

HONG LEONG CAPITAL BERHAD

(Company Number: 213006-U)

CONDENSED FINANCIAL STATEMENTS

UNAUDITED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2017

	Note	The Group		The Company	
		As at	As at	As at	As at
		30/09/2017	30/06/2017	30/09/2017	30/06/2017
		RM'000	RM'000	RM'000	RM'000
ASSETS					
Cash and short term funds		452,768	267,462	482	490
Securities purchased under resale agreement		137,936	35,123	-	-
Deposits and placements with banks and other financial institutions		-	-	-	-
Financial assets held-for-trading	11	1,007,863	1,102,647	-	-
Financial investments available-for-sale	12	1,200,694	1,173,978	141,396	140,168
Financial investments held-to-maturity	13	853,750	909,215	-	-
Derivative financial assets	19	20,792	19,916	-	-
Loans and advances	14	243,385	236,592	-	-
Clients' and brokers' balances	15	548,429	270,967	-	-
Other assets	16	61,542	54,772	187	615
Statutory deposits with Bank Negara Malaysia		37,740	58,100	-	-
Tax recoverable		275	215	257	213
Investment in subsidiary companies		-	-	320,054	320,054
Deferred tax assets		93,046	90,948	-	-
Property and equipment		5,418	5,737	-	-
Goodwill		33,059	33,059	-	-
Other intangible assets		4,959	5,255	-	-
TOTAL ASSETS		4,701,656	4,263,986	462,376	461,540
LIABILITIES					
Deposits from customers	17	628,266	648,867	-	-
Deposits and placements of banks and other financial institutions	18	2,256,739	2,247,733	-	-
Repurchased agreements		259,760	149,111	-	-
Derivative financial liabilities	19	50,620	47,959	-	-
Clients' and brokers' balances		591,674	271,738	-	-
Other liabilities	20	97,132	102,536	709	613
Current tax liabilities		650	473	-	-
Subordinated obligations	21	50,935	50,262	-	-
TOTAL LIABILITIES		3,935,776	3,518,679	709	613

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
(Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2017

	The Group		The Company	
	As at 30/09/2017	As at 30/06/2017	As at 30/09/2017	As at 30/06/2017
Note	RM'000	RM'000	RM'000	RM'000
EQUITY				
Share capital	246,896	246,896	246,896	246,896
Reserves	525,015	504,442	220,689	219,949
Treasury shares for ESOS scheme	(6,031)	(6,031)	(5,918)	(5,918)
TOTAL EQUITY	765,880	745,307	461,667	460,927
TOTAL LIABILITIES AND EQUITY				
	4,701,656	4,263,986	462,376	461,540
COMMITMENTS AND CONTINGENCIES				
27	7,554,813	7,931,230	-	-
Net assets per share attributable to ordinary equity holder of the Company (RM)				
	3.17	3.09		

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
 (Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017

	Current quarter ended 30/09/2017	Last year's quarter ended 30/09/2016	Current year ended 30/09/2017	Last year's ended 30/09/2016
Note	RM'000	RM'000	RM'000	RM'000
The Group				
Interest income	22	37,845	36,828	37,845
Interest expense	23	(27,597)	(26,051)	(27,597)
Net interest income		10,248	10,777	10,248
Non-interest income	24	34,231	31,906	34,231
Net income		44,479	42,683	44,479
Overhead expenses	25	(25,856)	(24,297)	(25,856)
Operating profit before allowances (Allowance for)/write-back of impairment on loans and advances and other losses	26	18,623	18,386	18,623
		(269)	12	(269)
Profit before taxation		18,354	18,398	18,354
Taxation		1,697	1,793	1,697
Net profit for the period		20,051	20,191	20,051
Earnings per share (sen)				
- Basic		8.3	8.4	8.3
- Diluted		8.3	8.4	8.3

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
 (Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017

	Current quarter ended 30/09/2017 RM'000	Last year's quarter ended 30/09/2016 RM'000	Current year ended 30/09/2017 RM'000	Last year's ended 30/09/2016 RM'000
The Group				
Net profit for the period	20,051	20,191	20,051	20,191
Other comprehensive income/(expense):				
Items that will be reclassified subsequently to profit or loss				
Net fair value changes on financial investments available-for-sale				
- Unrealised net gain/(loss) on revaluation revaluation of financial investments available-for-sale	1,332	3,105	1,332	3,105
- Net transfer to income statements on disposal of financial investments available-for-sale	(659)	(2,008)	(659)	(2,008)
Income tax relating to net fair value changes on financial investments available-for-sale	(151)	(88)	(151)	(88)
Other comprehensive income for the period, net of tax	522	1,009	522	1,009
Total comprehensive income for the period, net of tax	20,573	21,200	20,573	21,200

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
 (Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017

	Current quarter ended 30/09/2017	Last year's quarter ended 30/09/2016	Current year ended 30/09/2017	Last year's ended 30/09/2016
Note	RM'000	RM'000	RM'000	RM'000
The Company				
Interest income	22	4	2	4
Interest expense	23	-	-	-
Net interest income		4	2	4
Non-interest income	24	1,280	1,042	1,280
Net income		1,284	1,044	1,284
Overhead expenses	25	(571)	(434)	(571)
Operating profit before allowances		713	610	713
Allowance for impairment on other losses	26	-	-	-
Profit before taxation		713	610	713
Taxation		-	-	-
Net profit for the period		713	610	713
Earnings per share (sen)				
- Basic		0.3	0.3	0.3
- Diluted		0.3	0.3	0.3

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
 (Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017

	Current quarter ended 30/09/2017 RM'000	Last year's quarter ended 30/09/2016 RM'000	Current year ended 30/09/2017 RM'000	Last year's ended 30/09/2016 RM'000
The Company				
Net profit for the period	713	610	713	610
Other comprehensive income/(expense):				
Items that will be reclassified subsequently to profit or loss				
Net fair value changes on financial investments available-for-sale				
- Unrealised net gain/(loss) on revaluation revaluation of financial investments available-for-sale	27	-	27	-
- Net transfer to income statements on disposal of financial investments available-for-sale	-	-	-	-
Income tax relating to net fair value changes on financial investments available-for-sale	-	-	-	-
Other comprehensive income for the period, net of tax	27	-	27	-
Total comprehensive income for the period, net of tax	740	610	740	610

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
 (Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017

	Attributable to owners of the parent								
	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
The Group									
At 1 July 2017	246,896	(6,031)	543	-	2,504	1,422	-	499,973	745,307
Net profit for the period	-	-	-	-	-	-	-	20,051	20,051
Other comprehensive income, net of tax	-	-	-	-	-	522	-	-	522
Total comprehensive income	-	-	-	-	-	522	-	20,051	20,573
Transfer from regulatory reserve	-	-	-	-	(235)	-	-	235	-
At 30 September 2017	246,896	(6,031)	543	-	2,269	1,944	-	520,259	765,880
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	-	-	-	-	-	-	-	20,191	20,191
Other comprehensive income, net of tax	-	-	-	-	-	1,009	-	-	1,009
Total comprehensive income	-	-	-	-	-	1,009	-	20,191	21,200
Transfer from regulatory reserve	-	-	-	-	(385)	-	-	385	-
At 30 September 2016	246,896	(6,031)	543	113,482	3,178	7,632	(16)	355,877	721,561

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
(Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017

	Non-Distributable		Distributable		Total RM'000
	Share Capital RM'000	Treasury Shares for ESOS Scheme RM'000	Fair Value Reserve RM'000	Retained Profits RM'000	
The Company					
At 1 July 2017	246,896	(5,918)	(14)	219,963	460,927
Net profit for the period	-	-	-	713	713
Other comprehensive income, net of tax	-	-	27	-	27
Total comprehensive income	-	-	27	713	740
At 30 September 2017	246,896	(5,918)	13	220,676	461,667
At 1 July 2016	246,896	(5,918)	(33)	189,315	430,260
Net profit for the period	-	-	-	610	610
Other comprehensive income, net of tax	-	-	-	-	-
Total comprehensive income	-	-	-	610	610
At 30 September 2016	246,896	(5,918)	(33)	189,925	430,870

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
(Company Number 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017

	The Group	
	30/09/2017	30/09/2016
	RM'000	RM'000
<u>Cash flows from operating activities</u>		
Profit before taxation	18,354	18,398
<u>Adjustments for non-cash items:</u>		
- Depreciation of property and equipment	485	418
- Amortisation of intangible assets	693	728
- Loss on liquidation of subsidiaries	-	7
- Gain on disposal of property and equipment	-	(82)
- Allowance for/(write-back of) impairment for losses on loans and advances	320	(46)
- Allowance for impairment for losses on clients' and brokers' balances	25	34
- Write-back of allowance for losses on fee income receivables	(76)	-
- Net unrealised loss on revaluation of:		
- Financial assets held-for-trading	2,815	311
- Derivative financial instruments	1,741	6,928
- Interest income from:		
- Financial assets held-for-trading	(9,867)	(12,760)
- Financial investments available-for-sale	(8,853)	(8,504)
- Financial investments held-to-maturity	(8,327)	(5,181)
- Derivative financial instruments	(2,280)	(1,876)
- Interest expense from derivative financial instruments	3,324	3,492
- Interest expense from subordinated obligations	673	681
- Dividend income from:		
- Financial assets held-for-trading	(1,545)	(452)
- Financial investments available-for-sale	(1,846)	(1,318)
	(22,718)	(17,620)
Operating (loss)/profit before changes in working capital	(4,364)	778
<u>Changes in working capital:</u>		
- Securities purchased under resale agreements	(102,813)	-
- Financial assets held-for-trading	89,881	157,120
- Derivative financial instruments	3	16
- Loans and advances	(7,113)	35,926
- Clients' and brokers' balances	(277,487)	(170,753)
- Other assets	(6,694)	(6,054)
- Statutory deposits with Bank Negara Malaysia	20,360	(13,300)
Net changes in operating assets	(283,863)	2,955
- Deposits from customers	(20,601)	(227,512)
- Deposits and placements of banks and other financial institutions	9,006	186,017
- Repurchased agreements	110,649	-
- Clients' and brokers' balances	319,936	100,480
- Other liabilities	(5,404)	15,379
Net changes in operating liabilities	413,586	74,364
Cash generated from operating activities	125,359	78,097

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
(Company Number 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017

	The Group	
	30/09/2017	30/09/2016
	RM'000	RM'000
Cash generated from operating activities	125,359	78,097
Net income tax paid	(435)	(472)
Net cash generated from operating activities	124,924	77,625
<u>Cash flows from investing activities</u>		
Net (purchase)/disposal of:		
- Financial investments available-for-sale	(25,869)	55,626
- Financial investments held-to-maturity	51,525	(133,003)
Dividend received from:		
- Financial assets held-for-trading	1,545	452
- Financial investments available-for-sale	1,846	1,318
Proceeds from liquidation of subsidiaries	-	157
Interest received from financial assets held-for-trading, financial investments available-for-sale, financial investments held-to-maturity and derivative financial instruments	35,222	30,715
Interest expenses paid on derivative financial instruments	(3,324)	(2,134)
Proceeds from disposal of property and equipment	-	87
Purchase of property and equipment	(166)	(754)
Purchase of intangible assets	(397)	(1,400)
Net cash generated from/(used in) investing activities	60,382	(48,936)
Net changes in cash and cash equivalents during the financial period	185,306	28,689
Cash and cash equivalents at beginning of the financial period	267,462	336,681
Cash and cash equivalents at end of the financial period	452,768	365,370
Cash and cash equivalents comprise:		
Cash and short term funds	452,768	365,370
Deposit and placements with other financial institutions	-	-
	452,768	365,370

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
(Company Number 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017

	The Company	
	30/09/2017	30/09/2016
	RM'000	RM'000
<u>Cash flows from operating activities</u>		
Profit before taxation	713	610
<u>Adjustments for non-cash items:</u>		
- Interest income	(4)	(2)
- Dividend income from:		
- Financial investments available-for-sale	(1,249)	(978)
	<u>(1,253)</u>	<u>(980)</u>
Operating loss before changes in working capital	(540)	(370)
Decrease/(increase) in other assets	428	(11)
Increase in other liabilities	96	67
Cash used in operating activities	(16)	(314)
Net income tax paid	(44)	(38)
Interest received	4	2
Net cash used in operating activities	(56)	(350)
<u>Cash flows from investing activities</u>		
Net purchase of financial investments available-for-sale	(1,201)	(1,200)
Dividend received from:		
- Financial investments available-for-sale	1,249	978
Net cash generated from/(used in) investing activities	48	(222)
Net changes in cash and cash equivalents during the financial period	(8)	(572)
Cash and cash equivalents at beginning of the financial period	490	1,065
Cash and cash equivalents at end of the financial period	482	493
Cash and cash equivalents comprise:		
Cash and short term funds	482	493

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

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 30 SEPTEMBER 2017

Explanatory Notes pursuant to the Malaysian Financial Reporting Standard 134 ("MFRS 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 30 September 2017 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 2017. 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 2017.

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 2017 and modified for the adoption of the following Amendments to MFRSs applicable for financial period beginning on or after 1 July 2017:

- Amendments to MFRS 107 "Statement of Cash Flows - Disclosure Initiative"
- Amendments to MFRS 112 "Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses"

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

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 2017 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 30 September 2017.

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

The 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 30 September 2017.

5. Change in estimate

The were no material changes in estimate of amount reported in prior financial year that have a material effect in the financial quarter ended 30 September 2017.

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 30 September 2017, 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 (2017: 5,612,700) shares in the Group costing RM6,031,241 (2017: RM6,031,241) inclusive of transaction costs, as at 30 September 2017.

7. Dividends paid

There was no dividend paid during the financial quarter ended 30 September 2017.

8. Valuations of property, plant and equipment

No valuations of property, plant and equipment were carried out for the financial quarter ended 30 September 2017.

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 30 September 2017 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 previously, the Company will continue to discuss with its majority shareholder, Hong Leong Financial Group Berhad, options to comply with the shareholding spread requirement.

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.

HLCB Q1 (30.09.17)

11. Financial assets held-for-trading

	The Group	
	As at 30/09/2017 RM'000	As at 30/06/2017 RM'000
Money market instruments		
Malaysian Government Investment Issues	10,067	30,561
Negotiable instruments of deposits	630,962	831,596
	641,029	862,157
Quoted securities		
In Malaysia:		
Shares	31,601	35,077
Unit trust investment	6,885	6,470
	38,486	41,547
Unquoted securities		
Private and Islamic debt securities	328,348	198,943
	1,007,863	1,102,647

12. Financial investments available-for-sale

	The Group		The Company	
	As at 30/09/2017 RM'000	As at 30/06/2017 RM'000	As at 30/09/2017 RM'000	As at 30/06/2017 RM'000
Money market instruments				
Malaysian Government Securities	30,792	30,378	-	-
Malaysian Government Investment Issues	112,508	60,896	-	-
Cagamas bonds	51,001	65,442	-	-
	194,301	156,716	-	-
Quoted securities				
In Malaysia:				
Unit trust investment	199,031	201,063	141,396	140,168
Unquoted securities				
Shares	245	245	-	-
Foreign currency bonds	51,979	74,832	-	-
Private and Islamic debt securities	755,138	741,122	-	-
	807,362	816,199	-	-
	1,200,694	1,173,978	141,396	140,168

HLCB Q1 (30.09.17)**13. Financial investments held-to-maturity**

	The Group	
	As at	As at
	30/09/2017	30/06/2017
	RM'000	RM'000
Money market instruments		
Malaysian Government Securities	160,245	211,031
Malaysian Government Investment Issues	515,636	518,643
	675,881	729,674
Unquoted securities		
Foreign currency bonds	91,846	93,757
Private and Islamic debt securities	86,023	85,784
	177,869	179,541
	853,750	909,215

14. Loans and advances

	The Group	
	As at	As at
	30/09/2017	30/06/2017
	RM'000	RM'000
Term loan financing	24,401	25,685
Share margin financing	219,229	210,707
Staff loans	63	64
Other loans	462	586
Gross loans and advances	244,155	237,042
Allowance for impaired loans and advances:		
- individual assessment allowance	(110)	(110)
- collective assessment allowance	(660)	(340)
Net loans and advances	243,385	236,592

14a. By type of customer

Domestic business enterprises		
- Small and medium enterprises	62	110
- Others	118,875	120,574
Individuals	117,461	108,535
Foreign entities	7,757	7,823
Gross loans and advances	244,155	237,042

HLCB Q1 (30.09.17)

14. Loans and advances (continued)

	The Group	
	As at 30/09/2017 RM'000	As at 30/06/2017 RM'000
14b. <u>By interest rate sensitivity</u>		
Fixed rate		
- Staff housing loans	63	64
- Other fixed rate loan	462	586
Variable rate		
- Cost plus	243,630	236,392
Gross loans and advances	<u>244,155</u>	<u>237,042</u>
14c. <u>By residual contractual maturity</u>		
Maturity within one year	234,200	225,988
More than one year to three years	9,892	10,990
More than five years	63	64
Gross loans and advances	<u>244,155</u>	<u>237,042</u>
14d. <u>By geographical distribution</u>		
Malaysia	<u>244,155</u>	<u>237,042</u>
14e. <u>By economic purpose</u>		
Purchase of securities	219,406	210,707
Working capital	24,224	25,685
Purchase of transport vehicles	110	110
Purchase of landed properties	415	540
Gross loans and advances	<u>244,155</u>	<u>237,042</u>
14f. Movements in impaired loans and advances ("impaired loans") are as follows:		
At 1 July	11,576	574
Impaired during the period/year	-	11,002
Amount written-back during the period/year	(1,399)	-
At 30 June	<u>10,177</u>	<u>11,576</u>
% of impaired loans to total loans and advances, net of individual assessment allowance	<u>4.2%</u>	<u>4.9%</u>
14g. <u>Impaired loans and advances by geographical distribution</u>		
Malaysia	<u>10,177</u>	<u>11,576</u>
14h. <u>Impaired loans and advances by economic purpose</u>		
Purchase of transport vehicles	110	110
Purchase of landed properties	351	476
Working capital	9,716	10,990
Gross impaired loans and advances	<u>10,177</u>	<u>11,576</u>

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14. Loans and advances (continued)

	The Group	
	As at 30/09/2017 RM'000	As at 30/06/2017 RM'000
14i. Movement in the allowance for loss on loans and advances are as follows:		
<u>Individual assessment allowance</u>		
At 1 July	110	100
Allowance made during the period/year	-	10
At 30 June	110	110
<u>Collective assessment allowance</u>		
At 1 July	340	914
Allowance made/(written-back) during the period/year	320	(574)
At 30 June	660	340

15. Clients' and brokers' balances

	The Group	
	As at 30/09/2017 RM'000	As at 30/06/2017 RM'000
Performing accounts	547,065	270,148
Impaired accounts	1,834	1,264
	548,899	271,412
Less: Individual assessment allowance	(441)	(417)
Collective assessment allowance	(29)	(28)
	548,429	270,967

16. Other assets

	The Group		The Company	
	As at 30/09/2017 RM'000	As at 30/06/2017 RM'000	As at 30/09/2017 RM'000	As at 30/06/2017 RM'000
Amount due from subsidiary companies	-	-	163	572
Deposits and prepayments	6,979	5,280	24	43
Fee income receivable	14,335	16,076	-	-
Collaterals pledged for derivative transactions	24,676	22,531	-	-
Other receivables	13,326	10,373	-	-
Manager's stocks and consumables	2,226	512	-	-
	61,542	54,772	187	615

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17. Deposits from customers

	The Group	
	As at 30/09/2017	As at 30/06/2017
	RM'000	RM'000
17a. <u>By type of deposits</u>		
Fixed deposits	628,266	648,867
17b. <u>By type of customer</u>		
Government and statutory bodies	475,014	456,337
Business enterprises	132,466	171,984
Individuals	20,786	20,546
	628,266	648,867
17c. The maturity structure of fixed deposits are as follows:		
Due within:		
- six months	628,266	642,665
- six months to one year	-	6,202
	628,266	648,867

18. Deposits and placements of banks and other financial institutions

	The Group	
	As at 30/09/2017	As at 30/06/2017
	RM'000	RM'000
Licensed banks	602,784	778,053
Licensed investment banks	25,011	50,004
Other financial institutions	1,628,944	1,419,676
	2,256,739	2,247,733

19. Derivative financial assets/liabilities

The Group 30/09/2017	Contract or underlying principal amount RM'000	Positive fair value RM'000	Negative fair value RM'000
Interest rate related contracts:			
- Interest rate swaps	4,605,000	12,677	(23,694)
- Futures	192,181	407	-
- Cross currency swaps	168,950	951	(15,028)
Foreign exchange related contracts:			
- Foreign currency swaps	1,688,555	6,042	(11,878)
- Foreign currency forwards	58,616	256	(20)
- Foreign currency spot	63	-	-
Equity related contracts:			
- Call option	7,000	459	-
	6,720,365	20,792	(50,620)

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19. Derivative financial assets/liabilities (continued)

The Group 30/06/2017	Contract or underlying principal amount RM'000	Positive fair value RM'000	Negative fair value RM'000
Interest rate related contracts:			
- Interest rate swaps	5,015,000	12,806	(23,881)
- Futures	322,498	337	-
- Cross currency swaps	171,770	83	(16,724)
Foreign exchange related contracts:			
- Foreign currency swaps	1,520,828	5,883	(7,345)
- Foreign currency forwards	73,399	171	(6)
- Foreign currency spot	17,735	1	(3)
Equity related contracts:			
- Call option	7,000	635	-
	<u>7,128,230</u>	<u>19,916</u>	<u>(47,959)</u>

20. Other liabilities

	The Group		The Company	
	As at 30/09/2017 RM'000	As at 30/06/2017 RM'000	As at 30/09/2017 RM'000	As at 30/06/2017 RM'000
Amount due to holding company	13	-	-	-
Amount due to related companies	31	118	-	-
Remisiers' trust deposits	13,730	13,786	-	-
Other payables and accrued liabilities	83,155	88,430	709	613
Post employment benefits obligation				
- defined contribution plan	203	202	-	-
	<u>97,132</u>	<u>102,536</u>	<u>709</u>	<u>613</u>

21. Subordinated obligations

	The Group	
	As at	As at
	30/09/2017	30/06/2017
	RM'000	RM'000
RM50.0 million Tier 2 subordinated notes, at par	50,000	50,000
Add: Interest payable	1,060	392
	51,060	50,392
Less: Unamortised discounts	(125)	(130)
	50,935	50,262

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.

HLCB Q1 (30.09.17)**22. Interest income**

	Current quarter ended 30/09/2017 RM'000	Last year's quarter ended 30/09/2016 RM'000	Current year ended 30/09/2017 RM'000	Last year's ended 30/09/2016 RM'000
The Group				
Loan and advances	3,577	5,779	3,577	5,779
Money at call and deposits placements with banks and other financial institutions	881	657	881	657
Financial assets held-for-trading	9,867	12,760	9,867	12,760
Financial investments available-for-sale	8,853	8,504	8,853	8,504
Financial investments held-to-maturity	8,327	5,181	8,327	5,181
Derivative financial instruments	2,280	1,876	2,280	1,876
Others	4,060	2,071	4,060	2,071
Total interest income	37,845	36,828	37,845	36,828
The Company				
Money at call and deposits placements with banks and other financial institutions	4	2	4	2

23. Interest expense

	Current quarter ended 30/09/2017 RM'000	Last year's quarter ended 30/09/2016 RM'000	Current year ended 30/09/2017 RM'000	Last year's ended 30/09/2016 RM'000
The Group				
Deposits and placements of banks and other financial institutions	8,462	6,352	8,462	6,352
Deposits from customers	13,738	15,433	13,738	15,433
Derivative financial instruments	3,324	3,492	3,324	3,492
Subordinated notes	673	681	673	681
Others	1,400	93	1,400	93
Total interest expense	27,597	26,051	27,597	26,051

24. Non-interest income

	Current quarter ended 30/09/2017 RM'000	Last year's quarter ended 30/09/2016 RM'000	Current year ended 30/09/2017 RM'000	Last year's ended 30/09/2016 RM'000
The Group				
(a) Fee income:				
Fee on loans and advances	-	52	-	52
Arranger fees	2,083	600	2,083	600
Placement fees	50	240	50	240
Corporate advisory fees	905	985	905	985
Brokerage commissions	14,350	12,608	14,350	12,608
Commission from futures contracts	201	77	201	77
Unit trust fee income	7,281	6,328	7,281	6,328
Other fee income	5,918	1,035	5,918	1,035
	30,788	21,925	30,788	21,925
(b) Net income from securities:				
Net realised gain/(loss) arising from sale of:				
- Financial assets held-for-trading	3,490	7,750	3,490	7,750
- Financial investments available-for-sale	748	2,654	748	2,654
- Derivative financial instruments	(7,481)	(3,199)	(7,481)	(3,199)
Net unrealised loss on revaluation of:				
- Financial assets held-for-trading	(2,815)	(311)	(2,815)	(311)
- Derivative financial instruments	(1,741)	(6,928)	(1,741)	(6,928)
Dividend income from:				
- Financial assets held-for-trading	1,545	452	1,545	452
- Financial investments available-for-sale	1,846	1,318	1,846	1,318
	(4,408)	1,736	(4,408)	1,736
(c) Other income				
Gain on disposal of property and equipment	-	82	-	82
Loss on liquidation of a subsidiary	-	(7)	-	(7)
Foreign exchange gain	7,799	8,088	7,799	8,088
Other non-operating income	52	82	52	82
	7,851	8,245	7,851	8,245
Total non-interest income	34,231	31,906	34,231	31,906

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24. Non-interest income (continued)

	Current quarter ended 30/09/2017 RM'000	Last year's quarter ended 30/09/2016 RM'000	Current year ended 30/09/2017 RM'000	Last year's ended 30/09/2016 RM'000
The Company				
(a) Net income from securities:				
Dividend income from:				
- Financial investments available-for-sale	1,249	978	1,249	978
(b) Other income				
Foreign exchange gain	-	11	-	11
Other income	31	53	31	53
	31	64	31	64
	1,280	1,042	1,280	1,042

25. Overhead expenses

	Current quarter ended 30/09/2017 RM'000	Last year's quarter ended 30/09/2016 RM'000	Current year ended 30/09/2017 RM'000	Last year's ended 30/09/2016 RM'000
The Group				
Personnel costs				
- Salaries, bonuses and allowances	12,606	11,568	12,606	11,568
- Others	3,021	2,822	3,021	2,822
	15,627	14,390	15,627	14,390
Establishment costs				
- Depreciation of property and equipment	485	418	485	418
- Amortisation of intangible assets	693	728	693	728
- Rental of premises	1,115	1,315	1,115	1,315
- Information technology expenses	1,566	1,473	1,566	1,473
- Others	748	730	748	730
	4,607	4,664	4,607	4,664
Marketing expenses				
- Advertisement and publicity	62	82	62	82
- Entertainment and business improvement	442	476	442	476
- Others	102	111	102	111
	606	669	606	669

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25. Overhead expenses (continued)

	Current quarter ended 30/09/2017 RM'000	Last year's quarter ended 30/09/2016 RM'000	Current year ended 30/09/2017 RM'000	Last year's ended 30/09/2016 RM'000
The Group (continued)				
Administration and general expenses				
- Management fees	993	961	993	961
- Communication expenses	387	346	387	346
- Auditors' remuneration				
- Statutory audit	105	95	105	95
- Regulatory related fee	8	3	8	3
- Legal and professional fees	995	944	995	944
- Others	2,528	2,225	2,528	2,225
	5,016	4,574	5,016	4,574
	25,856	24,297	25,856	24,297
The Company				
Personnel costs				
- Salaries, bonuses and allowances	90	55	90	55
- Others	123	24	123	24
	213	79	213	79
Establishment costs				
- Information technology expenses	-	2	-	2
- Others	17	39	17	39
	17	41	17	41
Marketing expenses				
- Others	2	30	2	30
	2	30	2	30
Administration and general expenses				
- Management fees	124	111	124	111
- Communication expenses	1	1	1	1
- Auditors' remuneration				
- Statutory audit	22	15	22	15
- Regulatory related fee	8	3	8	3
- Legal and professional fees	3	-	3	-
- Others	181	154	181	154
	339	284	339	284
	571	434	571	434

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26. (Allowance for)/write-back of impairment on loans and advances and other losses

	Current quarter ended 30/09/2017 RM'000	Last year's quarter ended 30/09/2016 RM'000	Current year ended 30/09/2017 RM'000	Last year's ended 30/09/2016 RM'000
The Group				
(Allowance for)/write-back of losses on impaired loans and advances:				
Collective assessment allowance written-back/(made) during the period	(320)	46	(320)	46
Write-back of/(allowance for) losses on clients' and brokers' balances:				
Individual assessment allowance				
- made during the period	(100)	(59)	(100)	(59)
- written-back during the period	76	23	76	23
Collective assessment allowance (made)/written-back during the period	(1)	2	(1)	2
Allowance for losses on fee income receivables:				
Individual assessment allowance				
- written-back during the period	76	-	76	-
	(269)	12	(269)	12

27. Commitments and contingencies

	As at 30/09/2017 Principal Amount RM'000	As at 30/06/2017 Principal Amount RM'000
The Group		
Commitments and contingent liabilities		
Direct Credit Substitutes	1,000	1,000
Obligations under underwriting agreement	130,000	130,000
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions	6,469	10,352
Other commitments, such as formal standby facilities and credit lines		
- maturity less than one year	262	326
- maturity over one year	92,824	-
Any commitments that are unconditionally cancelled at any time by the bank without prior notice		
- maturity less than one year	603,893	661,322
	<u>834,448</u>	<u>803,000</u>
Derivative financial instruments		
Interest rate related contracts:		
- One year or less	1,806,656	1,778,383
- Over one year to five years	2,914,475	3,485,885
- Over five years	245,000	245,000
Foreign exchange related contracts		
- One year or less	1,747,234	1,611,962
Equity related contracts		
- Over one year to five years	7,000	7,000
	<u>6,720,365</u>	<u>7,128,230</u>
	<u>7,554,813</u>	<u>7,931,230</u>

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.

The Group 30.09.2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading	38,486	969,377	-	1,007,863
- Money market instruments	-	641,029	-	641,029
- Quoted securities	38,486	-	-	38,486
- Unquoted securities	-	328,348	-	328,348
Financial investments available-for-sale	199,031	1,001,418	245	1,200,694
- Money market instruments	-	194,301	-	194,301
- Quoted securities	199,031	-	-	199,031
- Unquoted securities	-	807,117	245	807,362
Derivative financial assets	-	20,792	-	20,792
	237,517	1,991,587	245	2,229,349

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28. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy (continued)

The Group 30.09.2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial liability				
Derivative financial liabilities	-	50,620	-	50,620
30.06.2017				
Financial assets				
Financial assets held-for-trading	41,547	1,061,100	-	1,102,647
- Money market instruments	-	862,157	-	862,157
- Quoted securities	41,547	-	-	41,547
- Unquoted securities	-	198,943	-	198,943
Financial investments available-for-sale	201,063	972,670	245	1,173,978
- Money market instruments	-	156,716	-	156,716
- Quoted securities	201,063	-	-	201,063
- Unquoted securities	-	815,954	245	816,199
Derivative financial assets	-	19,916	-	19,916
	242,610	2,053,686	245	2,296,541
Financial liability				
Derivative financial liabilities	-	47,959	-	47,959
The Company 30.09.2017				
Financial asset				
Financial investments available-for-sale				
- Quoted securities	141,396	-	-	141,396
30.06.2017				
Financial asset				
Financial investments available-for-sale				
- Quoted securities	140,168	-	-	140,168

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:

The Group	Financial investments available-for-sale	
	30.09.2017 RM'000	30.06.2017 RM'000
At beginning/end of financial period/year	245	245

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29. Capital adequacy

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

	HLIB 30/09/2017	HLIB 30/06/2017
Before deducting proposed dividends:		
Common equity tier 1 ("CET1") capital ratio	30.201%	29.744%
Tier 1 capital ratio	30.201%	29.744%
Total capital ratio	34.392%	33.912%
After deducting proposed dividends: ⁽¹⁾		
CET1 capital ratio	25.796%	25.398%
Tier 1 capital ratio	25.796%	25.398%
Total capital ratio	29.987%	29.566%

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

	HLIB 30/09/2017 RM'000	HLIB 30/06/2017 RM'000
CET1 capital		
Paid-up ordinary share capital	252,950	252,950
Share premium	-	-
Retained profits	246,910	246,910
Other reserves	1,920	1,440
Less: goodwill and intangibles	(33,387)	(33,796)
Less: deferred tax assets	(90,153)	(90,153)
Less: investment in subsidiary companies	(160)	(160)
Less: 55% of cumulative gains of financial instruments available-for-sale	(1,056)	(792)
Total CET1 capital	377,024	376,399
Tier-1 capital	377,024	376,399
Tier-2 capital		
Collective assessment allowance ⁽²⁾ and regulatory reserve ⁽³⁾	2,357	2,783
Subordinated obligations	50,000	50,000
Regulatory adjustments:		
- Investment in subsidiary companies	(40)	(40)
Total Tier 2 capital	52,317	52,743
Total capital	429,341	429,142

Note:

(1) Proposed dividends of RM55,000,000 (2017: RM55,000,000).

(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 RM2,269,000 (2017: RM2,504,000).

29. Capital adequacy (continued)

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

	HLIB 30/09/2017 RM'000	HLIB 30/06/2017 RM'000
Credit risk	536,014	461,963
Market risk	427,245	517,433
Operational risk	285,106	286,064
	<u>1,248,365</u>	<u>1,265,460</u>

30. Segmental reporting

(a) Segment information by activities for the financial period ended 30 September 2017:

	Investment banking and stockbroking	Fund management and unit trust management	Investment holding and others	Elimination	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000
30 September 2017					
REVENUE & EXPENSES					
Revenue					
Net Interest income	10,130	104	14	-	10,248
Non interest income	24,678	7,283	2,270	-	34,231
Results					
Profit from operations	14,426	2,291	1,637	-	18,354
Taxation					1,697
Profit after taxation					20,051
30 September 2016					
REVENUE & EXPENSES					
Revenue					
Net Interest income	10,553	116	108	-	10,777
Non interest income	24,026	6,330	1,550	-	31,906
Results					
Profit from operations	15,154	2,118	1,126	-	18,398
Taxation					1,793
Profit after taxation					20,191

(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 2017.

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:

HLCB had placed HLG Securities Sdn Bhd (“HLGS”), its wholly-owned subsidiary, under member’s voluntary winding-up pursuant to Section 439(1)(b) of the Companies Act, 2016. Mr Ling Kam Hoong of Messrs Ling Kam Hoong & Co., had been appointed on 6 October 2017 as liquidator of HLGS. HLGS is currently dormant and there are no future plans to activate the company.

The voluntary winding-up of HLGS will not have any impact on the net assets and earnings per share of the HLCB for the financial year ending 30 June 2018.

33. Capital commitments

Capital commitments for the purchase of property and equipment as at 30 September 2017 is RM10.8 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 30 September 2017.

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		Variance	%
	Current	Last year's		
	quarter ended	quarter ended		
	30/9/2017	30/9/2016	RM'000	
	RM'000	RM'000		
Revenue	72,076	68,734	3,342	4.9%
Profit before tax	18,354	18,398	(44)	-0.2%
Profit after tax	20,051	20,191	(140)	-0.7%
Profit attributable to equity holders of the Company	20,051	20,191	(140)	-0.7%

The group recorded a marginally lower profit before tax ("PBT") of RM18.3 million for the 1st quarter September 2017 as compared to RM18.4 million recorded in the previous year corresponding quarter.

The lower earnings was mainly due to lower net income from securities of RM6.1 (>-100.0%), higher overhead expenses of RM1.5 million (6.4%), lower net interest income of RM0.5 million (-4.9%), lower other non-operating income of RM0.4 million (-4.8%) and higher impairment allowance for loans and other assets of RM0.3 million (>100.0%). These were partially offset by higher fee income of RM8.9 million (40.4%).

The performance of the respective operating business segments for the three months ended 30 September 2017 as compared to the previous year corresponding quarter is analysed as follows:-

	The Group		Variance	%
	Current	Last year's		
	quarter ended	quarter ended		
	30/9/2017	30/9/2016	RM'000	
	RM'000	RM'000		
Profit before tax by segments:				
Investment banking and stockbroking	14,426	15,154	(728)	-4.8%
Fund management and unit trust management	2,291	2,118	173	8.2%
Investment holding and others	1,637	1,126	511	45.4%
	18,354	18,398	(44)	-0.2%

Investment banking and stockbroking - PBT decreased by RM0.7 million (-4.8%) mainly due to lower contribution from its Treasury and Markets division.

Fund management and unit trust management - PBT increased by RM0.2 million (8.2%) mainly due to higher net contribution from management fee income.

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1. Performance review (continued)

(b) Current financial quarter under review against preceding financial quarter

	The Group		Variance	
	Current	Preceding		
	quarter ended	quarter ended	RM'000	%
	30/9/2017	30/06/2017		
	RM'000	RM'000		
Revenue	72,076	79,009	(6,933)	-8.8%
Profit before tax	18,354	18,368	(14)	-0.1%
Profit after tax	20,051	9,942	10,109	101.7%
Profit attributable to equity holders of the Company	20,051	9,942	10,109	101.7%

For the financial quarter ended 30 September 2017, the Group reported a marginally lower PBT of RM18.3 million as compared to RM18.4 million in the preceding financial quarter ended 30 June 2017. This was mainly due to lower non-interest income of RM6.3 million (-15.5%), lower net interest income of RM0.7 million (-6.6%) and higher impairment allowance for loans and other assets of RM0.2 million (>100.0%). These were partially offset by lower overhead expenses of RM7.2 million (-21.9%).

The performance of the respective operating business segments for the three months ended 30 September 2017 as compared to the preceding quarter is analysed as follows:-

	The Group		Variance	
	Current	Preceding		
	quarter ended	quarter ended	RM'000	%
	30/9/2017	30/06/2017		
	RM'000	RM'000		
Profit before tax by segments:				
Investment banking and stockbroking	14,426	14,193	233	1.6%
Fund management and unit trust management	2,291	2,180	111	5.1%
Investment holding and others	1,637	1,995	(358)	-17.9%
	<u>18,354</u>	<u>18,368</u>	<u>(14)</u>	<u>-0.1%</u>

Investment banking and stockbroking - PBT increased by RM0.2 million (1.6%) mainly due to higher contribution from its Treasury and Markets division.

Fund management and unit trust management - PBT increased by RM0.1 million (5.1%) mainly due to lower overheads incurred.

2. Prospects for 2018

Despite a recovery in economic growth throughout FY2017, the outlook for FY2018 remains challenging as investors' sentiment remains susceptible to global economic uncertainties. However, the Bank will continue to focus on driving long-term sustainable growth for our businesses. The Bank's team of dedicated staff will also strengthen our efforts to build resilience towards disruptions in the market in the way we manage our processes, assets and businesses.

On the investment banking front, despite the challenging market conditions and operating environment, emphasis will continue to be placed on the offering of innovative financing solutions which has been the foundation of growth for Hong Leong Investment Bank ("HLIB") since its inception in Year 2009. Moving forward, resources will be channeled towards further widening the deals origination universe and to strengthen the distribution and placement capability for the Bank to compete vigorously in the market.

For Stockbroking business, HLIB will continue with its efforts to drive and scale up our ranking with our Institutional clients. In addition, there are also initiatives to complement its client base, leveraging on its newly set up Islamic Trading platform. As for the Retail Business, HLIB aspires to retain our leadership position in Malaysia with eBroking being our main focus. HLIB will continue with its efforts to strengthen its brand image as a valued broker via tailored product offerings and build value research. Digital initiatives will be continuously refreshed to sustain customer experience for our online business. Overall, the Stockbroking business will remain challenging due to the volatile and cautious market sentiment and uncertain commodity price trend. The stiff competition in the retail broking segment with the introduction of new online foreign trading platform will put further pressure on brokerage rates.

Hong Leong Asset Management ("HLAM") will continue to work towards delivering consistent and strong fund performance. HLAM believes that superior investment performance is the driver of growth for existing and new business. HLAM will continue to launch products and services to meet investors' demand for retail and wholesale funds. HLAM will also be focusing on building AUM, tapping into Hong Leong Group's resources such as the bank and insurance distribution channels. To support the Group's initiatives on digitalization, on-going efforts will be put in place to improve digitalization of its business operations. HLAM is working towards increasing its digital offering by FY2018. The fund management business will continue to grow through continued sales and marketing efforts and focus on delivering strong fund performance in FY2018. HLAM is constantly monitoring market demand and investors' appetite, and will launch appropriate funds at opportune times. Sales and marketing efforts are ongoing to strengthen its branding and presence through customer events and roadshows.

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

	Financial quarter ended		Financial year ended	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
The Group	RM'000	RM'000	RM'000	RM'000
Malaysian income tax:				
- Current	552	522	552	522
- Over provision in prior years	-	(34)	-	(34)
Deferred taxation	<u>(2,249)</u>	<u>(2,281)</u>	<u>(2,249)</u>	<u>(2,281)</u>
	<u>(1,697)</u>	<u>(1,793)</u>	<u>(1,697)</u>	<u>(1,793)</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.

6. Status of utilisation of proceeds raised from corporate proposals

The proceeds raised from the issuances of the debt securities in prior years have been used for as intended.

7. Off-balance sheet financial instruments

Details of financial instruments with off-balance sheet risk as at 30 September 2017:

The Group	Principal amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
Interest rate related contracts			
(i) Less than 1 year	1,806,656	1,583	(15,622)
(ii) 1 year to 3 years	1,415,000	5,698	(9,274)
(iii) More than 3 years	1,744,475	6,754	(13,826)
Foreign exchange related contracts			
(i) Less than 1 year	1,747,234	6,298	(11,898)
Equity related contractes			
(i) More than 3 years	7,000	459	-
	<u>6,720,365</u>	<u>20,792</u>	<u>(50,620)</u>

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.

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8. Group borrowings and debt securities

The Group Unsecured	More than 1 year		Less than 1 year		Sub-total		Total RM'000
	Foreign currency RM'000	Local currency RM'000	Foreign currency RM'000	Local currency RM'000	Foreign currency RM'000	Local currency RM'000	
As at 30 September 2017							
RM Tier 2 subordinated notes	-	49,875	-	1,060	-	50,935	50,935
As at 30 June 2017							
RM Tier 2 subordinated notes	-	49,870	-	392	-	50,262	50,262
As at 30 September 2016							
RM Tier 2 subordinated notes	-	49,854	-	1,074	-	50,928	50,928

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.

HLCB Q1 (30.09.17)

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 30 September 2017.

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 year.

	Financial quarter ended		Financial period ended	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
The Group				
Net profit attributable to equity holders of the Company (RM'000):	20,051	20,191	20,051	20,191
Weighted average number of ordinary shares in issue ('000):	241,283	241,283	241,283	241,283
Basic earnings per share (sen)	8.3	8.4	8.3	8.4
The Company				
Net profit attributable to equity holders of the Company (RM'000):	713	610	713	610
Weighted average number of ordinary shares in issue ('000):	241,388	241,388	241,388	241,388
Basic earnings per share (sen)	0.3	0.3	0.3	0.3

(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 30 September 2017 and 30 September 2016.

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 30/09/2017 RM'000	As at 30/06/2017 RM'000
The Group		
Total retained profit		
- Realised	537,473	604,643
- Unrealised		
- in respect of deferred tax recognised in the profit or loss	93,046	90,948
- in respect of other items of income and expense	23,283	21,310
	653,802	716,901
Less : Consolidation adjustment	(133,543)	(216,928)
	520,259	499,973
The Company		
Total retained profit		
- Realised	220,676	219,963
- Unrealised		
- in respect of deferred tax recognised in the profit or loss	-	-
	220,676	219,963

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 30 November 2017.