

HONG LEONG INVESTMENT BANK BERHAD
(Company No: 10209-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	The Group		The Bank	
		As at	As at	As at	As at
		30.06.2019	30.06.2018	30.06.2019	30.06.2018
		RM'000	RM'000	RM'000	RM'000
ASSETS					
Cash and short-term funds		450,062	55,967	443,459	55,857
Securities purchased under resale agreements		-	35,126	-	35,126
Deposits and placements with banks and other financial institutions		-	40,645	-	40,645
Financial assets at fair value through profit or loss ("FVTPL")	8	1,246,572	1,223,984	1,246,208	1,223,984
Financial investments at fair value through other comprehensive income ("FVOCI")	9	1,110,915	-	1,110,915	-
Financial investments at amortised cost	10	735,665	-	735,665	-
Financial investments available-for-sale	11	-	1,216,214	-	1,215,921
Financial investments held-to-maturity	12	-	847,659	-	847,659
Derivative financial assets	19	28,310	29,351	28,310	29,351
Loans and advances	13	205,290	227,757	205,290	227,757
Clients' and brokers' balances	14	196,362	312,429	196,362	312,429
Other assets	15	47,472	29,088	47,459	29,088
Statutory deposits with Bank Negara Malaysia		37,259	52,500	37,259	52,500
Investment in subsidiaries		-	-	200	200
Deferred tax assets		80,926	87,582	80,926	87,582
Property and equipment	16	12,774	12,785	12,774	12,785
Intangible assets - computer software		2,143	2,686	2,143	2,686
Goodwill		28,986	28,986	28,986	28,986
TOTAL ASSETS		4,182,736	4,202,759	4,175,956	4,202,556
LIABILITIES AND					
SHAREHOLDER'S FUNDS					
Deposits from customers	17	748,004	1,082,656	748,004	1,082,656
Deposits and placements of banks and other financial institutions	18	2,422,120	2,058,960	2,422,120	2,058,960
Obligations on securities sold under repurchase agreements		-	99,654	-	99,654
Derivative financial liabilities	19	34,310	44,428	34,310	44,428
Clients' and brokers' balances		183,123	289,511	183,123	289,511
Provision for tax		8	3	-	-
Other liabilities	20	134,126	75,277	127,624	75,306
Subordinated obligations	21	150,505	50,290	150,505	50,290
TOTAL LIABILITIES		3,672,196	3,700,779	3,665,686	3,700,805
EQUITY					
Share capital		252,950	252,950	252,950	252,950
Reserves		257,590	249,030	257,320	248,801
TOTAL EQUITY		510,540	501,980	510,270	501,751
TOTAL EQUITY AND LIABILITIES		4,182,736	4,202,759	4,175,956	4,202,556
COMMITMENTS AND					
CONTINGENCIES					
	29	11,469,676	8,853,330	11,469,676	8,853,330
Net assets per ordinary share (RM)		3.09	3.04	3.09	3.04

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 30 June 2018.

HONG LEONG INVESTMENT BANK BERHAD
(Company No: 10209-W)

CONDENSED FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

		The Group				
		Individual Quarter		Cumulative Months Ended		
		Current	Last year's	Current	Last	
		quarter ended	quarter ended	year ended	year's ended	
Note		30.06.2019	30.06.2018	30.06.2019	30.06.2018	
		RM'000	RM'000	RM'000	RM'000	
	Interest income	22a	24,359	40,877	114,484	153,102
	Interest income for financial assets at FVTPL	22b	13,632	-	48,190	-
	Interest expense	23	(27,641)	(28,996)	(121,326)	(109,978)
	Net interest income		10,350	11,881	41,348	43,124
	Non-interest income	24	29,426	28,911	97,429	111,442
	Net income		39,776	40,792	138,777	154,566
	Overhead expenses	25	(26,575)	(23,452)	(90,945)	(91,954)
	Operating profit before allowances		13,201	17,340	47,832	62,612
	Allowance for impairment losses on loans and advances	26	(176)	(94)	(170)	(340)
	Write-back of/(allowance for) impairment losses on financial investments and other financial assets	27	183	(794)	379	(392)
	Profit before taxation		13,208	16,452	48,041	61,880
	Taxation		(14,146)	(10,383)	(3,662)	(4,093)
	Net (loss)/profit for the financial year		(938)	6,069	44,379	57,787
	Earnings per share (sen)					
	- Basic		(0.6)	3.7	26.9	35.0
	- Diluted		(0.6)	3.7	26.9	35.0

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 30 June 2018.

HONG LEONG INVESTMENT BANK BERHAD

(Company No: 10209-W)

CONDENSED FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	The Group			
	Individual Quarter		Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
30.06.2019	30.06.2018	30.06.2019	30.06.2018	
RM'000	RM'000	RM'000	RM'000	
Net (loss)/profit for the financial year	(938)	6,069	44,379	57,787
Other comprehensive income/(expense):				
Items that will be reclassified subsequently to income statements				
Net fair value changes on financial investments at FVOCI				
- Unrealised net gain on revaluation of financial investments at FVOCI	3,015	-	11,713	-
- Net transfer to income statements on disposal of financial investments at FVOCI	827	-	455	-
- Net credit impairment loss changes in financial investments at FVOCI	(62)	-	(62)	-
Net fair value changes on financial investments available-for-sale				
- Unrealised net loss on revaluation of financial investments available-for-sale	-	(3,529)	-	(5,151)
- Net transfer to income statements on disposal of financial investments available-for-sale	-	(9)	-	(1,158)
Income tax relating to net fair value changes on financial investments at FVOCI/ available-for-sale	(923)	850	(2,921)	1,514
Other comprehensive income/(expense) for the financial year, net of tax	2,857	(2,688)	9,185	(4,795)
Total comprehensive income for the financial year, net of tax	1,919	3,381	53,564	52,992

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 30 June 2018.

HONG LEONG INVESTMENT BANK BERHAD
(Company No: 10209-W)

CONDENSED FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

		The Bank				
		Individual Quarter		Cumulative Months Ended		
		Current	Last year's	Current	Last	
Note		quarter ended	quarter ended	year ended	year's ended	
		30.06.2019	30.06.2018	30.06.2019	30.06.2018	
		RM'000	RM'000	RM'000	RM'000	
	Interest income	22a	24,319	40,865	114,397	153,051
	Interest income for financial assets at FVTPL	22b	13,632	-	48,190	-
	Interest expense	23	(27,641)	(28,996)	(121,326)	(109,978)
	Net interest income		10,310	11,869	41,261	43,073
	Non-interest income	24	29,374	28,853	97,240	111,231
	Net income		39,684	40,722	138,501	154,304
	Overhead expenses	25	(26,527)	(23,405)	(90,729)	(91,745)
	Operating profit before allowances		13,157	17,317	47,772	62,559
	Allowance for impairment losses on loans and advances	26	(176)	(94)	(170)	(340)
	Write-back of/(allowance for) impairment losses on financial investments and other financial assets	27	183	(794)	379	(392)
	Profit before taxation		13,164	16,429	47,981	61,827
	Taxation		(14,129)	(10,375)	(3,643)	(4,085)
	Net (loss)/profit for the financial year		(965)	6,054	44,338	57,742
	Earnings per share (sen)					
	- Basic		(0.6)	3.7	26.9	35.0
	- Diluted		(0.6)	3.7	26.9	35.0

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 30 June 2018.

HONG LEONG INVESTMENT BANK BERHAD
(Company No: 10209-W)

CONDENSED FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	The Bank			
	Individual Quarter		Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Net (loss)/profit for the financial year	(965)	6,054	44,338	57,742
Other comprehensive income/(expense):				
Items that will be reclassified subsequently to income statements				
Net fair value changes on financial investments at FVOCI				
- Unrealised net gain on revaluation of financial investments at FVOCI	3,015	-	11,713	-
- Net transfer to income statements on disposal of financial investments at FVOCI	827	-	455	-
- Net credit impairment loss changes in financial investments at FVOCI	(62)	-	(62)	-
Net fair value changes on financial investments available-for-sale				
- Unrealised net loss on revaluation of financial investments available-for-sale	-	(3,529)	-	(5,151)
- Net transfer to income statements on disposal of financial investments available-for-sale	-	(9)	-	(1,158)
Income tax relating to net fair value changes on financial investments at FVOCI/available-for-sale	(923)	850	(2,921)	1,514
Other comprehensive income/(expense) for the financial year, net of tax	2,857	(2,688)	9,185	(4,795)
Total comprehensive income for the financial year, net of tax	1,892	3,366	53,523	52,947

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 30 June 2018.

HONG LEONG INVESTMENT BANK BERHAD

(Company No: 10209-W)

CONDENSED FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	Attributable to owner of the parent				Total RM'000
	Share capital RM'000	Regulatory reserve RM'000	Fair value reserve RM'000	Retained profits RM'000	
<u>The Group</u>					
At 1 July 2018					
- as previously reported	252,950	2,071	(3,355)	250,314	501,980
- effect of adopting MFRS 9	-	10,672	1,964	(12,140)	496
At 1 July 2018, restated	252,950	12,743	(1,391)	238,174	502,476
Net profit for the financial year	-	-	-	44,379	44,379
Other comprehensive income, net of tax	-	-	9,185	-	9,185
Total comprehensive income for the financial year	-	-	9,185	44,379	53,564
Transfer from regulatory reserve	-	(1,137)	-	1,137	-
Dividend paid	-	-	-	(45,500)	(45,500)
At 30 June 2019	252,950	11,606	7,794	238,190	510,540
At 1 July 2017	252,950	2,504	1,440	247,094	503,988
Net profit for the financial year	-	-	-	57,787	57,787
Other comprehensive expense, net of tax	-	-	(4,795)	-	(4,795)
Total comprehensive (expense)/income for the financial year	-	-	(4,795)	57,787	52,992
Transfer from regulatory reserve	-	(433)	-	433	-
Dividend paid	-	-	-	(55,000)	(55,000)
At 30 June 2018	252,950	2,071	(3,355)	250,314	501,980

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 30 June 2018.

HONG LEONG INVESTMENT BANK BERHAD
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CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	Non-distributable			Distributable	Total
	Share capital RM'000	Regulatory reserve RM'000	Fair value reserve RM'000	Retained profits RM'000	
<u>The Bank</u>					
At 1 July 2018					
- as previously reported	252,950	2,071	(3,355)	250,085	501,751
- effect of adopting MFRS 9	-	10,672	1,964	(12,140)	496
At 1 July 2018, restated	252,950	12,743	(1,391)	237,945	502,247
Net profit for the financial year	-	-	-	44,338	44,338
Other comprehensive income, net of tax	-	-	9,185	-	9,185
Total comprehensive income for the financial year	-	-	9,185	44,338	53,523
Transfer from regulatory reserve	-	(1,137)	-	1,137	-
Dividend paid	-	-	-	(45,500)	(45,500)
At 30 June 2019	252,950	11,606	7,794	237,920	510,270
At 1 July 2017	252,950	2,504	1,440	246,910	503,804
Net profit for the financial year	-	-	-	57,742	57,742
Other comprehensive expense, net of tax	-	-	(4,795)	-	(4,795)
Total comprehensive (expense)/income for the financial year	-	-	(4,795)	57,742	52,947
Transfer from regulatory reserve	-	(433)	-	433	-
Dividend paid	-	-	-	(55,000)	(55,000)
At 30 June 2018	252,950	2,071	(3,355)	250,085	501,751

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 30 June 2018.

HONG LEONG INVESTMENT BANK BERHAD
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CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	The Group		The Bank	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
Profit before taxation	48,041	61,880	47,981	61,827
Adjustments for non-cash items	(132,371)	(108,215)	(132,360)	(108,206)
Operating loss before changes in working capital	(84,330)	(46,335)	(84,379)	(46,379)
Changes in working capital:				
Net changes in operating assets	250,291	(200,963)	250,375	(200,963)
Net changes in operating liabilities	(118,685)	244,254	(125,216)	244,204
Net income tax paid	(14)	(4)	-	-
Net cash generated from/(used in) operating activities	47,262	(3,048)	40,780	(3,138)
Net cash generated from/(used in) investing activities	294,985	(90,081)	294,974	(90,031)
Net cash generated from/(used in) financing activities	51,848	(57,643)	51,848	(57,643)
Net changes in cash and cash equivalents	394,095	(150,772)	387,602	(150,812)
Cash and cash equivalents at beginning of financial year	55,967	206,739	55,857	206,669
Cash and cash equivalents at end of financial year	450,062	55,967	443,459	55,857
Cash and cash equivalents comprise:				
Cash and short term funds	450,062	55,967	443,459	55,857
Deposit and placements with bank and other financial institutions	-	40,645	-	40,645
	450,062	96,612	443,459	96,502
Less:				
Deposits and placements with banks and other financial institutions with original maturity of more than three months	-	(40,645)	-	(40,645)
	450,062	55,967	443,459	55,857

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 30 June 2018.

HONG LEONG INVESTMENT BANK BERHAD
(Company No: 10209-W)

EXPLANATORY NOTES

1. Basis of preparation

The unaudited condensed financial statements for the financial year ended 30 June 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 should be read in conjunction with the audited annual financial statements for the Group and the Bank for the financial year ended 30 June 2018. 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 Bank since the financial year ended 30 June 2018.

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 2018 and modified for the adoption of the following Amendments to MFRSs applicable for financial period beginning on or after 1 July 2018:

- MFRS 9 'Financial Instruments'
- MFRS 15 'Revenue from Contracts with Customers'
- Amendments to MFRS 2 'Share-based Payment – Classification and Measurement of Share-based Payment Transactions'
- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'

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 Bank other than the effects and change in accounting policies arising from the adoption of MFRS 9 as disclosed in Note 37.

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 Bank'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.

Bank Negara Malaysia's ("BNM") revised policy document on Financial Reporting

On 2 February 2018, BNM issued the revised policy document on Financial Reporting which prescribes the regulatory reserves to be maintained by banking institutions. With effect from 1 January 2018, the Bank and its domestic banking subsidiary companies must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures. The financial effects of the adoption of the revised policy are disclosed in Note 37.

2. Audit report

The audit report of the latest audited annual financial statements was not subject to any qualification.

HONG LEONG INVESTMENT BANK BERHAD
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EXPLANATORY NOTES

3. Seasonality or cyclical of operations

The business operations of the Group and the Bank have not been affected by any material seasonal or cyclical factors.

4. Items affecting net income and cash flows

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group and the Bank during the financial quarter ended 30 June 2019.

5. Changes in estimates

There were no significant changes in estimates arising from prior financial quarter that have a material effect on the financial results and position of the Group and the Bank for the financial quarter ended 30 June 2019.

6. Issuance and repayments

There were no cancellation, repurchase, resale or repayment of debt and equity securities during the current financial quarter ended 30 June 2019, other than as mentioned below.

Issuance of Tier 2 Subordinated Notes

On 14 June 2019, the Bank issued a second tranche of RM100.0 million nominal value of Tier 2 Subordinated Notes (“Sub-Notes”) out of its RM1.0 billion Multi-Currency Sub-Notes Programme. The RM100 million Sub-Notes will mature in 2029 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 of 4.23% per annum is payable semi-annually in arrears.

7. Dividends

There were no dividends paid during the financial quarter ended 30 June 2019.

HONG LEONG INVESTMENT BANK BERHAD
(Company No: 10209-W)

EXPLANATORY NOTES

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

	The Group		The Bank	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
(a) Financial assets at FVTPL				
Money market instruments				
Malaysian Government Securities	20,806	-	20,806	-
Negotiable instruments of deposits	991,171	-	991,171	-
Cagamas bonds	5,017	-	5,017	-
	1,016,994	-	1,016,994	-
Quoted securities				
In Malaysia:				
Shares	36,340	-	36,340	-
Unit trust investment	364	-	-	-
	36,704	-	36,340	-
Unquoted securities				
Shares	1,365	-	1,365	-
Corporate bond and/or sukuk	191,509	-	191,509	-
	192,874	-	192,874	-
Total financial assets at FVTPL	1,246,572	-	1,246,208	-
(b) Financial assets designated at FVTPL				
Quoted securities				
In Malaysia:				
Shares	-	100	-	100
(c) Financial assets held-for-trading				
Money market instruments				
Malaysian Government Securities	-	10,029	-	10,029
Malaysian Government Investment Issues	-	81,076	-	81,076
Negotiable instruments of deposits	-	864,200	-	864,200
Bankers' acceptances	-	55,084	-	55,084
	-	1,010,389	-	1,010,389
Quoted securities				
In Malaysia:				
Shares	-	6,152	-	6,152
Unquoted securities				
Foreign currency bonds	-	20,095	-	20,095
Corporate bond and/or sukuk	-	187,248	-	187,248
	-	207,343	-	207,343
Total financial assets held-for-trading	-	1,223,884	-	1,223,884
	1,246,572	1,223,984	1,246,208	1,223,984

HONG LEONG INVESTMENT BANK BERHAD
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EXPLANATORY NOTES

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

	The Group and the Bank	
	30.06.2019	30.06.2018
	RM'000	RM'000
Money market instruments		
Malaysian Government Securities	235,724	-
Malaysian Government Investment Issues	31,073	-
Cagamas bonds	56,022	-
	322,819	-
Unquoted securities		
Foreign currency bonds	111,351	-
Corporate bond and/or sukuk	676,745	-
	788,096	-
	1,110,915	-

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

The Group and the Bank	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	-	-	-	-
- effect of adopting MFRS 9	205	-	-	205
At 1 July 2018, restated	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	143	-	-	143

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EXPLANATORY NOTES

10. Financial investments at amortised cost

	The Group and the Bank	
	30.06.2019	30.06.2018
	RM'000	RM'000
Money market instruments		
Malaysian Government Securities	157,905	-
Malaysian Government Investment Issues	478,451	-
	636,356	-
Unquoted securities		
Foreign currency bonds	53,810	-
Corporate bond and/or sukuk	45,535	-
	99,345	-
Less: Expected credit losses	(36)	-
	735,665	-

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

The Group and the Bank	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	-	-	-	-
- effect of adopting MFRS 9	24	-	-	24
At 1 July 2018, restated	24	-	-	24
New financial assets originated or purchased	15	-	-	15
Exchange differences	(3)	-	-	(3)
At 30 June 2019	36	-	-	36

11. Financial investments available-for-sale

	The Group		The Bank	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Money market instruments				
Malaysian Government Securities	-	81,306	-	81,306
Malaysian Government Investment Issues	-	101,874	-	101,874
Cagamas bonds	-	55,233	-	55,233
	-	238,413	-	238,413
Quoted securities				
Unit trust investment	-	293	-	-
Unquoted securities				
Shares	-	245	-	245
Foreign currency bonds	-	93,197	-	93,197
Corporate bond and/or sukuk	-	884,066	-	884,066
	-	977,508	-	977,508
	-	1,216,214	-	1,215,921

HONG LEONG INVESTMENT BANK BERHAD
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EXPLANATORY NOTES

12. Financial investments held-to-maturity

	The Group and the Bank	
	30.06.2019	30.06.2018
	RM'000	RM'000
Money market instruments		
Malaysian Government Securities	-	216,787
Malaysian Government Investment Issues	-	518,318
	<u>-</u>	<u>735,105</u>
Unquoted securities		
Foreign currency bonds	-	36,861
Corporate bond and/or sukuk	-	75,693
	<u>-</u>	<u>112,554</u>
	<u>-</u>	<u>847,659</u>

13. Loans and advances

	The Group and the Bank	
	30.06.2019	30.06.2018
	RM'000	RM'000
Term loan financing	19,862	19,874
Share margin financing	188,217	208,125
Staff loans	51	58
Other loans	515	490
Gross loans and advances	<u>208,645</u>	<u>228,547</u>
Allowance for impairment losses:		
- expected credit losses	(3,355)	-
- individual assessment allowance	-	(119)
- collective assessment allowance	-	(671)
Total net loans and advances	<u>205,290</u>	<u>227,757</u>

(i) Gross loans and advances disbursed by type of customers

Domestic business enterprises		
- Small and medium enterprises	509	112
- Others	71,282	112,062
Individuals	128,253	108,243
Foreign entities	8,601	8,130
	<u>208,645</u>	<u>228,547</u>

(ii) Gross loans and advances analysed by interest rate sensitivity

Variable rate	208,079	227,999
Fixed rate		
- Staff housing loans	51	58
- Other fixed rate loans	515	490
	<u>208,645</u>	<u>228,547</u>

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13. Loans and advances (continued)

	The Group and the Bank	
	30.06.2019	30.06.2018
	RM'000	RM'000
(iii) Gross loans and advances analysed by residual contractual maturity		
Maturing within one year	202,210	208,615
One year to three years	6,384	19,874
Over five years	51	58
	208,645	228,547
(iv) Loans and advances analysed by their economic purposes		
Working capital	6,384	6,395
Purchase of securities	201,696	221,604
Purchase of transport vehicles	126	119
Purchase of landed properties	439	429
	208,645	228,547
(v) Gross loans and advances analysed by geographical distribution		
Malaysia	208,645	228,547
(vi) Impaired loans and advances		
(a) Movements in impaired loans and advances		
At 1 July 2018		
- as previously reported	6,884	11,576
- effect of adopting MFRS 9	(11)	-
At 1 July 2018, as restated	6,873	11,576
Impaired during the financial year	25	34
Amount written-back during the financial year	-	(4,726)
At 30 June	6,898	6,884
(b) By economic purposes		
Purchase of transport vehicles	126	119
Purchase of landed properties	388	371
Working capital	6,384	6,394
	6,898	6,884

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EXPLANATORY NOTES

13. Loans and advances (continued)

(vii) Movements in allowance for impairment losses:

Expected credit losses

The Group and the Bank	12 Months ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Individual/ collective assessment allowance RM'000	Total ECL RM'000
At 1 July 2018					
- as previously reported	-	-	-	790	790
- effect of adopting MFRS 9	223	3	2,959	(790)	2,395
At 1 July 2018, as restated	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	140	1	3,214	-	3,355

The Group and the Bank

30.06.2019	30.06.2018
RM'000	RM'000

Individual assessment allowance

At 1 July		
- as previously reported	119	110
- effect of adopting MFRS 9	(119)	-
At 1 July, as restated	-	110
Allowance made during the financial year	-	9
At 30 June	-	119

Collective assessment allowance

At 1 July		
- as previously reported	671	340
- effect of adopting MFRS 9	(671)	-
At 1 July, as restated	-	340
Allowance made during the financial year	-	331
At 30 June	-	671

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14. Clients' and brokers' balances

	The Group and the Bank	
	30.06.2019	30.06.2018
	RM'000	RM'000
Performing accounts	195,980	309,980
Impaired accounts	602	2,828
	196,582	312,808
Allowance for impairment losses:		
- expected credit losses	(220)	-
- individual assessment allowance	-	(351)
- collective assessment allowance	-	(28)
	196,362	312,429

15. Other assets

	The Group		The Bank	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Amount due from holding company	133	39	133	39
Amount due from related companies	474	389	474	389
Deposits and prepayments	8,118	8,641	8,105	8,641
Fee income receivables	8,883	4,315	8,883	4,315
Collaterals pledged for derivative transactions	7,417	3,922	7,417	3,922
Treasury related receivables	19,185	4,080	19,185	4,080
Equity related receivables	-	4,706	-	4,706
Other receivables	4,632	4,469	4,632	4,469
	48,842	30,561	48,829	30,561
Allowance for impairment losses:				
- Expected credit losses	(1,370)	-	(1,370)	-
- Individual assessment allowance	-	(1,473)	-	(1,473)
	47,472	29,088	47,459	29,088

16. Valuation of property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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EXPLANATORY NOTES

17. Deposits from customers

	The Group and the Bank	
	30.06.2019	30.06.2018
	RM'000	RM'000
Fixed Deposit	748,004	1,082,656
(i) The deposits are sourced from the following customers:		
Government & statutory bodies	525,319	841,509
Business enterprises	180,092	215,116
Individuals	42,593	26,031
	748,004	1,082,656
(ii) The maturity structure of fixed deposits is as follows:		
Due within:		
- six months	748,004	1,081,537
- six months to one year	-	1,119
	748,004	1,082,656

18. Deposits and placements of banks and other financial institutions

	The Group and the Bank	
	30.06.2019	30.06.2018
	RM'000	RM'000
Licensed banks	319,492	50,084
Licensed investment banks	130,032	159,570
Other financial institutions	1,972,596	1,849,306
	2,422,120	2,058,960

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19. Derivative financial assets/(liabilities)

	The Group and the Bank		
	Contract or underlying principal amount RM'000	Positive fair value RM'000	Negative fair value RM'000
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 options	7,000	15	-
	10,699,713	28,310	(34,310)
30.06.2018			
Interest rate related contracts:			
- Interest rate swaps	4,915,000	7,665	(12,910)
- Futures	272,531	368	(6)
- Cross currency swaps	80,750	5,031	-
Foreign exchange related contracts:			
- Foreign currency swaps	2,848,060	15,958	(31,506)
- Foreign currency forwards	57,563	308	(6)
- Foreign currency spots	4,070	2	-
Equity related contracts:			
- Call options	7,000	19	-
	8,184,974	29,351	(44,428)

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EXPLANATORY NOTES

20. Other liabilities

	The Group		The Bank	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Amount due to a subsidiary companies	-	-	-	293
Remisiers' trust deposits	13,011	13,799	13,011	13,799
Treasury related payables	20,624	30,449	20,624	30,449
Advance payments received for corporate exercise	66,015	-	66,015	-
Other payables and accrued liabilities	34,264	30,822	27,762	30,558
Provision for post employment benefits	212	207	212	207
	134,126	75,277	127,624	75,306

21. Subordinated obligations

	The Group and the Bank	
	30.06.2019	30.06.2018
	RM'000	RM'000
RM150.0 million Tier 2 subordinated notes, at par	150,000	50,000
Add: Interest payable	603	399
	150,603	50,399
Less: Unamortised discounts	(98)	(109)
	150,505	50,290

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.

Subsequently, on 14 June 2019, the Bank 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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EXPLANATORY NOTES

22a. Interest income

	The Group			
	Individual Quarter		Cumulative Months Ended	
	Current quarter ended 30.06.2019 RM'000	Last year's quarter ended 30.06.2018 RM'000	Current year ended 30.06.2019 RM'000	Last year's ended 30.06.2018 RM'000
Loans and advances	3,346	3,807	13,752	14,920
Money at call and deposit placements with financial institutions	1,367	768	3,426	3,600
Financial assets at FVTPL	-	10,493	-	37,123
Financial investments at FVOCI	9,232	-	55,905	-
Financial investments at amortised cost	6,985	-	27,058	-
Financial investments available-for-sale	-	11,612	-	39,832
Financial investments held-to-maturity	-	8,174	-	32,894
Derivative financial instruments	-	1,560	-	8,131
Others	3,429	4,463	14,343	16,602
Total interest income	24,359	40,877	114,484	153,102

	The Bank			
	Individual Quarter		Cumulative Months Ended	
	Current quarter ended 30.06.2019 RM'000	Last year's quarter ended 30.06.2018 RM'000	Current year ended 30.06.2019 RM'000	Last year's ended 30.06.2018 RM'000
Loans and advances	3,346	3,807	13,752	14,920
Money at call and deposit placements with financial institutions	1,327	756	3,339	3,549
Financial assets at FVTPL	-	10,493	-	37,123
Financial investments at FVOCI	9,232	-	55,905	-
Financial investments at amortised cost	6,985	-	27,058	-
Financial investments available-for-sale	-	11,612	-	39,832
Financial investments held-to-maturity	-	8,174	-	32,894
Derivative financial instruments	-	1,560	-	8,131
Others	3,429	4,463	14,343	16,602
Total interest income	24,319	40,865	114,397	153,051

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EXPLANATORY NOTES

22b. Interest income for financial assets at FVTPL

	Individual Quarter		The Group and the Bank Cumulative Months Ended	
	Current quarter ended	Last year's quarter ended	Current year ended	Last year's ended
	30.06.2019 RM'000	30.06.2018 RM'000	30.06.2019 RM'000	30.06.2018 RM'000
Financial assets at FVTPL	13,632	-	48,190	-

23. Interest expense

	Individual Quarter		The Group and the Bank Cumulative Months Ended	
	Current quarter ended	Last year's quarter ended	Current year ended	Last year's ended
	30.06.2019 RM'000	30.06.2018 RM'000	30.06.2019 RM'000	30.06.2018 RM'000
Deposits and placements of banks and other financial institutions	5,304	8,147	32,567	32,381
Deposits from customers	18,478	17,372	76,882	58,105
Derivative financial instruments	2,640	1,751	8,376	11,423
Subordinated obligations	863	666	2,867	2,671
Others	356	1,060	634	5,398
	27,641	28,996	121,326	109,978

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24. Non-interest income

	The Group			
	Individual Quarter		Cumulative Months Ended	
	Current quarter ended 30.06.2019 RM'000	Last year's quarter ended 30.06.2018 RM'000	Current year ended 30.06.2019 RM'000	Last year's ended 30.06.2018 RM'000
<u>Fee and commission income:</u>				
Corporate advisory fees	1,508	1,418	5,052	5,446
Arranger fees	1,778	254	4,363	4,439
Underwriting commissions	1,006	-	2,629	-
Placement fees	5,477	775	8,426	2,243
Brokerage income	12,831	15,371	52,457	65,650
Fees on loans and advances	18	136	118	554
Commission from future contracts	160	172	731	855
Other fee income	1,028	8,979	4,115	23,487
	23,806	27,105	77,891	102,674
<u>Net income from securities</u>				
Net realised gain/(loss) arising from sale of:				
- financial assets at FVTPL	4,691	(14,922)	5,739	8,153
- financial investments at FVOCI	5,906	-	14,758	-
- financial investments available-for-sale	-	134	-	1,212
- derivative financial instruments	(6,433)	(469)	(35,915)	(49,935)
Net unrealised (loss)/gain on revaluation of:				
- financial assets at FVTPL	(2,573)	13,941	6,420	(5,975)
- derivative financial instruments	(2,249)	12,753	9,790	12,232
Dividend income from:				
- financial assets at FVTPL	319	603	1,940	3,092
- financial investments available-for-sale	-	3	-	70
	(339)	12,043	2,732	(31,151)
<u>Other income:</u>				
Gain on disposal of property and equipment	-	-	29	-
Foreign exchange gain/(loss)	5,949	(10,246)	16,750	39,884
Other non-operating income	10	9	27	35
	5,959	(10,237)	16,806	39,919
Total non-interest income	29,426	28,911	97,429	111,442

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EXPLANATORY NOTES

24. Non-interest income (continued)

	The Bank			
	Individual Quarter		Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
<u>Fee and commission income:</u>				
Corporate advisory fees	1,508	1,418	5,052	5,446
Arranger fees	1,778	254	4,363	4,439
Underwriting commissions	1,006	-	2,629	-
Placement fees	5,477	775	8,426	2,243
Brokerage income	12,831	15,371	52,457	65,650
Fees on loans and advances	18	136	118	554
Commission from future contracts	160	172	731	855
Other fee income	979	8,924	3,937	23,285
	23,757	27,050	77,713	102,472
<u>Net income from securities</u>				
Net realised gain/(loss) arising from sale of:				
- financial assets at FVTPL	4,691	(14,922)	5,739	8,153
- financial investments at FVOCI	5,906	-	14,758	-
- financial investments available-for-sale	-	134	-	1,212
- derivative financial instruments	(6,433)	(469)	(35,915)	(49,935)
Net unrealised (loss)/gain on revaluation of:				
- financial assets at FVTPL	(2,573)	13,941	6,420	(5,975)
- derivative financial instruments	(2,249)	12,753	9,790	12,232
Dividend income from:				
- financial assets at FVTPL	316	603	1,929	3,092
- financial investments available-for-sale	-	-	-	61
	(342)	12,040	2,721	(31,160)
<u>Other income:</u>				
Gain on disposal of property and equipment	-	-	29	-
Foreign exchange gain/(loss)	5,949	(10,246)	16,750	39,884
Other non-operating income	10	9	27	35
	5,959	(10,237)	16,806	39,919
Total non-interest income	29,374	28,853	97,240	111,231

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25. Overhead expenses

	The Group			
	Individual Quarter		Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Personnel expenses	15,069	13,712	53,891	56,537
Promotion and marketing related expenses	505	453	2,209	2,110
Establishment related expenses	3,918	3,978	15,718	15,424
General administrative expenses	7,083	5,309	19,127	17,883
	26,575	23,452	90,945	91,954
(i) Personnel expenses comprise the following:				
Salaries, bonuses and allowances	12,923	12,036	45,651	48,457
Defined contribution plan	1,666	1,519	6,494	6,123
Other employee benefits	480	157	1,746	1,957
	15,069	13,712	53,891	56,537
(ii) Promotion and marketing related expenses comprise the following:				
Advertisement and publicity expenses	-	1	39	39
Entertainment and business improvement	478	395	1,900	1,869
Others	27	57	270	202
	505	453	2,209	2,110
(iii) Establishment related expenses comprise the following:				
Depreciation of property and equipment	668	569	2,646	1,693
Amortisation of intangible assets	424	646	2,288	2,665
Rental expenses	981	694	3,998	4,113
Others	1,845	2,069	6,786	6,953
	3,918	3,978	15,718	15,424
(iv) General administrative expenses comprise the following:				
Management fee	628	745	2,298	2,717
Teletransmission expenses	1,832	1,180	5,803	5,193
Auditors' remuneration				
- Statutory audit fees	212	109	412	313
- Regulatory related fees	23	53	23	53
- Tax compliance fee	15	15	15	15
- Other fees	-	102	-	102
Legal and professional fees	3,341	1,716	5,887	4,121
Property and equipment written off	829	-	942	-
Others	203	1,389	3,747	5,369
	7,083	5,309	19,127	17,883

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25. Overhead expenses (continued)

	The Bank			
	Individual Quarter		Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Personnel expenses	15,037	13,678	53,763	56,388
Promotion and marketing related expenses	505	453	2,209	2,110
Establishment related expenses	3,908	3,969	15,670	15,377
General administrative expenses	7,077	5,305	19,087	17,870
	26,527	23,405	90,729	91,745
(i) Personnel expenses comprise the following:				
Salaries, bonuses and allowances	12,895	12,008	45,542	48,331
Defined contribution plan	1,661	1,514	6,475	6,101
Other employee benefits	481	156	1,746	1,956
	15,037	13,678	53,763	56,388
(ii) Promotion and marketing related expenses comprise the following:				
Advertisement and publicity expenses	-	1	39	39
Entertainment and business improvement	478	395	1,900	1,869
Others	27	57	270	202
	505	453	2,209	2,110
(iii) Establishment related expenses comprise the following:				
Depreciation of property and equipment	668	569	2,646	1,693
Amortisation of intangible assets	424	646	2,288	2,665
Rental expenses	973	686	3,966	4,080
Others	1,843	2,068	6,770	6,939
	3,908	3,969	15,670	15,377
(iv) General administrative expenses comprise the following:				
Management fee	627	744	2,296	2,716
Teletransmission expenses	1,832	1,180	5,803	5,193
Auditors' remuneration				
- Statutory audit fees	210	107	405	306
- Regulatory related fees	23	53	23	53
- Tax compliance fee	15	15	15	15
- Other fees	-	102	-	102
Legal and professional fees	3,339	1,716	5,860	4,121
Property and equipment written off	829	-	942	-
Others	202	1,388	3,743	5,364
	7,077	5,305	19,087	17,870

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26. Allowance for impairment losses on loans and advances

	The Group and the Bank			
	Individual Quarter		Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Allowance for impairment losses on loans and advances				
- Expected credit losses	(176)	-	(170)	-
- Individual assessment allowance	-	(3)	-	(9)
- Collective assessment allowance	-	(91)	-	(331)
	(176)	(94)	(170)	(340)

27. Write-back of/(allowance for) impairment losses on financial investments and other financial assets

	The Group and the Bank			
	Individual Quarter		Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Expected credit losses/allowance for impairment losses on:				
(a) Financial investments				
- Financial investments at FVOCI	59	-	62	-
- Financial investments at amortised cost	2	-	(12)	-
	61	-	50	-
(b) Other financial assets:				
(i) Clients' and brokers' balances:				
- Expected credit losses	98	-	149	-
- Impaired clients' and brokers' balances recovered	4	-	51	-
- Individual assessment allowance	-	(107)	-	66
- Collective assessment allowance	-	2	-	-
(ii) Deposits and placements with banks and other financial institutions	-	-	22	-
(iii) Securities purchased under resale agreements	-	-	2	-
(iv) Other assets				
- Expected credit losses	20	-	105	-
- Individual assessment allowance	-	(689)	-	(458)
	122	(794)	329	(392)
	183	(794)	379	(392)

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28. Related party transactions

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

Credit transactions and exposure with connected parties

Credit exposures with connected parties as per Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties are as follows:

	The Group and the Bank	
	<u>30.06.2019</u>	<u>30.06.2018</u>
	RM'000	RM'000
Outstanding credit exposures with connected parties	8,929	4,171
Percentage of outstanding credit exposures with connected parties as a proportion of total credit exposures	3.46%	2.78%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	<u>0.00%</u>	<u>0.00%</u>

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29. Commitments and contingencies

In the normal course of business, the Bank makes various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these.

	The Group and the Bank	
	30.06.2019	30.06.2018
	Principal Amount RM'000	Principal Amount RM'000
Commitments and Contingent Liabilities		
Direct Credit Substitutes	1,000	1,000
Obligations under underwriting agreement	18,860	-
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions	-	4,914
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice		
- maturity less than one year	750,103	662,442
	769,963	668,356
Derivative Financial Instruments		
Interest rate related contracts:		
- One year or less	4,566,819	1,472,531
- Over one year to five years	3,367,720	3,580,750
- Over five years	245,000	215,000
Foreign exchange related contracts:		
- One year or less	2,484,022	2,909,693
Equity related contracts:		
- One year or less	36,152	-
- Over one year to five years	-	7,000
	10,699,713	8,184,974
	11,469,676	8,853,330

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EXPLANATORY NOTES

30. 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 and the Bank'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 and the Bank'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.

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EXPLANATORY NOTES

30. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy

The Group	Level 1	Level 2	Level 3	Total
30.06.2019	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financial assets at FVTPL	36,704	1,208,503	1,365	1,246,572
- Money market instruments	-	1,016,994	-	1,016,994
- Quoted securities	36,704	-	-	36,704
- 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
	36,704	2,347,728	1,365	2,385,797
Financial liability				
Derivative financial liabilities	-	34,310	-	34,310
30.06.2018				
Financial assets				
Financial assets at FVTPL	6,252	1,217,732	-	1,223,984
- Money market instruments	-	1,010,389	-	1,010,389
- Quoted securities	6,252	-	-	6,252
- Unquoted securities	-	207,343	-	207,343
Financial investments available-for-sale	293	1,215,676	245	1,216,214
- Money market instruments	-	238,413	-	238,413
- Quoted securities	293	-	-	293
- Unquoted securities	-	977,263	245	977,508
Derivative financial assets	-	29,351	-	29,351
	6,545	2,462,759	245	2,469,549
Financial liability				
Derivative financial liabilities	-	44,428	-	44,428

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EXPLANATORY NOTES

30. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy (continued)

The Bank	Level 1	Level 2	Level 3	Total
30.06.2019	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financial assets at FVTPL	36,340	1,208,503	1,365	1,246,208
- Money market instruments	-	1,016,994	-	1,016,994
- Quoted securities	36,340	-	-	36,340
- 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
	36,340	2,347,728	1,365	2,385,433
Financial liability				
Derivative financial liabilities	-	34,310	-	34,310
30.06.2018				
Financial assets				
Financial assets at fair value through profit or loss	6,252	1,217,732	-	1,223,984
- Money market instruments	-	1,010,389	-	1,010,389
- Quoted securities	6,252	-	-	6,252
- Unquoted securities	-	207,343	-	207,343
Financial investments available-for-sale	-	1,215,676	245	1,215,921
- Money market instruments	-	238,413	-	238,413
- Unquoted securities	-	977,263	245	977,508
Derivative financial assets	-	29,351	-	29,351
	6,252	2,462,759	245	2,469,256
Financial liability				
Derivative financial liabilities	-	44,428	-	44,428

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

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EXPLANATORY NOTES

30. Fair value of financial instruments (continued)

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

	The Group and the Bank	
	30.06.2019	30.06.2018
	RM'000	RM'000
Financial assets at FVTPL		
At 1 July		
- as previously reported	-	-
- effect of adopting MFRS 9	1,380	-
At 1 July, as restated	1,380	-
Fair value changes recognised in income statement	(15)	
At 30 June	1,365	-
Financial investments available-for-sale		
At 1 July		
- as previously reported	245	245
- effect of adopting MFRS 9	(245)	-
At 1 July, as restated	-	245
At 30 June	-	245

31. Capital adequacy

The risk-weighted assets ("RWA") of the Group and the Bank have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk computation.

(a) The capital adequacy ratios of the Group and the Bank are analysed as follows:

	The Group		The Bank	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Before deducting proposed dividends:				
Common equity tier 1 ("CET1") capital ratio	30.883%	33.091%	30.907%	33.073%
Tier 1 capital ratio	30.883%	33.091%	30.907%	33.073%
Total capital ratio	43.440%	37.634%	43.489%	37.619%
After deducting proposed dividends: ⁽¹⁾				
CET1 capital ratio	28.623%	29.135%	28.642%	29.115%
Tier 1 capital ratio	28.623%	29.135%	28.642%	29.115%
Total capital ratio	41.180%	33.679%	41.224%	33.661%

Note:

(1) Proposed dividends of RM28,000,005 (30.06.2018: RM45,500,070).

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31. Capital adequacy (continued)

(b) The components of CET1, Tier 1 and total capital of the Group and the Bank are as follows:

	The Group		The Bank	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
CET1 Capital				
Paid-up ordinary share capital	252,950	252,950	252,950	252,950
Retained profits	238,190	250,314	237,920	250,085
Other reserves	7,794	(3,355)	7,794	(3,355)
Less: goodwill and intangibles	(31,129)	(31,672)	(31,129)	(31,672)
Less: deferred tax assets	(80,926)	(87,582)	(80,926)	(87,582)
Less: investment in subsidiary companies	-	-	(200)	(200)
Less: 55% of cumulative gains of financial investments at FVOCI	(4,287)	-	(4,287)	-
Total CET1 Capital	382,592	380,655	382,122	380,226
Tier 1 Capital	382,592	380,655	382,122	380,226
Tier 2 Capital				
Stage 1 and Stage 2 expected credit loss allowances and regulatory reserves ⁽²⁾	5,556	-	5,556	-
Collective assessment allowance ⁽³⁾ and regulatory reserve ⁽²⁾	-	2,266	-	2,266
Subordinated obligations	150,000	50,000	150,000	50,000
Total Tier 2 Capital	155,556	52,266	155,556	52,266
Total Capital	538,148	432,921	537,678	432,492

Note:

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

⁽³⁾ Excludes collective assessment allowance attributable to loans and advances classified as impaired.

(c) Breakdown of risk-weighted assets in the various risk weights:

	The Group		The Bank	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Credit risk	445,803	407,913	444,468	407,598
Market risk	519,994	457,231	519,266	457,231
Operational risk	273,038	285,193	272,622	284,840
	1,238,835	1,150,337	1,236,356	1,149,669

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EXPLANATORY NOTES

32. Significant events during the financial quarter ended 30 June 2019

There were no material significant events during the financial quarter.

33. Changes in the composition of the Group

There were no changes in composition of the Group since last financial quarter.

34. Significant events subsequent to the financial quarter

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

35. Review of performance for the financial quarter ended 30 June 2019 against the corresponding financial quarter

For the current financial quarter ended 30 June 2019, the Group recorded a profit before tax of RM13.2 million, as compared to a RM16.5 million recorded in the corresponding financial quarter. The decrease in profit of RM3.3 million was primarily attributable to lower contribution from both its Investment Banking Division and Stockbroking Division.

36. Prospects for 2019

The business and market environment will continue to be challenging over the near term with market uncertainties caused by the global trade tension. The rapid development and adoption of digital technologies in the business world and in our society has also driven the Group to be proactive in harnessing digital technology to build an operating environment that our stakeholders have come to expect; we will continue to invest in technology to further enhance our efficiency and productivity. The Group remains committed to deliver long-term sustainable growth and shareholder value by continuing to execute our business strategies, strengthening our digital solutions, managing cost efficiency and driving productivity.

On the investment banking front, notwithstanding the challenges ahead, the team will continue to focus on the offering of innovative structured products and to widen its marketing universe to explore funding opportunities that are value add to its clients from financing cost and capital structure perspective. The team will also endeavor to play an active role in the development of the local capital markets from both the supply and demand side of the space. For Equity Markets, the team will continue with the strategy to focus on advisory and equity raising as we strengthen our banking franchise. HLIB takes cognizance that continued ability to compete in the business is dependent on the talents and efforts of the employees. To that end, HLIB has continued to invest in people's capabilities to support our strategy of delivering a comprehensive suite of Equity Markets services to help our clients succeed.

For Stockbroking business, HLIB will continue with its efforts to drive and improve the market share in the institutional segment by engaging clients with value visits and investment ideas. As for the Retail Business, the Bank aspires to improve the ranking by engaging retail clients with value trading ideas and enhance customer experience with new digital initiatives. Overall, the Stockbroking business will remain challenging due to the global trade tension and interest rate uncertainty coupled with pressure on brokerage rates by demand from institutional and retail clients.

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EXPLANATORY NOTES

37. Changes in accounting policies

(a) Adoption of MFRS 9 'Financial Instruments'

The Group and the Bank have adopted MFRS 9 'Financial Instruments' on 1 July 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

As permitted by the transitional provisions of MFRS 9, the Group and the Bank elected not to restate comparatives figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date the transition were recognised in the opening retained profits and other reserves of the current period.

The adoption of MFRS 9 has resulted in changes in the Group and the Bank's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

Classification and measurement

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVOCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at FVTPL with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main changes are:

- For financial liabilities classified as FVTPL, the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to income statement.

The combined application of the entity's business model and the cash flow characteristics of the financial assets do not result in the significant change in the classification of financial asset when compared to the existing classification of financial assets in the statement of financial position as at 30 June 2018. However, the Group and the Bank have identified certain financial investments held at available-for-sale which fail the solely for the payment of principal and interest ("SPPI") test reclassified as FVTPL on 1 July 2018.

Certain debt instruments which pass the SPPI test have been re-designated from held-to-maturity to FVOCI.

The Group and the Bank do not expect a significant impact arising from the changes in classification and measurement of the financial assets.

There will be no significant changes to the Group's and the Bank's accounting for financial liabilities as it largely retains the MFRS 139 requirements. All the financial liabilities, except for derivatives financial liabilities and financial liabilities designated at FVTPL, will remain as amortised cost as there has not been significant change in the requirements for financial liabilities under MFRS 9.

EXPLANATORY NOTES

37. Changes in accounting policies (continued)

(a) Adoption of MFRS 9 'Financial Instruments' (continued)

Impairment of financial assets

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The new impairment model requires the recognition of impairment allowances based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under MFRS 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, lease receivables, loan commitments, financial guarantee contracts and other loan commitments.

Under MFRS 9, impairment will be measured on each reporting date according to a three-stage expected credit loss impairment model:

- Stage 1 – from initial recognition of a financial assets to the date on which the credit risk of the asset has increased significantly relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the next 12 months (12-month ECL).
- Stage 2 – following a significant increase in credit risk relative to the initial recognition of the financial assets, a loss allowance is recognised equal to the credit losses expected over the remaining life of the financial asset (Lifetime ECL).
- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses is to be recognised (Lifetime ECL).

As all financial assets within the scope of MFRS 9 impairment model will be assessed for at least 12-month ECL, and the population of financial assets to which full lifetime ECL applies is larger than the population of impaired loans for which there is objective evidence of impairment in accordance with MFRS 139, the total allowance for credit losses is expected to increase under MFRS 9 relative to the allowance for credit losses under MFRS 139.

In addition, changes in the required credit loss allowance, including the impact of movements between Stage 1 (12-month ECL) and Stage 2 (lifetime ECL) and the application of forward looking information, will be recorded in income statement, allowance for credit losses will be more volatile under MFRS 9.

The assessment of credit risk and the estimation of ECL are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also take into account the time value of money.

Hedge accounting

Under MFRS 9, the general hedge accounting requirements have been simplified for hedge effectiveness testing and permit hedge accounting to be applied to a greater variety of hedging instruments and risks. The Group and the Bank do not expect a significant impact arising from the changes in the hedge accounting requirements.

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EXPLANATORY NOTES

37. Changes in accounting policies (continued)

- (b) Bank Negara Malaysia's ("BNM") revised policy documents on Financial Reporting

On 2 February 2018, BNM issued the revised policy document on Financial Reporting which prescribe the regulatory reserves to be maintained by banking institutions. With effect from 1 January 2018, the Bank and its domestic banking subsidiary companies must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

- (c) Financial effect

- (i) The adoption of MFRS 9 resulted in the following financial effects to the statements of financial position of the Group and of the Bank.

The Group	MFRS 139 carrying amount 30 June 2018 RM'000	Classification and Expected measurement credit losses RM'000	MFRS 9 carrying amount 1 July 2018 RM'000
Assets			
Cash and short-term funds	55,967	-	55,967
Securities purchased under resale agreements	35,126	-	35,124
Deposits and placements with banks and other financial institutions	40,645	-	40,623
Financial assets at FVTPL	1,223,984	57,973	1,281,957
Financial investments at FVOCI	-	1,341,551	1,341,551
Financial investments at amortised cost	-	667,393	667,369
Financial investments available-for-sale	1,216,214	(1,216,214)	-
Financial investments held-to-maturity	847,659	(847,659)	-
Derivative financial assets	29,351	-	29,351
Loans and advances	227,757	(11)	225,351
Clients' and brokers' balances	312,429	-	312,429
Other assets	29,088	-	29,086
Statutory deposits with Bank Negara Malaysia	52,500	-	52,500
Deferred tax assets	87,582	(728)	87,490
Property and equipment	12,785	-	12,785
Intangible assets - computer software	2,686	-	2,686
Goodwill	28,986	-	28,986
Total assets	4,202,759	2,305	4,203,255
Liabilities			
Deposits from customers	1,082,656	-	1,082,656
Deposits and placements of banks and other financial institutions	2,058,960	-	2,058,960
Obligations on securities sold under repurchase agreements	99,654	-	99,654
Derivative financial liabilities	44,428	-	44,428
Clients' and brokers' balances	289,511	-	289,511
Provision for tax	3	-	3
Other liabilities	75,277	-	75,277
Subordinated obligations	50,290	-	50,290
	3,700,779	-	3,700,779

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EXPLANATORY NOTES

37. Changes in accounting policies (continued)

(c) Financial effect (continued)

- (i) The adoption of MFRS 9 resulted in the following financial effects to the statements of financial position of the Group and of the Bank. (continued)

The Group	MFRS 139 carrying amount 30 June 2018 RM'000	Classification and Expected measurement credit losses RM'000	Expected credit losses RM'000	MFRS 9 carrying amount 1 July 2018 RM'000
Equity				
Share capital	252,950	-	-	252,950
Reserves	249,030	2,305	(1,809)	249,526
Regulatory reserve	2,071	10,672	-	12,743
Fair value reserve	(3,355)	1,759	205	(1,391)
Retained profits	250,314	(10,126)	(2,014)	238,174
	<u>501,980</u>	<u>2,305</u>	<u>(1,809)</u>	<u>502,476</u>
Total equity and liabilities	<u>4,202,759</u>	<u>2,305</u>	<u>(1,809)</u>	<u>4,203,255</u>
The Bank				
Assets				
Cash and short-term funds	55,857	-	-	55,857
Securities purchased under resale agreements	35,126	-	(2)	35,124
Deposits and placements with banks and other financial institutions	40,645	-	(22)	40,623
Financial assets at FVTPL	1,223,984	57,680	-	1,281,664
Financial investments at FVOCI	-	1,341,551	-	1,341,551
Financial investments at amortised cost	-	667,393	(24)	667,369
Financial investments available-for-sale	1,215,921	(1,215,921)	-	-
Financial investments held-to-maturity	847,659	(847,659)	-	-
Derivative financial assets	29,351	-	-	29,351
Loans and advances	227,757	(11)	(2,395)	225,351
Clients' and brokers' balances	312,429	-	-	312,429
Other assets	29,088	-	(2)	29,086
Statutory deposits with Bank Negara Malaysia	52,500	-	-	52,500
Investment in subsidiaries	200	-	-	200
Deferred tax assets	87,582	(728)	636	87,490
Property and equipment	12,785	-	-	12,785
Intangible assets - computer software	2,686	-	-	2,686
Goodwill	28,986	-	-	28,986
Total assets	<u>4,202,556</u>	<u>2,305</u>	<u>(1,809)</u>	<u>4,203,052</u>

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EXPLANATORY NOTES

37. Changes in accounting policies (continued)

(c) Financial effect (continued)

- (i) The adoption of MFRS 9 resulted in the following financial effects to the statements of financial position of the Group and of the Bank. (continued)

The Bank	MFRS 139 carrying amount 30 June 2018 RM'000	Classification and measurement RM'000	Expected credit losses RM'000	MFRS 9 carrying amount 1 July 2018 RM'000
Liabilities				
Deposits from customers	1,082,656	-	-	1,082,656
Deposits and placements of banks and other financial institutions	2,058,960	-	-	2,058,960
Obligations on securities sold under repurchase agreements	99,654	-	-	99,654
Derivative financial liabilities	44,428	-	-	44,428
Clients' and brokers' balances	289,511	-	-	289,511
Other liabilities	75,306	-	-	75,306
Subordinated obligations	50,290	-	-	50,290
	<u>3,700,805</u>	<u>-</u>	<u>-</u>	<u>3,700,805</u>
Equity				
Share capital	252,950	-	-	252,950
Reserves	248,801	2,305	(1,809)	249,297
Regulatory reserve	2,071	10,672	-	12,743
Fair value reserve	(3,355)	1,759	205	(1,391)
Retained profits	250,085	(10,126)	(2,014)	237,945
	<u>501,751</u>	<u>2,305</u>	<u>(1,809)</u>	<u>502,247</u>
Total equity and liabilities	<u>4,202,556</u>	<u>2,305</u>	<u>(1,809)</u>	<u>4,203,052</u>

- (ii) The following table shows the original measurement categories in accordance with MFRS 139 and the new measurement categories under MFRS 9 and adoption of Revised Financial Reporting Guidelines issued by BNM on the statements of financial position of the Group and of the Bank.

	Impact of adopting MFRS 9 and Revised Financial Reporting Guidelines	
	The Group RM'000	The Bank RM'000
Securities purchased under resale agreements		
Closing balance under MFRS 139 as at 30 June 2018	35,126	35,126
- recognition of expected credit losses under MFRS 9	(2)	(2)
Opening balance under MFRS 9 as at 1 July 2018	<u>35,124</u>	<u>35,124</u>
Deposits and placements with banks and other financial institutions		
Closing balance under MFRS 139 as at 30 June 2018	40,645	40,645
- recognition of expected credit losses under MFRS 9	(22)	(22)
Opening balance under MFRS 9 as at 1 July 2018	<u>40,623</u>	<u>40,623</u>

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EXPLANATORY NOTES

37. Changes in accounting policies (continued)

(c) Financial effect (continued)

(ii) The following table shows the original measurement categories in accordance with MFRS 139 and the new measurement categories under MFRS 9 and adoption of Revised Financial Reporting Guidelines issued by BNM on the statements of financial position of the Group and of the Bank. (continued)

	Impact of adopting MFRS 9 and Revised Financial Reporting Guidelines	
	The Group RM'000	The Bank RM'000
Financial assets at FVTPL		
Closing balance under MFRS 139 as at 30 June 2018	1,223,984	1,223,984
- redesignation from financial investments available-for-sale	56,838	56,545
- unrealised gain on financial investments available-for-sale redesignated	1,135	1,135
Opening balance under MFRS 9 as at 1 July 2018	<u>1,281,957</u>	<u>1,281,664</u>
Financial investments at FVOCI		
Closing balance under MFRS 139 as at 30 June 2018	-	-
- redesignation from financial investments available-for-sale	1,159,376	1,159,376
- redesignation from financial investments held-to-maturity	180,266	180,266
- unrealised gain on financial investments held-to-maturity redesignated	1,909	1,909
Opening balance under MFRS 9 as at 1 July 2018	<u>1,341,551</u>	<u>1,341,551</u>
Financial investments at amortised cost		
Closing balance under MFRS 139 as at 30 June 2018	-	-
- redesignation from financial investments held-to-maturity	667,393	667,393
- recognition of expected credit losses under MFRS 9	(24)	(24)
Opening balance under MFRS 9 as at 1 July 2018	<u>667,369</u>	<u>667,369</u>
Financial investments available-for-sale		
Closing balance under MFRS 139 as at 30 June 2018	1,216,214	1,215,921
- redesignation to financial investments at FVOCI	(1,159,376)	(1,159,376)
- redesignation to financial assets at FVTPL	(56,838)	(56,545)
Opening balance under MFRS 9 as at 1 July 2018	<u>-</u>	<u>-</u>
Financial investments held-to-maturity		
Closing balance under MFRS 139 as at 30 June 2018	847,659	847,659
- redesignation to financial investments at FVOCI	(180,266)	(180,266)
- redesignation to financial investments at amortised cost	(667,393)	(667,393)
Opening balance under MFRS 9 as at 1 July 2018	<u>-</u>	<u>-</u>
Loans and advances		
Closing balance under MFRS 139 as at 30 June 2018	227,757	227,757
- recognition of expected credit losses under MFRS 9	(2,395)	(2,395)
- remeasurement of unwinding of income	(11)	(11)
Opening balance under MFRS 9 as at 1 July 2018	<u>225,351</u>	<u>225,351</u>

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EXPLANATORY NOTES

37. Changes in accounting policies (continued)

(c) Financial effect (continued)

(ii) The following table shows the original measurement categories in accordance with MFRS 139 and the new measurement categories under MFRS 9 and adoption of Revised Financial Reporting Guidelines issued by BNM on the statements of financial position of the Group and of the Bank. (continued)

	Impact of adopting MFRS 9 and Revised Financial Reporting Guidelines	
	The Group RM'000	The Bank RM'000
Other assets		
Closing balance under MFRS 139 as at 30 June 2018	29,088	29,088
- recognition of expected credit losses under MFRS 9	(2)	(2)
Opening balance under MFRS 9 as at 1 July 2018	<u>29,086</u>	<u>29,086</u>
Deferred tax assets		
Closing balance under MFRS 139 as at 30 June 2018	87,582	87,582
- in respect of unrealised gain on financial assets at FVTPL	(272)	(272)
- in respect of unrealised gain on financial investments at FVOCI	(458)	(458)
- in respect of recognition of expected credit losses under MFRS 9	636	636
- others	2	2
Opening balance under MFRS 9 as at 1 July 2018	<u>87,490</u>	<u>87,490</u>
Regulatory reserve		
Closing balance under MFRS 139 as at 30 June 2018	2,071	2,071
- Transfer from retained profits (Revised Financial Reporting Guidelines)	10,672	10,672
Opening balance under MFRS 9 as at 1 July 2018	<u>12,743</u>	<u>12,743</u>
Fair value reserve		
Closing balance under MFRS 139 as at 30 June 2018	(3,355)	(3,355)
- Unrealised gain on financial investments at FVOCI	1,909	1,909
- Deferred tax in respect of unrealised gain on financial investments at FVOCI	(458)	(458)
- Reversal of unrealised loss on financial investments at FVOCI	405	405
- Deferred tax in respect of reversal of unrealised loss on financial investments at FVOCI	(97)	(97)
- Recognition of expected credit losses under MFRS 9	205	205
Opening balance under MFRS 9 as at 1 July 2018	<u>(1,391)</u>	<u>(1,391)</u>
Retained profits		
Closing balance under MFRS 139 as at 30 June 2018	250,314	250,085
- Transfer to regulatory reserve (Revised Financial Reporting Guidelines)	(10,672)	(10,672)
- Unrealised gain on financial assets at FVTPL	730	730
- Recognition of expected credit loss	(2,650)	(2,650)
- Deferred tax assets in respect of unrealised gain on financial assets at FVTPL and expected credit loss	463	463
- Remeasurement of unwinding of income	(11)	(11)
Opening balance under MFRS 9 as at 1 July 2018	<u>238,174</u>	<u>237,945</u>

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EXPLANATORY NOTES

37. Changes in accounting policies (continued)

- (d) Presentation of interest for derivatives and other financial instruments measured at FVTPL

MFRS 9 introduced a consequential amendment to paragraph 82(a) of MFRS 101 'Presentation of Financial Statements', which is effective for accounting periods beginning on or after 1 January 2018. Under this amendment, interest revenue calculated using the effective interest method should be separately presented as a component of revenue on the face of the income statements.

The effective interest method does not apply to derivatives and other instruments measured at FVTPL. The interest arising on such instruments should not be included in the line item of 'interest income' (except for gains and losses arising from related hedging instruments that are accounted for as hedges under MFRS 9).

Accordingly, the Group and the Bank have changed the classification of interest income for financial assets measured at FVTPL and derivative instruments from 'Interest income' to 'Interest income for financial assets at FVTPL' as reflected in Note 22b.