

HONG LEONG CAPITAL BERHAD
(Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	The Group		The Company	
		As at 31/12/2017 RM'000	As at 30/06/2017 RM'000	As at 31/12/2017 RM'000	As at 30/06/2017 RM'000
ASSETS					
Cash and short term funds		426,003	267,462	695	490
Securities purchased under resale agreement		136,684	35,123	-	-
Financial assets held-for-trading	11	919,080	1,102,647	-	-
Financial investments available- for-sale	12	1,123,490	1,173,978	150,879	140,168
Financial investments held-to-maturity	13	893,647	909,215	-	-
Derivative financial assets	19	33,011	19,916	-	-
Loans and advances	14	259,925	236,592	-	-
Clients' and brokers' balances	15	347,389	270,967	-	-
Other assets	16	43,512	54,772	100	615
Statutory deposits with Bank Negara Malaysia		44,480	58,100	-	-
Tax recoverable		294	215	266	213
Investment in subsidiary companies		-	-	320,054	320,054
Deferred tax assets		95,939	90,948	-	-
Property and equipment		5,032	5,737	-	-
Goodwill		33,059	33,059	-	-
Other intangible assets		4,575	5,255	-	-
TOTAL ASSETS		4,366,120	4,263,986	471,994	461,540
LIABILITIES					
Deposits from customers	17	736,140	648,867	-	-
Deposits and placements of banks and other financial institutions	18	2,022,827	2,247,733	-	-
Obligations on securities sold under repurchase agreements		250,969	149,111	-	-
Derivative financial liabilities	19	45,303	47,959	-	-
Clients' and brokers' balances		432,953	271,738	-	-
Other liabilities	20	87,901	102,536	330	613
Current tax liabilities		913	473	-	-
Subordinated obligations	21	50,287	50,262	-	-
TOTAL LIABILITIES		3,627,293	3,518,679	330	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.

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UNAUDITED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	The Group		The Company	
	As at 31/12/2017	As at 30/06/2017	As at 31/12/2017	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	497,962	504,442	230,686	219,949
Treasury shares for ESOS scheme	(6,031)	(6,031)	(5,918)	(5,918)
TOTAL EQUITY	738,827	745,307	471,664	460,927
TOTAL LIABILITIES AND EQUITY				
	4,366,120	4,263,986	471,994	461,540
COMMITMENTS AND CONTINGENCIES				
27	8,558,718	7,931,230	-	-
Net assets per share attributable to ordinary equity holder of the Company (RM)				
	3.06	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 31 DECEMBER 2017

	Current quarter ended 31/12/2017	Last year's quarter ended 31/12/2016	Current year ended 31/12/2017	Last year's ended 31/12/2016
Note	RM'000	RM'000	RM'000	RM'000
The Group				
Interest income	22	38,120	37,099	75,965
Interest expense	23	(27,313)	(25,399)	(54,910)
Net interest income		10,807	11,700	21,055
Non-interest income	24	42,920	41,416	77,151
Net income		53,727	53,116	98,206
Overhead expenses	25	(34,766)	(31,446)	(60,622)
Operating profit before allowances		18,961	21,670	37,584
Write-back of/(allowance for) impairment on loans and advances and other losses	26	53	(163)	(216)
Profit before taxation		19,014	21,507	37,368
Taxation		1,664	1,405	3,361
Net profit for the period		20,678	22,912	40,729
Earnings per share (sen)				
- Basic		8.6	9.5	16.9
- Diluted		8.6	9.5	16.9

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 31 DECEMBER 2017

	Current quarter ended 31/12/2017 RM'000	Last year's quarter ended 31/12/2016 RM'000	Current year ended 31/12/2017 RM'000	Last year's ended 31/12/2016 RM'000
The Group				
Net profit for the period	20,678	22,912	40,729	43,103
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 loss on revaluation revaluation of financial investments available-for-sale	(2,049)	(7,732)	(717)	(4,627)
- Net transfer to income statements on disposal of financial investments available-for-sale	(429)	(1,213)	(1,088)	(3,221)
Income tax relating to net fair value changes on financial investments available-for-sale	591	1,729	440	1,641
Currency translation differences in respect of foreign operation	-	16	-	16
Other comprehensive expense for the period, net of tax	(1,887)	(7,200)	(1,365)	(6,191)
Total comprehensive income for the period, net of tax	18,791	15,712	39,364	36,912

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 31 DECEMBER 2017

	Current quarter ended 31/12/2017	Last year's quarter ended 31/12/2016	Current year ended 31/12/2017	Last year's ended 31/12/2016
Note	RM'000	RM'000	RM'000	RM'000
The Company				
Interest income	22	20	7	24
Interest expense	23	-	-	-
Net interest income		20	7	24
Non-interest income	24	56,364	53,407	57,644
Net income		56,384	53,414	57,668
Overhead expenses	25	(496)	(770)	(1,067)
Operating profit before allowances		55,888	52,644	56,601
Allowance for impairment on other losses	26	-	-	-
Profit before taxation		55,888	52,644	56,601
Taxation		(21)	(28)	(21)
Net profit for the period		55,867	52,616	56,580
Earnings per share (sen)				
- Basic		23.1	21.8	23.4
- Diluted		23.1	21.8	23.4

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 31 DECEMBER 2017

	Current quarter ended 31/12/2017 RM'000	Last year's quarter ended 31/12/2016 RM'000	Current year ended 31/12/2017 RM'000	Last year's ended 31/12/2016 RM'000
The Company				
Net profit for the period	55,867	52,616	56,580	53,226
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 (loss)/gain on revaluation revaluation of financial investments available-for-sale	(6)	6	21	6
- 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 (expense)/income for the period, net of tax	(6)	6	21	6
Total comprehensive income for the period, net of tax	55,861	52,622	56,601	53,232

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 31 DECEMBER 2017

Attributable to owners of the parent

The Group	Share Capital	Treasury Shares for ESOS Scheme	General Reserves	Statutory Reserves	Regulatory Reserves	Fair Value Reserve	Exchange fluctuation Reserve	Retained Profits	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2017	246,896	(6,031)	543	-	2,504	1,422	-	499,973	745,307
Net profit for the period	-	-	-	-	-	-	-	40,729	40,729
Other comprehensive expense, net of tax	-	-	-	-	-	(1,365)	-	-	(1,365)
Total comprehensive (expense)/ income	-	-	-	-	-	(1,365)	-	40,729	39,364
Transfer from regulatory reserve	-	-	-	-	(60)	-	-	60	-
Dividend paid	-	-	-	-	-	-	-	(45,844)	(45,844)
At 31 December 2017	246,896	(6,031)	543	-	2,444	57	-	494,918	738,827
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

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 31 DECEMBER 2017

	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
The Company					
At 1 July 2017	246,896	(5,918)	(14)	219,963	460,927
Net profit for the period	-	-	-	56,580	56,580
Other comprehensive income, net of tax	-	-	21	-	21
Total comprehensive income	-	-	21	56,580	56,601
Dividend paid	-	-	-	(45,864)	(45,864)
At 31 December 2017	246,896	(5,918)	7	230,679	471,664
At 1 July 2016	246,896	(5,918)	(33)	189,315	430,260
Net profit for the period	-	-	-	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	246,896	(5,918)	(27)	213,574	454,525

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 31 DECEMBER 2017

	The Group	
	31/12/2017	31/12/2016
	RM'000	RM'000
<u>Cash flows from operating activities</u>		
Profit before taxation	37,368	39,905
<u>Adjustments for non-cash items:</u>		
- Depreciation of property and equipment	870	886
- Amortisation of intangible assets	1,393	1,412
- Loss on liquidation of subsidiaries	-	7
- Gain on disposal of property and equipment	-	(102)
- Allowance for/(write-back of) impairment for losses on loans and advances	345	(237)
- (Write-back of)/allowance for impairment for losses on clients' and brokers' balances	(81)	214
- (Write-back of)/allowance for losses on fee income receivables	(48)	174
- Net unrealised loss/(gain) on revaluation of:		
- Financial assets held-for-trading	9,745	9,696
- Derivative financial instruments	(15,535)	(15,056)
- Interest income from:		
- Financial assets held-for-trading	(18,921)	(24,689)
- Financial investments available-for-sale	(18,471)	(17,617)
- Financial investments held-to-maturity	(16,655)	(11,731)
- Derivative financial instruments	(4,507)	(3,966)
- Interest expense from derivative financial instruments	6,783	7,636
- Interest expense from subordinated obligations	1,346	1,354
- Dividend income from:		
- Financial assets held-for-trading	(1,793)	(541)
- Financial investments available-for-sale	(3,707)	(2,790)
	(59,236)	(55,350)
Operating loss before changes in working capital	(21,868)	(15,445)
 Changes in working capital:		
- Securities purchased under resale agreements	(101,561)	(35,064)
- Financial assets held-for-trading	173,676	113,781
- Derivative financial instruments	(330)	13
- Loans and advances	(23,678)	85,558
- Clients' and brokers' balances	(76,341)	(38,301)
- Other assets	11,308	(2,871)
- Statutory deposits with Bank Negara Malaysia	13,620	5,884
Net changes in operating assets	(3,306)	129,000
 - Deposits from customers	87,273	(63,324)
- Deposits and placements of banks and other financial institutions	(224,906)	291,731
- Obligations on securities sold under repurchase agreements	101,858	-
- Clients' and brokers' balances	161,215	(4,533)
- Other liabilities	(14,634)	(34,214)
Net changes in operating liabilities	110,806	189,660
Cash generated from operating activities	85,632	303,215

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 31 DECEMBER 2017

	The Group	
	31/12/2017	31/12/2016
	RM'000	RM'000
Cash generated from operating activities	85,632	303,215
Net income tax paid	(830)	(281)
Net cash generated from operating activities	84,802	302,934
<u>Cash flows from investing activities</u>		
Net disposal/(purchase) of:		
- Financial investments available-for-sale	51,292	(195,569)
- Financial investments held-to-maturity	14,894	(282,523)
Dividend received from:		
- Financial assets held-for-trading	1,793	541
- Financial investments available-for-sale	3,707	2,790
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	56,796	52,056
Interest expenses paid on derivative financial instruments	(6,700)	(6,825)
Proceeds from disposal of property and equipment	-	98
Purchase of property and equipment	(165)	(653)
Purchase of intangible assets	(713)	(1,832)
Net cash generated from/(used in) investing activities	120,904	(431,760)
<u>Cash flows from financing activities</u>		
Interest paid on subordinated obligations	(1,321)	(1,343)
Dividend paid	(45,844)	(28,954)
Net cash used in financing activities	(47,165)	(30,297)
Net changes in cash and cash equivalents during the financial period	158,541	(159,123)
Effect of exchange rate changes	-	16
Cash and cash equivalents at beginning of the financial period	267,462	336,681
Cash and cash equivalents at end of the financial period	426,003	177,574
Cash and cash equivalents comprise:		
Cash and short term funds	426,003	177,574
Deposit and placements with other financial institutions	-	-
	426,003	177,574

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 31 DECEMBER 2017

	The Company	
	31/12/2017	31/12/2016
	RM'000	RM'000
<u>Cash flows from operating activities</u>		
Profit before taxation	56,601	53,254
<u>Adjustments for non-cash items:</u>		
- Interest income	(24)	(9)
- Dividend income from:		
- Financial investments available-for-sale	(2,581)	(2,040)
- Subsidiary companies	(55,000)	(52,300)
	<u>(57,605)</u>	<u>(54,349)</u>
Operating loss before changes in working capital	(1,004)	(1,095)
Decrease/(increase) in other assets	515	(28)
Decrease in other liabilities	(283)	(338)
Cash used in operating activities	(772)	(1,461)
Net income tax paid	(74)	(54)
Interest received	24	9
Net cash used in operating activities	(822)	(1,506)
<u>Cash flows from investing activities</u>		
Net purchase of financial investments available-for-sale	(10,690)	(24,060)
Dividend received from:		
- Financial investments available-for-sale	2,581	2,040
- Subsidiary companies	55,000	52,300
Net cash generated from investing activities	46,891	30,280
<u>Cash flows from financing activities</u>		
Dividend paid	(45,864)	(28,967)
Net cash used in financing activities	(45,864)	(28,967)
Net changes in cash and cash equivalents during the financial period	205	(193)
Cash and cash equivalents at beginning of the financial period	490	1,065
Cash and cash equivalents at end of the financial period	695	872
Cash and cash equivalents comprise:		
Cash and short term funds	695	872

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 31 DECEMBER 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 31 December 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 31 December 2017.

HLCB Q2 (31.12.17)

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 31 December 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 31 December 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 31 December 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 31 December 2017.

7. Dividends paid

A final single-tier dividend of 19.0 sen per share amounting to RM45.8 million in respect of the financial year ended 30 June 2017, was paid on 17 November 2017.

8. Valuations of property, plant and equipment

No valuations of property, plant and equipment were carried out for the financial quarter ended 31 December 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 29 December 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 Q2 (31.12.17)

11. Financial assets held-for-trading

	The Group	
	As at 31/12/2017 RM'000	As at 30/06/2017 RM'000
Money market instruments		
Malaysian Government Investment Issues	-	30,561
Negotiable instruments of deposits	705,843	831,596
	705,843	862,157
Quoted securities		
In Malaysia:		
Shares	42,581	35,077
Unit trust investment	6,137	6,470
	48,718	41,547
Unquoted securities		
Private and Islamic debt securities	164,519	198,943
	919,080	1,102,647

12. Financial investments available-for-sale

	The Group		The Company	
	As at 31/12/2017 RM'000	As at 30/06/2017 RM'000	As at 31/12/2017 RM'000	As at 30/06/2017 RM'000
Money market instruments				
Malaysian Government Securities	30,544	30,378	-	-
Malaysian Government Investment Issues	71,213	60,896	-	-
Cagamas bonds	50,340	65,442	-	-
	152,097	156,716	-	-
Quoted securities				
In Malaysia:				
Unit trust investment	209,028	201,063	150,879	140,168
Unquoted securities				
Shares	245	245	-	-
Foreign currency bonds	49,200	74,832	-	-
Private and Islamic debt securities	712,920	741,122	-	-
	762,365	816,199	-	-
	1,123,490	1,173,978	150,879	140,168

HLCB Q2 (31.12.17)**13. Financial investments held-to-maturity**

	The Group	
	As at 31/12/2017 RM'000	As at 30/06/2017 RM'000
Money market instruments		
Malaysian Government Securities	201,355	211,031
Malaysian Government Investment Issues	518,520	518,643
	719,875	729,674
Unquoted securities		
Foreign currency bonds	88,021	93,757
Private and Islamic debt securities	85,751	85,784
	173,772	179,541
	893,647	909,215

14. Loans and advances

	The Group	
	As at 31/12/2017 RM'000	As at 30/06/2017 RM'000
Term loan financing	36,356	25,685
Share margin financing	223,835	210,707
Staff loans	61	64
Other loans	468	586
Gross loans and advances	260,720	237,042
Allowance for impaired loans and advances:		
- individual assessment allowance	(112)	(110)
- collective assessment allowance	(683)	(340)
Net loans and advances	259,925	236,592

14a. By type of customer

Domestic business enterprises		
- Small and medium enterprises	9,626	110
- Others	129,860	120,574
Individuals	113,332	108,535
Foreign entities	7,902	7,823
Gross loans and advances	260,720	237,042

HLCB Q2 (31.12.17)

14. Loans and advances (continued)

	The Group	
	As at 31/12/2017 RM'000	As at 30/06/2017 RM'000
14b. <u>By interest rate sensitivity</u>		
Fixed rate		
- Staff housing loans	61	64
- Other fixed rate loan	468	586
Variable rate		
- Cost plus	260,191	236,392
Gross loans and advances	<u>260,720</u>	<u>237,042</u>
14c. <u>By residual contractual maturity</u>		
Maturity within one year	238,738	225,988
More than one year to three years	21,921	10,990
More than five years	61	64
Gross loans and advances	<u>260,720</u>	<u>237,042</u>
14d. <u>By geographical distribution</u>		
Malaysia	<u>260,720</u>	<u>237,042</u>
14e. <u>By economic purpose</u>		
Purchase of securities	237,314	210,707
Working capital	22,877	25,685
Purchase of transport vehicles	112	110
Purchase of landed properties	417	540
Gross loans and advances	<u>260,720</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	6	11,002
Amount written-back during the period/year	(2,672)	-
At 31 December/30 June	<u>8,910</u>	<u>11,576</u>
 % of impaired loans to total loans and advances, net of individual assessment allowance	 <u>3.4%</u>	 <u>4.9%</u>
14g. <u>Impaired loans and advances by geographical distribution</u>		
Malaysia	<u>8,910</u>	<u>11,576</u>
14h. <u>Impaired loans and advances by economic purpose</u>		
Purchase of transport vehicles	112	110
Purchase of landed properties	355	476
Working capital	8,443	10,990
Gross impaired loans and advances	<u>8,910</u>	<u>11,576</u>

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14. Loans and advances (continued)

	The Group	
	As at	As at
	31/12/2017	30/06/2017
	RM'000	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	2	10
At 31 December/30 June	<u>112</u>	<u>110</u>
<u>Collective assessment allowance</u>		
At 1 July	340	914
Allowance made/(written-back) during the period/year	343	(574)
At 31 December/30 June	<u>683</u>	<u>340</u>

15. Clients' and brokers' balances

	The Group	
	As at	As at
	31/12/2017	30/06/2017
	RM'000	RM'000
Performing accounts	345,730	270,148
Impaired accounts	2,023	1,264
	<u>347,753</u>	<u>271,412</u>
Less: Individual assessment allowance	(312)	(417)
Collective assessment allowance	(52)	(28)
	<u>347,389</u>	<u>270,967</u>

16. Other assets

	The Group		The Company	
	As at	As at	As at	As at
	31/12/2017	30/06/2017	31/12/2017	30/06/2017
	RM'000	RM'000	RM'000	RM'000
Amount due from holding company	22	-	-	-
Amount due from subsidiary companies	-	-	89	572
Amount due from related companies	4	-	4	-
Deposits and prepayments	6,202	5,280	4	43
Fee income receivable	3,650	16,076	-	-
Collaterals pledged for derivative transactions	2,516	22,531	-	-
Other receivables	29,756	10,373	3	-
Manager's stocks and consumables	1,362	512	-	-
	<u>43,512</u>	<u>54,772</u>	<u>100</u>	<u>615</u>

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17. Deposits from customers

	The Group	
	As at 31/12/2017 RM'000	As at 30/06/2017 RM'000
17a. <u>By type of deposits</u>		
Fixed deposits	736,140	648,867
17b. <u>By type of customer</u>		
Government and statutory bodies	545,470	456,337
Business enterprises	166,549	171,984
Individuals	24,121	20,546
	736,140	648,867
17c. The maturity structure of fixed deposits are as follows:		
Due within:		
- six months	735,041	642,665
- six months to one year	-	6,202
- one year to five year	1,099	-
	736,140	648,867

18. Deposits and placements of banks and other financial institutions

	The Group	
	As at 31/12/2017 RM'000	As at 30/06/2017 RM'000
Licensed banks	589,187	778,053
Licensed investment banks	-	50,004
Other financial institutions	1,433,640	1,419,676
	2,022,827	2,247,733

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19. Derivative financial assets/liabilities

The Group	Contract or underlying principal amount	Positive fair value	Negative fair value
31/12/2017	RM'000	RM'000	RM'000
Interest rate related contracts:			
- Interest rate swaps	5,205,000	9,831	(17,589)
- Futures	103,186	92	-
- Cross currency swaps	80,930	3,799	-
Foreign exchange related contracts:			
- Foreign currency swaps	2,338,015	19,026	(26,614)
- Foreign currency forwards	118,216	7	(1,058)
- Foreign currency spot	20	-	-
Equity related contracts:			
- Futures	18,076	-	(42)
- Call option	7,000	256	-
	7,870,443	33,011	(45,303)
30/06/2017			
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	-
	7,128,230	19,916	(47,959)

20. Other liabilities

	The Group		The Company	
	As at 31/12/2017 RM'000	As at 30/06/2017 RM'000	As at 31/12/2017 RM'000	As at 30/06/2017 RM'000
Amount due to related companies	15	118	-	-
Remisiers' trust deposits	13,674	13,786	-	-
Other payables and accrued liabilities	74,007	88,430	330	613
Post employment benefits obligation				
- defined contribution plan	205	202	-	-
	87,901	102,536	330	613

21. Subordinated obligations

	The Group	
	As at 31/12/2017 RM'000	As at 30/06/2017 RM'000
RM50.0 million Tier 2 subordinated notes, at par	50,000	50,000
Add: Interest payable	406	392
	50,406	50,392
Less: Unamortised discounts	(119)	(130)
	50,287	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.

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22. Interest income

	Current quarter ended 31/12/2017 RM'000	Last year's quarter ended 31/12/2016 RM'000	Current year ended 31/12/2017 RM'000	Last year's ended 31/12/2016 RM'000
The Group				
Loan and advances	3,741	4,987	7,318	10,766
Money at call and deposits placements with banks and other financial institutions	1,204	608	2,085	1,265
Financial assets held-for-trading	9,054	11,929	18,921	24,689
Financial investments available-for-sale	9,618	9,113	18,471	17,617
Financial investments held-to-maturity	8,328	6,550	16,655	11,731
Derivative financial instruments	2,227	2,090	4,507	3,966
Others	3,948	1,822	8,008	3,893
Total interest income	38,120	37,099	75,965	73,927
The Company				
Money at call and deposits placements with banks and other financial institutions	20	7	24	9

23. Interest expense

	Current quarter ended 31/12/2017 RM'000	Last year's quarter ended 31/12/2016 RM'000	Current year ended 31/12/2017 RM'000	Last year's ended 31/12/2016 RM'000
The Group				
Deposits and placements of banks and other financial institutions	8,026	6,682	16,488	13,034
Deposits from customers	13,734	13,854	27,472	29,287
Derivative financial instruments	3,459	4,144	6,783	7,636
Subordinated notes	673	673	1,346	1,354
Others	1,421	46	2,821	139
Total interest expense	27,313	25,399	54,910	51,450

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24. Non-interest income

	Current quarter ended 31/12/2017 RM'000	Last year's quarter ended 31/12/2016 RM'000	Current year ended 31/12/2017 RM'000	Last year's ended 31/12/2016 RM'000
The Group				
(a) Fee income:				
Fee on loans and advances	418	1,117	418	1,169
Arranger fees	2,532	4,296	4,615	4,896
Placement fees	143	3,302	193	3,542
Corporate advisory fees	1,441	2,828	2,346	3,813
Brokerage commissions	16,047	11,618	30,397	24,226
Commission from futures contracts	189	209	390	286
Unit trust fee income	8,633	6,394	15,914	12,722
Other fee income	7,632	1,216	13,550	2,251
	37,035	30,980	67,823	52,905
(b) Net income from securities:				
Net realised gain/(loss) arising from sale of:				
- Financial assets held-for-trading	8,669	47	12,159	7,797
- Financial investments available-for-sale	513	1,988	1,261	4,642
- Derivative financial instruments	(27,162)	22,871	(34,643)	19,672
Net unrealised (loss)/gain on revaluation of:				
- Financial assets held-for-trading	(6,930)	(9,385)	(9,745)	(9,696)
- Derivative financial instruments	17,276	21,984	15,535	15,056
Dividend income from:				
- Financial assets held-for-trading	248	89	1,793	541
- Financial investments available-for-sale	1,861	1,472	3,707	2,790
	(5,525)	39,066	(9,933)	40,802
(c) Other income				
Gain on disposal of property and equipment	-	20	-	102
Loss on liquidation of a subsidiary	-	-	-	(7)
Foreign exchange gain/(loss)	11,347	(28,736)	19,146	(20,648)
Other non-operating income	63	86	115	168
	11,410	(28,630)	19,261	(20,385)
Total non-interest income	42,920	41,416	77,151	73,322

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24. Non-interest income (continued)

	Current quarter ended 31/12/2017 RM'000	Last year's quarter ended 31/12/2016 RM'000	Current year ended 31/12/2017 RM'000	Last year's ended 31/12/2016 RM'000
The Company				
(a) Net income from securities:				
Net realised loss arising from sale of:				
- Financial investments available-for-sale	-	(12)	-	(12)
Dividend income from:				
- Financial investments available-for-sale	1,332	1,062	2,581	2,040
- Subsidiary companies	55,000	52,300	55,000	52,300
	56,332	53,350	57,581	54,328
(b) Other income				
Foreign exchange gain	-	-	-	11
Other income	32	57	63	110
	32	57	63	121
	56,364	53,407	57,644	54,449

25. Overhead expenses

	Current quarter ended 31/12/2017 RM'000	Last year's quarter ended 31/12/2016 RM'000	Current year ended 31/12/2017 RM'000	Last year's ended 31/12/2016 RM'000
The Group				
Personnel costs				
- Salaries, bonuses and allowances	21,292	18,084	33,898	29,652
- Others	3,492	3,010	6,513	5,832
	24,784	21,094	40,411	35,484
Establishment costs				
- Depreciation of property and equipment	385	468	870	886
- Amortisation of intangible assets	700	684	1,393	1,412
- Rental of premises	1,555	1,069	2,670	2,384
- Information technology expenses	1,502	1,569	3,068	3,042
- Others	529	731	1,277	1,461
	4,671	4,521	9,278	9,185
Marketing expenses				
- Advertisement and publicity	76	156	138	238
- Entertainment and business improvement	511	530	953	1,006
- Others	109	90	211	201
	696	776	1,302	1,445

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25. Overhead expenses (continued)

	Current quarter ended 31/12/2017 RM'000	Last year's quarter ended 31/12/2016 RM'000	Current year ended 31/12/2017 RM'000	Last year's ended 31/12/2016 RM'000
The Group (continued)				
Administration and general expenses				
- Management fees	904	1,001	1,897	1,962
- Communication expenses	395	296	782	642
- Auditors' remuneration				
- Statutory audit	104	97	209	192
- Regulatory related fee	9	2	17	5
- Legal and professional fees	810	1,200	1,805	2,144
- Others	2,393	2,459	4,921	4,684
	4,615	5,055	9,631	9,629
	34,766	31,446	60,622	55,743
The Company				
Personnel costs				
- Salaries, bonuses and allowances	-	55	90	110
- Others	92	63	215	87
	92	118	305	197
Establishment costs				
- Information technology expenses	-	-	-	2
- Others	16	15	33	54
	16	15	33	56
Marketing expenses				
- Others	29	3	31	33
	29	3	31	33
Administration and general expenses				
- Management fees	87	56	211	167
- Communication expenses	4	4	5	5
- Auditors' remuneration				
- Statutory audit	21	15	43	30
- Regulatory related fee	9	2	17	5
- Legal and professional fees	28	358	31	358
- Others	210	199	391	353
	359	634	698	918
	496	770	1,067	1,204

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

	Current quarter ended 31/12/2017 RM'000	Last year's quarter ended 31/12/2016 RM'000	Current year ended 31/12/2017 RM'000	Last year's ended 31/12/2016 RM'000
The Group				
(Allowance for)/write-back of losses on impaired loans and advances:				
Individual assessment allowance				
- made during the year	(2)	-	(2)	-
Collective assessment allowance				
(made)/written-back during the period	(23)	191	(343)	237
Write-back of/(allowance for) losses on clients' and brokers' balances:				
Individual assessment allowance				
- made during the period	64	(235)	(36)	(294)
- written-back during the period	65	60	141	83
Collective assessment allowance made during the period				
	(23)	(5)	(24)	(3)
Allowance for losses on fee income receivables:				
Individual assessment allowance				
- made during the year	(212)	-	(212)	-
- written-back during the period	184	(174)	260	(174)
	53	(163)	(216)	(151)

27. Commitments and contingencies

	As at 31/12/2017 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
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions	6,545	10,352
Other commitments, such as formal standby facilities and credit lines		
- maturity less than one year	-	326
- maturity over one year	79,693	-
Any commitments that are unconditionally cancelled at any time by the bank without prior notice		
- maturity less than one year	601,037	661,322
	688,275	803,000
Derivative financial instruments		
Interest rate related contracts:		
- One year or less	1,863,186	1,778,383
- Over one year to five years	3,310,930	3,485,885
- Over five years	215,000	245,000
Foreign exchange related contracts		
- One year or less	2,456,251	1,611,962
Equity related contracts		
- One year or less	18,076	-
- Over one year to five years	7,000	7,000
	7,870,443	7,128,230
	8,558,718	7,931,230

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 31.12.2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading	48,718	870,362	-	919,080
- Money market instruments	-	705,843	-	705,843
- Quoted securities	48,718	-	-	48,718
- Unquoted securities	-	164,519	-	164,519
Financial investments available-for-sale	209,028	914,217	245	1,123,490
- Money market instruments	-	152,097	-	152,097
- Quoted securities	209,028	-	-	209,028
- Unquoted securities	-	762,120	245	762,365
Derivative financial assets	-	33,011	-	33,011
	257,746	1,817,590	245	2,075,581

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28. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy (continued)

The Group 31.12.2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial liability				
Derivative financial liabilities	-	45,303	-	45,303
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 31.12.2017				
Financial asset				
Financial investments available-for-sale				
- Quoted securities	150,879	-	-	150,879
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	
	31.12.2017 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 31/12/2017	HLIB 30/06/2017
Before deducting proposed dividends:		
Common equity tier 1 ("CET1") capital ratio	25.064%	29.744%
Tier 1 capital ratio	25.064%	29.744%
Total capital ratio	29.161%	33.912%
After deducting proposed dividends: ⁽¹⁾		
CET1 capital ratio	25.064%	25.398%
Tier 1 capital ratio	25.064%	25.398%
Total capital ratio	29.161%	29.566%

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

	HLIB 31/12/2017 RM'000	HLIB 30/06/2017 RM'000
CET1 capital		
Paid-up ordinary share capital	252,950	252,950
Retained profits	191,910	246,910
Other reserves	47	1,440
Less: goodwill and intangibles	(32,754)	(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	(26)	(792)
Total CET1 capital	321,814	376,399
Tier-1 capital	321,814	376,399
Tier-2 capital		
Collective assessment allowance ⁽²⁾ and regulatory reserve ⁽³⁾	2,647	2,783
Subordinated obligations	50,000	50,000
Regulatory adjustments:		
- Investment in subsidiary companies	(40)	(40)
Total Tier 2 capital	52,607	52,743
Total capital	374,421	429,142

Note:

(1) Proposed dividends of RM Nil (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 RM2,444,000 (2017: RM2,504,000).

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29. Capital adequacy (continued)

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

	HLIB 31/12/2017 RM'000	HLIB 30/06/2017 RM'000
Credit risk	449,215	461,963
Market risk	545,333	517,433
Operational risk	289,423	286,064
	<u>1,283,971</u>	<u>1,265,460</u>

30. Segmental reporting

(a) Segment information by activities for the financial period ended 31 December 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
31 December 2017					
REVENUE & EXPENSES					
Revenue					
Net Interest income	20,767	238	50	-	21,055
Non interest income	56,570	15,922	59,659	(55,000)	77,151
Results					
Profit from operations	28,619	5,257	58,492	(55,000)	37,368
Taxation					3,361
Profit after taxation					40,729
31 December 2016					
REVENUE & EXPENSES					
Revenue					
Net Interest income	22,024	251	202	-	22,477
Non interest income	55,802	12,725	57,124	(52,329)	73,322
Results					
Profit from operations	32,198	4,148	55,888	(52,329)	39,905
Taxation					3,198
Profit after taxation					43,103

(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 31 December 2017 is RM6.3 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 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.

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

1. Performance review

(a) Current financial quarter under review against previous corresponding financial quarter

	The Group		Variance	
	Current quarter ended 31/12/2017 RM'000	Last year's quarter ended 31/12/2016 RM'000	RM'000	%
Revenue	81,040	78,515	2,525	3.2%
Profit before tax	19,014	21,507	(2,493)	-11.6%
Profit after tax	20,678	22,912	(2,234)	-9.8%
Profit attributable to equity holders of the Company	20,678	22,912	(2,234)	-9.8%

The group recorded a 11.6% lower profit before tax ("PBT") of RM19.0 million for the 2nd quarter December 2017 as compared to RM21.5 million recorded in the previous year corresponding quarter.

Lower PBT mainly due to higher variable overhead expenses incurred in current quarter. The higher revenue was mainly contributed by higher non-interest income of RM1.5 million (3.6%) and partially offset by lower interest income.

The performance of the respective operating business segments for the three months ended 31 December 2017 as compared to the previous year corresponding quarter is analysed as follows:-

	The Group		Variance	
	Current quarter ended 31/12/2017 RM'000	Last year's quarter ended 31/12/2016 RM'000	RM'000	%
Profit before tax by segments:				
Investment banking and stockbroking	14,193	17,044	(2,851)	-16.7%
Fund management and unit trust management	2,966	2,030	936	46.1%
Investment holding and others	1,855	2,433	(578)	-23.8%
	<u>19,014</u>	<u>21,507</u>	<u>(2,493)</u>	<u>-11.6%</u>

Investment banking and stockbroking - lower PBT by RM2.8 million (-16.7%) attributed to higher variable overhead expenses incurred in current quarter.

Fund management and unit trust management - PBT increased by RM0.9 million (46.1%) mainly due to higher net contribution from management fee income.

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1. Performance review (continued)

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

	The Group		Variance RM'000	%
	Current year ended 31/12/2017 RM'000	Last year's ended 31/12/2016 RM'000		
Revenue	153,116	147,249	5,867	4.0%
Profit before tax	37,368	39,905	(2,537)	-6.4%
Profit after tax	40,729	43,103	(2,374)	-5.5%
Profit attributable to equity holders of the Company	40,729	43,103	(2,374)	-5.5%

The group recorded a lower PBT of RM37.4 million for the financial period ended 31 December 2017 as compared to RM39.9 million recorded in the previous year corresponding period.

Lower PBT mainly due to higher variable overhead expenses incurred for current period. The higher revenue was mainly contributed by higher non-interest income of RM3.8 million (5.2%) and partially offset by lower interest income.

The performance of the respective operating business segments for the six months ended 31 December 2017 as compared to the previous year corresponding period is analysed as follows:-

	The Group		Variance RM'000	%
	Current year ended 31/12/2017 RM'000	Last year's ended 31/12/2016 RM'000		
Profit before tax by segments:				
Investment banking and stockbroking	28,619	32,198	(3,579)	-11.1%
Fund management and unit trust management	5,257	4,148	1,109	26.7%
Investment holding and others	3,492	3,559	(67)	-1.9%
	<u>37,368</u>	<u>39,905</u>	<u>(2,537)</u>	-6.4%

Investment banking and stockbroking - lower PBT by RM3.6 million (-11.1%) mainly attributed to higher variable overhead expenses incurred for current period.

Fund management and unit trust management - PBT increased by RM1.1 million (26.7%) mainly due to higher net contribution from management fee income.

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1. Performance review (continued)

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

	The Group		Variance RM'000	%
	Current	Preceding		
	quarter ended 31/12/2017 RM'000	quarter ended 30/09/2017 RM'000		
Revenue	81,040	72,076	8,964	12.4%
Profit before tax	19,014	18,354	660	3.6%
Profit after tax	20,678	20,051	627	3.1%
Profit attributable to equity holders of the Company	20,678	20,051	627	3.1%

For the financial quarter ended 31 December 2017, the Group reported a higher PBT of RM19.0 million as compared to RM18.3 million in the preceding financial quarter ended 30 September 2017. This was mainly due to higher non-interest income of RM8.7 million (25.4%), higher net interest income of RM0.5 million (5.5%) and lower impairment allowance for loans and other assets of RM0.3 million (>-100.0%). These were partially offset by higher overhead expenses of RM8.9 million (34.5%).

The performance of the respective operating business segments for the three months ended 31 December 2017 as compared to the preceding quarter is analysed as follows:-

	The Group		Variance RM'000	%
	Current	Preceding		
	quarter ended 31/12/2017 RM'000	quarter ended 30/09/2017 RM'000		
Profit before tax by segments:				
Investment banking and stockbroking	14,193	14,426	(233)	-1.6%
Fund management and unit trust management	2,966	2,291	675	29.5%
Investment holding and others	1,855	1,637	218	13.3%
	19,014	18,354	660	3.6%

Investment banking and stockbroking - lower PBT by RM0.2 million (-1.6%) mainly due to higher variable overhead expenses incurred for current quarter. However, these were partially offset by higher revenue contribution from its Debt Markets division.

Fund management and unit trust management - PBT increased by RM0.7 million (29.5%) mainly due to higher net contribution from management fee income.

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	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
The Group	RM'000	RM'000	RM'000	RM'000
Malaysian income tax:				
- Current	638	563	1,190	1,085
- Over provision in prior years	-	-	-	(34)
Deferred taxation	(2,302)	(1,968)	(4,551)	(4,249)
	(1,664)	(1,405)	(3,361)	(3,198)

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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 31 December 2017:

The Group	Principal amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
Interest rate related contracts			
(i) Less than 1 year	1,863,186	1,602	(454)
(ii) 1 year to 3 years	1,695,000	7,215	(14,170)
(iii) More than 3 years	1,830,930	4,905	(2,965)
Foreign exchange related contracts			
(i) Less than 1 year	2,456,251	19,033	(27,672)
Equity related contractes			
(i) Less than 1 year	18,076	-	(42)
(ii) 1 year to 3 years	7,000	256	-
	7,870,443	33,011	(45,303)

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	More than 1 year		Less than 1 year		Sub-total		Total
	Foreign currency RM'000	Local currency RM'000	Foreign currency RM'000	Local currency RM'000	Foreign currency RM'000	Local currency RM'000	
Unsecured							
As at 31 December 2017							
RM Tier 2 subordinated notes	-	49,881	-	406	-	50,287	50,287
As at 30 June 2017							
RM Tier 2 subordinated notes	-	49,870	-	392	-	50,262	50,262
As at 31 December 2016							
RM Tier 2 subordinated notes	-	49,859	-	399	-	50,258	50,258

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.

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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 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	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
The Group				
Net profit attributable to equity holders of the Company (RM'000):	20,678	22,912	40,729	43,103
Weighted average number of ordinary shares in issue ('000):	241,283	241,283	241,283	241,283
Basic earnings per share (sen)	8.6	9.5	16.9	17.9
The Company				
Net profit attributable to equity holders of the Company (RM'000):	55,867	52,616	56,580	53,226
Weighted average number of ordinary shares in issue ('000):	241,388	241,388	241,388	241,388
Basic earnings per share (sen)	23.1	21.8	23.4	22.0

(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 2017 and 31 December 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 31/12/2017 RM'000	As at 30/06/2017 RM'000
The Group		
Total retained profit		
- Realised	496,785	604,643
- Unrealised		
- in respect of deferred tax recognised in the profit or loss	95,939	90,948
- in respect of other items of income and expense	35,757	21,310
	628,481	716,901
Less : Consolidation adjustment	(133,563)	(216,928)
	494,918	499,973
The Company		
Total retained profit		
- Realised	230,679	219,963
- Unrealised		
- in respect of deferred tax recognised in the profit or loss	-	-
	230,679	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 26 February 2018.