

HONG LEONG CAPITAL BERHAD
(Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	The Group		The Company	
		As at 31/12/2019 RM'000	As at 30/06/2019 RM'000	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000
ASSETS					
Cash and short term funds		245,238	520,657	203	513
Financial assets at fair value through profit or loss ("FVTPL")	11	1,216,203	1,506,205	238,327	259,746
Financial investments at fair value through other comprehensive income ("FVOCI")	12	1,205,162	1,110,915	-	-
Financial investments at amortised cost	13	760,397	735,665	-	-
Derivative financial assets	19	30,558	28,310	-	-
Loans and advances	14	286,731	205,290	-	-
Clients' and brokers' balances	15	155,472	247,532	-	-
Other assets	16	61,976	55,409	80	940
Statutory deposits with Bank Negara Malaysia		30,169	37,259	-	-
Tax recoverable		52	53	-	1
Investment in subsidiary companies		-	-	246,574	246,574
Deferred tax assets		87,290	82,556	-	-
Property and equipment		13,949	15,182	-	-
Right-of-use assets ("ROU")		25,202	-	-	-
Goodwill		33,059	33,059	-	-
Other intangible assets		2,483	3,102	-	-
TOTAL ASSETS		4,153,941	4,581,194	485,184	507,774
LIABILITIES					
Deposits from customers	17	895,573	748,004	-	-
Deposits and placements of banks and other financial institutions	18	2,100,161	2,422,120	-	-
Derivative financial liabilities	19	47,387	34,310	-	-
Clients' and brokers' balances		127,129	282,521	-	-
Lease liabilities		25,142	-	-	-
Other liabilities	20	66,221	144,635	380	612
Current tax liabilities		3,856	1,492	41	-
Subordinated obligations	21	100,178	150,505	-	-
TOTAL LIABILITIES		3,365,647	3,783,587	421	612

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 2019

HONG LEONG CAPITAL BERHAD
(Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	The Group		The Company	
		As at	As at	As at	As at
		31/12/2019	30/06/2019	31/12/2019	30/06/2019
		RM'000	RM'000	RM'000	RM'000
EQUITY					
Share capital		246,896	246,896	246,896	246,896
Reserves		547,429	556,742	243,785	266,184
Treasury shares for ESOS scheme		(6,031)	(6,031)	(5,918)	(5,918)
TOTAL EQUITY		<u>788,294</u>	<u>797,607</u>	<u>484,763</u>	<u>507,162</u>
TOTAL LIABILITIES AND EQUITY		<u>4,153,941</u>	<u>4,581,194</u>	<u>485,184</u>	<u>507,774</u>
COMMITMENTS AND CONTINGENCIES					
	27	<u>8,851,279</u>	11,469,676	-	-
Net assets per share attributable to ordinary equity holder of the Company (RM)					
		<u>3.27</u>	<u>3.31</u>		

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 2019

HONG LEONG CAPITAL BERHAD
 (Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF INCOME
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

	Current quarter ended 31/12/2019 RM'000	Last year's quarter ended 31/12/2018 RM'000	Current year ended 31/12/2019 RM'000	Last year's ended 31/12/2018 RM'000
The Group				
Interest income	22a	25,934	34,281	53,896
Interest income for financial assets at FVTPL	22b	10,670	9,434	20,535
Interest expense	23	(26,127)	(33,473)	(54,993)
Net interest income		10,477	10,242	19,438
Non-interest income	24	44,915	33,131	96,899
Net income		55,392	43,373	116,337
Overhead expenses	25	(32,232)	(28,649)	(68,527)
Operating profit before allowances (Allowance for)/write-back of credit impairment losses	26	23,160	14,724	47,810
Profit before taxation		(116)	97	(273)
Taxation		23,044	14,821	47,537
Net profit for the period		54	3,202	(714)
		23,098	18,023	46,823
Earnings per share (sen)				
- Basic		9.6	7.5	19.4
- Diluted		9.6	7.5	19.4

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 2019

HONG LEONG CAPITAL BERHAD
(Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

	Current quarter ended 31/12/2019 RM'000	Last year's quarter ended 31/12/2018 RM'000	Current year ended 31/12/2019 RM'000	Last year's ended 31/12/2018 RM'000
The Group				
Net profit for the period	23,098	18,023	46,823	42,054
Other comprehensive (expense)/income:				
Items that will be reclassified subsequently to income statements				
Net fair value changes on financial investments at FVOCI				
- Unrealised net (loss)/gain on revaluation of financial investments at FVOCI	(1,362)	1,717	2,599	5,629
- Net transfer to income statements on disposal of financial investments at FVOCI	(569)	(551)	(6,605)	(1,004)
- Net credit impairment loss change in financial investments at FVOCI	(51)	(18)	(10)	337
Income tax relating to net fair value changes on financial investments at FVOCI	464	(280)	962	(1,111)
Other comprehensive (expense)/income for the period, net of tax	(1,518)	868	(3,054)	3,851
Total comprehensive income for the period, net of tax	21,580	18,891	43,769	45,905

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 2019

HONG LEONG CAPITAL BERHAD
 (Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

	Current quarter ended 31/12/2019	Last year's quarter ended 31/12/2018	Current year ended 31/12/2019	Last year's ended 31/12/2018
Note	RM'000	RM'000	RM'000	RM'000
The Company				
Interest income	22a 6	1	8	2
Interest expense	23 -	-	-	-
Net interest income	6	1	8	2
Non-interest income	24 30,969	56,062	31,648	58,389
Net income	30,975	56,063	31,656	58,391
Overhead expenses	25 (452)	(428)	(825)	(816)
Profit before taxation	30,523	55,635	30,831	57,575
Taxation	(82)	(37)	(125)	(124)
Net profit/total comprehensive income for the period	30,441	55,598	30,706	57,451
Earnings per share (sen)				
- Basic	12.6	23.0	12.7	23.8
- Diluted	12.6	23.0	12.7	23.8

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 2019

HONG LEONG CAPITAL BERHAD
 (Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

	Attributable to owners of the parent					Total RM'000
	Share Capital RM'000	Treasury Shares for ESOS Scheme RM'000	Regulatory Reserves RM'000	Fair Value Reserve RM'000	Retained Profits RM'000	
The Group						
At 1 July 2019	246,896	(6,031)	11,606	7,794	537,342	797,607
Net profit for the financial period	-	-	-	-	46,823	46,823
Other comprehensive expense, net of tax	-	-	-	(3,054)	-	(3,054)
Total comprehensive (expense)/income	-	-	-	(3,054)	46,823	43,769
Transfer from regulatory reserve	-	-	(1,068)	-	1,068	-
Dividend paid	-	-	-	-	(53,082)	(53,082)
At 31 December 2019	246,896	(6,031)	10,538	4,740	532,151	788,294
At 1 July 2018	246,896	(6,031)	12,743	(1,391)	514,337	766,554
Net profit for the financial period	-	-	-	-	42,054	42,054
Other comprehensive income, net of tax	-	-	-	3,851	-	3,851
Total comprehensive income	-	-	-	3,851	42,054	45,905
Transfer from regulatory reserve	-	-	(1,011)	-	1,011	-
Dividend paid	-	-	-	-	(45,844)	(45,844)
At 31 December 2018	246,896	(6,031)	11,732	2,460	511,558	766,615

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 2019

HONG LEONG CAPITAL BERHAD
 (Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

	Non-Distributable		Distributable	
	Share Capital RM'000	Treasury Shares for ESOS Scheme RM'000	Retained Profits RM'000	Total RM'000
The Company				
At 1 July 2019	246,896	(5,918)	266,184	507,162
Net profit for the financial period	-	-	30,706	30,706
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income	-	-	30,706	30,706
Dividend paid	-	-	(53,105)	(53,105)
At 31 December 2019	246,896	(5,918)	243,785	484,763
At 1 July 2018	246,896	(5,918)	238,437	479,415
Net profit for the financial period	-	-	57,451	57,451
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income	-	-	57,451	57,451
Dividend paid	-	-	(45,864)	(45,864)
At 31 December 2018	246,896	(5,918)	250,024	491,002

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 2019

HONG LEONG CAPITAL BERHAD
(Company Number 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

	The Group	
	31/12/2019	31/12/2018
	RM'000	RM'000
<u>Cash flows from operating activities</u>		
Profit before taxation	47,537	37,531
<u>Adjustments for non-cash items:</u>		
- Depreciation of property and equipment	1,749	1,662
- Amortisation of intangible assets	856	1,558
- Depreciation of ROU assets	2,033	-
- Gain on disposal of property and equipment	-	(65)
- Allowance for impairment losses on loans and advances	214	18
- Allowance for impairment losses on financial investments and other financial assets	113	253
- Net unrealised loss/(gain) on revaluation of:		
- Financial assets at FVTPL	4,012	(2,686)
- Derivative financial instruments	11,171	(7,191)
- Interest income from:		
- Financial assets at FVTPL	(20,535)	(22,624)
- Financial investments at FVOCI	(20,258)	(34,963)
- Financial investments at amortised cost	(14,107)	(13,171)
- Interest expense from:		
- Derivative financial instruments	7,591	3,835
- Subordinated obligations	3,153	1,346
- Lease liabilities	627	-
- Dividend income from:		
- Financial assets at FVTPL	(4,903)	(5,784)
	(28,284)	(77,812)
Operating profit/(loss) before changes in working capital	19,253	(40,281)
Changes in working capital:		
- Securities purchased under resale agreements	-	35,126
- Deposits and placements with banks and other financial institutions with original maturity of more than three months	-	40,645
- Financial assets at FVTPL	284,596	352,471
- Derivative financial instruments	(991)	(14)
- Loans and advances	(81,655)	(536)
- Clients' and brokers' balances	91,971	82,305
- Other assets	(6,622)	4,478
- Statutory deposits with Bank Negara Malaysia	7,090	1,777
Net changes in operating assets	294,389	516,252
- Deposits from customers	147,569	(16,784)
- Deposits and placements of banks and other financial institutions	(321,959)	426,023
- Obligations on securities sold under repurchase agreements	-	(99,654)
- Clients' and brokers' balances	(155,392)	(113,692)
- Other liabilities	(78,946)	(42,610)
Net changes in operating liabilities	(408,728)	153,283
Cash (used in)/generated from operating activities	(95,086)	629,254

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 2019

HONG LEONG CAPITAL BERHAD
(Company Number 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

	The Group	
	31/12/2019	31/12/2018
	RM'000	RM'000
Cash (used in)/generated from operating activities	(95,086)	629,254
Net income tax paid	(2,118)	(1,291)
Net cash (used in)/generated from operating activities	(97,204)	627,963
<u>Cash flows from investing activities</u>		
Net purchase of financial investments at FVOCI	(95,865)	(393,774)
Net purchase of financial investments at amortised cost	(24,505)	(72,068)
Dividend received from:		
- Financial assets at FVTPL	4,903	5,784
Interest received from financial assets at FVTPL, financial investments at FVOCI, financial investments at amortised cost and derivatives	54,319	71,782
Interest expenses paid on derivative financial instruments	(7,559)	(3,796)
Proceeds from disposal of property and equipment	-	65
Purchase of property and equipment	(516)	(1,426)
Purchase of intangible assets	(237)	(1,282)
Net cash used in investing activities	(69,460)	(394,715)
<u>Cash flows from financing activities</u>		
Interest paid on subordinated obligations	(3,480)	(1,336)
Repayment of lease liabilities	(2,193)	-
Redemption of subordinated obligations	(50,000)	-
Dividend paid	(53,082)	(45,844)
Net cash used in financing activities	(108,755)	(47,180)
Net changes in cash and cash equivalents during the financial period	(275,419)	186,068
Cash and cash equivalents at beginning of the financial period	520,657	127,647
Cash and cash equivalents at end of the financial period	245,238	313,715
Cash and cash equivalents comprise:		
Cash and short term funds	245,238	113,663
Deposits and placements with banks and other financial institutions	-	200,052
	245,238	313,715

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 2019

HONG LEONG CAPITAL BERHAD
(Company Number 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2019

	The Company	
	31/12/2019	31/12/2018
	RM'000	RM'000
<u>Cash flows from operating activities</u>		
Profit before taxation	30,831	57,575
Adjustments for non-cash items:		
- Net unrealised loss on revaluation of financial assets at FVTPL	1,010	172
- Gain on liquidation of a subsidiary	-	(200)
- Dividend income from:		
- Financial assets at FVTPL	(4,146)	(3,622)
- Subsidiary companies	(28,000)	(54,830)
	(31,136)	(58,480)
Operating loss before changes in working capital	(305)	(905)
Decrease/(Increase) in financial assets at FVTPL	20,409	(81,780)
Decrease in other assets	2,649	16,027
Decrease in other liabilities	(232)	(16,068)
Cash generated from/(used in) operating activities	22,521	(82,726)
Net income tax paid	(83)	(8)
Net cash generated from/(used in) operating activities	22,438	(82,734)
<u>Cash flows from investing activities</u>		
Dividend received from:		
- Financial assets at FVTPL	2,357	3,622
- Subsidiary companies	28,000	54,830
Proceed from liquidation of a subsidiary	-	70,200
Net cash generated from investing activities	30,357	128,652
<u>Cash flows from financing activities</u>		
Dividend paid	(53,105)	(45,864)
Net cash used in financing activities	(53,105)	(45,864)
Net changes in cash and cash equivalents during the financial period	(310)	54
Cash and cash equivalents at beginning of the financial period	513	44
Cash and cash equivalents at end of the financial period	203	98
Cash and cash equivalents comprise:		
Cash and short term funds	203	98

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 2019

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 2019

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 2019 have been prepared under the historical cost convention, as modified by the revaluation of financial investments at fair value through other comprehensive income ("FVOCI") and financial assets/financial liabilities (including derivative financial instruments) at fair value through profit or loss ("FVTPL").

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 2019. The explanatory notes attached to the unaudited condensed financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group and the Company since the financial year ended 30 June 2019.

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

- MFRS 16 'Leases'
- Amendments to MFRS 9 'Prepayment Features with Negative Compensation'
- IC Interpretation 23 'Uncertainty over Income Tax Treatments'
- Annual Improvements to MFRSs 2015 – 2017 Cycle
 - Amendments to MFRS 112 'Income Taxes'
 - Amendments to MFRS 123 'Borrowings Costs'

The adoption of these MFRSs, amendments to MFRSs and IC Interpretations did not have any significant financial impact on the results of the Group and the Company other than the effects and change in accounting policies arising from the adoption of MFRS 16 as disclosed in Note 36.

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 2019 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 2019.

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

There were no unusual items affecting the assets, liabilities, equities, net income or cash flows of the Group and the Company during the financial quarter ended 31 December 2019.

5. Change in estimate

There were no material changes in estimate of amount reported in prior financial year that have a material effect in the financial quarter ended 31 December 2019.

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 2019, other than as mentioned below.

(a) 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 (30.06.2019: 5,612,700) shares in the Group costing RM6,031,241 (30.06.2019: RM6,031,241) inclusive of transaction costs, as at 31 December 2019.

(b) Repayment of debt securities

On 6 November 2019, Hong Leong Investment Bank Berhad ("HLIB") had fully redeemed 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, bearing coupon rate of 5.30% per annum.

7. Dividends paid

A final single-tier dividend of 22.0 sen per share amounting to RM53.1 million in respect of the financial year ended 30 June 2019, was paid on 21 November 2019.

8. Valuations of property, plant and equipment

No valuations of property, plant and equipment were carried out for the financial quarter ended 31 December 2019.

9. Significant events

Public shareholding spread

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

The public shareholding spread of the Company as at 31 December 2019 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 is in active discussions with its majority shareholder, Hong Leong Financial Group Berhad, on possible options to comply with the shareholding spread requirement. However, in view of prevailing soft market conditions, these options may take more time to pursue. We will engage the relevant regulators to facilitate the upliftment of trading suspension once the 25% public shareholding spread requirements is achieved.

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 (31.12.19)
11. Financial assets at fair value through profit or loss ("FVTPL")

	The Group		The Company	
	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000
Money market instruments				
Malaysian Government Securities	20,738	20,806	-	-
Malaysian Government Investment Issues	31,466	-	-	-
Negotiable instruments of deposits	699,854	991,171	-	-
Cagamas bonds	-	5,017	-	-
	752,058	1,016,994	-	-
Quoted securities				
In Malaysia:				
Shares	115,678	62,490	31,959	26,263
Unit trust investment	206,712	233,847	206,368	233,483
	322,390	296,337	238,327	259,746
Unquoted securities				
Shares	1,365	1,365	-	-
Foreign currency bonds	33,296	-	-	-
Corporate bond and/or sukuk	107,094	191,509	-	-
	141,755	192,874	-	-
	1,216,203	1,506,205	238,327	259,746

12. Financial investments at fair value through other comprehensive income ("FVOCI")

	The Group	
	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000
Money market instruments		
Malaysian Government Securities	165,186	235,724
Malaysian Government Investment Issues	104,937	31,073
Cagamas bonds	72,202	56,022
	342,325	322,819
Unquoted securities		
Foreign currency bonds	56,233	111,351
Corporate bond and/or sukuk	806,604	676,745
	862,837	788,096
	1,205,162	1,110,915

HLCB Q2 (31.12.19)

12. Financial investments at fair value through other comprehensive income ("FVOCI") (continued)

Movements in expected credit losses of debt instruments at FVOCI are as follows:-

The Group	12 Months	Lifetime ECL	Lifetime ECL	Total ECL
	ECL	not credit	credit	
	(Stage 1)	(Stage 2)	(Stage 3)	
	RM'000	RM'000	RM'000	RM'000
At 1 July 2019	143	-	-	143
Allowances made	3	-	-	3
Amount written back	(16)	-	-	(16)
New financial assets originated or purchased	97	-	-	97
Financial assets derecognised	(79)	-	-	(79)
Exchange differences	(15)	-	-	(15)
At 31 December 2019	<u>133</u>	<u>-</u>	<u>-</u>	<u>133</u>
At 1 July 2018	205	-	-	205
Allowances made	44	-	-	44
Amount written back	(20)	-	-	(20)
New financial assets originated or purchased	524	-	-	524
Financial assets derecognised	(607)	-	-	(607)
Exchange differences	(3)	-	-	(3)
At 30 June 2019	<u>143</u>	<u>-</u>	<u>-</u>	<u>143</u>

13. Financial investments at amortised cost

	The Group	
	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000
Money market instruments		
Malaysian Government Securities	220,262	157,905
Malaysian Government Investment Issues	<u>488,618</u>	<u>478,451</u>
	<u>708,880</u>	<u>636,356</u>
Unquoted securities		
Foreign currency bonds	16,093	53,810
Corporate bond and/or sukuk	<u>35,438</u>	<u>45,535</u>
	<u>51,531</u>	<u>99,345</u>
Less: Expected credit losses	(14)	(36)
	<u>760,397</u>	<u>735,665</u>

HLCB Q2 (31.12.19)

13. Financial investments at amortised cost (continued)

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

The Group	12 Months	Lifetime ECL	Lifetime ECL	Total ECL
	ECL (Stage 1)	not credit impaired (Stage 2)	credit impaired (Stage 3)	
	RM'000	RM'000	RM'000	RM'000
At 1 July 2019	36	-	-	36
Financial assets derecognised	(22)	-	-	(22)
At 31 December 2019	<u>14</u>	<u>-</u>	<u>-</u>	<u>14</u>
At 1 July 2018	24	-	-	24
New financial assets originated or purchased	15	-	-	15
Exchange differences	(3)	-	-	(3)
At 30 June 2019	<u>36</u>	<u>-</u>	<u>-</u>	<u>36</u>

14. Loans and advances

	The Group	
	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000
Term loan financing	55,576	19,862
Share margin financing	234,395	188,217
Staff loans	48	51
Other loans	281	515
Gross loans and advances	<u>290,300</u>	<u>208,645</u>
Allowance for impairment losses:		
- expected credit losses	(3,569)	(3,355)
Net loans and advances	<u>286,731</u>	<u>205,290</u>
a. <u>By type of customer</u>		
Domestic business enterprises		
- Small and medium enterprises	59,089	509
- Others	86,064	71,282
Individuals	139,908	128,253
Foreign entities	5,239	8,601
Gross loans and advances	<u>290,300</u>	<u>208,645</u>
b. <u>By interest rate sensitivity</u>		
Fixed rate		
- Staff housing loans	48	51
- Other fixed rate loan	281	515
Variable rate		
- Cost plus	289,971	208,079
Gross loans and advances	<u>290,300</u>	<u>208,645</u>
c. <u>By residual contractual maturity</u>		
Maturity within one year	290,252	202,210
More than one year to three years	-	6,384
More than five years	48	51
Gross loans and advances	<u>290,300</u>	<u>208,645</u>

14. Loans and advances (continued)

	The Group	
	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000
d. <u>By geographical distribution</u>		
Malaysia	290,300	208,645
e. <u>By economic purpose</u>		
Purchase of securities	283,587	201,696
Working capital	6,384	6,384
Purchase of transport vehicles	126	126
Purchase of landed properties	203	439
Gross loans and advances	290,300	208,645
f. Impaired loans and advances		
(i) Movements in impaired loans and advances ("impaired loans") are as follows:		
At 1 July	6,898	6,873
Impaired during the financial period/year	4	25
Amount written-back during the financial period/year	(237)	-
At 31 December/30 June	6,665	6,898
(ii) <u>By geographical distribution</u>		
Malaysia	6,665	6,898
(iii) <u>By economic purpose</u>		
Purchase of transport vehicles	126	126
Purchase of landed properties	155	388
Working capital	6,384	6,384
Gross impaired loans and advances	6,665	6,898

g. Movements in allowance for impairment losses are as follows:

Expected credit losses

The Group	12 Months	Lifetime ECL	Lifetime ECL	Total ECL RM'000
	ECL (Stage 1) RM'000	not credit impaired (Stage 2) RM'000	credit impaired (Stage 3) RM'000	
At 1 July 2019	140	1	3,214	3,355
Transferred to Stage 1	3	(3)	-	-
Transferred to Stage 2	(2)	2	-	-
New financial assets originated	138	-	-	138
Financial assets derecognised	(1)	-	-	(1)
Allowance made	104	-	34	138
Allowance written-back	(56)	-	(5)	(61)
At 31 December 2019	326	-	3,243	3,569

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14. Loans and advances (continued)

g. Movements in allowance for impairment losses are as follows:(continued)

Expected credit losses (continued)

The Group	12 Months ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total ECL RM'000
At 1 July 2018	223	3	2,959	3,185
Transferred to Stage 1	18	(18)	-	-
Transferred to Stage 2	(16)	16	-	-
New financial assets originated	21	1	-	22
Financial assets derecognised	(4)	-	-	(4)
Allowance made	29	1	287	317
Allowance written-back	(131)	(2)	(32)	(165)
At 30 June 2019	<u>140</u>	<u>1</u>	<u>3,214</u>	<u>3,355</u>

15. Clients' and brokers' balances

	The Group	
	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000
Performing accounts	155,050	247,150
Impaired accounts	730	602
	155,780	247,752
Allowance for impairment losses:		
- expected credit losses	(308)	(220)
	155,472	247,532

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16. Other assets

	The Group		The Company	
	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000
Amount due from subsidiary companies	-	-	72	130
Deposits and prepayments	6,325	8,583	5	35
Fee income receivable	5,990	8,883	-	-
Cash collaterals pledged for derivative transactions	8,182	7,417	-	-
Treasury related receivables	26,284	19,185	-	-
Other receivables	16,430	12,665	3	775
Manager's stocks and consumables	192	46	-	-
	63,403	56,779	80	940
Allowance for impairment losses:				
- Expected credit losses	(1,427)	(1,370)	-	-
	61,976	55,409	80	940

17. Deposits from customers

	The Group	
	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000
a. <u>By type of deposits</u>		
Fixed deposits	895,573	748,004
b. <u>By type of customer</u>		
Government and statutory bodies	719,666	525,319
Business enterprises	158,561	180,092
Individuals	17,346	42,593
	895,573	748,004
c. The maturity structure of fixed deposits are as follows:		
Due within:		
- six months	860,168	748,004
- six months to one year	35,405	-
	895,573	748,004

18. Deposits and placements of banks and other financial institutions

	The Group	
	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000
Licensed banks	184,891	319,492
Licensed investment banks	-	130,032
Other financial institutions	1,915,270	1,972,596
	2,100,161	2,422,120

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19. Derivative financial assets/(liabilities)

The Group	Contract or underlying principal amount	Positive fair value	Negative fair value
31/12/2019	RM'000	RM'000	RM'000
Interest rate related contracts:			
- Interest rate swaps	5,707,575	18,116	(27,991)
- Futures	28,633	228	-
- Cross currency swaps	81,810	3,801	-
Foreign exchange related contracts:			
- Foreign currency swaps	1,899,532	7,305	(16,791)
- Foreign currency forwards	238,993	17	(2,605)
Equity related contracts:			
- Futures	66,081	1,085	-
- Call option	7,000	6	-
	8,029,624	30,558	(47,387)
30/06/2019			
Interest rate related contracts:			
- Interest rate swaps	8,005,000	16,732	(29,429)
- Futures	91,819	-	(134)
- Cross currency swaps	82,720	2,745	-
Foreign exchange related contracts:			
- Foreign currency swaps	2,313,381	8,731	(4,228)
- Foreign currency forwards	170,641	48	(519)
Equity related contracts:			
- Futures	29,152	39	-
- Call option	7,000	15	-
	10,699,713	28,310	(34,310)

20. Other liabilities

	The Group		The Company	
	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000
Amount due to holding company	467	169	-	-
Amount due to related companies	14	14	-	-
Remisiers' trust deposits	12,778	13,011	-	-
Treasury related payables	-	20,624	-	-
Advance payments received for corporate exercise	243	66,015	-	-
Other payables and accrued liabilities	52,505	44,590	380	612
Post employment benefits obligation - defined contribution plan	214	212	-	-
	66,221	144,635	380	612

21. Subordinated obligations

	The Group	
	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000
RM150.0 million Tier 2 subordinated notes, at par	100,000	150,000
Add: Interest payable	185	603
	100,185	150,603
Less: Unamortised discounts	(7)	(98)
	100,178	150,505

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.

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

On 14 June 2019, HLIB issued a second tranche of RM100.0 million nominal value of 10-year non-callable 5 years Sub Notes callable on 14 June 2024 (and thereafter) and due on 14 June 2029 out of its RM1.0 billion Multi-Currency Sub Notes Programme. The coupon rate for this second tranche of the Sub Notes is 4.23% per annum, which is payable semi-annually in arrears from the date of the issue.

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22a. Interest income

	Current quarter ended 31/12/2019 RM'000	Last year's quarter ended 31/12/2018 RM'000	Current year ended 31/12/2019 RM'000	Last year's ended 31/12/2018 RM'000
The Group				
Loan and advances	3,778	3,396	7,030	6,761
Money at call and deposits placements with banks and other financial institutions	789	432	4,744	1,256
Financial investments at FVOCI	10,245	20,066	20,258	34,963
Financial investments at amortised cost	7,220	6,801	14,107	13,171
Others	3,902	3,586	7,757	7,554
Total interest income	<u>25,934</u>	<u>34,281</u>	<u>53,896</u>	<u>63,705</u>
The Company				
Money at call and deposits placements with banks and other financial institutions	<u>6</u>	<u>1</u>	<u>8</u>	<u>2</u>

22b. Interest income for financial assets at FVTPL

	Current quarter ended 31/12/2019 RM'000	Last year's quarter ended 31/12/2018 RM'000	Current year ended 31/12/2019 RM'000	Last year's ended 31/12/2018 RM'000
The Group				
Financial assets at FVTPL	<u>10,670</u>	<u>9,434</u>	<u>20,535</u>	<u>22,624</u>

23. Interest expense

	Current quarter ended 31/12/2019 RM'000	Last year's quarter ended 31/12/2018 RM'000	Current year ended 31/12/2019 RM'000	Last year's ended 31/12/2018 RM'000
The Group				
Deposits and placements of banks and other financial institutions	5,364	8,918	10,881	19,032
Deposits from customers	15,392	21,934	32,670	40,819
Derivative financial instruments	3,663	1,937	7,591	3,835
Subordinated obligations	1,333	673	3,153	1,346
Others	375	11	698	249
Total interest expense	<u>26,127</u>	<u>33,473</u>	<u>54,993</u>	<u>65,281</u>

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24. Non-interest income

	Current quarter ended 31/12/2019 RM'000	Last year's quarter ended 31/12/2018 RM'000	Current year ended 31/12/2019 RM'000	Last year's ended 31/12/2018 RM'000
The Group				
(a) Fee income:				
Fee on loans and advances	14	43	91	81
Arranger fees	1,201	1,283	2,054	1,708
Placement fees	1,494	1,450	2,203	1,913
Corporate advisory fees	462	2,191	1,843	2,914
Underwriting Commission	-	1,623	-	1,623
Brokerage commissions	13,593	12,545	26,085	26,904
Commission from futures contracts	183	247	573	383
Unit trust fee income	16,634	14,188	34,684	25,527
Other fee income	1,700	1,603	5,161	2,231
	35,281	35,173	72,694	63,284
(b) Net income from securities:				
Net realised gain/(loss) arising from sale of:				
- Financial assets at FVTPL	616	256	5,823	(875)
- Financial investments at FVOCI	2,131	1,639	12,396	4,038
- Derivative financial instruments	(965)	(468)	12,690	(16,684)
Net unrealised gain/(loss) on revaluation of:				
- Financial assets at FVTPL	66	(1,906)	(4,012)	2,686
- Derivative financial instruments	(4,687)	(10,613)	(11,171)	7,191
Dividend income from:				
- Financial assets at FVTPL	2,031	2,630	4,903	5,784
	(808)	(8,462)	20,629	2,140
(c) Other income				
Gain on disposal of property and equipment	-	65	-	65
Foreign exchange gain	10,383	6,285	3,452	7,504
Other non-operating income	59	70	124	122
	10,442	6,420	3,576	7,691
Total non-interest income	44,915	33,131	96,899	73,115
The Company				
(a) Net income from securities:				
Net realised gain/(loss) arising from sale of:				
- Financial assets at FVTPL	148	(795)	411	(183)
Net unrealised gain/(loss) on revaluation of:				
- Financial assets at FVTPL	982	(365)	(1,010)	(172)
Dividend income from:				
- Financial assets at FVTPL	1,789	2,133	4,146	3,622
- Subsidiary companies	28,000	54,830	28,000	54,830
	30,919	55,803	31,547	58,097
(b) Other income				
Gain on liquidation of a subsidiary	-	200	-	200
Other income	50	59	101	92
	50	259	101	292
Total non-interest income	30,969	56,062	31,648	58,389

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25. Overhead expenses

	Current quarter ended 31/12/2019 RM'000	Last year's quarter ended 31/12/2018 RM'000	Current year ended 31/12/2019 RM'000	Last year's ended 31/12/2018 RM'000
The Group				
Personnel costs				
- Salaries, bonuses and allowances	15,801	14,065	39,932	27,784
- Others	5,776	3,881	7,272	7,141
	21,577	17,946	47,204	34,925
Establishment costs				
- Depreciation of property and equipment	879	736	1,749	1,662
- Amortisation of intangible assets	417	734	856	1,558
- Depreciation of ROU assets	1,013	-	2,033	-
- Rental of premises	36	1,144	45	2,391
- Information technology expenses	1,091	1,429	3,048	2,772
- Others	649	613	1,224	1,425
	4,085	4,656	8,955	9,808
Marketing expenses				
- Advertisement and publicity	270	157	475	246
- Entertainment and business improvement	286	451	641	992
- Others	187	329	280	462
	743	937	1,396	1,700
Administration and general expenses				
- Management fees	1,273	931	2,507	2,003
- Communication expenses	321	440	766	907
- Auditors' remuneration				
- Statutory audit	106	112	195	224
- Regulatory related fee	2	2	5	12
- Legal and professional fees	1,368	944	2,102	1,929
- Others	2,757	2,681	5,397	4,900
	5,827	5,110	10,972	9,975
	32,232	28,649	68,527	56,408
The Company				
Personnel costs				
- Salaries, bonuses and allowances	-	-	-	-
- Others	97	36	188	92
	97	36	188	92
Establishment costs				
- Information technology expenses	1	-	2	1
- Others	13	7	28	18
	14	7	30	19

25. Overhead expenses (continued)

	Current quarter ended 31/12/2019 RM'000	Last year's quarter ended 31/12/2018 RM'000	Current year ended 31/12/2019 RM'000	Last year's ended 31/12/2018 RM'000
The Company (continued)				
Marketing expenses				
- Others	1	1	1	1
	1	1	1	1
Administration and general expenses				
- Management fees	108	143	258	291
- Communication expenses	5	2	6	3
- Auditors' remuneration				
- Statutory audit	24	22	35	44
- Regulatory related fee	2	2	5	12
- Legal and professional fees	19	20	19	32
- Others	182	195	283	322
	340	384	606	704
	452	428	825	816

26. (Allowance for)/write-back of credit impairment losses

	Current quarter ended 31/12/2019 RM'000	Last year's quarter ended 31/12/2018 RM'000	Current year ended 31/12/2019 RM'000	Last year's ended 31/12/2018 RM'000
The Group				
Expected credit losses				
(a) Loans and advances	(38)	12	(214)	(18)
(b) Financial investments				
(i) Financial investments at FVOCI	51	18	10	(337)
(ii) Financial investments at amortised cost	4	(1)	22	(17)
	55	17	32	(354)
(c) Other financial assets:				
(i) Clients' and brokers' balances:				
- Expected credit losses	(101)	29	(89)	22
- Impaired clients' and brokers' balances recovered	16	47	54	47
(ii) Deposits and placements with banks and other financial institutions	-	-	-	22
(iii) Securities purchased under resale agreements	-	-	-	2
(iv) Other assets	(48)	(8)	(56)	55
	(133)	68	(91)	148
	(116)	97	(273)	(224)

27. Commitments and contingencies

	As at 31/12/2019 Principal Amount RM'000	As at 30/06/2019 Principal Amount RM'000
The Group		
Commitments and contingent liabilities		
Direct Credit Substitutes	1,000	1,000
Obligations under underwriting agreement	-	18,860
Other commitments, such as formal standby facilities and credit lines, with an original maturity:		
- Over one year	30,000	-
Any commitments that are unconditionally cancelled at any time by the bank without prior notice		
- Maturity less than one year	790,655	750,103
	<u>821,655</u>	<u>769,963</u>
Derivative financial instruments		
Interest rate related contracts:		
- One year or less	2,306,208	4,566,819
- Over one year to five years	3,391,810	3,367,720
- Over five years	120,000	245,000
Foreign exchange related contracts		
- One year or less	2,138,525	2,484,022
Equity related contracts		
- One year or less	73,081	36,152
	<u>8,029,624</u>	<u>10,699,713</u>
	<u>8,851,279</u>	<u>11,469,676</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 31.12.2019	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets at FVTPL	322,390	892,448	1,365	1,216,203
- Money market instruments	-	752,058	-	752,058
- Quoted securities	322,390	-	-	322,390
- Unquoted securities	-	140,390	1,365	141,755
Financial investments at FVOCI	-	1,205,162	-	1,205,162
- Money market instruments	-	342,325	-	342,325
- Unquoted securities	-	862,837	-	862,837
Derivative financial assets	-	30,558	-	30,558
	322,390	2,128,168	1,365	2,451,923

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28. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy (continued)

The Group 31.12.2019	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial liability				
Derivative financial liabilities	-	47,387	-	47,387
30.06.2019				
Financial assets				
Financial assets at FVTPL	296,337	1,208,503	1,365	1,506,205
- Money market instruments	-	1,016,994	-	1,016,994
- Quoted securities	296,337	-	-	296,337
- Unquoted securities	-	191,509	1,365	192,874
Financial investments at FVOCI	-	1,110,915	-	1,110,915
- Money market instruments	-	322,819	-	322,819
- Unquoted securities	-	788,096	-	788,096
Derivative financial assets	-	28,310	-	28,310
	296,337	2,347,728	1,365	2,645,430
Financial liability				
Derivative financial liabilities	-	34,310	-	34,310
The Company 31.12.2019				
Financial asset				
Financial assets at FVTPL				
- Quoted securities	238,327	-	-	238,327
30.06.2019				
Financial asset				
Financial assets at FVTPL				
- Quoted securities	259,746	-	-	259,746

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

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

	The Group	
	31.12.2019	30.06.2019
	RM'000	RM'000
Financial assets at FVTPL		
At 1 July	1,365	1,380
Fair value changes recognised in income statement	-	(15)
At 31 December/30 June	1,365	1,365

29. Capital adequacy

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

	HLIB 31/12/2019	HLIB 30/06/2019
Before deducting proposed dividends:		
Common equity tier 1 ("CET1") capital ratio	32.967%	30.907%
Tier 1 capital ratio	32.967%	30.907%
Total capital ratio	42.915%	43.489%
After deducting proposed dividends: ⁽¹⁾		
CET1 capital ratio	32.967%	28.642%
Tier 1 capital ratio	32.967%	28.642%
Total capital ratio	42.915%	41.224%

Note:

⁽¹⁾ Proposed dividends of RM Nil (30.06.2019: RM28,000,005).

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

	HLIB 31/12/2019 RM'000	HLIB 30/06/2019 RM'000
CET1 capital		
Paid-up ordinary share capital	252,950	252,950
Retained profits	209,920	237,920
Other reserves	4,740	7,794
Less: goodwill and intangibles	(30,702)	(31,129)
Less: deferred tax assets	(85,660)	(80,926)
Less: investment in subsidiary companies	(200)	(200)
Less: 55% of cumulative gains of financial investments at FVOCI	(2,607)	(4,287)
Total CET1 capital	348,441	382,122
Tier 1 capital	348,441	382,122
Tier 2 capital		
Stage 1 and Stage 2 expected credit loss allowances and regulatory reserves ⁽²⁾	5,143	5,556
Subordinated obligations	100,000	150,000
Total Tier 2 capital	105,143	155,556
Total capital	453,584	537,678

Note:

⁽²⁾ Includes the qualifying regulatory reserve for non-impaired loans and advances.

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29. Capital adequacy (continued)

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

	HLIB	HLIB
	31/12/2019	30/06/2019
	RM'000	RM'000
Credit risk	411,408	444,468
Market risk	379,154	519,266
Operational risk	266,362	272,622
	<u>1,056,924</u>	<u>1,236,356</u>

30. Segmental reporting

(a) Segment information by activities for the financial period ended 31 December 2019:

The Group	Investment banking and stockbroking RM'000	Fund management and unit trust management RM'000	Investment holding and others RM'000	Elimination RM'000	Consolidated RM'000
31 December 2019					
Net income					
Net interest income	18,943	448	47	-	19,438
Non interest income	58,479	34,689	31,754	(28,023)	96,899
Total net income	<u>77,422</u>	<u>18,161</u>	<u>31,801</u>	<u>(28,023)</u>	<u>116,337</u>
Results					
Profit from operations	26,534	18,161	30,865	(28,023)	47,537
Taxation					(714)
Profit after taxation					<u>46,823</u>
31 December 2018					
Net income					
Net interest income	20,715	296	37	-	21,048
Non interest income	43,280	25,563	59,302	(55,030)	73,115
Total net income	<u>63,995</u>	<u>25,859</u>	<u>59,339</u>	<u>(55,030)</u>	<u>94,163</u>
Results					
Profit from operations	23,600	10,622	58,339	(55,030)	37,531
Taxation					4,523
Profit after taxation					<u>42,054</u>

(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 2019.

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.

33. Capital commitments

Capital commitments for the purchase of property and equipment as at 31 December 2019 is RM2.5 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 (“Fund”). The Company provided a guarantee to Deutsche Trustees Malaysia Berhad, the trustee of the Fund, that if the Fund falls below the minimum fund size of RM1.0 million, 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 2019.

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.

36. Changes in accounting policies

MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" ("ROU") of the underlying asset and a lease liability reflecting future lease payments for most leases.

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

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

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

On adoption of MFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of MFRS 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 for the Group was ranging from 4.11% and 4.94% per annum.

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

The Group	As at 30 June 2019 RM'000	Effect of adoption of MFRS 16 RM'000	As restated 1 July 2019 RM'000
ROU assets	-	27,358	27,358
Lease liabilities	-	26,831	26,831
Other liabilities	144,635	527	145,162

(b) Operating lease commitment reconciliation

The reconciliation on operating lease commitments under MFRS 117 to MFRS 16 are as follows:

	The Group RM'000
Operating lease commitments disclosed as at 30 June 2019	6,802
Less: Discounted using the incremental borrowing	(233)
Less: Short-term leases recognised on a straight-line basis as expense	(10)
Less: Low-value leases recognised on a straight line basis as expense	(72)
Add: Adjustments as a result of a different treatment of extension and termination option	20,344
Lease liabilities recognised as at 1 July 2019	<u>26,831</u>

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	Last year's		
	quarter ended	quarter ended		
	31/12/2019	31/12/2018	RM'000	
	RM'000	RM'000		
Revenue	81,519	76,846	4,673	6.1%
Profit before tax	23,044	14,821	8,223	55.5%
Profit after tax	23,098	18,023	5,075	28.2%
Profit attributable to equity holders of the Company	23,098	18,023	5,075	28.2%

The group recorded a 55.5% higher profit before tax ("PBT") of RM23.0 million for the 2nd quarter ended 31 December 2019 as compared to RM14.8 million recorded in the previous year corresponding quarter.

Higher PBT mainly contributed by higher non-interest income earned (35.6%).

The performance of the respective operating business segments for the 2nd quarter ended 31 December 2019 as compared to the previous year corresponding quarter is analysed as follows:-

	The Group		Variance	%
	Current	Last year's		
	quarter ended	quarter ended		
	31/12/2019	31/12/2018	RM'000	
	RM'000	RM'000		
Profit before tax by segments:				
Investment banking and stockbroking	12,527	8,294	4,233	51.0%
Fund management and unit trust management	8,018	5,935	2,083	35.1%
Investment holding and others	2,499	592	1,907	>100.0%
	23,044	14,821	8,223	55.5%

Investment banking and stockbroking - higher PBT by RM4.2 million (51.0%) attributed to higher profit contribution from both its investment banking division and stockbroking division in current quarter.

Fund management and unit trust management - PBT increased by RM2.1 million (35.1%) 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 31/12/2019 RM'000	Last year's ended 31/12/2018 RM'000		
Revenue	171,330	159,444	11,886	7.5%
Profit before tax	47,537	37,531	10,006	26.7%
Profit after tax	46,823	42,054	4,769	11.3%
Profit attributable to equity holders of the Company	46,823	42,054	4,769	11.3%

The group recorded a higher PBT of RM47.5 million for the financial period ended 31 December 2019 as compared to RM37.5 million recorded in the previous financial period.

Higher PBT mainly due to higher non-interest income earned (32.5%).

The performance of the respective operating business segments for the six months ended 31 December 2019 as compared to the previous financial year is analysed as follows:-

	The Group		Variance RM'000	%
	Current year ended 31/12/2019 RM'000	Last year's ended 31/12/2018 RM'000		
Profit before tax by segments:				
Investment banking and stockbroking	26,534	23,600	2,934	12.4%
Fund management and unit trust management	18,161	10,622	7,539	71.0%
Investment holding and others	2,842	3,309	(467)	-14.1%
	<u>47,537</u>	<u>37,531</u>	<u>10,006</u>	26.7%

Investment banking and stockbroking - Higher PBT by RM2.9 million (12.4%) mainly attributed to higher profit contribution from its investment banking division.

Fund management and unit trust management - PBT increased by RM7.5 million (71.0%) 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	
	Current	Preceding		
	quarter ended	quarter ended	RM'000	%
	31/12/2019	30/09/2019		
	RM'000	RM'000		
Revenue	81,519	89,811	(8,292)	-9.2%
Profit before tax	23,044	24,493	(1,449)	-5.9%
Profit after tax	23,098	23,725	(627)	-2.6%
Profit attributable to equity holders of the Company	23,098	23,725	(627)	-2.6%

For the financial quarter ended 31 December 2019, the Group reported a lower PBT of RM23.0 million as compared to RM24.5 million in the preceding financial quarter ended 30 September 2019. The lower PBT was mainly due to lower non-interest income of RM7.1 million (-13.6%).

The performance of the respective operating business segments for the three months ended 31 December 2019 as compared to the preceding quarter is analysed as follows:-

	The Group		Variance	
	Current	Preceding		
	quarter ended	quarter ended	RM'000	%
	31/12/2019	30/09/2019		
	RM'000	RM'000		
Profit before tax by segments:				
Investment banking and stockbroking	12,527	14,007	(1,480)	-10.6%
Fund management and unit trust management	8,018	10,143	(2,125)	-21.0%
Investment holding and others	2,499	343	2,156	>100.0%
	23,044	24,493	(1,449)	-5.9%

Investment banking and stockbroking - lower PBT by RM1.5 million (-10.6%) mainly due to lower profit contribution from its investment banking division; offset by higher profit contribution from its stockbroking division.

Fund management and unit trust management - PBT decreased by RM2.1 million (-21.0%) mainly due to lower net contribution from management fee income in current quarter.

2. Prospects for 2019

Moving into FY2020, the economic outlook is anticipated to improve with the resumption of mega infrastructure projects. Along with this positive development, the regulators have also been playing an active role together with the market participants to revive the vibrancy of the capital markets from product innovation, accessibility, technological advancement and governance perspective. Premised on this improving landscape, Debt Markets contribution in FY2020 is expected to be higher than FY2019 with new funding opportunities to be explored and the completion of the outstanding mandates carried forward from FY2019.

Corporate Finance saw strong demands for its two completed Main Market IPOs in FY2019 as evidenced by overwhelming subscriptions by both the institutional and retail investors, and expects the trend to continue into FY2020. The team will continue to keep abreast of developments of the medium sized companies, while at the same time, maintaining a keen focus on providing value-added corporate advisory services to clients. Corporate exercises that provide opportunity for multiple revenue streams via placement and underwriting activities will also remain as one of the key focus going forward.

Under Stockbroking business, as for Government-Linked Corporation business, HLIB will continue to engage our customers to rebuild volume and HLIB also plan to introduce Direct Market Access trading, which allows clients to trade electronically through HLIB. As for the Retail Business, the Bank will continue to invest and innovate in digitalisation efforts to build and strengthen market position.

In view of the current market uncertainty from the trade tension which has a negative impact to the regional growth and a possible interest rate cut by US Federal Reserve and Bank Negara Malaysia to mitigate the slower growth effect, Hong Leong Asset Management Bhd ("HLAM") will focus on high dividend yield stocks that may re-rate in view of the benign interest rate environment. Domestic-centric sectors, for example, construction and consumer, are also preferred as these sectors are expected to be less susceptible to global macro uncertainties. Selected export stocks that may benefit from possible supply chain diversions may be considered. HLAM is committed to deliver fund performance through a robust investment process with investment strategies consistently executed by a competent and experienced investment team. The team employs bottom-up stock picking approach which is key to fund outperformance in the local stock market. Fundamental-based investment strategy is strictly observed to avoid occurrence of emotional investing that may lead to bad investment decisions. In the current environment of rapidly evolving political and economic landscape, increased effort will be deployed to obtain business updates and outlook from companies in order to make sound investment decisions.

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	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
The Group	RM'000	RM'000	RM'000	RM'000
Malaysian income tax:				
- Current	2,002	1,466	4,487	2,678
- Over provision in prior years	-	-	-	(12)
Deferred taxation	(2,056)	(4,668)	(3,773)	(7,189)
	<u>(54)</u>	<u>(3,202)</u>	<u>714</u>	<u>(4,523)</u>

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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 2019:

The Group	Principal amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
Interest rate related contracts			
(i) Less than 1 year	2,306,208	2,482	(3,354)
(ii) 1 year to 3 years	2,556,810	15,761	(24,637)
(iii) More than 3 years	955,000	3,902	-
Foreign exchange related contracts			
(i) Less than 1 year	2,138,525	7,322	(19,396)
Equity related contracts			
(i) Less than 1 year	73,081	1,091	-
	8,029,624	30,558	(47,387)

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 31 December 2019							
RM100.0 million Tier 2 subordinated notes	-	99,993	-	185	-	100,178	100,178
As at 30 June 2019							
RM150.0 million Tier 2 subordinated notes	-	149,902	-	603	-	150,505	150,505
As at 31 December 2018							
RM50.0 million Tier 2 subordinated notes	-	49,901	-	399	-	50,300	50,300

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.

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

On 14 June 2019, HLIB issued a second tranche of RM100.0 million nominal value of 10-year non-callable 5 years Sub Notes callable on 14 June 2024 (and thereafter) and due on 14 June 2029 out of its RM1.0 billion Multi-Currency Sub Notes Programme. The coupon rate for this second tranche of the Sub Notes is 4.23% per annum, which is payable semi-annually in arrears from the date of the issue.

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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 2019.

11. Earnings per share

(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	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
The Group				
Net profit attributable to equity holders of the Company (RM'000):	23,098	18,023	46,823	42,054
Weighted average number of ordinary shares in issue ('000):	241,283	241,283	241,283	241,283
Basic earnings per share (sen)	9.6	7.5	19.4	17.4
The Company				
Net profit attributable to equity holders of the Company (RM'000):	30,441	55,598	30,706	57,451
Weighted average number of ordinary shares in issue ('000):	241,388	241,388	241,388	241,388
Basic earnings per share (sen)	12.6	23.0	12.7	23.8

(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 2019 and 31 December 2018.

Dated this 26 February 2020.