

**HONG LEONG CAPITAL BERHAD**  
*(Company Number: 213006-U)*  
**CONDENSED FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016**

	Note	The Group		The Company	
		As at 31/12/2016 RM'000	As at 30/06/2016 RM'000	As at 31/12/2016 RM'000	As at 30/06/2016 RM'000
<b>ASSETS</b>					
Cash and short term funds		177,574	296,322	872	1,065
Securities purchased under resale agreement		35,064	-	-	-
Deposits and placements with banks and other financial institutions		-	40,359	-	-
Financial assets held-for-trading	11	1,297,545	1,418,901	-	-
Financial investments available- for-sale	12	1,220,924	1,032,304	133,148	109,082
Financial investments held-to-maturity	13	813,322	528,100	-	-
Derivative financial assets	19	42,650	42,694	-	-
Loans and advances	14	286,841	372,162	-	-
Clients' and brokers' balances	15	235,121	197,034	-	-
Other assets	16	53,470	50,918	518	490
Statutory deposits with Bank Negara Malaysia		26,516	32,400	-	-
Tax recoverable		213	191	212	186
Investment in subsidiary companies		-	-	320,054	320,054
Deferred tax assets		98,268	92,378	-	-
Property and equipment		6,566	6,795	-	-
Goodwill		33,059	33,059	-	-
Intangible assets		5,860	5,440	-	-
<b>TOTAL ASSETS</b>		<b>4,332,993</b>	<b>4,149,057</b>	<b>454,804</b>	<b>430,877</b>
<b>LIABILITIES</b>					
Deposits from customers	17	968,605	1,031,929	-	-
Deposits and placements of banks and other financial institutions	18	2,196,501	1,904,770	-	-
Derivative financial liabilities	19	66,181	80,685	-	-
Clients' and brokers' balances		275,386	279,919	-	-
Other liabilities	20	66,725	100,940	279	617
Current tax liabilities		1,018	206	-	-
Subordinated obligations	21	50,258	50,247	-	-
<b>TOTAL LIABILITIES</b>		<b>3,624,674</b>	<b>3,448,696</b>	<b>279</b>	<b>617</b>

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**UNAUDITED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016**

	<b>The Group</b>		<b>The Company</b>	
	<b>As at</b>	<b>As at</b>	<b>As at</b>	<b>As at</b>
<b>Note</b>	<b>31/12/2016</b>	<b>30/06/2016</b>	<b>31/12/2016</b>	<b>30/06/2016</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>EQUITY</b>				
Share capital	<b>246,896</b>	246,896	<b>246,896</b>	246,896
Reserves	<b>467,454</b>	459,496	<b>213,547</b>	189,282
Treasury shares for ESOS scheme	<b>(6,031)</b>	(6,031)	<b>(5,918)</b>	(5,918)
<b>TOTAL EQUITY</b>	<b><u>708,319</u></b>	<u>700,361</u>	<b><u>454,525</u></b>	<u>430,260</u>
<b>TOTAL LIABILITIES AND EQUITY</b>				
	<b><u>4,332,993</u></b>	<u>4,149,057</u>	<b><u>454,804</u></b>	<u>430,877</u>
<b>COMMITMENTS AND CONTINGENCIES</b>				
27	<b><u>8,495,360</u></b>	<u>8,731,501</u>	<u>-</u>	<u>-</u>
<b>Net assets per share attributable to ordinary equity holder of the Company (RM)</b>				
	<b><u>2.94</u></b>	<u>2.90</u>		

*The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Company for the year ended 30 June 2016.*

**HONG LEONG CAPITAL BERHAD**  
 (Company Number: 213006-U)  
**CONDENSED FINANCIAL STATEMENTS**  
**UNAUDITED INCOME STATEMENTS**  
**FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016**

		Current quarter ended 31/12/2016 RM'000	Last year's quarter ended 31/12/2015 RM'000	Current year ended 31/12/2016 RM'000	Last year's ended 31/12/2015 RM'000
<b>The Group</b>					
Interest income	22	37,099	31,900	73,927	61,683
Interest expense	23	(25,399)	(20,356)	(51,450)	(42,153)
Net interest income		11,700	11,544	22,477	19,530
Non-interest income	24	41,416	40,063	73,322	69,449
Net income		53,116	51,607	95,799	88,979
Overhead expenses	25	(31,446)	(29,938)	(55,743)	(54,454)
Operating profit before allowances and advances and other losses	26	21,670	21,669	40,056	34,525
<b>Profit before taxation</b>		<b>21,507</b>	21,468	<b>39,905</b>	34,328
Taxation		1,405	842	3,198	3,593
<b>Net profit for the period</b>		<b>22,912</b>	22,310	<b>43,103</b>	37,921
<b>Earnings per share (sen)</b>					
- Basic		9.5	9.2	17.9	15.7
- Diluted		9.5	9.2	17.9	15.7

*The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Company for the year ended 30 June 2016.*

**HONG LEONG CAPITAL BERHAD**  
*(Company Number: 213006-U)*  
**CONDENSED FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016**

	<b>Current quarter ended 31/12/2016 RM'000</b>	<b>Last year's quarter ended 31/12/2015 RM'000</b>	<b>Current year ended 31/12/2016 RM'000</b>	<b>Last year's ended 31/12/2015 RM'000</b>
<b>The Group</b>				
<b>Net profit for the period</b>	<b>22,912</b>	22,310	<b>43,103</b>	37,921
<b>Other comprehensive income/(expense):</b>				
Items that will be reclassified subsequently to profit or loss				
Net fair value changes on financial investments available-for-sale	<b>(8,945)</b>	4,194	<b>(7,848)</b>	(1,085)
Income tax relating to net fair value changes on financial investments available-for-sale	<b>1,729</b>	(886)	<b>1,641</b>	316
Currency translation differences in respect of foreign operation	<b>16</b>	2	<b>16</b>	(27)
<b>Other comprehensive (expense)/income for the period, net of tax</b>	<b>(7,200)</b>	3,310	<b>(6,191)</b>	(796)
<b>Total comprehensive income for the period, net of tax</b>	<b>15,712</b>	25,620	<b>36,912</b>	37,125

*The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Company for the year ended 30 June 2016.*

**HONG LEONG CAPITAL BERHAD**  
 (Company Number: 213006-U)  
**CONDENSED FINANCIAL STATEMENTS**  
**UNAUDITED INCOME STATEMENTS**  
**FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016**

		Current quarter ended 31/12/2016 RM'000	Last year's quarter ended 31/12/2015 RM'000	Current year ended 31/12/2016 RM'000	Last year's ended 31/12/2015 RM'000
<b>The Company</b>					
Interest income	22	7	108	9	137
Interest expense	23	-	-	-	-
Net interest income		7	108	9	137
Non-interest income	24	<b>53,407</b>	42,947	<b>54,449</b>	44,371
Net income		<b>53,414</b>	43,055	<b>54,458</b>	44,508
Overhead expenses	25	(770)	(488)	(1,204)	(962)
Operating profit before allowances		<b>52,644</b>	42,567	<b>53,254</b>	43,546
Allowance for impairment on other losses	26	-	-	-	-
<b>Profit before taxation</b>		<b>52,644</b>	42,567	<b>53,254</b>	43,546
Taxation		(28)	(59)	(28)	(63)
<b>Net profit for the period</b>		<b>52,616</b>	42,508	<b>53,226</b>	43,483
<b>Earnings per share (sen)</b>					
- Basic		<b>21.8</b>	17.6	<b>22.0</b>	18.0
- Diluted		<b>21.8</b>	17.6	<b>22.0</b>	18.0

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**HONG LEONG CAPITAL BERHAD**  
*(Company Number: 213006-U)*  
**CONDENSED FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016**

	<b>Current quarter ended 31/12/2016 RM'000</b>	<b>Last year's quarter ended 31/12/2015 RM'000</b>	<b>Current year ended 31/12/2016 RM'000</b>	<b>Last year's ended 31/12/2015 RM'000</b>
<b>The Company</b>				
Net profit for the period	<b>52,616</b>	42,508	<b>53,226</b>	43,483
<b>Other comprehensive income/(expense):</b>				
Items that will be reclassified subsequently to profit or loss				
Net fair value changes on financial investments available-for-sale	<b>6</b>	9	<b>6</b>	6
Income tax relating to net fair value changes on financial investments available-for-sale	-	-	-	(13)
Other comprehensive income/(expense) for the period, net of tax	<b>6</b>	9	<b>6</b>	(7)
Total comprehensive income for the period, net of tax	<b>52,622</b>	42,517	<b>53,232</b>	43,476

*The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Company for the year ended 30 June 2016.*

**HONG LEONG CAPITAL BERHAD**  
*(Company Number: 213006-U)*  
**CONDENSED FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016**

Attributable to owners of the parent

The Group	Share Capital RM'000	Treasury Shares for ESOS Scheme RM'000	General Reserves RM'000	Statutory Reserves RM'000	Regulatory Reserves RM'000	Fair Value Reserve RM'000	Exchange fluctuation Reserve RM'000	Retained Profits RM'000	Total RM'000
At 1 July 2016	246,896	(6,031)	543	113,482	3,563	6,623	(16)	335,301	700,361
Net profit for the period	-	-	-	-	-	-	-	43,103	43,103
Other comprehensive (expense)/income, net of tax	-	-	-	-	-	(6,207)	16	-	(6,191)
Total comprehensive (expense)/income	-	-	-	-	-	(6,207)	16	43,103	36,912
Transfer from regulatory reserve	-	-	-	-	(790)	-	-	790	-
Dividend paid	-	-	-	-	-	-	-	(28,954)	(28,954)
At 31 December 2016	246,896	(6,031)	543	113,482	2,773	416	-	350,240	708,319
At 1 July 2015	246,896	(6,031)	543	113,482	3,031	1,234	8	294,465	653,628
Net profit for the period	-	-	-	-	-	-	-	37,921	37,921
Other comprehensive expense, net of tax	-	-	-	-	-	(769)	(27)	-	(796)
Total comprehensive (expense)/income	-	-	-	-	-	(769)	(27)	37,921	37,125
Transfer from regulatory reserve	-	-	-	-	(217)	-	-	217	-
Dividend paid	-	-	-	-	-	-	-	(20,509)	(20,509)
At 31 December 2015	246,896	(6,031)	543	113,482	2,814	465	(19)	312,094	670,244

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**HONG LEONG CAPITAL BERHAD**  
*(Company Number: 213006-U)*  
**CONDENSED FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016**

	Non-Distributable			Distributable	
	Share Capital RM'000	Treasury Shares for ESOS Scheme RM'000	Fair Value Reserve RM'000	Retained Profits RM'000	Total RM'000
<b>The Company</b>					
At 1 July 2016	246,896	(5,918)	(33)	189,315	430,260
Net profit for the year	-	-	-	53,226	53,226
Other comprehensive income, net of tax	-	-	6	-	6
Total comprehensive income	-	-	6	53,226	53,232
Dividend paid	-	-	-	(28,967)	(28,967)
At 31 December 2016	<b>246,896</b>	<b>(5,918)</b>	<b>(27)</b>	<b>213,574</b>	<b>454,525</b>
At 1 July 2015	246,896	(5,918)	(43)	162,910	403,845
Net profit for the year	-	-	-	43,483	43,483
Other comprehensive expense, net of tax	-	-	(7)	-	(7)
Total comprehensive (expense)/income	-	-	(7)	43,483	43,476
Dividend paid	-	-	-	(20,518)	(20,518)
At 31 December 2015	<b>246,896</b>	<b>(5,918)</b>	<b>(50)</b>	<b>185,875</b>	<b>426,803</b>

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**HONG LEONG CAPITAL BERHAD**  
 (Company Number 213006-U)  
**CONDENSED FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENTS OF CASH FLOWS**  
**FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016**

	<b>The Group</b>	
	<b>31/12/2016</b>	<b>31/12/2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b><u>Cash flows from operating activities</u></b>		
Profit before taxation	39,905	34,328
<u>Adjustments for non-cash items:</u>		
- Depreciation of property and equipment	886	895
- Amortisation of intangible assets	1,412	664
- Loss/(gain) on liquidation of subsidiaries	7	(590)
- Gain on disposal of property and equipment	(102)	-
- (Write-back of)/allowance for impairment for losses on loans and advances	(237)	164
- Allowance for losses on clients' and brokers' balances	214	33
- Net unrealised loss/(gain) on revaluation of:		
- Financial assets held-for-trading	9,696	4,663
- Derivative financial instruments	(15,056)	(8,715)
- Interest income from:		
- Financial assets held-for-trading	(24,689)	(14,955)
- Financial investments available-for-sale	(17,617)	(17,585)
- Financial investments held-to-maturity	(11,731)	(7,012)
- Derivative financial instruments	(3,966)	(3,745)
- Interest expense from derivative financial instruments	7,636	7,339
- Interest expense on subordinated obligations	1,354	1,382
- Dividend income from:		
- Financial assets held-for-trading	(541)	(1,578)
- Financial investments available-for-sale	(2,790)	(2,554)
	<b>(55,524)</b>	<b>(41,594)</b>
<b>Operating loss before changes in working capital</b>	<b>(15,619)</b>	<b>(7,266)</b>
<u>Changes in working capital:</u>		
- Securities purchased under resale agreements	(35,064)	-
- Deposits and placements with banks and other financial institutions	40,359	200,243
- Financial assets held-for-trading	113,781	(212,263)
- Derivative financial instruments	13	(27)
- Loans and advances	85,558	4,377
- Clients' and brokers' balances	(38,301)	(51,625)
- Other assets	(2,697)	(26,114)
- Statutory deposits with Bank Negara Malaysia	5,884	28,680
Net changes in operating assets	<b>169,533</b>	<b>(56,729)</b>
- Deposits from customers	(63,324)	(154,605)
- Deposits and placements of banks and other financial institutions	291,731	(8,649)
- Repurchased agreements	-	67,472
- Clients' and brokers' balances	(4,533)	77,401
- Other liabilities	(34,214)	40,070
Net changes in operating liabilities	<b>189,660</b>	<b>21,689</b>
<b>Cash generated from/(used in) operating activities</b>	<b>343,574</b>	<b>(42,306)</b>

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**HONG LEONG CAPITAL BERHAD**  
**(Company Number 213006-U)**  
**CONDENSED FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENTS OF CASH FLOWS**  
**FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016**

	<b>The Group</b>	
	<b>31/12/2016</b>	<b>31/12/2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cash generated from/(used in) operating activities</b>	<b>343,574</b>	<b>(42,306)</b>
Net income tax paid	<b>(281)</b>	<b>(122)</b>
<b>Net cash generated from/(used in) operating activities</b>	<b>343,293</b>	<b>(42,428)</b>
<b><u>Cash flows from investing activities</u></b>		
Net purchase of:		
- Financial investments available-for-sale	<b>(195,569)</b>	<b>(104,025)</b>
- Financial investments held-to-maturity	<b>(282,523)</b>	<b>(65,993)</b>
Dividend received from:		
- Financial assets held-for-trading	<b>541</b>	<b>1,578</b>
- Financial investments available-for-sale	<b>2,790</b>	<b>2,644</b>
Proceeds from liquidation of subsidiaries	<b>157</b>	<b>602</b>
Interest received from financial assets held-for-trading, financial investments available-for-sale, financial investments held-to-maturity and derivative financial instruments	<b>52,056</b>	<b>38,134</b>
Interest expenses paid on derivative financial instruments	<b>(6,825)</b>	<b>(7,718)</b>
Proceeds from disposal of property and equipment	<b>98</b>	<b>-</b>
Purchase of property and equipment	<b>(653)</b>	<b>(2,947)</b>
Purchase of intangible assets	<b>(1,832)</b>	<b>(464)</b>
<b>Net cash used in investing activities</b>	<b>(431,760)</b>	<b>(138,189)</b>
<b><u>Cash flows from financing activities</u></b>		
Interest paid on subordinated obligations	<b>(1,343)</b>	<b>(1,336)</b>
Dividend paid	<b>(28,954)</b>	<b>(20,509)</b>
<b>Net cash used in financing activities</b>	<b>(30,297)</b>	<b>(21,845)</b>
<b>Net changes in cash and cash equivalents during the financial period</b>	<b>(118,764)</b>	<b>(202,462)</b>
<b>Effect of exchange rate changes</b>	<b>16</b>	<b>(27)</b>
<b>Cash and cash equivalents at beginning of the financial period</b>	<b>296,322</b>	<b>471,753</b>
<b>Cash and cash equivalents at end of the financial period</b>	<b>177,574</b>	<b>269,264</b>
<b>Cash and cash equivalents comprise:</b>		
Cash and short term funds	<b>177,574</b>	<b>269,264</b>

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**HONG LEONG CAPITAL BERHAD**  
**(Company Number 213006-U)**  
**CONDENSED FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENTS OF CASH FLOWS**  
**FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016**

	<b>The Company</b>	
	<b>31/12/2016</b>	<b>31/12/2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b><u>Cash flows from operating activities</u></b>		
Profit before taxation	53,254	43,546
<b><u>Adjustments for non-cash items:</u></b>		
- Interest income	(9)	(137)
- Dividend income from:		
- Financial investments available-for-sale	(2,040)	(2,424)
- Subsidiary companies	(52,300)	(41,600)
	<u>(54,349)</u>	<u>(44,161)</u>
<b>Operating loss before changes in working capital</b>	<b>(1,095)</b>	<b>(615)</b>
Increase in other assets	(28)	(71)
Decrease in other liabilities	(338)	(220)
<b>Cash used in operating activities</b>	<b>(1,461)</b>	<b>(906)</b>
Net income tax paid	(54)	(25)
Interest received	9	137
<b>Net cash used in operating activities</b>	<b>(1,506)</b>	<b>(794)</b>
<b><u>Cash flows from investing activities</u></b>		
Net purchase of financial investments available-for-sale	(24,060)	(21,855)
Dividend received from:		
- Financial investments available-for-sale	2,040	2,514
- Subsidiary companies	52,300	41,600
<b>Net cash generated from investing activities</b>	<b>30,280</b>	<b>22,259</b>
<b><u>Cash flows from financing activities</u></b>		
Dividend paid	(28,967)	(20,518)
<b>Net cash used in financing activities</b>	<b>(28,967)</b>	<b>(20,518)</b>
<b>Net changes in cash and cash equivalents during the financial period</b>	<b>(193)</b>	<b>947</b>
<b>Cash and cash equivalents at beginning of the financial period</b>	<b>1,065</b>	<b>224</b>
<b>Cash and cash equivalents at end of the financial period</b>	<b>872</b>	<b>1,171</b>
<b>Cash and cash equivalents comprise:</b>		
Cash and short term funds	<u>872</u>	<u>1,171</u>

*The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and of the Company for the year ended 30 June 2016.*

**HONG LEONG CAPITAL BERHAD ("HLCB" or "Company")**  
**(formerly known as HLG Capital Berhad)**  
*(Company Number 213006-U)*  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016**

**Explanatory Notes pursuant to the Financial Reporting Standard 134 ("FRS 134") and Guidelines on Financial Reporting issued by Bank Negara Malaysia ("BNM")**

**1. Basis of preparation**

The unaudited condensed financial statements for the financial period ended 31 December 2016 have been prepared under the historical cost convention, as modified by the revaluation of financial investments available-for-sale and financial assets/financial liabilities at fair value through profit or loss (including derivative financial instruments).

The unaudited condensed financial statements have been prepared in accordance with MFRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standard Board ("MASB") 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 2016. 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 2016.

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 2016 and modified for the adoption of the following Amendments to MFRSs applicable for financial period beginning on or after 1 July 2016:

- Amendments to MFRS 11 'Joint Arrangements'
- Amendments to MFRS 116 'Property Plant and Equipment' and MFRS 138 'Intangible Assets'

The adoption of the above annual improvements and amendments do not give rise to any material financial impact to the Group and to the Company.

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 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 assumptions are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.

**2. Auditors' report on preceding annual financial statements**

The auditors' report on the audited financial statements for the financial year ended 30 June 2016 was not qualified.

**3. Comments about seasonal or cyclical factors**

The operations of the Group and the Company were not materially affected by any seasonal or cyclical factors during the financial quarter ended 31 December 2016.

## **HLCB Q2 (31.12.16)**

### **4. Unusual items due to their nature, size or incidence**

There were no unusual items affecting the assets, liabilities, equities, net income or cash flows of the Group and the Company during the financial quarter ended 31 December 2016.

### **5. Change in estimate**

There were no material changes in estimate of amount reported in prior financial year that have a material effect in the financial quarter ended 31 December 2016.

### **6. Debt and Equity Securities**

There were no new issuance and repayment of debt and equity securities, share-buy-back, share cancellations, shares held as treasury shares and resale of treasury shares during the financial period ended 31 December 2016, other than as mentioned below.

#### Purchase of shares pursuant to ESOS

In accordance with MFRS 132 "Financial instruments: Presentation and Disclosure", the shares purchased for the benefit of the ESOS holdings are recorded as "Treasury Shares for ESOS Scheme" in equity on the statements of financial position.

Total shares held by ESOS Trust comprise 5,612,700 (2016: 5,612,700) shares in the Group costing RM6,031,241 (2016: RM6,031,241) inclusive of transaction costs, as at 31 December 2016.

### **7. Dividends paid**

A final single-tier dividend of 12.0 sen per share amounting to RM29.0 million in respect of the financial year ended 30 June 2016, was paid on 18 November 2016.

### **8. Valuations of property, plant and equipment**

No valuations of property, plant and equipment were carried out for the financial quarter ended 31 December 2016.

**9. Significant events**

**Public shareholding spread**

The Company currently does not meet the requirement as set out in paragraph 8.02(1) of the Listing Requirements which states that a listed issuer must ensure that at least 25% of its total listed shares (excluding treasury shares) are in the hands of public shareholders.

The public shareholding spread of the Company as at 31 December 2016 was 18.67%.

As announced by the Company on 18 March 2015, Bursa Malaysia Securities Berhad had imposed a suspension on the trading of HLCB's shares with effect from 26 March 2015. The suspension will only be uplifted upon full compliance of the public shareholding spread in accordance with paragraph 8.02(1) of the Listing Requirements.

The Company has not identified a satisfactory plan to address the non-compliance with the 25% public shareholding spread requirement.

As announced by the Company on 22 November 2016, on 5 August 2016, the Company wrote to its majority shareholder, Hong Leong Financial Group Berhad ("HLFG"), to determine if HLFG's intention of not maintaining the listing status of HLCB, as set out in the notice of takeover offer to HLCB on 14 January 2013, remains unchanged or has otherwise changed. As mentioned in the same announcement on 22 November 2016, in HLFG's response vide its letter dated 20 September 2016, HLFG stated that it is considering various options and would inform HLCB accordingly as needed.

**10. Subsequent events**

There were no material events subsequent to the end of the reporting quarter that require disclosure or adjustments to the unaudited interim financial statements.

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11. Financial assets held-for-trading

	The Group	
	As at 31/12/2016 RM'000	As at 30/06/2016 RM'000
<b>Money market instruments</b>		
Malaysian Government Securities	89,797	-
Malaysian Government Investment Issues	114,217	-
Negotiable instruments of deposits	694,410	763,252
	<b>898,424</b>	<b>763,252</b>
<b>Quoted securities</b>		
In Malaysia:		
Shares	46,261	16,772
<b>Unquoted securities</b>		
Foreign currency bonds	16,983	21,057
Private and Islamic debt securities	335,877	617,820
	<b>352,860</b>	<b>638,877</b>
	<b>1,297,545</b>	<b>1,418,901</b>

12. Financial investments available-for-sale

	The Group		The Company	
	As at 31/12/2016 RM'000	As at 30/06/2016 RM'000	As at 31/12/2016 RM'000	As at 30/06/2016 RM'000
<b>Money market instruments</b>				
Malaysian Government Securities	30,310	30,606	-	-
Malaysian Government Investment Issues	51,360	30,889	-	-
Cagamas bonds	55,186	15,094	-	-
	<b>136,856</b>	<b>76,589</b>	<b>-</b>	<b>-</b>
<b>Quoted securities</b>				
In Malaysia:				
Shares	-	16,674	-	-
Unit trust investment	193,140	150,869	133,148	109,082
	<b>193,140</b>	<b>167,543</b>	<b>133,148</b>	<b>109,082</b>
<b>Unquoted securities</b>				
Shares	245	245	-	-
Foreign currency bonds	165,377	168,754	-	-
Private and Islamic debt securities	725,306	619,173	-	-
	<b>890,928</b>	<b>788,172</b>	<b>-</b>	<b>-</b>
	<b>1,220,924</b>	<b>1,032,304</b>	<b>133,148</b>	<b>109,082</b>

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13. Financial investments held-to-maturity

	The Group	
	As at 31/12/2016 RM'000	As at 30/06/2016 RM'000
<b>Money market instruments</b>		
Malaysian Government Securities	211,084	81,194
Malaysian Government Investment Issues	367,450	266,161
	<b>578,534</b>	<b>347,355</b>
<b>Unquoted securities</b>		
Foreign currency bonds	139,058	125,456
Private and Islamic debt securities	95,730	55,289
	<b>234,788</b>	<b>180,745</b>
	<b>813,322</b>	<b>528,100</b>

14. Loans and advances

	The Group	
	As at 31/12/2016 RM'000	As at 30/06/2016 RM'000
Term loan financing	60,987	84,527
Share margin financing	225,989	288,004
Staff loans	68	71
Other loans	574	574
Gross loans and advances	287,618	373,176
Allowance for impaired loans and advances:		
- individual assessment allowance	(100)	(100)
- collective assessment allowance	(677)	(914)
Net loans and advances	<b>286,841</b>	<b>372,162</b>

14a. By type of customer

Domestic business enterprises		
- Small and medium enterprises	20,282	20,273
- Others	175,966	216,899
Individuals	83,759	127,909
Foreign entities	7,611	8,095
Gross loans and advances	<b>287,618</b>	<b>373,176</b>

## HLCB Q2 (31.12.16)

### 14. Loans and advances (continued)

	The Group	
	As at 31/12/2016 RM'000	As at 30/06/2016 RM'000
<b>14b. <u>By interest rate sensitivity</u></b>		
Fixed rate		
- Staff housing loans	68	71
- Other fixed rate loan	574	574
Variable rate		
- Cost plus	286,976	372,531
Gross loans and advances	<b>287,618</b>	<b>373,176</b>
<b>14c. <u>By residual contractual maturity</u></b>		
Maturity within one year	275,565	308,648
More than one year to three years	11,985	64,457
More than five years	68	71
Gross loans and advances	<b>287,618</b>	<b>373,176</b>
<b>14d. <u>By geographical distribution</u></b>		
Malaysia	<b>287,618</b>	<b>373,176</b>
<b>14e. <u>By economic purpose</u></b>		
Purchase of securities	245,044	338,562
Working capital	41,932	33,969
Purchase of transport vehicles	100	100
Purchase of landed properties	542	545
Gross loans and advances	<b>287,618</b>	<b>373,176</b>
<b>14f. Movements in impaired loans and advances ("impaired loans") are as follows:</b>		
At 1 July	574	623
Amount written-back during the period/year	-	(38)
Amount written-off during the period/year	-	(11)
At 31 December/30 June	<b>574</b>	<b>574</b>
% of impaired loans to total loans and advances, net of individual assessment allowance	<b>0.2%</b>	<b>0.2%</b>
<b>14g. <u>Impaired loans and advances by geographical distribution</u></b>		
Malaysia	<b>574</b>	<b>574</b>
<b>14h. <u>Impaired loans and advances by economic purpose</u></b>		
Purchase of transport vehicles	100	100
Purchase of landed properties	474	474
Gross impaired loans and advances	<b>574</b>	<b>574</b>

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**14. Loans and advances (continued)**

	<b>The Group</b>	
	<b>As at 31/12/2016 RM'000</b>	<b>As at 30/06/2016 RM'000</b>
<b>14i. Movement in the allowance for loss on loans and advances are as follows:</b>		
<u>Individual assessment allowance</u>		
At 1 July	100	111
Allowance written-off during the period/year	-	(11)
At 31 December/30 June	<u>100</u>	<u>100</u>
<u>Collective assessment allowance</u>		
At 1 July	914	892
Allowance (written-back)/made during the period/year	(237)	22
At 31 December/30 June	<u>677</u>	<u>914</u>

**15. Clients' and brokers' balances**

	<b>The Group</b>	
	<b>As at 31/12/2016 RM'000</b>	<b>As at 30/06/2016 RM'000</b>
Performing accounts	233,668	195,943
Impaired accounts	1,966	1,390
	<u>235,634</u>	<u>197,333</u>
Less: Individual assessment allowance	(493)	(282)
Collective assessment allowance	(20)	(17)
	<u>235,121</u>	<u>197,034</u>

**16. Other assets**

	<b>The Group</b>		<b>The Company</b>	
	<b>As at 31/12/2016 RM'000</b>	<b>As at 30/06/2016 RM'000</b>	<b>As at 31/12/2016 RM'000</b>	<b>As at 30/06/2016 RM'000</b>
Amount due from subsidiary companies	-	-	446	445
Deposits and prepayments	6,282	7,706	7	45
Fee income receivable	10,744	7,743	-	-
Collaterals pledged for derivative transactions	27,595	27,271	-	-
Other receivables	8,849	8,006	65	-
Manager's stocks and consumables	-	192	-	-
	<u>53,470</u>	<u>50,918</u>	<u>518</u>	<u>490</u>

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17. Deposits from customers

	The Group	
	As at 31/12/2016 RM'000	As at 30/06/2016 RM'000
<b>17a. <u>By type of deposits</u></b>		
Fixed deposits	<b>968,605</b>	1,031,929
<b>17b. <u>By type of customer</u></b>		
Government and statutory bodies	<b>676,917</b>	873,906
Business enterprises	<b>271,407</b>	144,774
Individuals	<b>20,281</b>	13,249
	<b>968,605</b>	1,031,929
<b>17c. The maturity structure of fixed deposits are as follows:</b>		
Due within:		
- six months	<b>916,189</b>	1,030,876
- six months to one year	<b>52,416</b>	1,053
	<b>968,605</b>	1,031,929

18. Deposits and placements of banks and other financial institutions

	The Group	
	As at 31/12/2016 RM'000	As at 30/06/2016 RM'000
Licensed banks	<b>595,563</b>	641,635
Licensed investment banks	<b>94,016</b>	-
Other financial institutions	<b>1,506,922</b>	1,263,135
	<b>2,196,501</b>	1,904,770

19. Derivative financial assets/liabilities

	Contract or underlying principal amount RM'000	Positive fair value RM'000	Negative fair value RM'000
<b>The Group</b>			
<b>31/12/2016</b>			
Interest rate related contracts:			
- Interest rate swaps	<b>5,693,500</b>	<b>13,173</b>	<b>(21,884)</b>
- Futures	<b>148,046</b>	<b>351</b>	<b>-</b>
- Cross currency swaps	<b>89,725</b>	<b>60</b>	<b>(19,942)</b>
Foreign exchange related contracts:			
- Foreign currency swaps	<b>1,750,441</b>	<b>28,436</b>	<b>(24,326)</b>
- Foreign currency forwards	<b>21,858</b>	<b>185</b>	<b>(21)</b>
- Foreign currency spot	<b>22</b>	<b>-</b>	<b>-</b>
Equity related contracts:			
- Futures	<b>12,259</b>	<b>-</b>	<b>(8)</b>
- Call option	<b>7,000</b>	<b>445</b>	<b>-</b>
	<b>7,722,851</b>	<b>42,650</b>	<b>(66,181)</b>

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19. Derivative financial assets/liabilities (continued)

	Contract or underlying principal amount RM'000	Positive fair value RM'000	Negative fair value RM'000
<b>The Group</b>			
<b>30/06/2016</b>			
Interest rate related contracts:			
- Interest rate swaps	5,413,500	19,664	(36,729)
- Futures	139,893	-	(1,567)
- Cross currency swaps	120,945	3,412	(11,085)
Foreign exchange related contracts:			
- Foreign currency swaps	2,308,659	18,347	(30,597)
- Foreign currency forwards	45,938	-	(696)
Equity related contracts:			
- Futures	5,032	-	(11)
- Call option	7,000	1,271	-
	<u>8,040,967</u>	<u>42,694</u>	<u>(80,685)</u>

20. Other liabilities

	The Group		The Company	
	As at 31/12/2016 RM'000	As at 30/06/2016 RM'000	As at 31/12/2016 RM'000	As at 30/06/2016 RM'000
Amount due to related companies	35	97	-	-
Remisiers' trust deposits	13,209	12,998	-	-
Other payables and accrued liabilities	53,281	87,648	279	617
Post employment benefits obligation				
- defined contribution plan	200	197	-	-
	<u>66,725</u>	<u>100,940</u>	<u>279</u>	<u>617</u>

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### 21. Subordinated obligations

	The Group	
	As at 31/12/2016 RM'000	As at 30/06/2016 RM'000
RM50.0 million Tier 2 subordinated notes, at par	50,000	50,000
Add: Interest payable	399	407
	<u>50,399</u>	<u>50,407</u>
Less: Unamortised discounts	(141)	(160)
	<u>50,258</u>	<u>50,247</u>

On 6 November 2014, Hong Leong Investment Bank Berhad ("HLIB") 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.

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22. Interest income

	Current quarter ended 31/12/2016 RM'000	Last year's quarter ended 31/12/2015 RM'000	Current year ended 31/12/2016 RM'000	Last year's ended 31/12/2015 RM'000
<b>The Group</b>				
Loan and advances	4,987	5,255	10,766	10,672
Money at call and deposits placements with banks and other financial institutions	608	1,480	1,265	3,118
Financial assets held-for-trading	11,929	7,958	24,689	14,955
Financial investments available-for-sale	9,113	9,114	17,617	17,585
Financial investments held-to-maturity	6,550	3,518	11,731	7,012
Derivative financial instruments	2,090	2,259	3,966	3,745
Others	1,822	2,316	3,893	4,596
Total interest income	<u>37,099</u>	<u>31,900</u>	<u>73,927</u>	<u>61,683</u>
<b>The Company</b>				
Money at call and deposits placements with banks and other financial institutions	7	108	9	137

23. Interest expense

	Current quarter ended 31/12/2016 RM'000	Last year's quarter ended 31/12/2015 RM'000	Current year ended 31/12/2016 RM'000	Last year's ended 31/12/2015 RM'000
<b>The Group</b>				
Deposits and placements of banks and other financial institutions	6,682	6,559	13,034	10,328
Deposits from customers	13,854	9,443	29,287	22,988
Derivative financial instruments	4,144	3,701	7,636	7,339
Subordinated notes	673	671	1,354	1,382
Others	46	(18)	139	116
Total interest expense	<u>25,399</u>	<u>20,356</u>	<u>51,450</u>	<u>42,153</u>

## 24. Non-interest income

	Current quarter ended 31/12/2016 RM'000	Last year's quarter ended 31/12/2015 RM'000	Current year ended 31/12/2016 RM'000	Last year's ended 31/12/2015 RM'000
<b>The Group</b>				
(a) Fee income:				
Fee on loans and advances	1,117	243	1,169	316
Arranger fees	4,296	5,879	4,896	9,153
Placement fee	3,302	6,796	3,542	6,829
Guarantee fees	-	21	-	52
Corporate advisory fees	2,828	1,925	3,813	2,720
Underwriting Commission	-	285	-	497
Brokerage commissions	11,618	14,199	24,226	27,155
Commission from futures contracts	209	189	286	414
Unit trust fee income	6,394	5,638	12,722	9,942
Other fee income	1,216	5,142	2,251	6,206
	<b>30,980</b>	<b>40,317</b>	<b>52,905</b>	<b>63,284</b>
(b) Net realised gain/(loss) arising from sale/redemption of:				
- Financial assets held-for-trading	47	(287)	7,797	405
- Financial investments available-for-sale	1,988	(307)	4,642	(293)
- Derivative financial instruments	22,871	(21,744)	19,672	(46,558)
	<b>24,906</b>	<b>(22,338)</b>	<b>32,111</b>	<b>(46,446)</b>
(c) Net unrealised (loss)/gain on revaluation of:				
- Financial assets held-for-trading	(9,385)	1,988	(9,696)	(4,663)
- Derivative financial instruments	21,984	22,572	15,056	8,715
	<b>12,599</b>	<b>24,560</b>	<b>5,360</b>	<b>4,052</b>
(d) Dividend income from:				
- Financial assets held-for-trading	89	782	541	1,578
- Financial investments available-for-sale	1,472	1,354	2,790	2,554
	<b>1,561</b>	<b>2,136</b>	<b>3,331</b>	<b>4,132</b>
(e) Gain on disposal of property and equipment	20	-	102	-
(f) Gain/(loss) on liquidation of a subsidiary	-	590	(7)	590
(g) Foreign exchange (loss)/gain	(28,736)	(5,305)	(20,648)	43,643
(h) Other income	86	103	168	194
Total non-interest income	<b>41,416</b>	<b>40,063</b>	<b>73,322</b>	<b>69,449</b>

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24. Non-interest income (continued)

	Current quarter ended 31/12/2016 RM'000	Last year's quarter ended 31/12/2015 RM'000	Current year ended 31/12/2016 RM'000	Last year's ended 31/12/2015 RM'000
<b>The Company</b>				
(a) Fee income:				
Other fee income	-	-	-	208
(b) Net realised loss arising from sale of:				
- Financial investments available-for-sale	(12)	(11)	(12)	(3)
(c) Dividend income from:				
- Financial investments available-for-sale	1,062	1,287	2,040	2,424
- Subsidiary companies	52,300	41,600	52,300	41,600
(d) Foreign exchange gain	-	-	11	-
(e) Other income	57	71	110	142
	<b>53,407</b>	42,947	<b>54,449</b>	44,371

25. Overhead expenses

	Current quarter ended 31/12/2016 RM'000	Last year's quarter ended 31/12/2015 RM'000	Current year ended 31/12/2016 RM'000	Last year's ended 31/12/2015 RM'000
<b>The Group</b>				
Personnel costs				
- Salaries, bonuses and allowances	18,084	15,986	29,652	27,681
- Others	3,010	3,846	5,832	7,243
	<b>21,094</b>	19,832	<b>35,484</b>	34,924
Establishment costs				
- Depreciation of property and equipment	468	476	886	895
- Amortisation of intangible assets	684	281	1,412	664
- Rental of premises	1,069	1,576	2,384	3,115
- Information technology expenses	1,569	1,288	3,042	2,658
- Others	731	975	1,461	1,820
	<b>4,521</b>	4,596	<b>9,185</b>	9,152

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**25. Overhead expenses (continued)**

	<b>Current quarter ended 31/12/2016 RM'000</b>	<b>Last year's quarter ended 31/12/2015 RM'000</b>	<b>Current year ended 31/12/2016 RM'000</b>	<b>Last year's ended 31/12/2015 RM'000</b>
<b>The Group (continued)</b>				
Marketing expenses				
- Advertisement and publicity	156	33	238	35
- Entertainment and business improvement	530	663	1,006	1,164
- Others	90	139	201	226
	<b>776</b>	<b>835</b>	<b>1,445</b>	<b>1,425</b>
Administration and general expenses				
- Management fees	1,001	1,071	1,962	1,914
- Communication expenses	296	358	642	690
- Auditors' remuneration				
- Statutory audit	97	103	192	204
- Regulatory related fee	2	3	5	6
- Tax compliance fee	-	1	-	2
- Legal and professional fees	1,200	909	2,144	1,684
- Others	2,459	2,230	4,684	4,453
	<b>5,055</b>	<b>4,675</b>	<b>9,629</b>	<b>8,953</b>
	<b>31,446</b>	<b>29,938</b>	<b>55,743</b>	<b>54,454</b>
<b>The Company</b>				
Personnel costs				
- Salaries, bonuses and allowances	55	43	110	215
- Others	63	75	87	138
	<b>118</b>	<b>118</b>	<b>197</b>	<b>353</b>
Establishment costs				
- Information technology expenses	-	-	2	1
- Others	15	91	54	107
	<b>15</b>	<b>91</b>	<b>56</b>	<b>108</b>
Marketing expenses				
- Others	3	3	33	5
	<b>3</b>	<b>3</b>	<b>33</b>	<b>5</b>
Administration and general expenses				
- Management fees	56	103	167	185
- Communication expenses	4	7	5	9
- Auditors' remuneration				
- Statutory audit	15	16	30	31
- Regulatory related fee	2	3	5	6
- Tax compliance fee	-	1	-	2
- Legal and professional fees	358	-	358	-
- Others	199	146	353	263
	<b>634</b>	<b>276</b>	<b>918</b>	<b>496</b>
	<b>770</b>	<b>488</b>	<b>1,204</b>	<b>962</b>

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26. Allowance for impairment on loans and advances and other losses

	Current quarter ended 31/12/2016 RM'000	Last year's quarter ended 31/12/2015 RM'000	Current year ended 31/12/2016 RM'000	Last year's ended 31/12/2015 RM'000
<b>The Group</b>				
Write-back of/(allowance for) losses on impaired loans and advances:				
Collective assessment allowance written-back/(made) during the period	191	(171)	237	(164)
Write-back of/(allowance for) losses on clients' and brokers' balances:				
Individual assessment allowance				
- made during the period	(235)	(48)	(294)	(112)
- written-back during the period	60	14	83	79
Collective assessment allowance (made)/ written-back during the period	(5)	4	(3)	-
Allowance for losses on fee income receivables:				
Individual assessment allowance				
- made during the period	(174)	-	(174)	-
	<b>(163)</b>	<b>(201)</b>	<b>(151)</b>	<b>(197)</b>

**HLCB Q2 (31.12.16)****27. Commitments and contingencies**

	<b>As at 31/12/2016 Principal Amount RM'000</b>	<b>As at 30/06/2016 Principal Amount RM'000</b>
<b>The Group</b>		
<b>Commitments and contingent liabilities</b>		
Direct Credit Substitutes	<b>1,000</b>	1,000
Other commitments, such as formal standby facilities and credit lines		
- maturity less than one year	<b>85,132</b>	2,165
- maturity over one year	<b>1,792</b>	589
Any commitments that are unconditionally cancelled at any time by the bank without prior notice		
- maturity less than one year	<b>684,585</b>	686,780
	<b>772,509</b>	690,534
<b>Derivative financial instruments</b>		
Interest rate related contracts:		
- One year or less	<b>1,626,271</b>	1,388,708
- Over one year to five years	<b>3,970,000</b>	3,630,630
- Over five years	<b>335,000</b>	655,000
Foreign exchange related contracts		
- One year or less	<b>1,772,321</b>	2,354,597
Equity related contracts		
- One year or less	<b>12,259</b>	5,032
- Over one year to five years	<b>7,000</b>	7,000
	<b>7,722,851</b>	8,040,967
	<b>8,495,360</b>	8,731,501

**28. Fair value of financial instruments**

Determination of fair value and fair value hierarchy

The Group and the Company measures 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 market 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, unit trust investments 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 determine fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). This category includes unquoted shares held for socio economic reasons. Fair values for shares held for socio economic reasons are based on the net tangible assets of the affected companies. The Group's exposure to financial instruments classified as Level 3 comprised a small number of financial instruments which constitute an insignificant component of the Group's portfolio of financial instruments. Hence, changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in Level 3 of the fair value hierarchy.

<b>The Group 31.12.2016</b>	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>	<b>Level 3 RM'000</b>	<b>Total RM'000</b>
<b>Financial assets</b>				
Financial assets held-for-trading	46,261	1,251,284	-	1,297,545
- Money market instruments	-	898,424	-	898,424
- Quoted securities	46,261	-	-	46,261
- Unquoted securities	-	352,860	-	352,860
Financial investments available-for-sale	193,140	1,027,539	245	1,220,924
- Money market instruments	-	136,856	-	136,856
- Quoted securities	193,140	-	-	193,140
- Unquoted securities	-	890,683	245	890,928
Derivative financial assets	-	42,650	-	42,650
	<b>239,401</b>	<b>2,321,473</b>	<b>245</b>	<b>2,561,119</b>

**HLCB Q2 (31.12.16)****28. Fair value of financial instruments (continued)**Determination of fair value and fair value hierarchy (continued)

<b>The Group</b> <b>31.12.2016</b>	<b>Level 1</b> <b>RM'000</b>	<b>Level 2</b> <b>RM'000</b>	<b>Level 3</b> <b>RM'000</b>	<b>Total</b> <b>RM'000</b>
<b>Financial liability</b>				
Derivative financial liabilities	-	<b>66,181</b>	-	<b>66,181</b>
<b>30.06.2016</b>				
<b>Financial assets</b>				
Financial assets held-for-trading	16,772	1,402,129	-	1,418,901
- Money market instruments	-	763,252	-	763,252
- Quoted securities	16,772	-	-	16,772
- Unquoted securities	-	638,877	-	638,877
Financial investments available-for-sale	167,543	864,516	245	1,032,304
- Money market instruments	-	76,589	-	76,589
- Quoted securities	167,543	-	-	167,543
- Unquoted securities	-	787,927	245	788,172
Derivative financial assets	-	42,694	-	42,694
	184,315	2,309,339	245	2,493,899
<b>Financial liability</b>				
Derivative financial liabilities	-	80,685	-	80,685
<b>The Company</b> <b>31.12.2016</b>				
<b>Financial asset</b>				
Financial investments available-for-sale				
- Quoted securities	<b>133,148</b>	-	-	<b>133,148</b>
<b>30.06.2016</b>				
<b>Financial asset</b>				
Financial investments available-for-sale				
- Quoted securities	109,082	-	-	109,082

There were no transfers between Level 1 and 2 during the year.

Reconciliation of fair value measurement in Level 3 of the fair value hierarchy are as follows:

<b>The Group</b>	<b>Financial investments available-for-sale</b>	
	<b>31.12.2016</b>	<b>30.06.2016</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning/end of financial year	<b>245</b>	<b>245</b>

## HLCB Q2 (31.12.16)

### 29. Capital adequacy

(i) The capital adequacy ratios of the banking subsidiaries are as follows:

	<b>HLIB</b> <b>31/12/2016</b>	<b>HLIB</b> <b>30/06/2016</b>
<b>Before deducting proposed dividends:</b>		
Common equity tier 1 ("CET1") capital ratio	<b>20.819%</b>	29.202%
Tier 1 capital ratio	<b>20.819%</b>	29.202%
Total capital ratio	<b>24.429%</b>	<b>33.576%</b>
<b>After deducting proposed dividends: <sup>(1)</sup></b>		
CET1 capital ratio	<b>20.819%</b>	24.986%
Tier 1 capital ratio	<b>20.819%</b>	24.986%
Total capital ratio	<b>24.429%</b>	<b>29.360%</b>

(ii) The components of CET1, Tier 1 and total capital of the banking subsidiary are as follows:

	<b>HLIB</b> <b>31/12/2016</b> <b>RM'000</b>	<b>HLIB</b> <b>30/06/2016</b> <b>RM'000</b>
<b>CET1 capital</b>		
Paid-up ordinary share capital	<b>165,000</b>	165,000
Share premium	<b>87,950</b>	87,950
Retained profits	<b>(15,943)</b>	36,357
Other reserves	<b>197,308</b>	202,504
Less: goodwill and intangibles	<b>(34,820)</b>	(34,379)
Less: deferred tax assets	<b>(91,882)</b>	(91,882)
Less: investment in subsidiary companies	<b>(120)</b>	(217)
Less: 55% of cumulative gains of financial instruments available-for-sale	<b>(243)</b>	(3,100)
Total CET1 capital	<b>307,250</b>	<b>362,233</b>
<b>Tier-1 capital</b>	<b>307,250</b>	<b>362,233</b>
<b>Tier-2 capital</b>		
Collective assessment allowance <sup>(2)</sup> and regulatory reserve <sup>(3)</sup>	<b>3,367</b>	4,394
Subordinated obligations	<b>50,000</b>	50,000
Regulatory adjustments:		
- Investment in subsidiary companies	<b>(80)</b>	(144)
Total Tier 2 capital	<b>53,287</b>	<b>54,250</b>
Total capital	<b>360,537</b>	<b>416,483</b>

Note:

(1) Proposed dividends of RM Nil (2016: RM52,300,000).

(2) Excludes collective assessment allowance attributable to loans and advances classified as impaired.

(3) Includes the qualifying regulatory reserve for non-impaired loans and advances of RM2,773,000 (2016: RM3,563,000).

**HLCB Q2 (31.12.16)**

**29. Capital adequacy (continued)**

(iii) Breakdown of risk-weighted assets of the banking subsidiary company in the various risk weights:

	<b>HLIB</b>	<b>HLIB</b>
	<b>31/12/2016</b>	<b>30/06/2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Credit risk	<b>646,755</b>	520,091
Market risk	<b>532,951</b>	416,042
Operational risk	<b>296,134</b>	304,287
	<b><u>1,475,840</u></b>	<u>1,240,420</u>

**30. Segmental reporting**

(a) Segment information by activities for the financial period ended 31 December 2016:

	<b>Fund management Investment banking and stockbroking</b>	<b>and unit trust management</b>	<b>Investment holding and others</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b><u>31 December 2016</u></b>					
<b>REVENUE &amp; EXPENSES</b>					
<b>Revenue</b>					
Net Interest income	22,024	251	202	-	22,477
Non interest income	55,802	12,725	57,124	(52,329)	73,322
<b>Results</b>					
Profit/(loss) from operations	32,198	4,148	55,888	(52,329)	39,905
Taxation					3,198
Profit after taxation					43,103
<b><u>31 December 2015</u></b>					
<b>REVENUE &amp; EXPENSES</b>					
<b>Revenue</b>					
Net Interest income	19,252	141	137	-	19,530
Non interest income	56,420	9,954	44,684	(41,609)	69,449
<b>Results</b>					
Profit/(loss) from operations	32,066	161	43,757	(41,656)	34,328
Taxation					3,593
Profit after taxation					37,921

(b) Segmental analysis by geographical location has not been prepared as the Group's operations are predominantly conducted in Malaysia.

**31. Property and equipment**

The valuations of property and equipment have been brought forward without amendment from the financial statements for the financial year ended 30 June 2016.

## **HLCB Q2 (31.12.16)**

### **32. 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) HLG Nominee (Asing) Sdn Bhd, a wholly-owned subsidiary of HLIB, which in turn a wholly-owned subsidiary of HLCB, was dissolved on 15 October 2016.
- (b) HLG Nominee (Tempatan) Sdn Bhd, a wholly-owned subsidiary of HLIB, which in turn a wholly-owned subsidiary of HLCB, was dissolved on 7 December 2016.
- (c) On 23 December 2016, the liquidator of HLG Principal Investments (L) Limited, incorporated in Labuan ("HLG PI"), a wholly-owned subsidiary of HLG Capital Markets Sdn Bhd, which in turn is a wholly-owned subsidiary of HLCB, had convened the final meeting for HLG PI to conclude the member's voluntary winding-up of HLG PI.

The liquidator had lodged the Return Relating to the Final Meeting of HLG PI with the Labuan Financial Services Authority ("LOFSA") and LOFSA had informed that the HLG PI shall be dissolved with effect from 25 December 2016.

### **33. Capital commitments**

Capital commitments for the purchase of property and equipment as at 31 December 2016 is RM7.9 million.

### **34. Changes in contingent liabilities**

Details of contingent liabilities since the last audited reporting period are as follows:

Hong Leong Asset Management Bhd, a wholly owned subsidiary of the Company, is the Manager of Hong Leong Consumer Products Sector Fund ("Funds"). The Company provided a guarantee to Deutsche Trustees Malaysia Berhad, the trustee of the Funds, that if the funds falls below the minimum fund size of RM1,000,000, the Company would invest cash, equivalent to the shortfall, into the relevant fund.

The size of the fund was above the minimum of RM1.0 million as at 31 December 2016.

### **35. Related party transactions**

All related party transactions had been entered into in the ordinary course of business that had been undertaken at arms' length basis on normal commercial terms. These transactions are within the ambit of the approval granted under the Shareholders' Mandate for recurrent related party transactions obtained at a general meeting.

**Explanatory Notes Pursuant to Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad**

**1. Performance review**

**(a) Current financial quarter/period under review against previous corresponding financial quarter/period**

The group recorded a profit before tax ("PBT") of RM21.5 million for the 2nd quarter December 2016 which is similar to the PBT recorded in the previous year corresponding quarter.

Investment banking and stockbroking

The investment banking and stockbroking segment recorded a lower PBT of RM17.0 million for the 2nd quarter December 2016 as compared to previous year corresponding quarter of RM20.3 million mainly due to lower contribution from its Debt Markets and Stockbroking division.

Fund management and unit trust management

Fund management and unit trust management recorded a higher PBT of RM2.0 million for the 2nd quarter December 2016 as compared to RM60 thousand in previous year corresponding quarter, mainly due to lower overheads incurred and higher net contribution from management fee income.

**(b) Current financial period under review against previous corresponding financial period**

The group recorded a higher PBT of RM39.9 million for the financial period ended December 2016 as compared to RM34.3 million in the previous financial period, higher by 16.2%. This is mainly due to higher contribution from its investment banking and stockbroking segment, offset by higher contribution from its fund management and unit trust management segment.

Investment banking and stockbroking

The investment banking and stockbroking segment recorded a marginal increase in PBT by 0.4% as compared to previous year corresponding period due to higher contribution from its Treasury and Markets division.

Fund management and unit trust management

Fund management and unit trust management recorded a higher PBT of RM4.1 million for the financial period ended December 2016 as compared to a RM0.2 million in previous year corresponding period, mainly due to higher net contribution from management fee income in this financial period.

## HLCB Q2 (31.12.16)

### 1. Performance review (continued)

#### (c) Current financial quarter under review against preceding financial quarter

For the financial quarter ended 31 December 2016, the Group reported a higher PBT of RM21.5 million compared to RM18.4 million in the preceding financial quarter. This was mainly due to higher contribution from its investment banking and stockbroking segment.

##### Investment banking and stockbroking

The investment banking and stock broking segment recorded a higher PBT of RM17.0 million for the 2nd quarter December 2016 as compared to preceding financial quarter of RM15.2 million mainly due to higher contribution from its Debt Markets division and Equity Markets division.

##### Fund management and unit trust management

The fund management and unit trust management segment recorded a marginal lower PBT of RM2.0 million for 2nd quarter December 2016 as compared to RM2.1 million recorded in preceding financial quarter, mainly due to higher overheads incurred.

### 2. Prospects for the next financial year

The Group is expected to show satisfactory performance in the financial year ending 30 June 2017 with improving profitability via diversification of income source from more extensive investment banking activities.

### 3. Variance in profit forecast and shortfall in profit guarantee

The Group had not entered into any scheme that requires it to present forecast results or guarantee any profits.

### 4. Taxation

The Group	Financial quarter ended		Financial year ended	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax:				
- Current	563	73	1,085	278
- Over provision in prior years	-	-	(34)	(52)
Deferred taxation	(1,968)	(915)	(4,249)	(3,819)
	<u>(1,405)</u>	<u>(842)</u>	<u>(3,198)</u>	<u>(3,593)</u>

### 5. Status of corporate proposals

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

## HLCB Q2 (31.12.16)

### 6. Group borrowings

The Group has no borrowings as at 31 December 2016.

### 7. Subordinated obligations

	The Group	
	As at 31/12/2016	As at 30/06/2016
RM50.0 million Tier 2 subordinated notes, at par	50,000	50,000
Add: Interest payable	399	407
	<u>50,399</u>	<u>50,407</u>
Less: Unamortised discounts	(141)	(160)
	<u>50,258</u>	<u>50,247</u>

On 6 November 2014, Hong Leong Investment Bank Berhad ("HLIB") had completed the first issuance of RM50 million nominal value of Tier 2 Subordinated Notes ("Sub-Notes") out of its RM1.0 billion Multi-Currency Sub-Notes Programme. The RM50 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.

### 8. Off-balance sheet financial instruments

Details of financial instruments with off-balance sheet risk as at 31 December 2016:

The Group	Principal amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
Interest rate related contracts			
(i) Less than 1 year	1,626,271	792	(21,974)
(ii) 1 year to 3 years	1,950,000	3,513	(4,443)
(iii) More than 3 years	2,355,000	9,279	(15,409)
Foreign exchange related contracts			
(i) Less than 1 year	1,772,321	28,621	(24,347)
Equity related contracts			
(i) Less than 1 year	12,259	-	(8)
(ii) More than 3 years	7,000	445	-
	<u>7,722,851</u>	<u>42,650</u>	<u>(66,181)</u>

## HLCB Q2 (31.12.16)

### 8. Off-balance sheet financial instruments (continued)

The above contracts are subject to credit risk and market risk.

#### Credit risk

Credit risk arises when counterparties to derivatives contracts are not able to or willing to fulfil their obligation to pay the Bank the positive fair value or receivable resulting from the execution of contract terms. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amount subject to 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.

#### Related accounting policies

The accounting policies applied for recognising the financial instruments concerned are the same as those applied for the audited financial statements.

### 9. Material litigation

The Group and the Company do not have any material litigation which would materially and adversely affect the financial position of the Group and the Company.

### 10. Dividends

The Board of Directors does not recommend any dividend to be paid for the financial period ended 31 December 2016.

### 11. Earnings per share ("EPS")

#### (a) Basic earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the financial period.

	Financial quarter ended		Financial period ended	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
<b>The Group</b>				
Net profit attributable to equity holders of the Company (RM'000):	<b>22,912</b>	22,310	<b>43,103</b>	37,921
Weighted average number of ordinary shares in issue ('000):	<b>241,283</b>	241,283	<b>241,283</b>	241,283
Basic earnings per share (sen)	<b>9.5</b>	9.2	<b>17.9</b>	15.7

**HLCB Q2 (31.12.16)****11. Earnings per share ("EPS") (continued)**

(a) Basic earnings per share (continued)

	Financial quarter ended		Financial period ended	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
<b>The Company</b>				
Net profit attributable to equity holders of the Company (RM'000):	<b>52,616</b>	42,508	<b>53,226</b>	43,483
Weighted average number of ordinary shares in issue ('000):	<b>241,388</b>	241,388	<b>241,388</b>	241,388
Basic earnings per share (sen)	<b>21.8</b>	17.6	<b>22.0</b>	18.0

(b) Fully diluted earnings per share

There is no diluted earnings per share as the Group and the Company have no category of dilutive potential ordinary shares outstanding as at 31 December 2016 and 31 December 2015.

**12. Realised and unrealised profits/losses**

The breakdown of retained profits of the Group and the Bank as at the reporting date, into realised and unrealised profits, as disclosed pursuant to the directive issued by Bursa Malaysia Securities Berhad ("Bursa Malaysia") on 25 March 2010, is as follows:

	As at	As at
	31/12/2016	30/06/2016
	RM'000	RM'000
<b>The Group</b>		
Total retained profit		
- Realised	<b>424,143</b>	411,821
- Unrealised		
- in respect of deferred tax recognised in the profit or loss	<b>98,268</b>	92,378
- in respect of other items of income and expense	<b>44,696</b>	47,969
	<b>567,107</b>	552,168
Less : Consolidation adjustment	<b>(216,867)</b>	(216,867)
	<b>350,240</b>	335,301
<b>The Company</b>		
Total retained profit		
- Realised	<b>213,574</b>	189,315
- Unrealised		
- in respect of deferred tax recognised in the profit or loss	-	-
	<b>213,574</b>	189,315

The disclosure of realised and unrealised profits or losses above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purpose.

Dated this 21 February 2017.