,522**	**-**
Other miscellaneous expenses	**-**	**-**	**40,124**	**-**
	-	**-**	**93,090**	**3,666**
Amount due from:				
Deposits and placements	**-**	**4,913**	**-**	**-**
Current account	**-**	**20,849**	**-**	**-**
Loans	**-**	**-**	**233,248**	**-**
Insurance premium receivable	**-**	**-**	**16**	**-**
Credit card	**-**	**-**	**-**	**163**
Others	**-**	**69**	**104**	**-**
	-	**25,831**	**233,368**	**163**
Amount due to:				
Current account and fixed deposits	**-**	**-**	**1,183,020**	**112,617**
Short-term placements	**-**	**-**	**-**	**36,821**
Others	**-**	**36**	**1,848**	**-**
	-	**36**	**1,184,868**	**149,438**
2016				
Income				
Interest on deposits	-	330	-	-
Interest on loans	-	-	12,839	1
Interest on redeemable preference shares	-	-	1,333	-
Brokerage fee received	-	-	90	91
Insurance premium received	-	-	1,689	-
Others	-	-	8,021	41
	-	330	23,972	133
Expenditure				
Rental and maintenance	-	-	3,704	-
Interest on deposits	-	-	813	319
Interest paid on short-term placements	-	-	2,671	3,446
Management fees	-	-	32,486	-
Other miscellaneous expenses	-	-	11,439	-
	-	-	51,113	3,765

46 Significant related party transactions (continued)

(b) Related party transactions (continued)

Transactions with related parties are as follows: (continued)

	The Group			
2016	Parent company RM'000	Associated companies RM'000	Other related companies RM'000	Key management personnel RM'000
Amount due from:				
Deposits and placements	-	5,846	-	-
Current account	-	19,653	-	-
Loans	-	-	233,364	63
Redeemable preference shares	-	-	32,066	-
Insurance premium receivable	-	-	380	-
Credit card	-	-	-	90
Others	-	-	372	-
	-	25,499	266,182	153
Amount due to:				
Current account and fixed deposits	-	-	81,364	20,623
Short-term placements	-	-	498,447	100,110
Others	-	-	1,977	-
	-	-	581,788	120,733

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

46 Significant related party transactions (continued)

(b) Related party transactions (continued)

Transactions with related parties are as follows: (continued)

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

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

46 Significant related party transactions (continued)

(c) Key management personnel

Key management compensation

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

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

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

47 Financial instruments

(a) Risk management objectives and policies

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

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

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

Commercial Banking

Integrated Risk Management ("IRM")

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

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

47 Financial instruments (continued)

(a) Risk management objectives and policies (continued)

Commercial Banking (continued)

Integrated Risk Management ("IRM") (continued)

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

The BRMC is assisted by the Group Integrated Risk Management and Compliance ("GIRMC") function, which has been established to provide independent oversight on the adequacy, effectiveness and integrity of risk management practices at all levels within the Banking Group. The core functions of the Banking Group's risk management are to identify all key risks for the Banking Group, measure these risks, manage the risk positions and determine the optimum capital allocations. The Banking Group regularly reviews its risk management framework to reflect changes in markets, products, regulatory and emerging best market practice.

Credit Risk Management

Credit risk is risk of financial loss due to a borrower or counterparty being unable or unwilling to deliver on its payment obligations to the Banking Group, which leads to a loss of revenue and the principal sum. It arises principally from lending, trade finance and treasury activities. The Banking Group has established a credit risk management framework to ensure that exposure to credit risk is kept within the Banking Group's financial capacity to withstand potential future losses. Lending activities are guided by the internal credit policies and guidelines that are reviewed and concurred by the Management Credit Committee ("MCC"), endorsed by the BRMC and the Board Credit Supervisory Committee ("BCSC"), and approved by the Board. These policies are subject to review and enhancements, at least on an annual basis.

Credit portfolio strategies and significant exposures are reviewed by both the BRMC and the Board. These portfolio strategies are designed to achieve a desired portfolio risk tolerance level and sector distribution.

The Banking Group's credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. While the business units are responsible for credit origination, the credit approving function rests mainly with the Credit Evaluation Departments, the MCC and the BCSC. The Board delegates approving and discretionary authority to the MCC and the various personnel of the Bank based on job function and designation.

For any new products, credit risk assessment also forms part of the new product sign-off processes to ensure that the new product complies with the appropriate policies and guidelines, prior to the introduction of the product.

The Banking Group's exposure to credit risk is mainly from its retail customers, small and medium enterprise ("SME"), commercial and corporate customers. The credit assessment for retail customers is managed on a portfolio basis and the risk scoring models and lending templates are designed to assess the credit worthiness and the likelihood of the obligors to repay their debts. The SME, commercial and corporate customers are individually assessed and assigned with a credit rating, which is based on the assessment of relevant factors such as the customer's financial position, industry outlook, types of facilities and collaterals offered.

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

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

47 Financial instruments (continued)

(a) Risk management objectives and policies (continued)

Commercial Banking (continued)

Market Risk Management

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

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

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

Foreign exchange risks arising from adverse exchange rate movements, is managed by the setting of preset limits, matching of open positions against these pre-set limits and imposition of cut-loss mechanisms.

Interest rate risk exposure is also identified, measured and controlled through limits and procedures, which includes regularly reviewing the interest rate outlook and developing strategies to protect total net interest income from changes in market interest rates. This applies to both interest rate risk exposure in the trading book and in the banking book. In managing the interest rate risk exposure in the banking book, the Banking Group adopts methodologies that measure exposure in both earnings at risk perspective and economic value or capital at risk perspective.

In addition, the Banking Group also conducts periodic and stress testing of its respective portfolios to ascertain market risk under abnormal market conditions.

Liquidity Risk Management

Liquidity risk is the risk of financial loss arising from the inability to fund increases in assets and/or meet obligations as they fall due. Financial obligations arise from the withdrawal of deposits, funding of loans committed and repayment of borrowed funds. It is the Banking Group’s policy to ensure there is adequate liquidity across all business units to sustain ongoing operations, as well as sufficient liquidity to fund asset growth and strategic opportunities.

To manage liquidity risk, the Banking Group adopts the BNM’s New Liquidity Framework as one of the liquidity measurement methods. In addition to ensuring compliance with the New Liquidity Framework, the Banking Group maintains a liquidity compliance buffer to meet any unexpected cash outflows.

This is supplemented by the banking subsidiaries' comprehensive liquidity risk management framework consisting of risk appetite, policies, triggers, limits and controls which are reviewed and concurred by the ALCO, endorsed by the BRMC and approved by the Board. The key elements of the framework cover proactive monitoring and management of cash flow, maintenance of high quality long-term and short-term marketable debt securities as well as diversification of funding base as well as maintains a liquidity compliance buffer to meet any unexpected cash outflows.

47 Financial instruments (continued)

(a) Risk management objectives and policies (continued)

Commercial Banking (continued)

Liquidity Risk Management (continued)

The banking subsidiaries' have in place liquidity contingency funding plans and stress test programs to minimise the liquidity risk that may arise due to unforeseen adverse changes in the marketplace. Contingency funding plans set out the crisis escalation process and the various strategies to be employed to preserve liquidity including an orderly communication channel during liquidity crisis scenarios. Liquidity stress tests are conducted regularly to ensure there is adequate liquidity contingency fund to meet the shortfalls during liquidity crisis scenarios.

In addition, the banking subsidiaries' also monitors the Net Stable Funding Ratio which is one of the key Basel III liquidity ratios in line with the observation period reporting to BNM.

Investment Banking

Risk management is one of the core activities of the Investment Banking Group to strike a balance between sound practices and risk-return. An effective risk management is therefore vital to ensure that the Investment Banking Group conducts its business in a prudent manner to ensure that the risk of potential losses is reduced.

Market risk

Market risk is the risk of loss arising from adverse fluctuation in market prices, such as interest rates, equity prices and foreign currency. The Investment Banking Group monitors all such exposures arising from trading activities of the treasury and stockbroking business activities on a daily basis and management is alerted on the financial impact of these risks. To mitigate market risk, the Investment Banking Group also uses derivative financial instruments.

The Investment Banking Group has in place a set of policies, guidelines, measurement methodologies and control limits which includes Value-at-Risk (“VaR”), Present-Value-Basis-Point (“PVBP”), Management Action Trigger (“MAT”), notional limits and concentration limits to mitigating market risk.

Stress testing is also employed to capture the potential market risk exposures from unexpected market movements. Concerns and significant findings are communicated to the senior management at the Assets and Liabilities Management Committee (“ALMCO”) and to the Board.

Liquidity risk

Liquidity risk is the risk of financial loss arising from the inability to fund increases in assets and/or meet obligations as they fall due. Financial obligations arises from the withdrawal of deposits, funding of loans committed and repayment of borrowed funds. It is the Investment Banking Group’s policy to ensure that there is adequate liquidity across all business units to sustain ongoing operations, as well as sufficient liquidity to fund asset growth and strategic opportunities.

Credit risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, credit limits and monitoring procedures. Credit risk includes settlement risk, default risk and concentration risk. Exposure to credit risk arises mainly from financing, underwriting, securities and derivative exposures of the Investment Banking Group.

47 Financial instruments (continued)

(a) Risk management objectives and policies (continued)

Investment Banking (continued)

Credit risk (continued)

The Investment Banking Group has set out Board approved policies and guidelines for the management of credit risk. To oversee all credit related matters of the Investment Banking Group, the Management Credit and Underwriting Committee ("MCUC") was setup in 2011 in addition to an independent Credit Department.

The Board has delegated appropriate Delegation of Authority to the MCUC and senior management for the approval of credit facilities. Credit limit setting for Treasury activities are endorsed by the MCUC and approved by the Board at least annually. Adherence to established credit policies, guidelines and limits is monitored daily by the Credit Control Department, Credit Department and the Risk Management Department.

Insurance

Insurers have to comply with the Malaysian Insurance Act and Regulations, including guidelines on investments. The Board is responsible for formulating policies and overseeing the major risks including those risks associated with the Financial Instruments described below.

The responsibility for the formulation, establishment and approval of the Insurance Group's investment policy rest with the Board as reported in the Corporate Governance Framework in the Directors' Report. The deployment and execution of the investment policies is delegated to the Investment Committee ("IC") in which the members are appointed by the Board. The IC oversees the formulation of investment and risk strategy and asset allocation to determine the optimum risk and return profile.

Risk limits are in place at various levels and monitored by a risk manager to ensure all investment securities are compatible with the Insurance Group's investment principles and philosophy. Sensitivity and stress tests are carried out on a regular basis to assess the resilience of the investment portfolios and the impact on the Insurance Group's solvency. An Asset and Liability Management ("ALM") model is being deployed to address the Insurance Group's assets and liabilities match. The ALM model will enable management to assess the long-term impact of the investment strategy, asset mix and product pricing strategy on the Insurance Group's financial ability to meet its future obligations.

Actuarial and underwriting risk

Actuarial risks relate to the adequacy of insurance premium rate levels to provide for insurance liabilities and solvency margin and takes into consideration the developments in mortality, morbidity, lapses and expenses.

Underwriting risk represents the risk that claims incurred are higher than anticipated. This is attributable to the nature of risk underwritten, random nature of claims frequency and severity of claims.

The Insurance Group manages the risks through strict underwriting guidelines, which include exclusions, cover limits, loadings and reinsurance programmes. New risks are carefully assessed before an insurance policy is underwritten and issued.

47 Financial instruments (continued)

(a) Risk management objectives and policies (continued)

Insurance (continued)

Credit risk

Credit risk is the risk of loss due to inability or unwillingness of an counterparty to service its debt obligations. The credit risk and investment activities is monitored regularly with respect to single customer limit, sectorial exposure, credit rating and residual maturity, in accordance with the investment guidelines and limits approved by the Board of Directors and the authorities.

At the date of the statement of financial position, the credit exposure is within the investment guidelines and limits approved by the Board of Directors and the authorities. The maximum exposure to credit risk is the carrying amount as stated in the financial statements.

Interest rate risk

Investment activities and insurance business are inherently exposed to interest rate risk. This risk arises from differences in pricing or tenure of investments and liabilities. Interest rate risk is managed by targeting a desired return, which is reviewed periodically, based on the Insurance Group's long-term view on interest rates. Investment activities are managed by appropriate asset allocation, which is regularly reviewed and changed in relation to the investment climate to meet the Insurance Group's desired return.

Market risk

Adverse changes in the equity market impairs the carrying value of the equity portfolio which could affect the solvency of the Insurance Group. The Board has set internal limits for maximum equity exposure and individual stock exposure, which are consistent with BNM's guidelines and has also imposed daily trading limits. The Insurance Group's investment committee decides on the appropriate asset allocation for equities on a regular basis in line with the investment and economic conditions at time of review.

Liquidity risk

Liquidity risk arises due to inability of the Insurance Group to meet its financial obligations as and when they fall due. The risk is managed via a three-year planning process to ascertain operational cash flow requirements and maintaining a reasonable level of liquid assets to meet any unexpected cash flow.

(b) Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as interest rates, foreign currency rates and equity risk, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Group and the Company as at 30 June 2017.

The scenarios used are simplified whereby it is assumed that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables. In reality, the Group and the Company proactively seeks to ensure that the interest rate risk profile is managed to minimise losses and optimise net revenues.

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(b) Market risk (continued)

(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)**	
2017	**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')	**21,713**	**(443,923)**	**888**	**-**
-100 bps	**(11,612)**	**457,815**	**(927)**	**-**
2016				
+100 bps	64,335	(352,867)	1,576	-
-100 bps	(60,601)	361,346	(1,654)	-

(ii) Foreign currency risk sensitivity analysis

The Group and the Company take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on their financial position and cash flows.

The table below sets out the principal structure of foreign exchange exposures (net of investment hedges) of the Group and the Company:

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

47 Financial instruments (continued)

(b) Market risk (continued)

(ii) Foreign currency risk sensitivity analysis (continued)

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

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

(iii) Equity risk

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(b) Market risk (continued)

(iv) Interest/profit rate risk

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

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

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

Notes to the financial statements
for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

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

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

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

Notes to the financial statements
for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

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

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

Notes to the financial statements
for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

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

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

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

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

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

47 Financial instruments (continued)

(c) Liquidity risk

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

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

	The Group							
2017	**Up to 1 week RM'000**	**1 week to 1 month RM'000**	**1 to 3 months RM'000**	**3 to 6 months RM'000**	**6 to 12 months RM'000**	**Over 1 year RM'000**	**No specific maturity RM'000**	**Total RM'000**
Assets								
Cash and short-term funds	11,982,445	738,142	-	-	-	-	51,756	12,772,343
Deposits and placements with banks and other financial institutions	-	-	1,559,083	3,632,467	822,408	-	-	6,013,958
Securities purchased under resale agreements	-	300,880	-	35,123	-	-	-	336,003
Financial assets held-for-trading	1,550,734	903,487	1,960,634	510,741	20,777	3,360,229	1,146,835	9,453,437
Financial investments available-for-sale	-	5,076	956,587	1,223,053	724,226	29,558,598	2,695,822	35,163,362
Financial investments held-to-maturity	48	-	1,124,328	384,880	226,217	12,845,557	-	14,581,030
Derivative financial instruments	64,848	62,082	146,849	53,976	157,921	491,928	-	977,604
Loans, advances and financing	10,715,753	5,954,327	6,664,066	2,307,310	1,201,393	97,969,230	-	124,812,079
Clients' and brokers' balances	270,967	-	-	-	237,103	-	-	508,070
Other receivables	1,223,287	6,942	10,719	29,658	48,221	19,122	189,806	1,527,755
Statutory deposits with Central Banks	-	-	-	-	-	-	3,796,330	3,796,330
Tax recoverable	-	-	-	-	9	-	1,900	1,909
Investment in associated companies	-	-	-	-	-	-	4,321,625	4,321,625
Investment in joint ventures	-	-	-	-	-	-	169,185	169,185
Property and equipment	-	-	-	-	-	-	1,884,451	1,884,451
Investment properties	-	-	-	-	-	-	2,030	2,030
Goodwill	-	-	-	-	-	-	2,410,644	2,410,644
Intangible assets	-	-	-	-	-	-	230,588	230,588
Total assets	25,808,082	7,970,936	12,422,266	8,177,208	3,438,275	144,244,664	16,900,972	218,962,403

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(c) Liquidity risk (continued)

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

	The Group							
2017	**Up to 1 week RM'000**	**1 week to 1 month RM'000**	**1 to 3 months RM'000**	**3 to 6 months RM'000**	**6 to 12 months RM'000**	**Over 1 year RM'000**	**No specific maturity RM'000**	**Total RM'000**
Liabilities								
Deposits from customers	54,542,682	27,574,173	30,342,849	20,328,350	17,347,048	4,322,915	-	154,458,017
Deposits and placements of banks and other financial institutions	3,225,305	1,595,762	1,864,422	1,005,863	43,073	-	-	7,734,425
Obligations on securities sold under repurchase agreements	529,165	28,251	2,048,386	372,926	-	-	-	2,978,728
Bills and acceptances payable	270	57,282	47,464	15,865	-	-	243,794	364,675
Derivative financial instruments	30,403	45,253	82,707	220,279	275,323	825,599	-	1,479,564
Clients' and brokers' balances	271,738	-	-	-	-	-	-	271,738
Payables and other liabilities	3,839,314	804	8,345	2,307	2,859,477	202	1,820,586	8,531,035
Recourse obligations on loans sold to Cagamas Berhad	-	-	-	-	-	202,926	-	202,926
Provision for claims	-	-	-	-	147,767	-	-	147,767
Provision for taxation	-	-	451	-	33,145	-	201,713	235,309
Deferred tax liabilities	-	-	-	-	498	226,920	75,099	302,517
Borrowings	-	870,134	-	406,088	-	250,000	-	1,526,222
Subordinated obligations	-	-	8,815	-	-	2,950,964	-	2,959,779
Innovative Tier 1 capital securities	-	-	-	-	-	515,623	-	515,623
Insurance funds*	-	28,823	1	2	2,015,139	9,866,191	-	11,910,156
Total liabilities	62,438,877	30,200,482	34,403,440	22,351,680	22,721,470	19,161,340	2,341,192	193,618,481
Total equity	-	-	-	-	-	-	25,032,513	25,032,513
Total liabilities and equity	62,438,877	30,200,482	34,403,440	22,351,680	22,721,470	19,161,340	27,373,705	218,650,994
Net liquidity gap	(36,630,795)	(22,229,546)	(21,981,174)	(14,174,472)	(19,283,195)	125,083,324		

* Excluding AFS Reserve

47 Financial instruments (continued)

(c) Liquidity risk (continued)

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

	The Group							
2016	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash and short-term funds	7,469,879	1,957,109	-	-	-	-	2,604	9,429,592
Deposits and placements with banks and other financial institutions	-	-	1,934,961	859,301	239,404	-	-	3,033,666
Securities purchased under resale agreements	-	4,056,670	-	-	-	-	-	4,056,670
Financial assets held-for-trading	72,353	2,295,835	2,303,320	90,384	2,916	2,974,458	785,407	8,524,673
Financial investments available-for-sale	624,822	118,016	436,006	694,516	960,438	23,942,938	8,990,356	35,767,092
Financial investments held-to-maturity	16,435	20,373	1,379,218	923,763	640,976	9,930,553	-	12,911,318
Derivative financial instruments	110,402	85,251	79,217	70,124	48,698	668,666	-	1,062,358
Loans, advances and financing	11,256,845	6,148,011	5,812,698	2,813,164	1,299,092	93,115,082	-	120,444,892
Clients' and brokers' balances	197,034	-	-	-	198,850	-	-	395,884
Other receivables	1,365,078	26,309	12,888	8,350	117,212	21,354	265,637	1,816,828
Statutory deposits with Central Banks	-	-	-	-	-	-	4,328,519	4,328,519
Tax recoverable	-	-	-	-	-	-	29,011	29,011
Investment in associated companies	-	-	-	-	-	-	3,982,091	3,982,091
Investment in joint ventures	-	-	-	-	-	-	145,183	145,183
Property and equipment	-	-	-	-	-	-	1,849,202	1,849,202
Investment properties	-	-	-	-	-	-	1,940	1,940
Goodwill	-	-	-	-	-	-	2,410,644	2,410,644
Intangible assets	-	-	-	-	-	-	284,971	284,971
Total assets	21,112,848	14,707,574	11,958,308	5,459,602	3,507,586	130,653,051	23,075,565	210,474,534

47 Financial instruments (continued)

(c) Liquidity risk (continued)

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

	The Group							
2016	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Deposits from customers	48,810,978	35,338,385	23,852,338	20,155,934	16,842,166	4,490,732	-	149,490,533
Deposits and placements of banks and other financial institutions	2,930,267	1,848,668	3,018,108	212,022	96,935	-	-	8,106,000
Obligations on securities sold under repurchase agreements	230,836	1,562,179	1,701,888	-	-	-	-	3,494,903
Bills and acceptances payable	43,503	7,531	26,062	15,155	4	-	258,200	350,455
Derivative financial instruments	67,119	78,105	177,053	202,384	105,189	1,024,375	-	1,654,225
Clients' and brokers' balances	279,919	-	-	-	-	-	-	279,919
Payables and other liabilities	3,664,225	2,060	2,270	2,040	2,402,749	258	164,220	6,237,822
Provision for claims	-	-	-	-	141,175	-	-	141,175
Provision for taxation	-	-	-	-	7,704	-	31,653	39,357
Deferred tax liabilities	-	-	-	-	1,005	179,055	22,177	202,237
Borrowings	-	835,260	-	104,497	1,215,643	1,034,730	1,789	3,191,919
Subordinated obligations	-	-	8,692	-	-	2,949,949	-	2,958,641
Innovative Tier 1 capital securities	-	-	-	-	-	521,512	-	521,512
Insurance funds*	-	-	-	-	1,430,011	8,952,892	-	10,382,903
Total liabilities	56,026,847	39,672,188	28,786,411	20,692,032	22,242,581	19,153,503	478,039	187,051,601
Total equity	-	-	-	-	-	-	23,177,156	23,177,156
Total liabilities and equity	56,026,847	39,672,188	28,786,411	20,692,032	22,242,581	19,153,503	23,655,195	210,228,757
Net liquidity gap	(34,913,999)	(24,964,614)	(16,828,103)	(15,232,430)	(18,734,995)	111,499,548		

* Excluding AFS Reserve

47 Financial instruments (continued)

(c) Liquidity risk (continued)

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

	The Company							
2017	**Up to 1 week RM'000**	**1 week to 1 month RM'000**	**1 to 3 months RM'000**	**3 to 6 months RM'000**	**6 to 12 months RM'000**	**Over 1 year RM'000**	**No specific maturity RM'000**	**Total RM'000**
Assets								
Cash and short-term funds	7,721	-	-	-	-	-	-	7,721
Deposits and placements with banks and other financial institutions	-	-	-	8,400	-	-	-	8,400
Other receivables	-	46	17	61	149	302	-	575
Amount due from subsidiaries	-	-	-	-	-	-	38,646	38,646
Tax recoverable	-	-	-	-	-	-	1,685	1,685
Investment in subsidiary companies	-	-	-	-	-	-	16,909,723	16,909,723
Deferred tax assets	-	-	-	-	-	-	36	36
Property and equipment	-	-	-	-	-	-	1,418	1,418
Intangible assets	-	-	-	-	-	-	13	13
Total assets	7,721	46	17	8,461	149	302	16,951,521	16,968,217
Liabilities								
Derivative financial instruments	-	-	-	-	-	874	-	874
Payables and other liabilities	-	254	-	1,331	7,904	-	-	9,489
Borrowings								
- Term loans	-	350,230	-	-	-	-	-	350,230
- Revolving credits	-	370,197	-	-	-	-	-	370,197
- Commercial papers	-	149,707	-	-	-	-	-	149,707
- Medium term notes	-	-	-	406,088	-	250,000	-	656,088
Total liabilities	-	870,388	-	407,419	7,904	250,874	-	1,536,585
Net liquidity gap	7,721	(870,342)	17	(398,958)	(7,755)	(250,572)		

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(c) Liquidity risk (continued)

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

	The Company							
2016	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash and short-term funds	9,620	-	-	-	-	-	-	9,620
Deposits and placements with banks and other financial institutions	-	-	-	8,400	-	-	-	8,400
Derivative financial instruments	-	-	-	-	-	80	-	80
Other receivables	-	187	17	46	-	389	-	639
Amount due from subsidiaries	-	-	-	-	-	-	48	48
Tax recoverable	-	-	-	-	-	-	2,729	2,729
Investment in subsidiary companies	-	-	-	-	-	-	16,915,160	16,915,160
Deferred tax assets	-	-	-	-	-	-	330	330
Property and equipment	-	-	-	-	-	-	1,729	1,729
Intangible asset	-	-	-	-	-	-	106	106
Total assets	9,620	187	17	8,446	-	469	16,920,102	16,938,841
Liabilities								
Derivative financial instruments	-	-	-	-	-	1,455	-	1,455
Payables and other liabilities	-	381	-	1,274	7,635	61	-	9,351
Borrowings								
- Term loans	-	180,463	-	-	-	-	-	180,463
- Revolving credits	-	305,450	-	-	-	-	-	305,450
- Commercial papers	-	349,347	-	-	-	-	-	349,347
- Medium term notes	-	-	-	156,457	-	650,000	-	806,457
Total liabilities	-	835,641	-	157,731	7,635	651,516	-	1,652,523
Net liquidity gap	9,620	(835,454)	17	(149,285)	(7,635)	(651,047)		

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(c) Liquidity risk (continued)

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

	The Group					
2017	**Up to 1 month RM'000**	**1 to 3 months RM'000**	**3 to 12 months RM'000**	**1 to 5 years RM'000**	**Over 5 years RM'000**	**Total RM'000**
Financial liabilities						
Deposits from customers	82,314,206	30,253,304	38,623,780	3,693,534	1,255,188	156,140,012
Deposits and placements of banks and other financial institutions	5,661,728	3,373,582	173,155	-	-	9,208,465
Obligations on securities sold under repurchase agreements	28,251	2,577,171	388,132	-	-	2,993,554
Bills and acceptances payable	297,817	26,867	2,501	-	-	327,185
Derivative financial instruments						
- Gross settled derivatives						
- Inflow	(4,688,103)	(2,947,626)	(8,351,508)	(2,310,471)	(1,683,057)	(19,980,765)
- Outflow	4,729,794	3,028,406	8,844,192	2,680,188	1,705,165	20,987,745
- Net settled derivatives	26,171	26,773	164,996	388,366	85,040	691,346
Clients' and brokers' balances	271,738	-	-	-	-	271,738
Payables and other liabilities	3,846,148	8,345	2,665,230	-	213	6,519,936
Recourse obligations on loans sold to Cagamas Berhad	-	3,791	3,853	211,486	-	219,130
Provision for claims	-	-	147,767	-	-	147,767
Borrowings	201,990	212,885	278,847	911,163	-	1,604,885
Subordinated obligations	-	10,151	134,416	2,605,612	620,225	3,370,404
Innovative Tier 1 capital securities	-	20,908	20,568	561,818	-	603,294
Insurance funds*	29,239	910	2,024,788	2,282,765	20,405,988	24,743,690
Total financial liabilities	92,718,979	36,595,467	45,120,717	11,024,461	22,388,762	207,848,386

* Excluding AFS Reserve

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(c) Liquidity risk (continued)

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

	The Group					
2016	Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Financial liabilities						
Deposits from customers	84,485,941	24,206,953	37,927,447	4,266,104	550,166	151,436,611
Deposits and placements of banks and other financial institutions	5,884,467	3,412,544	97,263	-	-	9,394,274
Obligations on securities sold under repurchase agreements	1,567,165	2,213,440	-	-	-	3,780,605
Bills and acceptances payable	305,688	3,244	1,665	-	-	310,597
Derivative financial instruments						
- Gross settled derivatives						
- Inflow	(5,868,571)	(5,013,580)	(5,335,276)	(2,881,709)	(1,842,714)	(20,941,850)
- Outflow	5,927,814	5,174,565	5,639,685	3,364,296	1,910,265	22,016,625
- Net settled derivatives	24,784	41,006	291,335	540,644	36,799	934,568
Clients' and brokers' balances	279,919	-	-	-	-	279,919
Payables and other liabilities	3,704,955	2,110	2,282,481	-	243	5,989,789
Provision for claims	-	-	141,175	-	-	141,175
Borrowings	4,321	97,903	1,634,153	1,430,874	346,706	3,513,957
Subordinated obligations	-	10,042	134,443	2,721,692	639,721	3,505,898
Innovative Tier 1 capital securities	-	21,021	20,229	603,295	-	644,545
Insurance funds*	231	684	1,427,022	1,731,561	19,913,560	23,073,058
Total financial liabilities	96,316,714	30,169,932	44,261,622	11,776,757	21,554,746	204,079,771

* Excluding AFS Reserve

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(c) Liquidity risk (continued)

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

	The Company					
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						
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 2017 (continued)

47 Financial instruments (continued)

(c) Liquidity risk (continued)

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

	The Company					
2016	Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Financial liabilities						
Payables and other liabilities	956	-	7,635	-	-	8,591
Derivative financial instruments						
- Gross settled derivatives						
- Inflow	-	-	-	-	-	-
- Outflow	-	-	-	-	-	-
- Net settled derivatives	-	7	449	1,351	-	1,807
Borrowings						
- Term loans	583	1,151	14,820	170,280	-	186,834
- Revolving credit	1,103	81,677	225,926	-	-	308,706
- Commercial papers	1,004	2,162	9,555	367,459	-	380,180
- Medium term notes	-	9,669	173,789	719,345	-	902,803
Total financial liabilities	3,646	94,666	432,174	1,258,435	-	1,788,921

47 Financial instruments (continued)

(c) Liquidity risk (continued)

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

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

Undrawn loan commitments are recognised at activation stage and include commitments which are unconditionally cancellable by the Group. The Group expect that not all of the contingent liabilities and undrawn loan commitments will be drawn before expiry.

(d) Credit risk

(i) Maximum exposure to credit risk

The maximum exposure to credit risk for financial assets recognised in the statements of financial position is their carrying amounts. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and the Company would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

47 Financial instruments (continued)

(d) Credit risk (continued)

(i) Maximum exposure to credit risk (continued)

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

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

(ii) Collaterals

The main type of collaterals obtained by the Group are as follows:

(a) Fixed deposits, Mudharabah General Investment Account, negotiable instrument of deposits, foreign currency deposits and cash deposits/margins
(b) Land and buildings
(c) Aircrafts, vessels and automobiles
(d) Quoted shares, unit trust, Malaysian Governments Bonds and securities and private debt securities
(e) Endowment life policies with cash surrender value
(f) Other tangible business assets, such as inventory and equipment

The Group also accept non-tangible securities such as support, guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract payments, which are subject to internal guidelines on eligibility.

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for loans, advances and financing for the Group is 84.05% (2016: 81.61%). The financial effects of collateral held for the remaining financial assets are insignificant.

Notes to the financial statements
for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(d) Credit risk (continued)

(iii) Credit Quality

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

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

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

(a) Loans, advances and financing

Loans, advances and financing are summarised as follows:

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

47 Financial instruments (continued)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(a) Loans, advances and financing (continued)

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

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

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

47 Financial instruments (continued)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(a) Loans, advances and financing (continued)

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

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

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

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

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

	The Group	
	2017	2016
	RM'000	RM'000
Gross amount of impaired loans	**1,215,016**	957,153
Less: Individual assessment impairment allowance	**(325,536)**	(289,844)
Less: Collective assessment impairment allowance	**(215,618)**	(228,903)
Total net amount of impaired loans	**673,862**	438,406

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(b) Other financial assets

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

	The Group							
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	1,315,669	220,371
	11,799,904	336,003	8,306,600	32,467,102	14,580,496	508,070	1,335,987	977,604
Individually impaired	-	-	-	-	-	-	-	-
	11,799,904	336,003	8,306,600	32,467,102	14,580,496	508,070	1,335,987	977,604

The amount of short-term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investment portfolios, other receivables, clients' and brokers' balances and derivative financial instruments that are past due but not impaired is not material.

* Placements with banks and other financial institutions with no ratings comprise of mainly placements with BNM.

^ Comprises of securities purchased under resale agreements with local financial institutions.

\# Securities with no ratings consists of government securities.

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(b) Other financial assets (continued)

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

	The Group							
2016	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	4,376,414	-	1,752,732	11,050,870	710,751	-	31,000	148,881
A1 to A3	3,513,616	-	780,204	4,742,491	63,902	-	-	665,619
Baa1 to Baa3	23,364	-	155,005	1,033,616	61,553	-	-	26,411
P1 to P3	-	-	5,028	10,159	-	-	-	-
Non-rated	3,329,025	4,056,670	5,044,494	9,939,501	12,074,579	395,884	1,665,217	221,447
	11,242,419	4,056,670	7,737,463	26,776,637	12,910,785	395,884	1,696,217	1,062,358
Individually impaired	-	-	-	-	-	-	-	-
	11,242,419	4,056,670	7,737,463	26,776,637	12,910,785	395,884	1,696,217	1,062,358

The amount of short-term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investment portfolios, other receivables, clients' and brokers' balances and derivative financial instruments that are past due but not impaired is not material.

* Placements with banks and other financial institutions with no ratings comprise of mainly placements with BNM.

^ Comprises of securities purchased under resale agreements with local financial institutions.

\# Securities with no ratings consists of government securities.

47 Financial instruments (continued)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(b) Other financial assets (continued)

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

	The Company			
2017	**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	**16,120**	**-**	**-**	**-**
A1 to A3	**-**	**-**	**-**	**-**
Baa1 to Baa3	**-**	**-**	**-**	**-**
P1 to P3	**-**	**-**	**-**	**-**
Non-rated	**-**	**322**	**38,646**	**-**
	16,120	**322**	**38,646**	**-**
Individually impaired	**-**	**-**	**-**	**-**
	16,120	**322**	**38,646**	**-**
2016				
Neither past due nor impaired				
AAA to AA3	18,019	-	-	-
A1 to A3	-	-	-	-
Baa1 to Baa3	-	-	-	-
P1 to P3	-	-	-	-
Non-rated	-	434	48	80
	18,019	434	48	80
Individually impaired	-	-	-	-
	18,019	434	48	80

(iv) Collateral and other credit enhancements obtained

	The Group	
	2017 RM'000	2016 RM'000
Properties	**146,604**	147,249

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

Notes to the financial statements
for the financial year ended 30 June 2017 (continued)

47 Financial instruments (continued)

(d) Credit risk (continued)

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

	The Group												
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	1,266,624	977,604	42,083,503	10,352	3,086,173	128,490
Government and government agencies	4,566,011	300,880	1,620,660	9,337,030	13,757,678	-	-	17,510	-	29,599,769	-	-	200
Education, health and others	-	-	-	-	-	1,927,915	-	35	-	1,927,950	-	248,723	-
Household	-	-	-	-	-	84,109,089	-	-	-	84,109,089	-	17,756,977	4,296
Purchase of securities	-	-	-	-	-	210,622	270,967	-	-	481,589	130,000	-	-
Others	-	-	725,378	2,519,847	434,677	1,308,858	-	37,127	-	5,025,887	661,322	92,983	401
	11,799,904	336,003	8,306,600	32,467,102	14,580,496	124,812,079	508,070	1,335,987	977,604	195,123,845	803,000	36,356,330	563,049

47 Financial instruments (continued)

(d) Credit risk (continued)

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

The Group

2016	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	-	-	50,191	60,575	-	2,800,195	-	-	-	2,910,961	-	896,679	1,184
Mining and quarrying	-	-	-	41,383	-	347,776	-	-	-	389,159	-	186,823	-
Manufacturing	-	-	-	48,842	-	8,939,890	-	604	-	8,989,336	-	6,497,895	145,388
Electricity, gas and water	-	-	118,749	2,620,621	-	167,402	-	32	-	2,906,804	-	183,603	-
Construction	-	-	87,858	866,819	-	2,293,560	-	4,296	-	3,252,533	1,000	1,568,446	15,391
Wholesale and retail	-	-	-	83,758	-	10,027,519	-	555	-	10,111,832	-	6,158,637	202,727
Transport, storage and communications	-	-	471,932	607,139	-	2,418,559	-	-	-	3,497,630	-	505,001	5,408
Finance, insurance, real estate and business services	9,324,642	-	5,890,914	13,912,899	411,545	9,402,704	198,850	1,629,360	1,062,358	41,833,272	2,754	3,724,008	164,971
Government and government agencies	1,917,777	4,056,670	681,952	6,662,831	12,056,235	-	-	20,299	-	25,395,764	-	-	202
Education, health and others	-	-	-	-	-	2,113,462	-	35	-	2,113,497	-	468,984	-
Household	-	-	-	-	-	79,874,894	-	-	-	79,874,894	-	20,522,701	1,387
Purchase of securities	-	-	-	-	-	287,888	197,034	-	-	484,922	686,780	-	-
Others	-	-	435,867	1,871,770	443,005	1,771,043	-	41,036	-	4,562,721	-	428,374	3,866
	11,242,419	4,056,670	7,737,463	26,776,637	12,910,785	120,444,892	395,884	1,696,217	1,062,358	186,323,325	690,534	41,141,151	540,524

47 Financial instruments (continued)

(d) Credit risk (continued)

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

	The Company				
2017	**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	**16,120**	**322**	**38,646**	**-**	**55,088**
2016					
Finance, insurance, real estate and business services	18,019	434	48	80	18,581

48 Fair value of financial instruments

Financial instruments comprise financial assets and financial liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The information presented herein represents the estimates of fair values as at the statement of financial position date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

(a) Determination of fair value and fair value hierarchy

The Group and the Company measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

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.

48 Fair value of financial instruments

(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			
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				
- Callable range accrual notes and callable inverse floater	**-**	**2,480,925**	**-**	**2,480,925**
	1,228	**3,950,693**	**8,568**	**3,960,489**
2016				
Recurring fair value measurements				
Financial assets				
Financial assets held-for-trading				
- Money market instruments	-	5,741,903	-	5,741,903
- Quoted securities	1,275,928	-	-	1,275,928
- Unquoted securities	-	1,506,842	-	1,506,842
Financial investments available-for-sale				
- Money market instruments	-	7,801,574	-	7,801,574
- Quoted securities	14,121,041	-	-	14,121,041
- Unquoted securities	-	13,414,757	429,720	13,844,477
Derivative financial instruments	11	1,054,352	7,995	1,062,358
	15,396,980	29,519,428	437,715	45,354,123
Financial liabilities				
Derivative financial instruments	1,564	1,644,666	7,995	1,654,225
Financial liabilities designated at fair value				
- Callable range accrual notes	-	1,421,919	-	1,421,919
	1,564	3,066,585	7,995	3,076,144

The Group recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial year (2016: RM Nil).

48 Fair value of financial instruments (continued)

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

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

	The Company Fair Value			
2017	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Recurring fair value measurements				
Financial liabilities				
Derivative financial instruments	**-**	**874**	**-**	**874**
2016				
Recurring fair value measurements				
Financial assets				
Derivative financial instruments	-	80	-	80
Financial liabilities				
Derivative financial instruments	-	1,455	-	1,455

The Company recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial year (2016: RM Nil).

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

	The Group		
	Financial Assets		Financial Liability
2017	**Financial investments available-for-sale RM'000**	**Derivative financial instruments RM'000**	**Derivative financial instruments RM'000**
As at 1 July	**429,720**	**7,995**	**7,995**
Fair value changes recognised in statements of income	**-**	**7,297**	**7,297**
Net fair value changes recognised in other comprehensive income	**31,814**	**-**	**-**
Purchases	**-**	**7,582**	**7,582**
Disposal	**(53)**	**-**	**-**
Settlements	**-**	**(14,306)**	**(14,306)**
Transfer out from Level 3	**(4,329)**	**-**	**-**
As at 30 June	**457,152**	**8,568**	**8,568**
Fair value changes recognised in statements of income relating to assets/liability held on 30 June 2017	**-**	**7,297**	**7,297**
Total gain recognised in other comprehensive income relating to assets held on 30 June 2017	**31,814**	**-**	**-**

During the financial year ended 30 June 2017, the Group transferred certain financial instruments (mainly shares outside Malaysia) from Level 3 to Level 2 of the fair value hierarchy. The reason for the transfer was due to upliftment of conversion restriction whereby certain shares are now convertible to Class A shares which are currently listed on the New York Stock Exchange. Thus, these shares can now be reliably measured based on observable inputs under Level 2.

48 Fair value of financial instruments (continued)

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

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

	The Group		
	Financial Assets		Financial Liability
2016	**Financial investments available-for-sale RM'000**	**Derivative financial instruments RM'000**	**Derivative financial instruments RM'000**
As at 1 July	397,279	6,952	6,952
Fair value changes recognised in statements of income	-	(3,023)	(3,023)
Net fair value changes recognised in other comprehensive income	32,441	-	-
Purchases	-	4,171	4,171
Disposal	-	(105)	(105)
As at 30 June	429,720	7,995	7,995
Fair value changes recognised in statements of income relating to assets/liability held on 30 June 2016	-	(3,023)	(3,023)
Total gain recognised in other comprehensive income relating to assets held on 30 June 2016	32,441	-	-

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

48 Fair value of financial instruments (continued)

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

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

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	8,568	(8,568)	Monte Carlo Simulation	Equity volatility	+3% to +37%	Higher volatility, would generally result in higher fair valuation for long volatility positions and vice versa
			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

The Group
2016

Description	Fair value assets RM'000	Fair value liabilities RM'000	Valuation technique(s)	Unobservable input	Range (weighted average)	Inter-relationship between significant unobservable inputs and fair value measurement
Financial investments available-for-sale						
Unquoted shares	429,720	-	Net tangible assets	Net tangible assets	Not applicable	Higher net tangible assets results in higher fair value
Derivative financial instruments						
Equity derivatives	7,995	(7,995)	Monte Carlo Simulation	Equity volatility	+19% to +48%	Higher volatility, would generally result in higher fair valuation for long volatility positions and vice versa
			Monte Carlo Simulation	Equity/FX Correlation between underlyers	-51% to +75%	An increase in correlation, would generally result in a higher fair value measurement and vice versa

Notes to the financial statements
for the financial year ended 30 June 2017 (continued)

48 Fair value of financial instruments (continued)

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

Sensitivity analysis for level 3

The Group
2017

	Type of unobservable input	Sensitivity of significant unobservable input	Effect of reasonable possible alternative assumptions to: Profit or loss Favourable/Unfavourable changes Financial assets RM'000	Financial liabilities RM'000
Derivative financial instruments				
- Equity derivatives	Equity volatility	**+10%**	**(514)**	**514**
		-10%	**529**	**(529)**
	Equity / FX	**+10%**	**(95)**	**95**
	Correlation	**-10%**	**122**	**(122)**
	Total*		**42**	**(42)**

The Group
2016

	Type of unobservable input	Sensitivity of significant unobservable input	Effect of reasonable possible alternative assumptions to: Profit or loss Favourable/Unfavourable changes Financial assets RM'000	Financial liabilities RM'000
Derivative financial instruments				
- Equity derivatives	Equity volatility	+10%	617	(617)
		-10%	(569)	569
	Equity / FX	+10%	137	(137)
	Correlation	-10%	(110)	110
	Total*		75	(75)

* No or insignificant impact to the Group. All equity link derivatives with unobservable inputs are hedged back-to-back with external parties.

Notes to the financial statements
for the financial year ended 30 June 2017 (continued)

48 Fair value of financial instruments (continued)

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

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

	The Group			
	Carrying amount 2017 RM'000	**Fair value 2017 RM'000**	Carrying amount 2016 RM'000	Fair value 2016 RM'000
Financial assets				
Financial investments held-to-maturity				
- Money market instruments	**12,789,048**	**12,731,455**	11,616,369	11,654,226
- Unquoted securities	**1,791,982**	**1,804,102**	1,294,949	1,310,222
Loans, advances and financing	**124,812,079**	**124,907,609**	120,444,892	120,406,882
	139,393,109	**139,443,166**	133,356,210	133,371,330
Financial liabilities				
Deposits from customers	**151,977,092**	**152,778,933**	148,068,614	148,985,363
Recourse obligations on loans sold to Cagamas Berhad	**202,926**	**201,195**	-	-
Borrowings	**1,526,222**	**1,524,130**	3,191,919	3,197,625
Subordinated obligations	**2,959,779**	**2,938,556**	2,958,641	2,940,915
Innovative Tier 1 capital securities	**515,623**	**550,590**	521,512	565,528
	157,181,642	**157,993,404**	154,740,686	155,689,431

	The Company			
	Carrying amount 2017 RM'000	**Fair value 2017 RM'000**	Carrying amount 2016 RM'000	Fair value 2016 RM'000
Financial liabilities				
Borrowings	**1,526,222**	**1,524,130**	1,641,717	1,640,298

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

48 Fair value of financial instruments (continued)

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

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

The Group 2017	Carrying amount RM'000	Fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets					
Financial investments held-to-maturity					
- Money market instruments	**12,789,048**	**-**	**12,731,455**	**-**	**12,731,455**
- Unquoted securities	**1,791,982**	**-**	**1,803,567**	**535**	**1,804,102**
Loans, advances and financing	**124,812,079**	**-**	**124,907,609**	**-**	**124,907,609**
	139,393,109	**-**	**139,442,631**	**535**	**139,443,166**
Financial liabilities					
Deposits from customers	**151,977,092**	**-**	**152,778,933**	**-**	**152,778,933**
Recourse obligations on loans sold to Cagamas Berhad	**202,926**	**-**	**201,195**	**-**	**201,195**
Borrowings	**1,526,222**	**-**	**1,524,130**	**-**	**1,524,130**
Subordinated obligations	**2,959,779**	**-**	**2,938,556**	**-**	**2,938,556**
Innovative Tier 1 capital securities	**515,623**	**-**	**550,590**	**-**	**550,590**
	157,181,642	**-**	**157,993,404**	**-**	**157,993,404**
2016					
Financial assets					
Financial investments held-to-maturity					
- Money market instruments	11,616,369	-	11,654,226	-	11,654,226
- Unquoted securities	1,294,949	-	1,309,687	535	1,310,222
Loans, advances and financing	120,444,892	-	120,406,882	-	120,406,882
	133,356,210	-	133,370,795	535	133,371,330
Financial liabilities					
Deposits from customers	148,068,614	-	148,985,363	-	148,985,363
Borrowings	3,191,919	-	3,197,625	-	3,197,625
Subordinated obligations	2,958,641	-	2,940,915	-	2,940,915
Innovative Tier 1 capital securities	521,512	-	565,528	-	565,528
	154,740,686	-	155,689,431	-	155,689,431

48 Fair value of financial instruments (continued)

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

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

The Company	**Carrying amount**	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
2017	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial liabilities					
Borrowings	**1,526,222**	**-**	**1,524,130**	**-**	**1,524,130**
2016					
Financial liabilities					
Borrowings	1,641,717	-	1,640,298	-	1,640,298

(c) Fair value methodologies and assumptions

Short-term funds and placements with financial institutions

For short-term funds and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For short-term funds and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

Securities purchased under resale agreements

The fair values of securities purchased under resale agreements with maturities of less than six months approximate the carrying values. For securities purchased under resale agreements with maturities of six months and above, the estimated fair values are based on discounted cash flows using market rates for the remaining term to maturity.

Securities held at fair value through profit or loss, available-for-sale and held-to-maturity

The estimated fair value is generally based on quoted and observable market prices. Where there is no ready market in certain securities, the Group and the Company establishes the fair value by using valuation techniques.

Loans, advances and financing

For floating rate loans, the carrying value is generally a reasonable estimate of fair value. For fixed rate loans, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risks and maturities.

Deposits from customers

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposit with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

48 Fair value of financial instruments (continued)

(c) Fair value methodologies and assumptions (continued)

Deposits and placements of banks and other financial institutions, bills and acceptances payable

The estimated fair values of deposits and placements of banks and other financial institutions and bills and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities six months and above, the fair values are estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturities.

Recourse obligations on loans sold to Cagamas Berhad

For amounts due to Cagamas Berhad with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For amounts due to Cagamas Berhad with maturities of more than one year, fair value is estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturity.

Subordinated obligations, senior bonds, stapled securities and capital securities

The fair value of subordinated obligations, senior bonds, stapled securities and capital securities are based on quoted market prices where available.

Other financial assets and liabilities

The carrying value less any estimated allowance for financial assets and liabilities included in “other assets and liabilities” are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

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

Credit related commitment and contingencies

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received, less associated costs.

Foreign exchange and interest rate related contracts

The fair values of foreign exchange and interest rate related contracts are the estimated amounts the Group or the Company would receive or pay to transfer the contracts at the statements of financial position date.

49 Offsetting of financial assets and financial liabilities

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

	The Group						The Company					
				Related amount not set off in the statements of financial position						Related amount not set off in the statements of financial position		
2017	Gross amount recognised in the statements of financial position RM'000	Gross amount offset in the statements of financial position RM'000	Net amount presented in the statements of financial position RM'000	Values of the financial instruments RM'000	Cash collateral received/ pledged RM'000	Net amount RM'000	Gross amount recognised in the statements of financial position RM'000	Gross amount offset in the 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	874	-	874	-	-	874
Obligations on securities sold under repurchase agreements	3,485,384	(506,656)	2,978,728	(2,979,038)	-	(310)	-	-	-	-	-	-
Payables and other liabilities	8,629,372	(98,337)	8,531,035	-	-	8,531,035	9,489	-	9,489	-	-	9,489
Total	14,114,924	(853,859)	13,261,065	(3,468,111)	(647,042)	9,145,912	10,363	-	10,363	-	-	10,363

49 Offsetting of financial assets and financial liabilities (continued)

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

	The Group						The Company					
				Related amount not set off in the statements of financial position						Related amount not set off in the statements of financial position		
2016	**Gross amount recognised in the statements of financial position RM'000**	**Gross amount offset in the statements of financial position RM'000**	**Net amount presented in the statements of financial position RM'000**	**Values of the financial instruments RM'000**	**Cash collateral received/ pledged RM'000**	**Net amount RM'000**	**Gross amount recognised in the statements of financial position RM'000**	**Gross amount offset in the 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**
<u>Financial assets</u>												
Clients' and brokers' balances	756,216	(360,332)	395,884	-	-	395,884	-	-	-	-	-	-
Derivative financial instruments	1,076,042	(13,684)	1,062,358	(631,609)	(144,179)	286,570	80	-	80	-	-	80
Securities purchased under resale agreements	4,563,431	(506,761)	4,056,670	(4,056,670)	-	-	-	-	-	-	-	-
Total	6,395,689	(880,777)	5,514,912	(4,688,279)	(144,179)	682,454	80	-	80	-	-	80
<u>Financial liabilities</u>												
Clients' and brokers' balances	523,092	(243,173)	279,919	-	-	279,919	-	-	-	-	-	-
Derivative financial instruments	1,667,909	(13,684)	1,654,225	(631,609)	(534,301)	488,315	1,455	-	1,455	-	-	1,455
Obligations on securities sold under repurchase agreements	4,001,664	(506,761)	3,494,903	(3,254,893)	(12,664)	227,346	-	-	-	-	-	-
Payables and other liabilities	6,374,546	(136,724)	6,237,822	-	-	6,237,822	9,351	-	9,351	-	-	9,351
Total	12,567,211	(900,342)	11,666,869	(3,886,502)	(546,965)	7,233,402	10,806	-	10,806	-	-	10,806

50 Equity compensation benefits

Executive Share Option Scheme And Executive Share Scheme

The Group has established and implemented an Executive Share Scheme.

(a) Executive Share Scheme ("ESS")

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

(i) ESOS 2013/2023

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

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

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

Arising from the completion of the Company's Rights Issue on 7 December 2015, the exercise price for the share options granted on 2 April 2015 under the ESS was adjusted from RM16.88 to RM16.61 and additional share options of 189,819 were allotted to the option holders, in accordance with the provisions of the Bye-Laws governing the ESS.

(ii) ESGS

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

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

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

There are no share granted under the ESGS to date.

50 Equity compensation benefits (continued)

Executive Share Option Scheme And Executive Share Scheme (continued)

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

1. Eligible executives are persons as defined by the ESS Bye-Laws.

2. The maximum allowable allotments for the full time Executive Directors had been approved by the shareholders of the Company in a general meeting. The Board, as defined by the ESS Bye-Laws, may from time to time at its absolute discretion select and identify suitable eligible executives to be offered options or grants.

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

4. The option price for the options to be granted under the ESOS 2013/2023 shall not be at a discount of more than ten percent (10%) (or such discount as the relevant authorities shall permit) from the 5-day weighted average market price of the shares of the Company preceding the Date of Offer as defined by the ESS Bye-Laws, and shall in no event be less than the par value of the shares of the Company.

5. The options granted to an option holder under the ESOS 2013/2023 is exercisable by the option holder during his employment or directorship with the Group and upon meeting the vesting conditions of each ESOS plan as stated in the following pages, subject to any maximum limit as may be determined by the Board under the Bye-Laws of the ESS.

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.

50 Equity compensation benefits (continued)

Executive Share Option Scheme And Executive Share Scheme (continued)

The ESOS options granted have performance and/or service based vesting conditions. Generally, the share options granted can be classified into 2 categories:

(i) An award that is conditional upon achieving agreed key performance indicators and milestones; and/or
(ii) An award for the recognition of material and positive accomplishments towards building a strong and sustainable underlying business value, preserving and enhancing the quality of assets and for shareholders wealth creation.

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

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

	The Group			
	2017		2016	
	Number of trust shares held unit	**Cost RM**	Number of trust shares held unit	Cost RM
As at 1 July	**3,964,400**	**35,712,518**	2,281,900	12,698,172
Purchase of treasury shares	**-**	**-**	1,682,500	23,014,346
As at 30 June	**3,964,400**	**35,712,518**	3,964,400	35,712,518

	The Company			
	2017		2016	
	Number of trust shares held unit	**Cost RM**	Number of trust shares held unit	Cost RM
As at 1 July	**500**	**3,156**	408	2,089
Rights issue	**-**	**-**	92	1,067
As at 30 June	**500**	**3,156**	500	3,156

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

50 Equity compensation benefits (continued)

Executive Share Option Scheme And Executive Share Scheme (continued)

ESOS 2013/2023

There were 12,200,000 options granted at an exercise price of RM16.88 under the ESOS 2013/2023 of the Group on 2 April 2015.

Grant date	Expiry date	As at 1-Jul	Option granted	Adjustment for rights issue	Ceased/ Forfeited	Outstanding as at 30-Jun	Exercisable as at 30-Jun
2017							
2-Apr-15	**July 2019**	**11,688,183**	**-**	**-**	**(1,118,000)**	**10,570,183**	**-**
		11,688,183	**-**	**-**	**(1,118,000)**	**10,570,183**	**-**
2016							
2-Apr-15	July 2019	12,200,000	-	189,819	(701,636)	11,688,183	-
		12,200,000	-	189,819	(701,636)	11,688,183	-

On 6 November 2015 ("modified grant date"), the options exercise price was adjusted and additional options were granted due to the rights issue exercise pursuant to the ESS Bye-Laws.

The fair value of share options granted was estimated using the Black-scholes model, taking into account the terms and conditions upon which the options are granted and is inclusive of incremental fair value arising from adjusted exercise price. The expected volatility reflects the assumption that the historical volatility was indicative of future trends, which may not necessarily be the actual outcome.

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

	2017	**2016**
Fair value of share options (RM)	0.94 - 1.97	0.82 - 1.59
Share price at valuation date (RM)	16.80	14.68
Adjusted exercise price (RM)	16.61	16.61
Expected volatility (%)	17.28	20.42
Weighted average dividend yield (%)	2.28	2.36
Weighted average risk free rate (%)	3.10	3.30

The vesting conditions for the above share options are based on the achievement of pre-agreed key performance indicators and milestones, and service (time) based periods. The vesting period of the options range from 2.80 to 4.80 years from grant date. The weighted average remaining option life as at 30 June 2017 is 3.80 years.

51 Significant events during the financial year

(a) On 30 June 2016, the Company announced that Bank Negara Malaysia has no objection for the Company and its wholly owned subsidiary, HLA Holdings Sdn Bhd ("HLAH"), to commence negotiations with certain parties for the possible acquisition by them of HLAH's equity interest in Hong Leong Assurance Berhad, a 70% subsidiary of HLAH, and Hong Leong MSIG Takaful Berhad, a 65% subsidiary of HLAH, subject to the negotiations being concluded within 6 months from 23 June 2016.

On 4 November 2016, the Company announced that the Company and HLAH could not reach an acceptable commercial agreement with the BNM approved negotiating parties and have mutually agreed to cease negotiations.

(b) On 19 April 2017, Hong Leong Bank announced that it had fully redeemed the USD300.0 million Senior Unsecured Notes bearing interest rate of 3.125% per annum.

52 Subsequent events after the financial year

(a) Pursuant to Section 247(3) of the Companies Act, 2016, the Companies Commission of Malaysia had on 24 August 2017 granted its approval for Hong Leong Bank Vietnam Limited ("HLBVN"), a wholly-owned subsidiary of Hong Leong Bank incorporated in the Socialist Republic of Vietnam, to have a different financial year end from its holding company. The financial year end of HLBVN is 31 December as required under the Law on Credit Institutions of Vietnam.

(b) Pursuant to Section247(3) of the Companies Act, 2016, the Companies Commission of Malaysia had on 24 August 2017 granted its approval for Hong Leong Bank (Cambodia) PLC ("HLBCAM"), a wholly-owned subsidiary of Hong Leong Bank incorporated in the Kingdom of Cambodia, to have a different financial year end from its holding company. The financial year end of HLBCAM is 31 December as required under the Prakason Annual Audit of Financial Statement of Banks and Financial Institutions issued by the National Bank of Cambodia.

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

53 Income tax relating to components of other comprehensive income

	The Group		
2017	**Before tax RM'000**	**Tax benefits RM'000**	**Net of tax amount RM'000**
Financial investments available-for-sale - net fair value gain/(loss)	**64,925**	**(15,980)**	**48,945**
Cash flow hedge - net fair value gain/(loss)	**856**	**(206)**	**650**
2016			
Financial investments available-for-sale - net fair value gain/(loss)	113,416	(22,211)	91,205
Cash flow hedge - net fair value gain/(loss)	(2,477)	597	(1,880)

54 Critical accounting estimates and judgements in applying accounting policies

The Group and the Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Group's and the Company's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below:

(a) Allowance for impairment losses on loans, advances and financing

The Group reviews their loan portfolios to assess impairment at least on a quarterly basis. It is the policy of the Group to establish, through charges against profit, individual and collective assessment impairment allowances in respect of estimated and inherent credit losses in their portfolio.

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

54 Critical accounting estimates and judgements in applying accounting policies (continued)

(a) Allowance for impairment losses on loans, advances and financing (continued)

In determining individual assessment impairment allowances for loans/financing above the set threshold, management considers objective evidence of impairment and exercises judgement in estimating cash flows and collateral value. Whilst, management's judgement is guided by the relevant BNM guidelines, judgement is made in estimation of the amount and timing of future cash flows in assessing allowance for impairment of financial assets. Among the factors considered are the net realisable value of the underlying collateral value, the viability of the customer's business model and the capacity to generate sufficient cash flows to service debt obligations.

(b) Life policyholders' fund

Material judgement is required in determining the liabilities and in the choice of assumptions.

Assumptions in use are based on the past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals.

Assumption are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

55 Approval of financial statements

The financial statements were authorised for issue by the Board of Directors of the Company in accordance with a resolution of the Directors on 18 September 2017.

Notes to the financial statements for the financial year ended 30 June 2017 (continued)

56 Realised and unrealised profit

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010 and the directive of Bursa Malaysia Securities Berhad.

The breakdown of the retained profits of the Group and the Company are as follows:

	The Group		**The Company**	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Total retained profits of the Group and subsidiaries				
- Realised	**25,419,231**	20,418,733	**12,909,600**	12,763,912
- Unrealised	**972,893**	908,372	**36**	410
Total share of retained profits from associated companies				
- Realised	**2,617,982**	2,201,404	**-**	-
- Unrealised	**2,357**	2,574	**-**	-
Total share of retained profits from joint ventures				
- Realised	**68,851**	47,698	**-**	-
	29,081,314	23,578,781	**12,909,636**	12,764,322
Less : Consolidation adjustments	**(16,553,836)**	(15,350,344)	**-**	-
Total retained profits	**12,527,478**	8,228,437	**12,909,636**	12,764,322

The Group views translation gains or losses on monetary items as realised as it is incurred in the ordinary course of business.

The disclosure of realised and unrealised profits/(losses) above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purpose.

Hong Leong Financial Group Berhad

Company No: 8024-W
(Incorporated in Malaysia)

Statement by Directors pursuant to Section 251(2) of the Companies Act, 2016

We, Tan Kong Khoon and Lim Tau Kien, being two of the Directors of Hong Leong Financial Group Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on page 10 to 168 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2017 and of the results and the cash flows of the Group and the Company for the year then ended on that date, in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

On behalf of the Board.

TAN KONG KHOON Director	**LIM TAU KIEN** Director

Kuala Lumpur
18 September 2017

Statutory declaration pursuant to Section 251(1) of the Companies Act, 2016

I, Chew Seong Aun, the Officer primarily responsible for the financial management of Hong Leong Financial Group Berhad, do solemnly and sincerely declare that the financial statements set out on pages 10 to 168 are to the best of my knowledge and belief correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Chew Seong Aun at Kuala Lumpur in Wilayah Persekutuan on 18 September 2017	))))	**CHEW SEONG AUN**

Before me,

PESURUHJAYA SUMPAH
No. W 530
TAN SEOK KETT
MALAYSIA

TAN SEOK KETT
Pesuruhjaya Sumpah
Commissioner for Oaths
Lot 333, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50200 Kuala Lumpur.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG FINANCIAL GROUP BERHAD
(Company No: 8024-W)
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Hong Leong Financial Group ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 30 June 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the statements of financial position as at 30 June 2017 of the Group and of the Company, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 10 to 168.

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.

pwc

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG FINANCIAL GROUP BERHAD (CONTINUED)
(Company No: 8024-W)
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 pinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG FINANCIAL GROUP BERHAD (CONTINUED)
(Company No: 8024-W)
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans, advances and financing	
Refer to Note AB of the summary of significant accounting policies, and Notes 7, 35 and 54 to the financial statements. We focused on this area due to the size of the carrying value of loans, advances and financing, which represented 57% of total assets. In addition, impairment is a highly subjective area as the Group makes significant judgements on the following areas: Where the loans, advances and financing are individually assessed for impairment, the Group made subjective estimate on the timing of recognition of impairment and the estimation of the impairment loss. Where the loans, advances and financing are assessed for impairment on a collective basis, the Group made subjective estimate on the assumptions used in the loss models.	We understood and tested management's key controls over impairment of loans, advances and financing surrounding the following: – Identification of occurrence of loss events for individually assessed accounts, being the point of classification as impaired; – Collateral valuation process including assessment of panel valuer as collateral value is one of the key inputs in determination of the recoverable amount for secured accounts; – Accuracy of internal credit risk ratings, month-in-arrears data and extraction of these data inputs from source systems which formed the basis of assumptions used in deriving probability of default ("PD") for collective assessment; – Collection of historical loss data which formed the basis of assumptions used in deriving loss given default ("LGD") for collective assessment; and – Calculation of collective impairment allowance based on loss models and posting of model results to general ledger. We noted no significant exceptions based on the testing performed on these relevant controls.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG FINANCIAL GROUP BERHAD (CONTINUED)
(Company No: 8024-W)
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans, advances and financing (continued)	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 and ship building industry. For accounts where impairment loss was recognised, we tested a sample of these accounts and checked whether objective evidence of impairment had been appropriately identified by management in the appropriate period. Where an impairment event has been identified, we checked the measurement of the impairment loss to future cash flow and evidence from past experience. We noted that certain individually assessed accounts had recorded impairment allowance which was different from our testing results. However these differences are not material in the context of the overall financial statements.

pwc

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG FINANCIAL GROUP BERHAD (CONTINUED)
(Company No: 8024-W)
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans, advances and financing (continued)	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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG FINANCIAL GROUP BERHAD (CONTINUED)
(Company No: 8024-W)
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises:

- Five year group financial highlights;
- Simplified group statements of financial position;
- Group quarterly financial statements;
- Segmental information;
- Hong Leong Financial Group share price;
- Chairman Statement;
- Management discussion and analysis;
- Sustainability Statement;
- Board Audit and Risk Management Committee Report; and
- Directors' Report.

Other information does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG FINANCIAL GROUP BERHAD (CONTINUED)
(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)

(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.

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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG FINANCIAL GROUP BERHAD (CONTINUED)
(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)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 11 to the financial statements.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 56 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS	NG YEE LING
(No. AF: 1146)	03032/01/2019 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur
18 September 2017

THE ISSUER

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