

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
THE GROUP		
<u>Assets</u>		
Cash and short-term funds	15,607,764	8,613,481
Deposits and placements with banks and other financial institutions	8,229,799	10,062,870
Financial assets at fair value through profit or loss	22,545,952	24,422,067
Financial investments at fair value through other comprehensive income	24,653,967	24,965,425
Financial investments at amortised cost	16,051,070	15,888,863
Derivative financial instruments	664,765	570,185
Loans, advances and financing	140,887,274	137,057,616
Clients' and brokers' balances	377,675	482,445
Other receivables	1,098,927	1,332,662
Statutory deposits with Central Banks	4,109,551	4,626,092
Tax recoverable	8,363	224
Investment in associated companies	5,554,238	5,280,376
Property and equipment	1,466,757	1,540,533
Right-of-use assets	273,486	-
Investment properties	489,500	489,500
Goodwill arising on consolidation	2,410,644	2,410,644
Intangible assets	177,794	139,628
Total Assets	244,607,526	237,882,611
<u>Liabilities</u>		
Deposits from customers	166,276,638	161,887,885
Investment accounts of customers	871,398	2,235
Deposits and placements of banks and other financial institutions	7,678,977	9,780,544
Obligations on securities sold under repurchase agreements	3,204,136	2,333,916
Bills and acceptances payable	171,934	393,022
Derivative financial instruments	1,038,892	732,443
Clients' and brokers' balances	127,129	282,521
Payables and other liabilities	14,072,480	13,234,447
Lease liabilities	255,408	-
Recourse obligations on loans/financing sold to Cagamas Berhad	1,056,352	253,591
Provision for claims	180,343	132,442
Provision for taxation	244,379	113,705
Deferred tax liabilities	209,912	230,248
Borrowings	1,000,178	1,398,277
Subordinated obligations	2,110,270	2,160,432
Innovative Tier 1 capital securities	-	464,273
Multi-currency Additional Tier 1 capital securities	806,440	806,376
Insurance funds	15,797,999	15,075,217
Total Liabilities	215,102,865	209,281,574
<u>Equity</u>		
Share capital	2,267,008	2,267,008
Capital reserves	1,672,340	1,678,535
Retained profits	15,952,806	15,196,453
Fair value reserve	113,366	116,503
Treasury shares for ESOS	(209,454)	(161,909)
Total Shareholders' Equity	19,796,066	19,096,590
Non-controlling interests	9,708,595	9,504,447
Total Equity	29,504,661	28,601,037
Total Liabilities and Equity	244,607,526	237,882,611
Commitments and Contingencies	160,927,794	174,185,694
Net assets per share (net of treasury shares) attributable to ordinary equity holders of the parent (RM)	17.43	16.78

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2019.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF INCOME
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

THE GROUP	Individual Quarter		Cumulative Quarter	
	Current quarter ended 31/12/2019	Last year quarter ended 31/12/2018	Current year to date 31/12/2019	Last year to date 31/12/2018
	RM '000	RM '000	RM '000	RM '000
Interest income	1,639,339	1,694,042	3,273,168	3,350,196
Interest income for financial assets at fair value through profit or loss	86,677	107,845	168,638	218,467
Interest expense	(939,492)	(1,043,273)	(1,899,105)	(2,064,728)
Net interest income	786,524	758,614	1,542,701	1,503,935
Income from Islamic banking business	206,394	172,744	406,185	343,820
Non-interest income	367,083	313,934	737,281	780,702
Net income	1,360,001	1,245,292	2,686,167	2,628,457
Overhead expenses	(601,482)	(573,354)	(1,183,640)	(1,164,867)
Operating profit before allowances (Allowance for)/writeback of impairment losses on loans, advances and financing and other losses	758,519	671,938	1,502,527	1,463,590
(Allowance for)/writeback of impairment losses on other assets	(19,519)	58,226	(10,754)	39,421
	(1,531)	114	(1,660)	(1,000)
	737,469	730,278	1,490,113	1,502,011
Share of results of associated companies	186,763	147,246	347,768	304,619
Profit before taxation	924,232	877,524	1,837,881	1,806,630
Taxation	(167,043)	(145,581)	(337,218)	(305,080)
Net profit for the financial period	757,189	731,943	1,500,663	1,501,550
Attributable to:				
Owners of the parent	502,960	481,547	993,161	987,242
Non-controlling interests	254,229	250,396	507,502	514,308
Net profit for the financial period	757,189	731,943	1,500,663	1,501,550
Earnings per share - basic (sen)	44.3	42.1	87.4	86.2

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2019.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

	Individual Quarter		Cumulative Quarter	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
THE GROUP				
Net profit for the financial period	757,189	731,943	1,500,663	1,501,550
Other comprehensive (loss)/income in respect of:				
<u>Items that may be reclassified subsequently to profit or loss</u>				
Share of other comprehensive income/(loss) of associated companies	3,990	2,331	(3,663)	7,728
Debt instruments at fair value through other comprehensive income				
- Net fair value changes	(14,547)	66,120	(2,775)	99,942
- Changes in expected credit losses	412	-	468	-
Net fair value changes in cash flow hedge	(60)	(346)	(871)	(1,075)
Currency translation differences	(23,594)	5,517	(127,435)	(34,910)
Income tax relating to components of other comprehensive income	4,416	(12,654)	2,217	(25,228)
Other comprehensive (loss)/income for the financial period, net of tax	(29,383)	60,968	(132,059)	46,457
Total comprehensive income for the financial period, net of tax	727,806	792,911	1,368,604	1,548,007
Attributable to:				
Owners of the parent	482,992	521,260	905,707	1,020,778
Non-controlling interests	244,814	271,651	462,897	527,229
	727,806	792,911	1,368,604	1,548,007

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2019.

**HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
THE COMPANY		
<u>Assets</u>		
Cash and short-term funds	20,653	84,496
Deposits and placements with banks and other financial institutions	3,360	3,360
Other receivables	1,654	4,157
Deferred tax assets	224	135
Investment in subsidiary companies	19,498,087	19,498,076
Property and equipment	3,920	4,179
Right-of-use assets	6,425	-
Intangible assets	3	3
Total Assets	19,534,326	19,594,406
<u>Liabilities</u>		
Derivative financial instruments	-	135
Payables and other liabilities	20,579	33,918
Lease liabilities	6,293	-
Provision for taxation	1,756	766
Borrowings	1,055,819	1,453,881
Subordinated obligations	1,600,336	1,600,205
Multi-currency Additional Tier 1 capital securities	805,440	805,236
Total Liabilities	3,490,223	3,894,141
<u>Equity</u>		
Share capital	2,267,008	2,267,008
Capital reserves	276,560	271,667
Retained profits	13,681,122	13,313,734
Treasury shares for ESOS	(180,587)	(152,144)
Total Equity	16,044,103	15,700,265
Total Liabilities and Equity	19,534,326	19,594,406
Commitments and Contingencies	-	100,000

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2019.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF INCOME
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

	Individual Quarter		Cumulative Quarter	
	Current	Last year	Current year	Last year
	quarter ended 31/12/2019	quarter ended 31/12/2018	to date 31/12/2019	to date 31/12/2018
THE COMPANY	RM '000	RM '000	RM '000	RM '000
Interest income	28,161	11,784	56,127	23,430
Interest expense	(41,399)	(25,676)	(84,245)	(52,577)
Net interest expense	(13,238)	(13,892)	(28,118)	(29,147)
Non-interest income	561,926	470,929	565,721	473,010
Net income	548,688	457,037	537,603	443,863
Overhead expenses	(10,030)	(10,879)	(19,903)	(21,171)
(Allowance for)/writeback of impairment losses on other assets	(189)	-	134	-
Profit before taxation	538,469	446,158	517,834	422,692
Taxation	(2,593)	(1,823)	(2,522)	(1,803)
Net profit for the financial period	<u>535,876</u>	<u>444,335</u>	<u>515,312</u>	<u>420,889</u>
Earnings per share - basic (sen)	<u>47.1</u>	<u>38.7</u>	<u>45.3</u>	<u>36.7</u>

UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

	Individual Quarter		Cumulative Quarter	
	Current	Last year	Current year	Last year
	quarter ended 31/12/2019	quarter ended 31/12/2018	to date 31/12/2019	to date 31/12/2018
THE COMPANY	RM '000	RM '000	RM '000	RM '000
Net profit for the financial period	535,876	444,335	515,312	420,889
Other comprehensive income for the financial period	-	-	-	-
Total comprehensive income for the financial period, net of tax	<u>535,876</u>	<u>444,335</u>	<u>515,312</u>	<u>420,889</u>

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2019.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

THE GROUP	Share capital RM '000	Regulatory reserves# RM '000	Fair value reserve RM '000	Cash flow hedge reserve RM '000	Other reserves RM '000	Share options reserve RM '000	Exchange fluctuation reserve RM '000	Retained profits RM '000	Treasury shares for ESOS RM '000	Total shareholders' equity RM '000	Non-controlling interests RM '000	Total equity RM '000
As at 1 July 2019	2,267,008	869,923	116,503	(1,790)	213,314	86,129	510,959	15,196,453	(161,909)	19,096,590	9,504,447	28,601,037
<u>Comprehensive income</u>												
Net profit for the financial period	-	-	-	-	-	-	-	993,161	-	993,161	507,502	1,500,663
Currency translation differences	-	-	-	-	-	-	(84,216)	-	-	(84,216)	(43,219)	(127,435)
Share of other comprehensive loss of associated companies	-	-	(2,069)	-	-	-	-	-	-	(2,069)	(1,594)	(3,663)
Financial investments measured at fair value through other comprehensive income												
- Debt instruments												
- Net fair value changes	-	-	(1,375)	-	-	-	-	-	-	(1,375)	100	(1,275)
- Changes in expected credit losses	-	-	307	-	-	-	-	-	-	307	161	468
Net fair value changes in cash flow hedge	-	-	-	(101)	-	-	-	-	-	(101)	(53)	(154)
Total comprehensive (loss)/income	-	-	(3,137)	(101)	-	-	(84,216)	993,161	-	905,707	462,897	1,368,604
<u>Transaction with owners</u>												
Transfer to regulatory reserve	-	84,948	-	-	-	-	-	(84,948)	-	-	-	-
Allocation of other reserves to non-controlling interests	-	-	-	-	-	-	-	(4,783)	-	(4,783)	4,783	-
Dividends paid	-	-	-	-	-	-	-	(147,924)	-	(147,924)	-	(147,924)
Non-controlling interests share of dividend	-	-	-	-	-	-	-	-	-	-	(264,072)	(264,072)
Non-controlling interests share of subsidiary's treasury shares	-	-	-	-	-	-	-	-	-	-	540	540
Options charge arising from executive share scheme	-	-	-	-	-	(6,725)	-	-	-	(6,725)	-	(6,725)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(47,545)	(47,545)	-	(47,545)
Exercise of executive share scheme	-	-	-	-	-	(101)	-	847	-	746	-	746
As at 31 December 2019	2,267,008	954,871	113,366	(1,891)	213,314	79,303	426,743	15,952,806	(209,454)	19,796,066	9,708,595	29,504,661

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

THE GROUP	Share capital	Regulatory reserves#	Fair value reserve	Cash flow hedge reserve	Other reserves	Share options reserve	Exchange fluctuation reserve	Retained profits	Treasury shares for ESOS	Total shareholders' equity	Non-controlling interests	Total equity
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
As at 1 July 2018	2,267,008	755,010	109,284	544	213,314	50,254	521,299	13,910,419	(22,686)	17,804,446	8,875,277	26,679,723
Effect of adopting MFRS 9	-	6,391	(190,324)	-	-	-	-	(50,960)	-	(234,893)	(124,355)	(359,248)
As restated	2,267,008	761,401	(81,040)	544	213,314	50,254	521,299	13,859,459	(22,686)	17,569,553	8,750,922	26,320,475
<u>Comprehensive income</u>												
Net profit for the financial period	-	-	-	-	-	-	-	987,242	-	987,242	514,308	1,501,550
Currency translation differences	-	-	-	-	-	-	(21,151)	-	-	(21,151)	(13,759)	(34,910)
Share of other comprehensive income of associated companies	-	-	5,753	-	-	-	-	-	-	5,753	1,975	7,728
Net fair value changes in financial investments at fair value through other comprehensive income	-	-	49,523	-	-	-	-	-	-	49,523	25,013	74,536
Net fair value changes in cash flow hedge	-	-	-	(589)	-	-	-	-	-	(589)	(308)	(897)
Total comprehensive income/(loss)	-	-	55,276	(589)	-	-	(21,151)	987,242	-	1,020,778	527,229	1,548,007
<u>Transaction with owners</u>												
Transfer to regulatory reserve	-	86,713	-	-	-	-	-	(86,713)	-	-	-	-
Allocation of other reserves to non-controlling interests	-	-	-	-	-	-	-	(6,520)	-	(6,520)	6,520	-
Dividends paid	-	-	-	-	-	-	-	(149,047)	-	(149,047)	-	(149,047)
Non-controlling interests share of dividend	-	-	-	-	-	-	-	-	-	-	(263,511)	(263,511)
Non-controlling interests subscription of shares	-	-	-	-	-	-	-	-	-	-	35,000	35,000
Options charge arising from executive share scheme	-	-	-	-	-	35,106	-	327	-	35,433	-	35,433
Purchase of treasury shares	-	-	-	-	-	-	-	-	(18,429)	(18,429)	-	(18,429)
As at 31 December 2018	2,267,008	848,114	(25,764)	(45)	213,314	85,360	500,148	14,604,748	(41,115)	18,451,768	9,056,160	27,507,928

Comprise regulatory reserves maintained by the Group's banking subsidiary companies in Malaysia of RM943,626,000 (31 December 2018: RM836,869,000) in accordance with BNM's Policy Document on Classification and Impairment Provisions for Loans/Financing and the banking subsidiary company in Vietnam with the State Bank of Vietnam of RM11,245,000 (31 December 2018: RM11,245,000).

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2019.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

	Share capital RM '000	Other capital reserve RM '000	Share options reserve RM '000	Treasury shares for ESOS RM '000	Retained profits RM '000	Total equity RM '000
<u>THE COMPANY</u>						
As at 1 July 2019	2,267,008	254,991	16,676	(152,144)	13,313,734	15,700,265
Net profit for the financial period	-	-	-	-	515,312	515,312
Dividends paid	-	-	-	-	(147,924)	(147,924)
Options charge arising from executive share scheme	-	-	4,893	-	-	4,893
Purchase of treasury shares	-	-	-	(28,443)	-	(28,443)
As at 31 December 2019	2,267,008	254,991	21,569	(180,587)	13,681,122	16,044,103
As at 1 July 2018	2,267,008	254,991	4,169	(3)	13,206,499	15,732,664
Effect of adopting MFRS 9	-	-	-	-	(2,885)	(2,885)
As restated	2,267,008	254,991	4,169	(3)	13,203,614	15,729,779
Net profit for the financial period	-	-	-	-	420,889	420,889
Dividends paid	-	-	-	-	(149,047)	(149,047)
Options charge arising from executive share scheme	-	-	6,254	-	-	6,254
Purchase of treasury shares	-	-	-	(18,429)	-	(18,429)
As at 31 December 2018	2,267,008	254,991	10,423	(18,432)	13,475,456	15,989,446

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2019.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

	The Group		The Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	RM '000	RM '000	RM '000	RM '000
Profit before taxation	1,837,881	1,806,630	517,834	422,692
Adjustment for non-cash items	(139,273)	(453,006)	(525,377)	(432,240)
Operating profit/(loss) before working capital changes	1,698,608	1,353,624	(7,543)	(9,548)
Income tax paid	(269,574)	(314,446)	(2,532)	(2,388)
Interest received	559	23,430	559	23,430
Changes in working capital				
Net changes in operating assets	6,331,276	(14,468,248)	2,298	(34,742)
Net changes in operating liabilities	4,489,811	10,536,897	(13,206)	5,278
Net cash generated from/(used in) operating activities	12,250,680	(2,868,743)	(20,424)	(17,970)

Cash flows from investing activities

Net sales/(purchases) of financial investments at fair value through other comprehensive income	442,005	(2,410,822)	-	-
Net purchases of financial investments at amortised cost	(162,206)	(1,488,273)	-	-
Interest received on financial investments at fair value through other comprehensive income and financial investments at amortised cost	562,546	692,616	-	-
Purchase of intangible assets	(40,846)	(7,963)	-	(1)
Purchase of property and equipment	(64,214)	(73,731)	(117)	(16)
Net proceeds from disposal of property and equipment	8,804	609	-	-
Dividends received from other investments	28,334	54,119	142	957
Dividends received from subsidiary companies	-	-	558,824	466,997
Dividends received from associated companies	-	2,901	-	-
Proceeds from liquidation	-	-	-	21
Interest received from investment in debt instrument issued by subsidiary company	-	-	-	-
- Multi-currency Additional Tier 1 capital securities	-	-	19,857	-
- Tier 2 subordinated notes	-	-	35,834	-
Net cash generated from/(used in) investing activities	774,423	(3,230,544)	614,540	467,958

Cash flows from financing activities

Dividends paid to equity holders of the Company	(147,924)	(149,047)	(147,925)	(149,047)
Dividends paid to non-controlling interests	(264,072)	(263,510)	-	-
Purchase of treasury shares	(47,545)	(18,429)	(28,443)	(18,429)
Proceeds from ESOS exercised	1,010	-	-	-
Repayment of revolving credit	(188,000)	(77,000)	(188,000)	(77,000)
Repayment of medium term notes and commercial papers	(65,000)	(515,000)	(65,000)	(570,000)
Proceeds from senior notes	-	375,000	-	400,000
Repayment of innovative Tier 1 capital securities	(453,200)	(10,000)	-	-
Repayment of term loans	(145,000)	-	(145,000)	-
Proceeds from recourse obligations on loans sold to Cagamas Berhad	799,950	-	-	-
Non-controlling interests subscription of shares	-	35,000	-	-
Interest paid on Multi-currency Additional Tier 1 capital securities	(20,261)	(10,546)	(20,261)	(10,546)
Interest paid on subordinated obligations	(51,228)	(71,029)	(36,400)	(12,396)
Interest paid on borrowings	(26,361)	(26,178)	(26,930)	(26,197)
Interest paid on innovative Tier 1 capital securities	(19,486)	(19,645)	-	-
Interest paid on recourse obligations on loans sold to Cagamas Berhad	(5,173)	(3,790)	-	-
Net cash used in financing activities	(682,290)	(754,174)	(657,959)	(463,615)

Net increase/(decrease) in cash and cash equivalents

	12,342,813	(6,853,461)	(63,843)	(13,627)
Effects of exchange rate changes	(57,461)	(30,778)	-	-
Cash and cash equivalents at 1 July	6,760,957	15,684,888	84,556	25,526
Cash and cash equivalents at 31 December	19,046,309	8,800,649	20,713	11,899

Analysis of cash and cash equivalents

Cash and short-term funds	15,607,764	11,701,468	20,653	11,839
Deposits and placements with banks and other financial institutions	8,229,799	11,779,129	3,360	3,360
	23,837,563	23,480,597	24,013	15,199
Less: deposits and placements with banks and other financial institutions with original maturity of more than three months	(4,791,254)	(14,679,948)	(3,300)	(3,300)
	19,046,309	8,800,649	20,713	11,899

The unaudited condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2019.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

1. Basis of preparation

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

The unaudited condensed financial statements have been prepared in accordance with MFRS 134 'Interim Financial Reporting' issued by the Malaysian Accounting Standard Board and paragraph 9.22 of Bursa Malaysia Securities Berhad's Listing Requirements and should be read in conjunction with the audited annual financial statements for the Group and the Company for the financial year ended 30 June 2019. The explanatory notes attached to the unaudited condensed financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group and the Company since the financial year ended 30 June 2019.

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

The significant accounting policies and methods of computation applied in the unaudited condensed financial statements are consistent with those adopted in the annual audited financial statements for the financial year ended 30 June 2019 and modified for the adoption of the following accounting standards applicable for financial period beginning on or after 1 July 2019:

- MFRS 16 'Leases'
- Amendments to MFRS 9 'Prepayment Features with Negative Compensation'
- Amendments to MFRS 128 'Long-term Interests in Associates and Joint Ventures'
- IC Interpretation 23 'Uncertainty over Income Tax Treatments'
- Annual Improvements to MFRSs 2015 – 2017 Cycle:
 - Amendments to MFRS 3 'Business Combinations'
 - Amendments to MFRS 11 'Joint Arrangements'
 - Amendments to MFRS 112 'Income Taxes'
 - Amendments to MFRS 123 'Borrowing Costs'

The adoption of the above new standards, annual improvements, amendments to published standards and interpretation are not expected to have significant impact on the financial results of the Group and the Company other than the effects and change in accounting policy arising from the adoption of MFRS 16 as disclosed in Note 32.

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

2. Status of matters giving rise to the auditor's qualified report in the preceding annual financial statement for the year ended 30 June 2019

There was no qualified report issued by the auditors in the preceding annual financial statements for the year ended 30 June 2019.

3. Seasonality or cyclicity of operations

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

4. Exceptional items or unusual events affecting financial statements

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

5. Variation from financial estimates reported in preceding financial year

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

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6. Issuance and repayment of debt and equity securities

There was no repayment of debt or equity share, share buy-back, share cancellation, shares held as treasury shares nor resale of treasury shares during the financial period ended 31 December 2019 other than as mentioned below.

a) Purchase of shares pursuant to Executive Share Scheme ("ESS")

In December 2017, the Group has granted up to 20,450,000 shares at an exercise price of RM17.12 to eligible executives of the Company and its subsidiary pursuant to the Company's ESS.

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

During the financial period ended 31 December 2019, the Company purchased 1,546,800 units of shares for RM28,443,429 and no shares were exercised pursuant to the Company's Executive Share Option Scheme ("ESOS").

As at 31 December 2019, the total number of Treasury Shares for ESOS is 9,636,000 at an average price of RM18.74 per share and the total consideration paid, including transaction costs was RM180,587,544.

The insurance subsidiary company purchased 1,180,100 units of shares for RM19,101,974 and no shares were exercised pursuant to the Company's ESS during the financial period ended 31 December 2019.

The remaining number of shares held by the appointed trustee for the insurance subsidiary company as at 31 December 2019 was 2,264,000 units at an average price of RM12.75 per share with total consideration paid, including transaction costs was RM28,866,395 which have been classified as Treasury Shares for ESOS at the Group level.

7. Dividends paid

A first interim single-tier dividend of 13.0 sen per share amounting to RM147.9 million was paid on 27 December 2019.

8. Segmental reporting

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

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

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

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

Business segments

The Group comprises the following main business segments:

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

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8. Segmental reporting (continued)

The Group 31 December 2019	Commercial banking RM '000	Investment banking RM '000	Insurance RM '000	Other operations RM '000	Eliminations/ consolidation adjustments RM '000	Consolidated RM '000
Revenue						
External revenue	2,444,548	113,979	154,463	(26,823)	-	2,686,167
Inter-segment revenue	8,088	2,358	708	558,606	(569,760)	-
Segment revenue	<u>2,452,636</u>	<u>116,337</u>	<u>155,171</u>	<u>531,783</u>	<u>(569,760)</u>	<u>2,686,167</u>
Results						
Segment results	1,391,222	47,537	90,739	517,829	(557,214)	1,490,113
Share of results of associated companies						<u>347,768</u>
Profit before taxation						<u>1,837,881</u>
Taxation						<u>(337,218)</u>
Net profit for the financial period						<u>1,500,663</u>
Non-controlling interests						<u>(507,502)</u>
Profit attributable to owners of the parent						<u><u>993,161</u></u>
Other information						
Segment assets	212,630,558	4,066,651	23,543,068	19,534,263	(15,167,014)	<u><u>244,607,526</u></u>
Segment liabilities	186,576,402	3,278,357	20,352,736	3,491,662	1,403,708	<u><u>215,102,865</u></u>

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8. Segmental reporting (continued)

The Group	Commercial	Investment		Other	Eliminations/	Consolidated
31 December 2018	banking	banking	Insurance	operations	consolidation	
	RM '000	RM '000	RM '000	RM '000	adjustments	RM '000
					RM '000	RM '000
Revenue						
External revenue	2,381,721	93,854	181,090	(28,208)	-	2,628,457
Inter-segment revenue	9,474	309	957	467,741	(478,481)	-
Segment revenue	<u>2,391,195</u>	<u>94,163</u>	<u>182,047</u>	<u>439,533</u>	<u>(478,481)</u>	<u>2,628,457</u>
Results						
Segment results	1,393,854	37,531	116,716	422,638	(468,728)	1,502,011
Share of results of associated companies						<u>304,619</u>
Profit before taxation						1,806,630
Taxation						<u>(305,080)</u>
Net profit for the financial period						1,501,550
Non-controlling interests						<u>(514,308)</u>
Profit attributable to owners of the parent						<u>987,242</u>
Other information						
Segment assets	211,950,471	4,603,704	20,686,056	18,055,437	(14,665,214)	<u>240,630,454</u>
Segment liabilities	187,491,603	3,837,631	17,696,901	2,064,574	1,888,531	<u>212,979,240</u>

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9. Financial assets at fair value through profit or loss

	The Group	
	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
Money market instruments:		
Bank Negara Malaysia bills	20,957	-
Government treasury bills	328,425	21,900
Malaysian Government securities	1,763,785	3,770,728
Malaysian Government investment certificates	1,325,470	1,957,141
Negotiable instruments of deposit	1,485,137	1,472,835
Khazanah bonds	-	136,726
Cagamas bonds	10,066	81,403
Other Government securities	5,455,119	5,382,979
	<u>10,388,959</u>	<u>12,823,712</u>
Quoted securities:		
Shares in Malaysia	2,972,031	2,732,371
Shares outside Malaysia	415,679	297,944
Wholesale fund/unit trust investments	527,027	634,762
Foreign currency bonds in Malaysia	20,312	60,375
Foreign currency bonds outside Malaysia	17,883	108,167
Investment-linked funds	291	285
Loan stocks	1,137	1,178
	<u>3,954,360</u>	<u>3,835,082</u>
Unquoted securities:		
Shares in Malaysia	326,621	326,621
Foreign currency bonds outside Malaysia	477,352	332,979
Corporate bonds and sukuk	7,373,660	7,072,807
Redeemable preference shares	25,000	30,866
	<u>8,202,633</u>	<u>7,763,273</u>
Total financial assets at fair value through profit or loss	<u>22,545,952</u>	<u>24,422,067</u>

10. Financial investments at fair value through other comprehensive income

	Note	The Group	
		As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
At fair value			
Debt instruments	(a)	24,609,636	24,921,094
Equity instruments	(b)	44,331	44,331
		<u>24,653,967</u>	<u>24,965,425</u>
(a) Debt instruments			
Money market instruments:			
Government treasury bills		606,358	-
Malaysian Government securities		1,292,221	1,656,380
Malaysian Government investment certificates		4,172,890	6,334,482
Negotiable instruments of deposit		2,820,640	1,197,900
Other Government securities		132,514	694,508
Khazanah bonds		404,656	272,685
Cagamas bonds		1,798,572	1,367,584
		<u>11,227,851</u>	<u>11,523,539</u>
Quoted securities:			
Foreign currency bonds in Malaysia		1,761,586	1,776,207
Foreign currency bonds outside Malaysia		1,770,470	1,638,380
		<u>3,532,056</u>	<u>3,414,587</u>
Unquoted securities:			
Malaysian Government sukuk		842,782	350,898
Corporate bonds and sukuk		7,825,983	7,995,442
Foreign currency bonds in Malaysia		716,441	973,343
Foreign currency bonds outside Malaysia		464,523	663,285
		<u>9,849,729</u>	<u>9,982,968</u>
		<u>24,609,636</u>	<u>24,921,094</u>

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10. Financial investments at fair value through other comprehensive income (continued)

(a) Debt instruments (continued)

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

The Group	Stage 1	Stage 2	Stage 3	Total ECL RM '000
	12 months ECL RM '000	Lifetime ECL not credit impaired RM '000	Lifetime ECL credit impaired RM '000	
31 December 2019				
As at 1 July	1,872	-	16,550	18,422
New financial assets originated or purchased	1,219	-	-	1,219
Financial assets derecognised	(685)	-	-	(685)
Changes due to change in credit risk	(46)	-	-	(46)
Changes in models/risk parameters	(20)	-	-	(20)
Exchange differences	(10)	-	(148)	(158)
As at 31 December	2,330	-	16,402	18,732
30 June 2019				
As at 1 July	-	-	-	-
Effect of adopting MFRS 9	2,633	-	16,569	19,202
As at 1 July, as restated	2,633	-	16,569	19,202
New financial assets originated or purchased	1,026	-	-	1,026
Financial assets derecognised	(1,451)	-	(166)	(1,617)
Changes due to change in credit risk	(377)	-	-	(377)
Exchange differences	41	-	147	188
As at 30 June	1,872	-	16,550	18,422

The Group
As at
31/12/2019
RM '000

As at
30/06/2019
RM '000

(b) Equity instruments

Unquoted securities:

Shares in Malaysia

44,331

44,331

11. Financial investments at amortised cost

	The Group	
	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
Money market instruments:		
Government treasury bills	52,965	53,820
Malaysian Government securities	363,976	260,010
Malaysian Government investment certificates	9,343,311	9,200,311
Khazanah bonds	310,128	304,266
Other Government securities	308,662	326,179
	10,379,042	10,144,586
Quoted securities:		
Foreign currency bonds in Malaysia	827,953	845,592
Foreign currency bonds outside Malaysia	144,215	151,587
	972,168	997,179
Unquoted securities:		
Malaysian Government sukuk	2,658,494	2,657,094
Corporate bonds and sukuk	2,025,447	2,037,237
Foreign currency bonds outside Malaysia	16,093	53,810
	4,700,034	4,748,141
Less: Expected credit losses	(174)	(1,043)
Total financial investments at amortised cost	16,051,070	15,888,863

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11. Financial investments at amortised cost (continued)

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

The Group	Stage 1	Stage 2	Stage 3	Total ECL RM '000
	12 months ECL RM '000	Lifetime ECL not credit impaired RM '000	Lifetime ECL credit impaired RM '000	
31 December 2019				
As at 1 July	216	-	827	1,043
Financial assets derecognised	(22)	-	-	(22)
Changes due to change in credit risk	(18)	-	-	(18)
Amount written off	-	-	(827)	(827)
Exchange differences	(2)	-	-	(2)
As at 31 December	174	-	-	174
30 June 2019				
As at 1 July	-	-	-	-
Effect of adopting MFRS 9	27	-	827	854
As at 1 July, as restated	27	-	827	854
New financial assets originated or purchased	189	-	-	189
As at 30 June	216	-	827	1,043

12. Loans, advances and financing

	The Group	
	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
Overdrafts	3,707,088	3,863,555
Term loans/financing:		
- Housing and shop loans/financing	79,696,550	76,495,886
- Syndicated term loans/financing	13,024,658	11,740,501
- Hire purchase receivables	17,539,657	17,634,182
- Other term loans/financing	8,483,465	8,192,827
Credit/charge card receivables	3,596,414	3,597,974
Bills receivable	1,040,651	1,061,015
Trust receipts	367,590	421,884
Policy and premium loans	537,249	544,109
Claims on customers under acceptance credits	7,275,501	8,029,521
Revolving credits	6,385,629	6,227,550
Staff loans/financing	137,064	138,804
Other loans/financing	309,362	371,329
Gross loans, advances and financing	142,100,878	138,319,137
Fair value changes arising from fair value hedges	5,438	3,473
Expected credit losses	(1,219,042)	(1,264,994)
Total net loans, advances and financing	140,887,274	137,057,616

Included in loans, advances and financing are housing loans sold to Cagamas with recourse to the Group amounting to RM1,034,806,000 (2019: RM236,439,000).

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
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12. Loans, advances and financing (continued)

(a) By type of customers

	The Group	
	As at 31/12/2019	As at 30/06/2019
	RM '000	RM '000
Domestic non-bank financial institutions	1,404,105	953,920
Domestic business enterprises:		
- Small and medium enterprises	20,841,493	21,504,631
- Others	19,660,718	19,303,934
Government and statutory bodies	1,929	2,037
Individuals	97,369,757	94,057,634
Other domestic entities	774,481	418,282
Foreign entities	2,048,395	2,078,699
Gross loans, advances and financing	<u>142,100,878</u>	<u>138,319,137</u>

(b) By interest/profit rate sensitivity

	The Group	
	As at 31/12/2019	As at 30/06/2019
	RM '000	RM '000
Fixed rate		
- Housing and shop loans/financing	1,554,780	1,641,152
- Hire purchase receivables	17,355,829	17,413,826
- Other fixed rate loans/financing	7,272,361	6,919,394
Variable rate		
- Base rate/base lending rate plus	98,128,526	94,502,743
- Cost plus	17,005,717	17,225,281
- Other variable rates	783,665	616,741
Gross loans, advances and financing	<u>142,100,878</u>	<u>138,319,137</u>

(c) By economic purposes

	The Group	
	As at 31/12/2019	As at 30/06/2019
	RM '000	RM '000
Purchase of securities	1,115,249	1,010,286
Purchase of transport vehicles	17,376,209	17,489,214
Purchase of landed properties		
- Residential	70,647,035	67,438,186
- Non-residential	16,678,402	16,369,237
Purchase of fixed assets (excluding landed properties)	1,018,893	988,287
Personal use	3,546,434	3,389,881
Credit card	3,596,414	3,597,974
Construction	2,361,815	2,006,223
Mergers and acquisition	166,140	312,445
Working capital	23,677,050	23,798,349
Other purposes	1,917,237	1,919,055
Gross loans, advances and financing	<u>142,100,878</u>	<u>138,319,137</u>

(d) By geographical distribution

	The Group	
	As at 31/12/2019	As at 30/06/2019
	RM '000	RM '000
Malaysia	134,352,478	131,208,547
Singapore	5,481,107	5,224,287
Vietnam	783,665	616,741
Cambodia	1,483,628	1,269,562
Gross loans, advances and financing	<u>142,100,878</u>	<u>138,319,137</u>

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12. Loans, advances and financing (continued)

(e) By residual contractual maturity

	The Group	
	As at	As at
	31/12/2019	30/06/2019
	RM '000	RM '000
Within one year	25,958,324	26,983,273
One year to less than three years	5,673,959	5,920,568
Three years to less than five years	10,405,982	9,612,277
Five years and more	100,062,613	95,803,019
Gross loans, advances and financing	<u>142,100,878</u>	<u>138,319,137</u>

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

	The Group	
	As at	As at
	31/12/2019	30/06/2019
	RM '000	RM '000
As at 1 July	1,078,009	1,132,387
Effect of adopting MFRS 9	-	(11)
As at 1 July, as restated	<u>1,078,009</u>	<u>1,132,376</u>
Classified as impaired during the financial period/year	1,106,225	1,620,203
Reclassified as non-impaired during the financial period/year	(598,665)	(868,464)
Amount written back in respect of recoveries	(240,106)	(489,105)
Amount written off	(158,407)	(318,398)
Exchange differences	(520)	1,397
As at end of the financial period/year	<u>1,186,536</u>	<u>1,078,009</u>
Gross impaired loans, advances and financing as a % of gross loans, advances and financing	<u>0.8%</u>	<u>0.8%</u>

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

	The Group	
	As at	As at
	31/12/2019	30/06/2019
	RM '000	RM '000
Purchase of securities	323	51
Purchase of transport vehicles	110,832	122,231
Purchase of landed properties		
- Residential	401,820	376,570
- Non-residential	138,271	169,127
Purchase of fixed assets (excluding landed properties)	5,189	5,325
Personal use	120,950	44,470
Credit card	30,395	32,505
Construction	18,131	17,350
Working capital	297,137	305,350
Other purposes	63,488	5,030
Gross credit impaired/impaired loans, advances and financing	<u>1,186,536</u>	<u>1,078,009</u>

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

	The Group	
	As at	As at
	31/12/2019	30/06/2019
	RM '000	RM '000
Malaysia	1,103,727	1,070,808
Singapore	77,808	1,512
Vietnam	1,549	1,621
Cambodia	3,452	4,068
Gross impaired loans, advances and financing	<u>1,186,536</u>	<u>1,078,009</u>

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FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

12. Loans, advances and financing (continued)

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

The Group	Stage 1	Stage 2	Stage 3	Total ECL RM '000
	12 months ECL RM '000	Lifetime ECL not credit impaired RM '000	Lifetime ECL credit impaired RM '000	
31 December 2019				
As at 1 July	369,855	498,326	396,813	1,264,994
Changes in ECL due to transfer within stages	(69,301)	(75,328)	144,629	-
Transfer to Stage 1	9,188	(9,121)	(67)	-
Transfer to Stage 2	(78,472)	123,740	(45,268)	-
Transfer to Stage 3	(17)	(189,947)	189,964	-
New financial assets originated	29,243	1,783	934	31,960
Financial assets derecognised	(11,749)	(25,309)	(12,906)	(49,964)
Changes due to change in credit risk	16,024	80,156	38,666	134,846
Amount written off	-	-	(158,823)	(158,823)
Exchange differences	(138)	(74)	(500)	(712)
Other movements	-	-	(3,259)	(3,259)
As at 31 December	333,934	479,554	405,554	1,219,042
30 June 2019				
As at 1 July				1,007,692
Effect of adopting MFRS 9				360,630
As at 1 July, as restated	418,458	487,760	462,104	1,368,322
Changes in ECL due to transfer within stages	(101,284)	(144,222)	245,506	-
Transfer to Stage 1	23,088	(22,843)	(245)	-
Transfer to Stage 2	(124,380)	219,695	(95,315)	-
Transfer to Stage 3	8	(341,074)	341,066	-
New financial assets originated	53,868	4,019	110	57,997
Financial assets derecognised	(34,800)	(42,683)	(29,024)	(106,507)
Changes due to change in credit risk	33,156	193,326	42,597	269,079
Amount written off	-	-	(282,501)	(282,501)
Exchange differences	457	126	1,578	2,161
Other movements	-	-	(43,557)	(43,557)
As at 30 June	369,855	498,326	396,813	1,264,994

13. Other receivables

	The Group	
	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
Foreclosed properties	18,321	21,839
Sundry debtors and other prepayments	392,139	450,480
Treasury related receivables	14,105	242,617
Cash collateral pledged for derivative transactions	334,880	308,969
Fee income receivables	4,563	7,511
Other receivables	334,919	301,246
	1,098,927	1,332,662
The Company		
	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
Amount due from subsidiary companies	118	702
Sundry debtors and other prepayments	1,536	3,455
	1,654	4,157

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14. Deposits from customers

(a) By type of deposits

	The Group	
	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
At amortised cost		
Fixed deposits	97,394,298	90,777,422
Negotiable instruments of deposits	8,056,410	9,823,072
Short-term placements	15,631,879	16,571,939
	<u>121,082,587</u>	<u>117,172,433</u>
Demand deposits	25,154,213	24,012,738
Savings deposits	18,060,438	17,706,562
Others	807,316	891,350
	<u>165,104,554</u>	<u>159,783,083</u>
At fair value through profit or loss		
Structured deposits linked to interest rate derivatives	1,228,093	2,159,671
Fair value changes arising from designation at fair value through profit or loss*	(56,009)	(54,869)
	<u>1,172,084</u>	<u>2,104,802</u>
	<u>166,276,638</u>	<u>161,887,885</u>

*Note:

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

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

(b) By type of customers

	The Group	
	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
Government and statutory bodies	9,346,542	7,940,833
Business enterprises	63,352,957	65,288,256
Individuals	89,729,995	85,560,723
Others	3,847,144	3,098,073
	<u>166,276,638</u>	<u>161,887,885</u>

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

	The Group	
	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
Due within six months	100,591,773	93,925,096
More than six months to one year	19,547,318	21,763,420
More than one year to five years	845,817	1,440,321
More than five years	97,679	43,596
	<u>121,082,587</u>	<u>117,172,433</u>

15. Investment accounts of customers

	The Group	
	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
Unrestricted investment accounts	871,398	2,235

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16. Deposits and placements of banks and other financial institutions

	The Group	
	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
Licensed banks	5,490,583	7,379,378
Licensed investment banks	100,323	225,055
Licensed Islamic banks	-	140,000
Central banks	171,073	12,222
Other financial institutions	1,916,998	2,023,889
	7,678,977	9,780,544
The maturity structure of deposits and placements of banks and other financial institutions:		
- One year or less (short-term)	7,678,977	9,780,544

17. Payables and other liabilities

	Note	The Group	
		As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
Trade payables		3,201,131	3,062,424
Post employment benefits obligation - defined contribution plan		1,902	1,892
Loan advance payment		3,424,122	3,351,885
Treasury and cheque clearing		351,576	452,626
Treasury related payables		149,720	149,347
Sundry creditors and accruals		169,405	224,309
Provision for reinstatement cost		23,750	-
Provision for bonus and staff related expenses		267,328	222,387
Expected credit losses on financial guarantee contracts	(a)	7,996	7,928
Financial liabilities due to third party investors	(b)	5,526,413	4,816,377
Others		949,137	945,272
		14,072,480	13,234,447

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

The Group 31 December 2019	Stage 1	Stage 2	Stage 3	Total ECL RM '000
	12 months ECL RM '000	Lifetime ECL not credit impaired RM '000	Lifetime ECL credit impaired RM '000	
As at 1 July	2,380	5,527	21	7,928
Changes in ECL due to transfer within stages	(45)	45	-	-
Transfer to Stage 1	4	(4)	-	-
Transfer to Stage 2	(49)	49	-	-
New financial assets originated	157	1	-	158
Financial assets derecognised	(19)	(18)	-	(37)
Changes due to change in credit risk	(186)	205	-	19
Exchange differences	(7)	(59)	-	(66)
Other movements	-	-	(6)	(6)
As at 31 December	2,280	5,701	15	7,996

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17. Payables and other liabilities (continued)

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

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

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

	The Company	
	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
Post employment benefits obligation - defined contribution plan	46	45
Sundry creditors and accruals	1,001	20,848
Provision for reinstatement cost	231	-
Provision for bonus and staff related expenses	19,301	13,025
	20,579	33,918

18. Interest income

	The Group		The Group	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
Loans, advances and financing	1,241,260	1,211,268	2,469,902	2,415,239
Money at call and deposit placements with financial institutions	115,162	114,891	228,209	230,917
Securities purchased under resale agreements	(214)	437	22	940
Financial investments at fair value through other comprehensive income	173,262	238,537	353,997	452,583
Financial investments at amortised cost	104,891	122,753	208,549	240,033
Others	4,978	6,156	12,489	10,484
	1,639,339	1,694,042	3,273,168	3,350,196
Of which:				
Interest income earned on impaired loans, advances and financing	1,533	2,294	2,904	7,786

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18. Interest income (continued)

	The Company		The Company	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
Money at call and deposit placements with financial institutions	377	369	559	573
Subordinated obligations	17,853	6,125	35,706	12,250
Multi-currency Additional Tier 1 capital securities	9,931	5,172	19,862	10,344
Others	-	118	-	263
	<u>28,161</u>	<u>11,784</u>	<u>56,127</u>	<u>23,430</u>

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

	The Group		The Group	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
Financial assets at fair value through profit or loss	<u>86,677</u>	<u>107,845</u>	<u>168,638</u>	<u>218,467</u>

20. Interest expense

	The Group		The Group	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
Deposits and placements of banks and other financial institutions	47,111	80,603	94,812	158,585
Deposits from customers	742,073	777,350	1,482,086	1,541,549
Short-term placements	97,955	116,552	201,886	226,002
Borrowings	11,898	13,978	26,831	29,197
Subordinated obligations	24,127	35,705	50,878	71,425
Recourse obligations on loans sold to Cagamas Berhad	572	1,916	1,382	3,832
Innovative Tier 1 capital securities	-	10,199	8,413	20,351
Multi-currency Additional Tier 1 capital securities	10,120	5,258	20,241	10,516
Others	5,636	1,712	12,576	3,271
	<u>939,492</u>	<u>1,043,273</u>	<u>1,899,105</u>	<u>2,064,728</u>

	The Company		The Company	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
Borrowings	12,757	13,997	26,868	29,221
Subordinated obligations	18,265	6,252	36,531	12,505
Multi-currency Additional Tier 1 capital securities	10,233	5,335	20,465	10,669
Others	144	92	381	182
	<u>41,399</u>	<u>25,676</u>	<u>84,245</u>	<u>52,577</u>

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21. Income from Islamic banking business

	The Group		The Group	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
Income derived from investment of depositors' funds and others	394,106	356,728	787,237	711,022
of which finance income	388,010	356,167	771,119	704,667
of which other operating income	6,096	561	16,118	6,355
Income derived from investment of shareholders' funds	51,148	45,447	96,959	86,954
of which finance income	33,741	30,972	67,055	61,275
of which other operating income	17,407	14,475	29,904	25,679
Income derived from investment of investment accounts	6,396	-	6,488	-
Income attributable to depositors	(239,254)	(229,431)	(478,431)	(454,156)
Income attributable to depositors on investment accounts	(6,002)	-	(6,068)	-
	<u>206,394</u>	<u>172,744</u>	<u>406,185</u>	<u>343,820</u>

22. Non-interest income

	The Group		The Group	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
Net income from insurance business	51,573	69,203	98,663	141,759
Net brokerage and commissions from stockbroking business	13,593	12,263	26,053	26,683
Net unit trust and asset management income	16,634	14,188	34,684	25,527
Fee income:				
Commissions	37,613	39,598	80,359	80,230
Service charges and fees	13,283	16,057	23,181	26,746
Guarantee fees	3,491	4,931	7,146	8,045
Credit card related fees	58,090	67,104	110,859	122,259
Corporate advisory fees	509	3,304	1,984	4,082
Commitment fees	8,311	8,076	16,698	16,224
Fee on loans, advances and financing	10,641	10,144	23,256	19,325
Placement fees	1,494	1,450	2,203	1,689
Arranger fees	1,201	1,283	2,054	1,708
Other fee income	34,578	27,287	90,085	47,608
	<u>169,211</u>	<u>179,234</u>	<u>357,825</u>	<u>327,916</u>
Net realised gain/(loss) from sale of:				
Financial assets at fair value through profit or loss	7,204	7,267	62,356	42,928
Financial investments at fair value through other comprehensive income	31,821	11,265	131,354	27,759
Derivative financial instruments	(36,377)	(120,680)	(27,664)	(127,588)
	<u>2,648</u>	<u>(102,148)</u>	<u>166,046</u>	<u>(56,901)</u>
Gross dividend income from:				
Financial assets at fair value through profit or loss	9,536	28,093	24,651	53,916
Financial investments at fair value through other comprehensive income	3,480	-	3,683	203
	<u>13,016</u>	<u>28,093</u>	<u>28,334</u>	<u>54,119</u>
Net unrealised gain/(loss) on revaluation of:				
Financial assets at fair value through profit or loss	8,120	(13,656)	(17,283)	12,653
Derivative financial instruments	53,825	53,971	(5,879)	57,324
	<u>61,945</u>	<u>40,315</u>	<u>(23,162)</u>	<u>69,977</u>
Net realised loss on fair value changes arising from fair value hedges	(470)	(89)	(879)	(181)

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22. Non-interest income (continued)

	The Group		The Group	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
Net unrealised loss on fair value changes arising from fair value hedges	(12)	(10)	(190)	(48)
Other income:				
Foreign exchange gain	32,299	48,664	36,744	85,319
Rental income	2,227	297	4,385	2,866
Net gain on disposal of property and equipment	180	171	356	348
Net gain on divestment of joint venture	-	17,864	-	90,106
Other non-operating income	4,239	5,889	8,422	13,212
	<u>38,945</u>	<u>72,885</u>	<u>49,907</u>	<u>191,851</u>
Total non-interest income	<u>367,083</u>	<u>313,934</u>	<u>737,281</u>	<u>780,702</u>

	The Company		The Company	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
Fee income:				
Management fees	2,909	3,348	6,505	4,954
Net realised (loss)/gain from sale of:				
Financial assets at fair value through profit or loss	-	(51)	-	(51)
Derivative financial instruments	-	-	135	-
Gross dividend income from:				
Financial assets at fair value through profit or loss	142	559	142	957
Subsidiary companies	558,824	466,997	558,824	466,997
Net unrealised gain on revaluation of:				
Derivative financial instruments	-	58	-	106
Other income:				
Gain from distribution on liquidation of subsidiary	-	-	-	21
Other non-operating income	51	18	115	26
Total non-interest income	<u>561,926</u>	<u>470,929</u>	<u>565,721</u>	<u>473,010</u>

23. Overhead expenses

	The Group		The Group	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
<u>Personnel costs</u>				
- Salaries, bonus and allowances	300,848	283,109	606,916	582,727
- Medical expenses	9,138	8,287	16,683	13,038
- Training and convention expenses	5,466	5,700	12,587	12,671
- Staff welfare	2,426	2,471	4,725	4,954
- Others	19,536	19,814	26,669	41,948
	<u>337,414</u>	<u>319,381</u>	<u>667,580</u>	<u>655,338</u>
<u>Establishment costs</u>				
- Depreciation of property and equipment	35,113	34,674	70,711	68,957
- Depreciation of right-of-use assets	13,034	-	27,514	-
- Amortisation of intangible assets	16,378	15,052	31,220	30,298
- Rental of premises	663	16,643	3,063	34,077
- Information technology expenses	45,243	47,068	88,876	90,427
- Security services	7,202	6,645	14,289	13,820
- Electricity, water and sewerage	5,882	6,271	12,355	12,563
- Hire of plant and machinery	3,401	3,084	6,872	6,134
- Others	5,287	7,650	12,529	18,576
	<u>132,203</u>	<u>137,087</u>	<u>267,429</u>	<u>274,852</u>

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23. Overhead expenses (continued)

	The Group		The Group	
	Current	Last year	Current year	Last year
	quarter ended	quarter ended	to date	to date
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	RM '000	RM '000	RM '000	RM '000
<u>Marketing expenses</u>				
- Advertisement and publicity	8,340	5,747	16,220	11,942
- Sales commission and credit card related fees	33,372	33,061	64,808	64,871
- Others	14,213	9,029	20,859	19,230
	<u>55,925</u>	<u>47,837</u>	<u>101,887</u>	<u>96,043</u>
<u>Administration and general expenses</u>				
- Teletransmission expenses	5,721	4,331	11,303	8,833
- Stationery and printing expenses	3,571	3,755	6,507	7,452
- Professional fees	24,509	21,284	48,860	43,155
- Insurance fees	11,022	11,201	21,296	21,338
- Stamp, postage and courier	3,560	3,432	6,974	6,722
- Credit card fees	11,706	10,604	23,339	21,221
- Travelling and transport expenses	1,159	1,182	2,442	2,356
- Registration and license fees	2,424	2,534	4,291	5,008
- Brokerage and commission	1,963	1,935	4,330	3,821
- Others	10,305	8,791	17,402	18,728
	<u>75,940</u>	<u>69,049</u>	<u>146,744</u>	<u>138,634</u>
	<u>601,482</u>	<u>573,354</u>	<u>1,183,640</u>	<u>1,164,867</u>
	The Company		The Company	
	Current	Last year	Current year	Last year
	quarter ended	quarter ended	to date	to date
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	RM '000	RM '000	RM '000	RM '000
<u>Personnel costs</u>				
- Salaries, bonus and allowances	5,785	5,480	11,550	10,972
- Medical expenses	17	33	40	61
- Training and convention expenses	8	14	16	26
- Staff welfare	143	158	287	295
- Others	2,638	3,353	5,284	6,680
	<u>8,591</u>	<u>9,038</u>	<u>17,177</u>	<u>18,034</u>
<u>Establishment costs</u>				
- Depreciation of property and equipment	198	285	376	570
- Depreciation of right-of-use assets	235	-	470	-
- Amortisation of intangible assets	1	1	1	1
- Rental of premises	-	239	-	469
- Information technology expenses	23	23	49	62
- Electricity, water and sewerage	10	10	21	22
- Others	64	40	126	76
	<u>531</u>	<u>598</u>	<u>1,043</u>	<u>1,200</u>
<u>Administration and general expenses</u>				
- Teletransmission expenses	1	12	10	21
- Stationery and printing expenses	7	12	14	24
- Professional fees	264	265	503	485
- Management fees	532	692	1,065	1,038
- Travelling and transport expenses	10	19	20	31
- Others	94	243	71	338
	<u>908</u>	<u>1,243</u>	<u>1,683</u>	<u>1,937</u>
	<u>10,030</u>	<u>10,879</u>	<u>19,903</u>	<u>21,171</u>

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24. Allowance for/(writeback of) impairment losses on loans, advances and financing and other losses

	The Group		The Group	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
Allowance for/(writeback of) impairment losses on:				
- Loans, advances and financing	77,074	(1,752)	116,982	73,902
- Clients' and brokers' balances	101	(29)	89	(22)
Impaired loans, advances and financing:				
- Written off	5,305	4,661	9,804	9,091
- Recovered from bad debt written off	(62,961)	(61,106)	(116,121)	(122,392)
	<u>19,519</u>	<u>(58,226)</u>	<u>10,754</u>	<u>(39,421)</u>

25. Allowance for/(writeback of) impairment losses on other assets

	The Group		The Group	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
Expected credit losses on:				
- Financial investments at fair value through other comprehensive income	382	461	468	510
- Financial investments at amortised cost	(75)	(64)	(40)	202
- Other receivables	48	(181)	41	(247)
- Cash and short-term funds	(22)	278	(43)	1,080
- Deposits and placements with banks and other financial institutions	1,198	(608)	1,234	(545)
	<u>1,531</u>	<u>(114)</u>	<u>1,660</u>	<u>1,000</u>

	The Company		The Company	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
Expected credit losses on:				
- Investment in debt instruments issued by subsidiary	189	-	(134)	-

26. Capital adequacy

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

The Capital Adequacy Framework (Capital Components) sets out the minimum capital adequacy ratios as well as requirements on Capital Conservation Buffer ("CCB") and Counter Cyclical Buffer ("CCyB"). The minimum capital adequacy requirements for CET 1 capital ratio, Tier 1 capital ratio and Total capital ratio are 4.500%, 6.000% and 8.000% respectively. The Group is also required to maintain CCB of up to 2.500% of total RWA, which is phased in starting with 0.625% in year 2016, 1.250% in year 2017, 1.875% in year 2018 and 2.500% in year 2019. The CCyB which ranges from 0% up to 2.500% is determined as the weighted average of prevailing CCyB rates applied in the jurisdictions in which the Group has credit exposures. The minimum capital adequacy including CCB for CET 1 capital ratio, Tier 1 capital ratio and Total capital ratio for year 2019 are 7.000%, 8.500% and 10.500% respectively.

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26. Capital adequacy (continued)

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

	Hong Leong Financial Group		Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	31/12/2019	30/06/2019	31/12/2019	30/06/2019	31/12/2019	30/06/2019	31/12/2019	30/06/2019
Before deducting proposed dividends								
CET 1 capital ratio	10.893%	10.903%	13.312%	13.627%	13.165%	13.266%	32.967%	30.907%
Tier 1 capital ratio	11.879%	11.895%	13.892%	14.585%	13.519%	14.074%	32.967%	30.907%
Total capital ratio	14.953%	14.968%	16.131%	16.839%	15.640%	16.203%	42.915%	43.489%
After deducting proposed dividends								
CET 1 capital ratio	10.893%	10.903%	13.075%	13.113%	12.874%	12.640%	32.967%	28.642%
Tier 1 capital ratio	11.879%	11.895%	13.655%	14.072%	13.229%	13.448%	32.967%	28.642%
Total capital ratio	14.953%	14.968%	15.893%	16.326%	15.349%	15.577%	42.915%	41.224%

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

	Hong Leong Financial Group		Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	31/12/2019 RM '000	30/06/2019 RM '000	31/12/2019 RM '000	30/06/2019 RM '000	31/12/2019 RM '000	30/06/2019 RM '000	31/12/2019 RM '000	30/06/2019 RM '000
CET 1 capital								
Share capital	2,267,008	2,267,008	7,739,063	7,739,063	7,739,063	7,739,063	252,950	252,950
Retained profit	15,604,663	15,196,453	16,964,247	16,686,412	12,173,114	12,034,337	209,920	237,920
Other reserves	781,623	874,076	734,903	849,361	315,016	315,816	2,133	3,507
Qualifying non-controlling interests	5,548,004	5,398,860	-	-	-	-	-	-
Less: Treasury shares	(209,454)	(161,909)	(727,277)	(727,817)	(727,277)	(727,817)	-	-
Less: Other intangible assets	(166,166)	(128,331)	(163,681)	(125,225)	(145,167)	(110,895)	-	-
Less: Goodwill	(2,346,287)	(2,346,287)	(1,831,312)	(1,831,312)	(1,771,547)	(1,771,547)	(30,702)	(31,129)
Less: Deferred tax assets	-	-	(48,852)	(16,030)	(24,751)	-	(85,660)	(80,926)
Less: Investment in subsidiary companies/ associated companies	(6,884,830)	(6,661,118)	(4,305,580)	(4,106,375)	(2,727,186)	(2,726,932)	(200)	(200)
Total CET 1 capital	14,594,561	14,438,752	18,361,511	18,468,077	14,831,265	14,752,025	348,441	382,122

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26. Capital adequacy (continued)

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

	Hong Leong Financial Group		Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	31/12/2019 RM '000	30/06/2019 RM '000	31/12/2019 RM '000	30/06/2019 RM '000	31/12/2019 RM '000	30/06/2019 RM '000	31/12/2019 RM '000	30/06/2019 RM '000
Tier 1 capital								
Multi-currency Additional Tier 1 capital securities	799,636	799,577	799,589	799,523	799,589	799,523	-	-
Innovative Tier 1 capital securities	-	-	-	499,498	-	499,498	-	-
Qualifying non-controlling interests	521,310	513,375	-	-	-	-	-	-
Tier 1 capital before regulatory adjustments	1,320,946	1,312,952	799,589	1,299,021	799,589	1,299,021	-	-
Less: Investment in Additional Tier 1 perpetual subordinated sukuk wakalah	-	-	-	-	(400,000)	(400,000)	-	-
Tier 1 capital after regulatory adjustments	1,320,946	1,312,952	799,589	1,299,021	399,589	899,021	-	-
Total Tier 1 capital	15,915,507	15,751,704	19,161,100	19,767,098	15,230,854	15,651,046	348,441	382,122
Tier 2 capital								
Stage 1 and Stage 2 expected credit loss allowances and regulatory reserves #	1,592,789	1,560,449	1,587,646	1,554,893	1,288,856	1,267,205	5,143	5,556
Subordinated obligations	1,599,799	1,599,790	1,499,970	1,499,970	1,499,970	1,499,970	100,000	150,000
Qualifying non-controlling interests	925,239	909,772	-	-	-	-	-	-
Less: Investment in Tier 2 subordinated sukuk murabahah	-	-	-	-	(400,000)	(400,000)	-	-
Total Tier 2 capital	4,117,827	4,070,011	3,087,616	3,054,863	2,388,826	2,367,175	105,143	155,556
Total capital	20,033,334	19,821,715	22,248,716	22,821,961	17,619,680	18,018,221	453,584	537,678

Includes the qualifying regulatory reserves for non-impaired loans of Hong Leong Bank Group of RM933,088,000 (2019: RM847,070,000), Hong Leong Bank Berhad of RM748,123,000 (2019: RM695,197,000) and Hong Leong Investment Bank Berhad of RM Nil (2019: RM Nil) respectively.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
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26. Capital adequacy (continued)

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

	Hong Leong Financial Group		Hong Leong Bank Group		Hong Leong Bank Berhad		Hong Leong Investment Bank Berhad	
	31/12/2019	30/06/2019	31/12/2019	30/06/2019	31/12/2019	30/06/2019	31/12/2019	30/06/2019
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Credit risk *	122,180,667	120,247,407	127,011,716	124,391,420	103,108,501	101,376,433	411,408	444,468
Market risk	2,793,833	3,244,202	2,312,082	2,558,573	2,385,745	2,595,185	379,154	519,266
Operational risk	9,004,452	8,936,235	8,605,602	8,577,308	7,166,180	7,233,933	266,362	272,622
Total RWA	<u>133,978,952</u>	<u>132,427,844</u>	<u>137,929,400</u>	<u>135,527,301</u>	<u>112,660,426</u>	<u>111,205,551</u>	<u>1,056,924</u>	<u>1,236,356</u>

* In accordance with BNM Investment Account Policy, the credit RWA of Hong Leong Islamic Bank Berhad funded by Investment Account of RM609,744,000 (2019: RM1,294,000) is excluded from the calculation of capital adequacy ratio of the Group.

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

	Hong Leong Islamic Bank Berhad	
	31/12/2019	30/06/2019
Before deducting proposed dividends		
CET 1 capital ratio	11.016%	10.529%
Tier 1 capital ratio	12.729%	12.258%
Total capital ratio	<u>15.616%</u>	<u>15.150%</u>
After deducting proposed dividends		
CET 1 capital ratio	11.016%	10.529%
Tier 1 capital ratio	12.729%	12.258%
Total capital ratio	<u>15.616%</u>	<u>15.150%</u>

27. Events after Balance Sheet date

There are no material events subsequent to the end of the financial period ended 31 December 2019.

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28. Changes in composition of the Group

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

- (a) On 1 July 2019, Hong Leong Bank Berhad ("HLB"), a subsidiary of HLFG, announced that it had placed EB Nominees (Asing) Sendirian Berhad ("EB Nominees (Asing)"), its wholly-owned subsidiary, under member's voluntary winding-up pursuant to Section 439(1)(b) of the Companies Act, 2016. EB Nominees (Asing) is currently dormant and there are no future plans to activate the company.
- (b) On 23 January 2020, HLFG announced that the liquidator of HLFG Assets Sdn Bhd ("HLFG Assets"), a wholly-owned subsidiary of HLFG, had convened a final meeting to conclude the member's voluntary winding-up of HLFG Assets. A Return by Liquidator Relating to Final Meeting was lodged with the Companies Commission of Malaysia and the Official Receiver on 23 January 2020 ("Lodgement Date"), and on the expiration of 3 months after the Lodgement Date, HLFG Assets will be dissolved.
- (c) On 18 February 2020, HLB announced that the liquidator of Chew Geok Lin Finance Sdn Bhd and WTB Corporation Sdn Bhd (collectively referred to as "Companies"), wholly-owned subsidiaries of HLF Credit (Perak) Bhd which in turn is a wholly-owned subsidiary of HLB, had convened the final meetings to conclude the member's voluntary winding-up of the Companies. The Returns by Liquidator Relating to Final Meeting of the Companies were lodged with the Companies Commission of Malaysia and the Official Receiver on 18 February 2020 ("Lodgement Date"), and on the expiration of 3 months after the Lodgement Date, the Companies will be dissolved.

29. Related party transactions

All related party transactions within the Group had been entered into in the normal course of business and were carried out on normal commercial terms.

30. Commitments and contingencies

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

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

	The Group	
	31/12/2019	30/06/2019
	RM '000	RM '000
Direct credit substitutes	134,838	118,740
Certain transaction related contingent items	1,509,550	1,446,851
Short-term self liquidating trade related contingencies	711,676	674,511
Obligations under underwriting agreement	-	18,860
Irrevocable commitments to extend credit:		
- Less than one year	21,084,484	19,020,280
- More than one year	17,851,489	17,720,606
Any commitments that are unconditionally cancellable at any time by the Group without prior notice:		
- Less than one year	790,655	750,103
Foreign exchange related contracts:		
- Less than one year	46,720,589	37,642,710
- One year to less than five years	3,987,786	3,995,994
- Five years and above	276,513	301,327
Interest rate related contracts:		
- Less than one year	21,927,935	43,078,630
- One year to less than five years	35,054,222	37,887,050
- Five years and above	2,881,484	3,415,389
Equity related contracts:		
- Less than one year	580,991	627,537
- One year to less than five years	82,638	127,853
Credit related contracts:		
- Five years and above	173,730	82,753
Unutilised credit card lines	7,159,214	7,276,500
Total	160,927,794	174,185,694

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30. Commitments and contingencies (continued)

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

	The Company	
	31/12/2019	30/06/2019
	RM '000	RM '000
Interest rate related contracts:		
- Less than one year	-	100,000

(b) 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 ("Fund"). HLCB provided a guarantee to Deutsche Trustees Malaysia Berhad, the trustee of the Fund, that if the fund falls below the minimum fund size of RM1 million, HLCB would invest cash, equivalent to the shortfall, into the relevant fund.

The size of the fund was above the minimum of RM1 million (2019: RM1 million).

31. Fair value of financial instruments

Financial instruments comprise financial assets and financial liabilities. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the statements of financial position date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

Determination of fair value and fair value hierarchy

The Group and the Company measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include certain corporate bonds, government bonds and derivatives.

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. This category includes unquoted shares held for socio-economic reasons. Fair value for shares held for socio-economic reasons are based on the net tangible assets of the affected companies.

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
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31. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy (continued)

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

The Group	Fair value			Total RM '000
	Level 1 RM '000	Level 2 RM '000	Level 3 RM '000	
31 December 2019				
<i>Recurring fair value measurements</i>				
<u>Financial assets</u>				
Financial assets at fair value through profit or loss				
- Money market instruments	-	10,388,959	-	10,388,959
- Quoted securities	3,954,360	-	-	3,954,360
- Unquoted securities	-	7,876,012	326,621	8,202,633
Financial investments at fair value through other comprehensive income				
- Money market instruments	-	11,227,851	-	11,227,851
- Quoted securities	3,532,056	-	-	3,532,056
- Unquoted securities	-	9,849,729	44,331	9,894,060
Derivative financial instruments	594	653,432	10,739	664,765
	<u>7,487,010</u>	<u>39,995,983</u>	<u>381,691</u>	<u>47,864,684</u>
<u>Financial liabilities</u>				
Derivative financial instruments	1,052	1,027,101	10,739	1,038,892
Financial liabilities designated at fair value				
- Structured deposits linked to interest rate derivatives	-	1,172,084	-	1,172,084
	<u>1,052</u>	<u>2,199,185</u>	<u>10,739</u>	<u>2,210,976</u>

30 June 2019

Recurring fair value measurements

Financial assets

Financial assets at fair value through profit or loss

- Money market instruments	-	12,823,712	-	12,823,712
- Quoted securities	3,835,082	-	-	3,835,082
- Unquoted securities	-	7,436,652	326,621	7,763,273

Financial investments at fair value through other comprehensive income

- Money market instruments	-	11,523,539	-	11,523,539
- Quoted securities	3,414,587	-	-	3,414,587
- Unquoted securities	-	9,982,968	44,331	10,027,299

Derivative financial instruments	32	562,341	7,812	570,185
	<u>7,249,701</u>	<u>42,329,212</u>	<u>378,764</u>	<u>49,957,677</u>

Financial liabilities

Derivative financial instruments	2,940	721,691	7,812	732,443
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Financial liabilities designated at fair value

- Structured deposits linked to interest rate derivatives	-	2,104,802	-	2,104,802
	<u>2,940</u>	<u>2,826,493</u>	<u>7,812</u>	<u>2,837,245</u>

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial period (2019: RM Nil).

The Company	Fair value			Total RM '000
	Level 1 RM '000	Level 2 RM '000	Level 3 RM '000	
30 June 2019				
<i>Recurring fair value measurements</i>				
<u>Financial liabilities</u>				
Derivative financial instruments	-	135	-	135

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
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31. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy (continued)

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

	Financial assets			Financial liability
	Financial assets at fair value through profit or loss	Financial investments at fair value through other comprehensive income	Derivative financial instruments	Derivative financial instruments
	RM '000	RM '000	RM '000	RM '000
The Group				
31 December 2019				
As at 1 July	326,621	44,331	7,812	7,812
Fair value changes recognised in statements of income	-	-	3,384	3,384
Purchases	-	-	886	886
Settlements	-	-	(1,343)	(1,343)
As at 31 December	<u>326,621</u>	<u>44,331</u>	<u>10,739</u>	<u>10,739</u>
Fair value changes recognised in statements of income relating to assets/liability held on 31 December 2019	-	-	3,384	3,384

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

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
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32. Change in accounting policies

Effects of adopting MFRS 16 Leases

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" ("ROU") of the underlying asset and a lease liability reflecting future lease payments for most leases.

The ROU asset is depreciated in accordance with the principle as set out in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in statements of income.

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

The Group and the Company have adopted this standard from its mandatory adoption date of 1 July 2019. As permitted by MFRS 16, the Group and the Company have applied the modified retrospective approach and will not restate comparative amounts for the financial year prior to the first adoption. ROU assets for property leases will be measured on transition as if the new rules had always been applied. All other ROU assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

On adoption of MFRS 16, the Group and the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of MFRS 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group and the Company's borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 for the Group and the Company was at 4.53% and 5.29% respectively per annum.

(i) The table below summarises the effects upon adoption of MFRS 16 as at 1 July 2019:

	As at 30 June 2019 RM '000	Effects of adopting MFRS 16 RM '000	As restated 1 July 2019 RM '000
The Group			
Right-of-use assets	-	298,425	298,425
Lease liabilities	-	274,236	274,236
Payables and other liabilities	13,234,447	24,189	13,258,636
The Company			
Right-of-use assets	-	6,895	6,895
Lease liabilities	-	6,670	6,670
Payables and other liabilities	33,918	225	34,143

(ii) The table below analyses the impact of Capital Adequacy Ratios of the Group:

	As at 30 June 2019	Effects of adopting MFRS 16	As restated 1 July 2019
The Group			
CET 1 capital ratio	10.903%	-0.027%	10.876%
Tier 1 capital ratio	11.895%	-0.029%	11.866%
Total capital ratio	14.968%	-0.035%	14.933%

**HONG LEONG FINANCIAL GROUP BERHAD (“HLFG”)
ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019**

1. Review of performance

Current quarter against previous corresponding quarter

HLFG Group recorded a profit before tax of RM924.2 million for the current quarter ended 31 December 2019 as compared to RM877.5 million in the previous corresponding quarter, an increase of RM46.7 million or 5.3%. The increase was mainly due to higher contribution from all the operating divisions.

Hong Leong Bank Group recorded a profit before tax of RM857.0 million for the current quarter ended 31 December 2019 as compared to RM823.2 million in the previous corresponding quarter, an increase of RM33.8 million or 4.1%. The increase was mainly due to higher revenue of RM95.4 million and higher share of profit from associated companies of RM33.8 million. This was however offsetted by higher operating expenses of RM16.2 million, higher allowance for impairment losses on loans, advances and financing of RM77.5 million and allowance for impairment losses on other assets of RM1.7 million.

HLA Holdings Group recorded a profit before tax of RM64.7 million for the current quarter ended 31 December 2019 as compared to RM58.7 million in the previous corresponding quarter, an increase of RM6.0 million or 10.2%. The increase was mainly due to higher revenue of RM26.0 million and higher share of profit from associated company of RM5.8 million. This was however offsetted by lower life fund surplus of RM16.2 million and higher operating expenses of RM9.6 million.

Hong Leong Capital Group recorded a profit before tax of RM23.0 million for the current quarter ended 31 December 2019 as compared to RM14.8 million in the previous corresponding quarter, an increase of RM8.2 million or 55.4%. The increase was mainly due to higher contribution from the asset management, investment banking and stockbroking divisions.

Current year-to-date against previous year-to-date

HLFG Group recorded a profit before tax of RM1,837.9 million for the period ended 31 December 2019 as compared to RM1,806.6 million in the previous corresponding period, an increase of RM31.3 million or 1.7%. The increase was mainly due to higher contribution from the commercial banking, asset management, investment banking and stockbroking divisions.

Hong Leong Bank Group recorded a profit before tax of RM1,703.5 million for the period ended 31 December 2019 as compared to RM1,674.3 million in the previous corresponding period, an increase of RM29.2 million or 1.7%. The increase was mainly due to higher revenue of RM61.4 million and higher share of profit from associated companies of RM31.8 million. This was however offsetted by higher operating expenses of RM13.2 million, higher allowance for impairment losses on loans, advances and financing of RM49.9 million and higher allowance for impairment losses on other assets of RM0.9 million.

HLA Holdings Group recorded a profit before tax of RM126.2 million for the period ended 31 December 2019 as compared to RM140.8 million in the previous corresponding period, a decrease of RM14.6 million or 10.4%. The decrease was mainly due to lower life fund surplus of RM36.9 million. This was however mitigated by higher revenue of RM10.1 million, lower operating expenses of RM0.9 million and higher share of profit from associated company of RM11.3 million.

Hong Leong Capital Group recorded a profit before tax of RM47.5 million for the period ended 31 December 2019 as compared to RM37.5 million in the previous corresponding period, an increase of RM10.0 million or 26.7%. This was mainly due to higher contribution from the asset management, investment banking and stockbroking divisions.

2. Current quarter against preceding quarter

HLFG Group recorded a profit before tax of RM924.2 million for the current quarter ended 31 December 2019 as compared to RM913.6 million in the preceding quarter, an increase of RM10.6 million or 1.2%. The increase was mainly due to higher contribution from the commercial banking and insurance divisions.

Hong Leong Bank Group recorded a profit before tax of RM857.0 million for the current quarter ended 31 December 2019 as compared to RM846.6 million in the preceding quarter, an increase of RM10.4 million or 1.2%. The increase was mainly due to higher revenue of RM22.5 million and higher share of profit from associated companies of RM22.4 million. This was however offsetted by higher operating expenses of RM4.8 million, higher allowance for impairment losses on loans, advances and financing of RM28.3 million and higher allowance for impairment losses on other assets of RM1.4 million.

HLA Holdings Group recorded a profit before tax of RM64.7 million for the current quarter ended 31 December 2019 as compared to RM61.6 million in the preceding quarter, an increase of RM3.1 million or 5.0%. The increase was mainly due to higher revenue of RM19.3 million and higher share of profit from associated company of RM3.3 million. This was however offsetted by lower life fund surplus of RM0.6 million and higher operating expenses of RM18.9 million.

Hong Leong Capital Group recorded a profit before tax of RM23.0 million for the current quarter ended 31 December 2019 as compared to RM24.5 million in the preceding quarter, a decrease of RM1.5 million or 6.1%. This was mainly due to lower contribution from the asset management, investment banking and stockbroking divisions.

3. Prospects for the current financial year

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

**HONG LEONG FINANCIAL GROUP BERHAD (“HLFG”)
 ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES
 FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019**

4. Variance of actual profit from forecasted profit

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

5. Taxation

	The Group		The Group	
	Current	Last year	Current year	Last year
	quarter ended 31/12/2019 RM '000	quarter ended 31/12/2018 RM '000	to date 31/12/2019 RM '000	to date 31/12/2018 RM '000
Income tax	177,578	178,206	362,349	325,011
Transfer to deferred tax	(10,535)	(32,608)	(25,131)	(19,903)
	167,043	145,598	337,218	305,108
Prior year over provision	-	(17)	-	(28)
	167,043	145,581	337,218	305,080

	The Company		The Company	
	Current	Last year	Current year	Last year
	quarter ended 31/12/2019 RM '000	quarter ended 31/12/2018 RM '000	to date 31/12/2019 RM '000	to date 31/12/2018 RM '000
Income tax	2,612	1,830	2,612	1,830
Transfer to deferred tax	(19)	(7)	(90)	(27)
	2,593	1,823	2,522	1,803

The effective tax rate for the Company for the current financial period is lower than the statutory rate of taxation as certain income was not subjected to tax.

6. Status of corporate proposals

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

7. Borrowings

	The Group		The Company	
	As at	As at	As at	As at
	31/12/2019 RM '000	30/06/2019 RM '000	31/12/2019 RM '000	30/06/2019 RM '000
Unsecured				
RM Term loans	5,001	150,058	5,001	150,058
RM Revolving credit	242,156	430,501	242,156	430,501
RM Medium term notes	223,005	222,950	253,423	253,368
RM Commercial papers	149,836	214,587	149,836	214,587
RM Senior notes	380,180	380,181	405,403	405,367
	1,000,178	1,398,277	1,055,819	1,453,881
Repayment of term loans				
- Less than one year	5,001	150,058	5,001	150,058
Repayment of revolving credit				
- Less than one year	242,156	430,501	242,156	430,501
Repayment of medium term notes				
- Less than one year	223,005	3,375	253,423	3,375
- One to three years	-	219,575	-	249,993
Repayment of commercial papers				
- Less than one year	149,836	214,587	149,836	214,587
Repayment of senior notes				
- Less than one year	5,530	5,530	5,455	5,455
- One to three years	374,650	374,651	399,948	399,912
	1,000,178	1,398,277	1,055,819	1,453,881

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8. Subordinated obligations

	Note	The Group		The Company	
		As at 31/12/2019 RM '000	As at 30/06/2019 RM '000	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
RM500.0 million Tier 2 subordinated debt, at par	(a)	500,000	500,000	-	-
Add: Interest payable		9,000	8,815	-	-
		<u>509,000</u>	<u>508,815</u>	-	-
Less: Unamortised discounts		(1,008)	(1,089)	-	-
		<u>507,992</u>	<u>507,726</u>	-	-
RM50.0 million Tier 2 subordinated notes, at par	(b)	-	50,000	-	-
Add: Interest payable		-	406	-	-
		-	<u>50,406</u>	-	-
Less: Unamortised discounts		-	(98)	-	-
		-	<u>50,308</u>	-	-
RM1.6 billion Tier 2 subordinated notes, at par	(c)	1,600,000	1,600,000	1,600,000	1,600,000
Add: Interest payable		2,479	2,608	2,479	2,608
		<u>1,602,479</u>	<u>1,602,608</u>	<u>1,602,479</u>	<u>1,602,608</u>
Less: Unamortised discounts		(201)	(210)	(2,143)	(2,403)
		<u>1,602,278</u>	<u>1,602,398</u>	<u>1,600,336</u>	<u>1,600,205</u>
		<u>2,110,270</u>	<u>2,160,432</u>	<u>1,600,336</u>	<u>1,600,205</u>

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

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

On 7 February 2013, HLA completed its RM500.0 million Sub-Notes issuance. The Sub-Notes were issued for a period of 12 years on a 12 non-callable 7 basis with a coupon rate of 4.50% per annum.

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

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

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

On 6 November 2019, HLIB had fully redeemed the RM50.0 million nominal value of Sub-Notes.

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

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

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9. Innovative Tier 1 capital securities

	The Group	
	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
RM500.0 million Innovative Tier 1 capital securities, at par	-	453,200
Add: Interest payable	-	11,463
	-	464,663
Less: Unamortised discounts	-	(502)
Fair value adjustments on completion of business combination accounting	-	112
	-	464,273

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

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

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

On 10 September 2019, HLB had fully redeemed the RM500.0 million nominal value of IT-1 Capital Securities.

10. Multi-currency Additional Tier 1 capital securities

	The Group		The Company	
	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000	As at 31/12/2019 RM '000	As at 30/06/2019 RM '000
RM800.0 million Multi-currency Additional Tier 1 capital securities, at par	800,000	800,000	800,000	800,000
Add: Interest payable	6,804	6,799	6,804	6,799
	806,804	806,799	806,804	806,799
Less: Unamortised discounts	(364)	(423)	(1,364)	(1,563)
	806,440	806,376	805,440	805,236

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

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

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11. Off-balance sheet financial instruments

Details of financial instruments with off-balance sheet risk as at 31 December 2019

The Group

Items	Principal amount RM '000	Fair value	
		Assets RM '000	Liabilities RM '000
Foreign exchange related contracts			
- Forwards			
(i) Less than 1 year	39,363,615	187,872	(427,386)
(ii) 1 year to 3 years	200,082	-	(4,177)
(iii) More than 3 years	10,231	-	(221)
- Swaps			
(i) Less than 1 year	6,400,902	65,651	(53,881)
(ii) 1 year to 3 years	2,490,080	27,816	(22,928)
(iii) More than 3 years	1,563,906	122,808	(10,115)
- Options			
(i) Less than 1 year	956,072	6,842	(3,686)
Interest rate related contracts			
- Futures			
(i) Less than 1 year	1,535,092	736	(1,052)
(ii) 1 year to 3 years	306,938	86	-
- Swaps			
(i) Less than 1 year	20,392,843	36,856	(63,482)
(ii) 1 year to 3 years	24,246,638	72,280	(185,505)
(iii) More than 3 years	13,081,625	109,714	(234,943)
- Cross currency swaps			
(i) 1 year to 3 years	193,385	14,955	-
(ii) More than 3 years	107,120	4,150	(17,782)
Equity related contracts			
(i) Less than 1 year	580,991	7,491	(6,201)
(ii) 1 year to 3 years	82,638	4,339	(4,540)
Credit related contracts			
(i) More than 3 years	173,730	3,169	(2,993)
Total	111,685,888	664,765	(1,038,892)

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11. Off-balance sheet financial instruments (continued)

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

The Group

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

The Company

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

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

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amount subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at the end of the financial period, the amount of contracts which were not hedged effectively and hence, exposed to foreign exchange and interest rate market risk were RM173,395,000 (2019: RM41,912,000) and RM55,926,927,000 (2019: RM79,552,125,000) respectively.

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11. Off-balance sheet financial instruments (continued)

Market risk (continued)

Derivatives

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

Credit risk

Credit risk arises from the possibility that a counter-party may be unable to meet the terms of a contract in which the Group has a gain position. As at the end of the financial year, the amount of credit risk, measured in terms of the cost to replace the profitable contracts was RM679,205,000 (2019: RM580,235,000). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

Derivatives

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

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

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

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

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

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

Liquidity risk

Derivatives

Liquidity risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

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11. Off-balance sheet financial instruments (continued)

Related accounting policies

Derivative financial instruments are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from a change in the fair value of the derivatives is recognised in the statements of income unless they are part of a hedging relationship which qualifies for hedge accounting where the gain or loss is recognised as follows:

Fair value hedge

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in the statements of income. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the statements of income.

Cash flow hedge

Gains and losses on the hedging instrument, to the extent that the hedge is effective, are deferred in the separate component of equity. The ineffective part of any gain or loss is recognised in the statements of income. The deferred gains and losses are then released to the statements of income in the periods when the hedged items affects the statements of income.

12. Material litigation

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

13. Dividend

For the financial period ended 31 December 2019, a single-tier dividend of 13 sen per share was declared and paid (31 December 2018: 13 sen per share).

14. Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares (excluding treasury shares) in issue during the financial period.

	The Group		The Group	
	Current	Last year	Current year	Last year
	quarter ended	quarter ended	to date	to date
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	RM '000	RM '000	RM '000	RM '000
Net profit attributable to equity holders	502,960	481,547	993,161	987,242
Weighted average number of ordinary shares ('000)	1,135,941	1,144,640	1,136,571	1,144,819
Basic earnings per share (sen)	44.3	42.1	87.4	86.2

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14. Earnings per share (continued)

(a) Basic earnings per share (continued)

	The Company		The Company	
	Current quarter ended 31/12/2019 RM '000	Last year quarter ended 31/12/2018 RM '000	Current year to date 31/12/2019 RM '000	Last year to date 31/12/2018 RM '000
Net profit attributable to equity holders	535,876	444,335	515,312	420,889
Weighted average number of ordinary shares ('000)	1,137,881	1,147,158	1,138,087	1,147,337
Basic earnings per share (sen)	47.1	38.7	45.3	36.7

(b) Diluted earnings per share

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

Dated this 26 February 2020