

HONG LEONG INVESTMENT BANK BERHAD
(Company No: 10209-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION
AS AT 31 MARCH 2019

	Note	The Group		The Bank	
		As at	As at	As at	As at
		31.03.2019	30.06.2018	31.03.2019	30.06.2018
		RM'000	RM'000	RM'000	RM'000
ASSETS					
Cash and short-term funds		54,308	55,967	54,264	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	1,272,770	1,223,984	1,272,469	1,223,984
Financial investments at fair value through other comprehensive income ("FVOCI")	9	946,842	-	946,842	-
Financial investments at amortised cost	10	746,692	-	746,692	-
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	27,460	29,351	27,460	29,351
Loans and advances	13	246,145	227,757	246,145	227,757
Clients' and brokers' balances	14	187,629	312,429	187,629	312,429
Other assets	15	82,404	29,088	82,385	29,088
Statutory deposits with Bank Negara Malaysia		31,110	52,500	31,110	52,500
Investment in subsidiaries		-	-	200	200
Deferred tax assets		95,978	87,582	95,978	87,582
Property and equipment	16	13,195	12,785	13,195	12,785
Intangible assets - computer software		1,811	2,686	1,811	2,686
Goodwill		28,986	28,986	28,986	28,986
TOTAL ASSETS		3,735,330	4,202,759	3,735,166	4,202,556
LIABILITIES AND SHAREHOLDER'S FUNDS					
Deposits from customers	17	750,790	1,082,656	750,790	1,082,656
Deposits and placements of banks and other financial institutions	18	2,051,780	2,058,960	2,051,780	2,058,960
Obligations on securities sold under repurchase agreements		99,878	99,654	99,878	99,654
Derivative financial liabilities	19	31,032	44,428	31,032	44,428
Clients' and brokers' balances		158,054	289,511	158,054	289,511
Provision for tax		-	3	-	-
Other liabilities	20	84,422	75,277	84,501	75,306
Subordinated obligations	21	50,958	50,290	50,958	50,290
TOTAL LIABILITIES		3,226,914	3,700,779	3,226,993	3,700,805
EQUITY					
Share capital		252,950	252,950	252,950	252,950
Reserves		255,466	249,030	255,223	248,801
TOTAL EQUITY		508,416	501,980	508,173	501,751
TOTAL EQUITY AND LIABILITIES		3,735,330	4,202,759	3,735,166	4,202,556
COMMITMENTS AND CONTINGENCIES					
	28	11,215,685	8,853,330	11,215,685	8,853,330
Net assets per ordinary share (RM)		3.08	3.04	3.08	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 PERIOD ENDED 31 MARCH 2019

		The Group			
		Individual Quarter		Cumulative Months Ended	
		Current	Last year's	Current	Last
		quarter ended	quarter ended	year ended	year's ended
Note		31.03.2019	31.03.2018	31.03.2019	31.03.2018
		RM'000	RM'000	RM'000	RM'000
	Interest income	22 38,653	36,523	124,683	112,225
	Interest expense	23 (28,404)	(26,072)	(93,685)	(80,982)
	Net interest income	10,249	10,451	30,998	31,243
	Non-interest income	24 24,617	25,865	68,003	82,531
	Net income	34,866	36,316	99,001	113,774
	Overhead expenses	25 (24,087)	(19,895)	(64,370)	(68,502)
	Net operating profit	10,779	16,421	34,631	45,272
	Write-back of allowance for impairment losses	26 426	372	202	156
	Profit before taxation	11,205	16,793	34,833	45,428
	Taxation	3,295	1,739	10,484	6,290
	Net profit for the financial period	14,500	18,532	45,317	51,718
	Earnings per share (sen)				
	- Basic	8.8	11.2	27.5	31.3
	- Diluted	8.8	11.2	27.5	31.3

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 PERIOD ENDED 31 MARCH 2019

	The Group			
	Individual Quarter		Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
31.03.2019	31.03.2018	31.03.2019	31.03.2018	
RM'000	RM'000	RM'000	RM'000	
Net profit for the financial period	14,500	18,532	45,317	51,718
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	3,069	-	8,698	-
- Net transfer to income statements on disposal of financial investments at FVOCI	632	-	(372)	-
Net fair value changes on financial investments available-for-sale				
- Unrealised net loss on revaluation of financial investments available-for-sale	-	(879)	-	(1,622)
- Net transfer to income statements on disposal of financial investments available-for-sale	-	(60)	-	(1,149)
Income tax relating to components of other comprehensive income	(888)	225	(1,998)	664
Other comprehensive income/(expense) for the financial period, net of tax	2,813	(714)	6,328	(2,107)
Total comprehensive income for the financial period, net of tax	17,313	17,818	51,645	49,611

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 PERIOD ENDED 31 MARCH 2019

		The Bank				
		Individual Quarter		Cumulative Months Ended		
		Current	Last year's	Current	Last	
Note		quarter ended	quarter ended	year ended	year's ended	
		31.03.2019	31.03.2018	31.03.2019	31.03.2018	
		RM'000	RM'000	RM'000	RM'000	
	Interest income	22	38,640	36,509	124,636	112,186
	Interest expense	23	(28,404)	(26,072)	(93,685)	(80,982)
	Net interest income		10,236	10,437	30,951	31,204
	Non-interest income	24	24,586	25,808	67,866	82,378
	Net income		34,822	36,245	98,817	113,582
	Overhead expenses	25	(24,031)	(19,838)	(64,202)	(68,340)
	Net operating profit		10,791	16,407	34,615	45,242
	Write-back of allowance for impairment losses	26	426	372	202	156
	Profit before taxation		11,217	16,779	34,817	45,398
	Taxation		3,297	1,739	10,486	6,290
	Net profit for the financial period		14,514	18,518	45,303	51,688
	Earnings per share (sen)					
	- Basic		8.8	11.2	27.5	31.3
	- Diluted		8.8	11.2	27.5	31.3

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 PERIOD ENDED 31 MARCH 2019

	The Bank			
	Individual Quarter		Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	RM'000	RM'000	RM'000	RM'000
Net profit for the financial period	14,514	18,518	45,303	51,688
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	3,069	-	8,698	-
- Net transfer to income statements on disposal of financial investments at FVOCI	632	-	(372)	-
Net fair value changes on financial investments available-for-sale				
- Unrealised net loss on revaluation of financial investments available-for-sale	-	(879)	-	(1,622)
- Net transfer to income statements on disposal of financial investments available-for-sale	-	(60)	-	(1,149)
Income tax relating to components of other comprehensive income	(888)	225	(1,998)	664
Other comprehensive income/(expense) for the financial period, net of tax	2,813	(714)	6,328	(2,107)
Total comprehensive income for the financial period, net of tax	17,327	17,804	51,631	49,581

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 PERIOD ENDED 31 MARCH 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	1,759	(12,140)	291
At 1 July 2018, restated	252,950	12,743	(1,596)	238,174	502,271
Net profit for the financial period	-	-	-	45,317	45,317
Other comprehensive income, net of tax	-	-	6,328	-	6,328
Total comprehensive income for the financial period	-	-	6,328	45,317	51,645
Transfer from regulatory reserve	-	(1,035)	-	1,035	-
Dividend paid	-	-	-	(45,500)	(45,500)
At 31 March 2019	252,950	11,708	4,732	239,026	508,416
At 1 July 2017	252,950	2,504	1,440	247,094	503,988
Net profit for the financial period	-	-	-	51,718	51,718
Other comprehensive expense, net of tax	-	-	(2,107)	-	(2,107)
Total comprehensive (expense)/income for the financial period	-	-	(2,107)	51,718	49,611
Transfer from regulatory reserve	-	(40)	-	40	-
Dividend paid	-	-	-	(55,000)	(55,000)
At 31 March 2018	252,950	2,464	(667)	243,852	498,599

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 STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2019

	Non-distributable			Distributable	Total RM'000
	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	1,759	(12,140)	291
At 1 July 2018, restated	252,950	12,743	(1,596)	237,945	502,042
Net profit for the financial period	-	-	-	45,303	45,303
Other comprehensive income, net of tax	-	-	6,328	-	6,328
Total comprehensive income for the financial period	-	-	6,328	45,303	51,631
Transfer from regulatory reserve	-	(1,035)	-	1,035	-
Dividend paid	-	-	-	(45,500)	(45,500)
At 31 March 2019	252,950	11,708	4,732	238,783	508,173
At 1 July 2017	252,950	2,504	1,440	246,910	503,804
Net profit for the financial period	-	-	-	51,688	51,688
Other comprehensive expense, net of tax	-	-	(2,107)	-	(2,107)
Total comprehensive (expense)/income for the financial period	-	-	(2,107)	51,688	49,581
Transfer from regulatory reserve	-	(40)	-	40	-
Dividend paid	-	-	-	(55,000)	(55,000)
At 31 March 2018	252,950	2,464	(667)	243,638	498,385

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 STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2019

	The Group		The Bank	
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
Profit before taxation	34,833	45,428	34,817	45,398
Adjustments for non-cash items	(111,809)	(53,596)	(112,260)	(53,594)
Operating loss before changes in working capital	(76,976)	(8,168)	(77,443)	(8,196)
Changes in working capital:				
Net changes in operating assets	166,013	176,928	166,036	176,948
Net changes in operating liabilities	(461,134)	(238,547)	(461,084)	(238,569)
Net income tax paid	(9)	-	-	-
Net cash used in operating activities	(372,106)	(69,787)	(372,491)	(69,817)
Net cash generated from investing activities	417,283	47,807	417,734	47,811
Net cash used in financing activities	(46,836)	(56,321)	(46,836)	(56,321)
Net changes in cash and cash equivalents	(1,659)	(78,301)	(1,593)	(78,327)
Cash and cash equivalents at beginning of financial period	55,967	206,739	55,857	206,669
Cash and cash equivalents at end of financial period	54,308	128,438	54,264	128,342
Cash and cash equivalents comprise:				
Cash and short term funds	54,308	128,438	54,264	128,342

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 period ended 31 March 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'
- 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 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 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 36.

2. Audit report

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

3. Seasonality or cyclicity of operations

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

HONG LEONG INVESTMENT BANK BERHAD
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EXPLANATORY NOTES

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 31 March 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 31 March 2019.

6. Issuance and repayments

There were no cancellation, repurchase, resale or repayment of debt and equity securities during the current financial quarter ended 31 March 2019.

7. Dividends

There were no dividends paid during the financial quarter ended 31 March 2019.

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

	The Group		The Bank	
	31.03.2019	30.06.2018	31.03.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Money market instruments				
Malaysian Government Securities	71,414	10,029	71,414	10,029
Malaysian Government Investment Issues	82,477	81,076	82,477	81,076
Negotiable instruments of deposits	799,767	864,200	799,767	864,200
Bankers' acceptances	-	55,084	-	55,084
	953,658	1,010,389	953,658	1,010,389
Quoted securities				
In Malaysia:				
Shares and warrants	9,124	6,152	9,124	6,152
Unit trust investment	301	-	-	-
	9,425	6,152	9,124	6,152
Unquoted securities				
Shares	1,380	-	1,380	-
Foreign currency bonds	4,161	20,095	4,161	20,095
Corporate bond and/or sukuk	304,046	187,248	304,046	187,248
	309,587	207,343	309,587	207,343
	1,272,670	1,223,884	1,272,369	1,223,884
Financial assets designated at FVTPL				
Quoted securities				
In Malaysia:				
Shares	100	100	100	100
	1,272,770	1,223,984	1,272,469	1,223,984

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

EXPLANATORY NOTES

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

	The Group and the Bank	
	31.03.2019	30.06.2018
	RM'000	RM'000
Money market instruments		
Malaysian Government Securities	60,661	-
Malaysian Government Investment Issues	30,434	-
Cagamas bonds	56,144	-
	147,239	-
Unquoted securities		
Foreign currency bonds	130,308	-
Corporate bond and/or sukuk	669,497	-
	799,805	-
Allowance for credit losses	(202)	-
	946,842	-

Movements in allowance for impairment losses on financial investments at FVOCI are as follows:-

	12 Months	Lifetime ECL	Lifetime ECL	Total ECL
	ECL	no credit	credit	
	(Stage 1)	impaired	impaired	
The Group and the Bank	RM'000	RM'000	RM'000	RM'000
At 1 July 2018	-	-	-	-
- effect of adopting MFRS 9	205	-	-	205
At 1 July 2018, restated	205	-	-	205
Allowances made	43	-	-	43
Amount written back	(12)	-	-	(12)
New financial assets originated or purchased	486	-	-	486
Financial assets derecognised	(513)	-	-	(513)
Exchange differences	(7)	-	-	(7)
At 31 March 2019	202	-	-	202

HONG LEONG INVESTMENT BANK BERHAD
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EXPLANATORY NOTES

10. Financial investments at amortised cost

	The Group and the Bank	
	31.03.2019	30.06.2018
	RM'000	RM'000
Money market instruments		
Malaysian Government Securities	157,561	-
Malaysian Government Investment Issues	455,206	-
	612,767	-
Unquoted securities		
Foreign currency bonds	53,127	-
Corporate bond and/or sukuk	80,836	-
	133,963	-
Allowance for credit losses	(38)	-
	746,692	-

Movements in allowance for impairment losses on financial investments at amortised cost are as follows:-

The Group and the Bank	12 Months ECL (Stage 1)	Lifetime ECL no credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total ECL
	RM'000	RM'000	RM'000	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	(1)	-	-	(1)
At 31 March 2019	38	-	-	38

11. Financial investments available-for-sale

	The Group		The Bank	
	31.03.2019	30.06.2018	31.03.2019	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
(Company No: 10209-W)

EXPLANATORY NOTES

12. Financial investments held-to-maturity

	The Group and the Bank	
	31.03.2019	30.06.2018
	RM'000	RM'000
Money market instruments		
Malaysian Government Securities	-	216,787
Malaysian Government Investment Issues	-	518,318
	-	735,105
Unquoted securities		
Foreign currency bonds	-	36,861
Corporate bond and/or sukuk	-	75,693
	-	112,554
	-	847,659

13. Loans and advances

	The Group and the Bank	
	31.03.2019	30.06.2018
	RM'000	RM'000
Term loan financing	19,865	19,874
Share margin financing	228,899	208,125
Staff loans	53	58
Other loans	507	490
Gross loans and advances	249,324	228,547
Allowance for impaired loans and advances		
- allowance for credit losses	(3,179)	-
- individual assessment allowance	-	(119)
- collective assessment allowance	-	(671)
Total net loans and advances	246,145	227,757

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

Domestic non-bank financial institutions		
- Others	494	-
Domestic business enterprises		
- Small and medium enterprises	119	112
- Others	111,584	112,062
Individuals	128,691	108,243
Foreign entities	8,436	8,130
	249,324	228,547

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

Variable rate	248,764	227,999
Fixed rate		
- Staff housing loans	53	58
- Other fixed rate loans	507	490
	249,324	228,547

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EXPLANATORY NOTES

13. Loans and advances (continued)

	The Group and the Bank	
	31.03.2019	30.06.2018
	RM'000	RM'000
(iii) Gross loans and advances analysed by residual contractual maturity		
Maturing within one year	242,887	208,615
One year to three years	6,384	19,874
Over five years	53	58
	249,324	228,547
(iv) Loans and advances analysed by their economic purposes		
Working capital	6,384	6,395
Purchase of securities	242,380	221,604
Purchase of transport vehicles	126	119
Purchase of landed properties	434	429
	249,324	228,547
(v) Gross loans and advances analysed by geographical distribution		
Malaysia	249,324	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 adoption of MFRS 9	(11)	-
At 1 July 2018, as restated	6,873	11,576
Impaired during the financial period/year	17	34
Amount written-back during the financial period/year	-	(4,726)
At 31 March/30 June	6,890	6,884
(b) By economic purposes		
Purchase of transport vehicles	126	119
Purchase of landed properties	380	371
Working capital	6,384	6,394
	6,890	6,884

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13. Loans and advances (continued)

(vii) Movements in allowance for losses on loans and advances

Allowance for credit losses

The Group and the Bank	12 Months ECL (Stage 1) RM'000	Lifetime ECL no credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total ECL RM'000
At 1 July 2018				
- as previously reported	-	-	-	-
- effect of adoption of MFRS 9	226	3	2,956	3,185
At 1 July 2018, as restated	226	3	2,956	3,185
Transferred to Stage 1	12	(12)	-	-
Transferred to Stage 2	(13)	13	-	-
New financial assets originated	20	-	-	20
Financial assets derecognised	(2)	-	-	(2)
Allowance made	24	1	48	73
Allowance written-back	(95)	(2)	-	(97)
At 31 March 2019	172	3	3,004	3,179

The Group and the Bank

31.03.2019	30.06.2018
RM'000	RM'000

Individual assessment allowance

At 1 July		
- as previously reported	119	110
- effect of adoption of MFRS 9	(119)	-
At 1 July, as restated	-	110
Allowance made during the financial year	-	9
At 31 March/30 June	-	119

Collective assessment allowance

At 1 July		
- as previously reported	671	340
- effect of adoption of MFRS 9	(671)	-
At 1 July, as restated	-	340
Allowance made during the financial year	-	331
At 31 March/30 June	-	671

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14. Clients' and brokers' balances

	The Group and the Bank	
	31.03.2019	30.06.2018
	RM'000	RM'000
Performing accounts	185,749	309,980
Impaired accounts	2,197	2,828
	187,946	312,808
Less: Allowance for bad and doubtful debts		
- allowance for credit losses	(317)	-
- individual assessment allowance	-	(351)
- collective assessment allowance	-	(28)
	187,629	312,429

15. Other assets

	The Group		The Bank	
	31.03.2019	30.06.2018	31.03.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Tax recoverable	4	-	-	-
Amount due from holding company	169	39	169	39
Amount due from related companies	465	389	465	389
Deposits and prepayments	7,194	8,641	7,179	8,641
Fee income receivables	4,715	2,842	4,715	2,842
Collaterals pledged for derivative transactions	6,699	3,922	6,699	3,922
Treasury related receivables	56,852	4,080	56,852	4,080
Equity related receivables	127	4,706	127	4,706
Other receivables	6,179	4,469	6,179	4,469
	82,404	29,088	82,385	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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17. Deposits from customers

	The Group and the Bank	
	31.03.2019	30.06.2018
	RM'000	RM'000
Fixed Deposit	750,790	1,082,656
(i) The deposits are sourced from the following customers:		
Government & statutory bodies	530,472	841,509
Business enterprises	200,059	215,116
Individuals	20,259	26,031
	750,790	1,082,656
(ii) The maturity structure of fixed deposits is as follows:		
Due within:		
- six months	749,646	1,081,537
- six months to one year	1,144	1,119
	750,790	1,082,656

18. Deposits and placements of banks and other financial institutions

	The Group and the Bank	
	31.03.2019	30.06.2018
	RM'000	RM'000
Licensed banks	235,239	50,084
Licensed investment banks	153,107	159,570
Other financial institutions	1,663,434	1,849,306
	2,051,780	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
31.03.2019			
Interest rate related contracts:			
- Interest rate swaps	6,705,000	11,681	(22,042)
- Futures	162,872	4	(701)
- Cross currency swaps	81,640	3,669	-
Foreign exchange related contracts:			
- Foreign currency swaps	3,411,045	12,104	(8,050)
- Foreign currency forwards	109,729	1	(239)
- Foreign currency spots	264	-	-
Equity related contracts:			
- Call options	7,000	1	-
	10,477,550	27,460	(31,032)
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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20. Other liabilities

	The Group		The Bank	
	31.03.2019	30.06.2018	31.03.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Amount due to a subsidiary companies	-	-	-	293
Remisiers' trust deposits	13,350	13,799	13,350	13,799
Treasury related payables	10,344	30,449	10,344	30,449
Other payables and accrued liabilities	60,517	30,822	60,596	30,558
Provision for post employment benefits	211	207	211	207
	84,422	75,277	84,501	75,306

21. Subordinated obligations

	The Group and the Bank	
	31.03.2019	30.06.2018
	RM'000	RM'000
RM50.0 million Tier 2 subordinated notes, at par	50,000	50,000
Add: Interest payable	1,053	399
	51,053	50,399
Less: Unamortised discounts	(95)	(109)
	50,958	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.

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22. Interest income

	The Group			
	Individual Quarter		Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	RM'000	RM'000	RM'000	RM'000
Loans and advances	3,645	3,795	10,406	11,113
Money at call and deposit placements with financial institutions	1,102	1,010	2,059	2,832
Financial assets at FVTPL	11,050	7,709	31,391	26,630
Financial investments at FVOCI	11,710	-	46,673	-
Financial investments at amortised cost	6,902	-	20,073	-
Financial investments available-for-sale	-	9,749	-	28,220
Financial investments held-to-maturity	-	8,065	-	24,720
Derivative financial instruments	884	2,064	3,167	6,571
Others	3,360	4,131	10,914	12,139
Total interest income	38,653	36,523	124,683	112,225

	The Bank			
	Individual Quarter		Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	RM'000	RM'000	RM'000	RM'000
Loans and advances	3,645	3,795	10,406	11,113
Money at call and deposit placements with financial institutions	1,089	996	2,012	2,793
Financial assets at FVTPL	11,050	7,709	31,391	26,630
Financial investments at FVOCI	11,710	-	46,673	-
Financial investments at amortised cost	6,902	-	20,073	-
Financial investments available-for-sale	-	9,749	-	28,220
Financial investments held-to-maturity	-	8,065	-	24,720
Derivative financial instruments	884	2,064	3,167	6,571
Others	3,360	4,131	10,914	12,139
Total interest income	38,640	36,509	124,636	112,186

23. Interest expense

	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
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	RM'000	RM'000	RM'000	RM'000
Deposits and placements of banks and other financial institutions	8,231	7,746	27,263	24,234
Deposits from customers	17,585	13,261	58,404	40,733
Derivative financial instruments	1,901	2,889	5,736	9,672
Subordinated notes	658	659	2,004	2,005
Others	29	1,517	278	4,338
Total interest expense	28,404	26,072	93,685	80,982

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24. Non-interest income

	Individual Quarter		The Group	
	Current	Last year's	Cumulative	Months Ended
	quarter ended	quarter ended	year ended	year's ended
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	RM'000	RM'000	RM'000	RM'000
<u>Fee and commission income:</u>				
Corporate advisory fees	630	1,682	3,544	4,028
Arranger fees	877	170	2,585	4,185
Underwriting commissions	-	-	1,623	-
Placement fees	1,036	675	2,949	1,468
Brokerage income	12,722	19,882	39,626	50,279
Fees on loans and advances	19	-	100	418
Commission from future contracts	188	293	571	683
Other fee income	842	959	3,087	14,508
	16,314	23,661	54,085	75,569
<u>Net income from securities</u>				
Net realised gain/(loss) arising from sale of:				
- financial assets at FVTPL	1,782	11,475	1,048	23,075
- financial investments at FVOCI	4,814	-	8,852	-
- financial investments available-for-sale	-	(183)	-	1,078
- derivative financial instruments	(12,798)	(14,823)	(29,482)	(49,466)
Net unrealised gain/(loss) on revaluation of:				
- financial assets at FVTPL	6,119	(10,218)	8,993	(19,916)
- derivative financial instruments	4,849	(16,056)	12,039	(521)
Dividend income from:				
- financial assets at FVTPL	234	1,020	1,621	2,489
- financial investments available-for-sale	-	2	-	67
	5,000	(28,783)	3,071	(43,194)
<u>Other income:</u>				
Gain on disposal of property and equipment	-	-	30	-
Foreign exchange gain	3,297	30,984	10,801	50,130
Other non-operating income	6	3	16	26
	3,303	30,987	10,847	50,156
Total non-interest income	24,617	25,865	68,003	82,531

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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
31.03.2019	31.03.2018	31.03.2019	31.03.2018	
RM'000	RM'000	RM'000	RM'000	
<u>Fee and commission income:</u>				
Corporate advisory fees	630	1,682	3,544	4,028
Arranger fees	877	170	2,585	4,185
Underwriting commissions	-	-	1,623	-
Placement fees	1,036	675	2,949	1,468
Brokerage income	12,722	19,882	39,626	50,279
Fees on loans and advances	19	-	100	418
Commission from future contracts	188	293	571	683
Other fee income	814	904	2,958	14,361
	16,286	23,606	53,956	75,422
<u>Net income from securities</u>				
Net realised gain/(loss) arising from sale of:				
redemption of:				
- financial assets at FVTPL	1,782	11,475	1,048	23,075
- financial investments at FVOCI	4,814	-	8,852	-
- financial investments available-for-sale	-	(183)	-	1,078
- derivative financial instruments	(12,798)	(14,823)	(29,482)	(49,466)
Net unrealised gain/(loss) on revaluation of:				
- financial assets at FVTPL	6,119	(10,218)	8,993	(19,916)
- derivative financial instruments	4,849	(16,056)	12,039	(521)
Dividend income from:				
- financial assets at FVTPL	231	1,020	1,613	2,489
- financial investments available-for-sale	-	-	-	61
	4,997	(28,785)	3,063	(43,200)
<u>Other income:</u>				
Gain on disposal of property and equipment	-	-	30	-
Foreign exchange gain	3,297	30,984	10,801	50,130
Other non-operating income	6	3	16	26
	3,303	30,987	10,847	50,156
Total non-interest income	24,586	25,808	67,866	82,378

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EXPLANATORY NOTES

25. Overhead expenses

	The Group			
	Individual Quarter		Cumulative Months Ended	
	Current quarter ended 31.03.2019 RM'000	Last year's quarter ended 31.03.2018 RM'000	Current year ended 31.03.2019 RM'000	Last year's ended 31.03.2018 RM'000
Personnel expenses	15,663	10,816	38,822	42,825
Promotion and marketing related expenses	574	701	1,704	1,657
Establishment related expenses	3,937	3,900	11,800	11,446
General administrative expenses	3,913	4,478	12,044	12,574
	24,087	19,895	64,370	68,502
(i) Personnel expenses comprise the following:				
Salaries, bonuses and allowances	13,677	8,735	32,728	36,421
Defined contribution plan	1,663	1,576	4,828	4,604
Other employee benefits	323	505	1,266	1,800
	15,663	10,816	38,822	42,825
(ii) Promotion and marketing related expenses comprise the following:				
Advertisement and publicity expenses	2	1	39	38
Entertainment and business improvement	522	653	1,422	1,474
Others	50	47	243	145
	574	701	1,704	1,657
(iii) Establishment related expenses comprise the following:				
Depreciation of property and equipment	684	440	1,978	1,124
Amortisation of intangible assets	618	676	1,864	2,019
Rental expenses	969	1,040	3,017	3,419
Others	1,666	1,744	4,941	4,884
	3,937	3,900	11,800	11,446
(iv) General administrative expenses comprise the following:				
Management fee	604	687	1,670	1,972
Teletransmission expenses	1,430	1,270	3,971	4,013
Auditors' remuneration				
- Statutory audit fees	52	69	200	204
Legal and professional fees	752	776	2,546	2,405
Property and equipment written off	113	-	113	-
Others	962	1,676	3,544	3,980
	3,913	4,478	12,044	12,574

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EXPLANATORY NOTES

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
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	RM'000	RM'000	RM'000	RM'000
Personnel expenses	15,629	10,781	38,726	42,710
Promotion and marketing related expenses	574	701	1,704	1,657
Establishment related expenses	3,920	3,881	11,762	11,408
General administrative expenses	3,908	4,475	12,010	12,565
	24,031	19,838	64,202	68,340
(i) Personnel expenses comprise the following:				
Salaries, bonuses and allowances	13,649	8,705	32,647	36,323
Defined contribution plan	1,658	1,571	4,814	4,587
Other employee benefits	322	505	1,265	1,800
	15,629	10,781	38,726	42,710
(ii) Promotion and marketing related expenses comprise the following:				
Advertisement and publicity expenses	2	1	39	38
Entertainment and business improvement	522	653	1,422	1,474
Others	50	47	243	145
	574	701	1,704	1,657
(iii) Establishment related expenses comprise the following:				
Depreciation of property and equipment	684	440	1,978	1,124
Amortisation of intangible assets	618	676	1,864	2,019
Rental expenses	961	1,032	2,993	3,394
Others	1,657	1,733	4,927	4,871
	3,920	3,881	11,762	11,408
(iv) General administrative expenses comprise the following:				
Management fee	604	687	1,669	1,972
Teletransmission expenses	1,430	1,270	3,971	4,013
Auditors' remuneration				
- Statutory audit fees	51	67	195	199
- Regulatory related fees	-	-	-	-
- Tax compliance fee	-	-	-	-
- Other fees	-	-	-	-
Legal and professional fees	750	776	2,521	2,405
Property and equipment written off	113	-	113	-
Others	960	1,675	3,541	3,976
	3,908	4,475	12,010	12,565

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26. Write-back of allowance for impairment losses

	The Group and the Bank			
	Individual Quarter		Cumulative Months Ended	
	Current quarter ended 31.03.2019 RM'000	Last year's quarter ended 31.03.2018 RM'000	Current year ended 31.03.2019 RM'000	Last year's ended 31.03.2018 RM'000
(a) Write-back of/(allowance for) impairment losses on loans and advances:				
- Stage 1 - 12 months ECL, net	24	-	53	-
- Stage 2 - Life time ECL not credit impaired, net	-	-	1	-
- Stage 3 - Life time ECL credit impaired, net	-	-	(48)	-
- Individual assessment allowance made	-	(4)	-	(6)
- Collective assessment allowance made	-	103	-	(240)
	24	99	6	(246)
(b) Write-back of/(allowance for) impairment losses on clients' and brokers' balances:				
- Stage 1 - 12 months ECL, net	6	-	13	-
- Stage 3 - Life time ECL credit impaired, net	23	-	38	-
- Bad debts recovered	-	-	47	-
- Individual assessment allowance made	-	(60)	-	(96)
- Individual assessment allowance written back	-	128	-	269
- Collective assessment allowance made	-	22	-	(2)
	29	90	98	171
(c) Write-back of/(allowance for) impairment losses on financial investments				
(i) Financial investments at FVOCI				
- Stage 1 - 12 months ECL, net	340	-	3	-
(ii) Financial investments at amortised cost				
- Stage 1 - 12 months ECL, net	3	-	(14)	-
	343	-	(11)	-
(d) Write-back of/(allowance for) impairment losses on other financial assets				
- Stage 1 - 12 months ECL, net	30	-	24	-
- Stage 3 - Life time ECL credit impaired, net	-	-	85	-
- Individual assessment allowance made	-	85	-	(127)
- Individual assessment allowance written back	-	98	-	358
	30	183	109	231
	426	372	202	156

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27. 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.

28. 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	
	31.03.2019	30.06.2018
	Principal Amount RM'000	Principal Amount RM'000
Commitments and Contingent Liabilities		
Direct Credit Substitutes	1,000	1,000
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions	3,409	4,914
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice		
- maturity less than one year	733,726	662,442
	738,135	668,356
Derivative Financial Instruments		
Interest rate related contracts:		
- One year or less	3,502,872	1,472,531
- Over one year to five years	3,201,640	3,580,750
- Over five years	245,000	215,000
Foreign exchange related contracts:		
- One year or less	3,439,398	2,909,693
- Over one year to five years	81,640	-
Equity related contracts:		
- Over one year to five years	7,000	7,000
	10,477,550	8,184,974
	11,215,685	8,853,330

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EXPLANATORY NOTES

29. 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

29. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy

The Group	Level 1	Level 2	Level 3	Total
31.03.2019	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financial assets at FVTPL	9,425	1,261,965	1,380	1,272,770
- Money market instruments	-	953,658	-	953,658
- Quoted securities	9,425	100	-	9,525
- Unquoted securities	-	308,207	1,380	309,587
Financial investments at FVOCI	-	946,842	-	946,842
- Money market instruments	-	147,239	-	147,239
- Unquoted securities	-	799,603	-	799,603
Derivative financial assets	-	27,460	-	27,460
	9,425	2,236,267	1,380	2,247,072
Financial liability				
Derivative financial liabilities	-	31,032	-	31,032
30.06.2018				
Financial assets				
Financial assets at FVTPL	6,152	1,217,832	-	1,223,984
- Money market instruments	-	1,010,389	-	1,010,389
- Quoted securities	6,152	100	-	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
	6,445	2,462,859	245	2,469,549
Financial liability				
Derivative financial liabilities	-	44,428	-	44,428

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EXPLANATORY NOTES

29. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy (continued)

The Bank	Level 1	Level 2	Level 3	Total
31.03.2019	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financial assets at FVTPL	9,124	1,261,965	1,380	1,272,469
- Money market instruments	-	953,658	-	953,658
- Quoted securities	9,124	100	-	9,224
- Unquoted securities	-	308,207	1,380	309,587
Financial investments at FVOCI	-	946,842	-	946,842
- Money market instruments	-	147,239	-	147,239
- Unquoted securities	-	799,603	-	799,603
Derivative financial assets	-	27,460	-	27,460
	9,124	2,236,267	1,380	2,246,771
Financial liability				
Derivative financial liabilities	-	31,032	-	31,032
30.06.2018				
Financial assets				
Financial assets at fair value through profit or loss	6,152	1,217,832	-	1,223,984
- Money market instruments	-	1,010,389	-	1,010,389
- Quoted securities	6,152	100	-	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
	6,152	2,462,859	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 period.

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29. 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	
	31.03.2019	30.06.2018
	RM'000	RM'000
Financial assets at FVTPL		
At 1 July		
- as previously reported	-	-
- effect of adoption of MFRS 9	1,380	-
At 1 July, as restated	<u>1,380</u>	<u>-</u>
At 31 March/30 June	<u>1,380</u>	<u>-</u>
Financial investments available-for-sale		
At 1 July		
- as previously reported	245	245
- effect of adoption of MFRS 9	(245)	-
At 1 July, as restated	<u>-</u>	<u>245</u>
At 31 March/30 June	<u>-</u>	<u>245</u>

30. 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	
	31.03.2019	30.06.2018	31.03.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Before deducting proposed dividends:				
Common equity tier 1 ("CET1") capital ratio	26.559%	33.091%	26.546%	33.073%
Tier 1 capital ratio	26.559%	33.091%	26.546%	33.073%
Total capital ratio	<u>31.106%</u>	<u>37.634%</u>	<u>31.097%</u>	<u>37.619%</u>
After deducting proposed dividends: ⁽¹⁾				
CET1 capital ratio	26.559%	29.135%	26.546%	29.115%
Tier 1 capital ratio	26.559%	29.135%	26.546%	29.115%
Total capital ratio	<u>31.106%</u>	<u>33.679%</u>	<u>31.097%</u>	<u>33.661%</u>

Note:

⁽¹⁾ Proposed dividends of RM Nil (30.06.2018: RM45,500,000).

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30. 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	
	31.03.2019	30.06.2018	31.03.2019	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	192,674	250,314	192,445	250,085
Other reserves	4,732	(3,355)	4,732	(3,355)
Less: goodwill and intangibles	(30,797)	(31,672)	(30,797)	(31,672)
Less: deferred tax assets	(95,978)	(87,582)	(95,978)	(87,582)
Less: investment in subsidiary companies	-	-	(200)	(200)
Less: 55% of cumulative gains of financial investments at FVOCI	(2,603)	-	(2,603)	-
Total CET1 Capital	320,978	380,655	320,549	380,226
Tier 1 Capital	320,978	380,655	320,549	380,226
Tier 2 Capital				
Collective assessment allowance ⁽²⁾ and regulatory reserve ⁽³⁾	-	2,266	-	2,266
General provision ⁽⁴⁾	4,952	-	4,952	-
Subordinated obligations	50,000	50,000	50,000	50,000
Total Tier 2 Capital	54,952	52,266	54,952	52,266
Total Capital	375,930	432,921	375,501	432,492

Note:

- (2) Excludes collective assessment allowance attributable to loans and advances classified as impaired.
- (3) Includes the qualifying regulatory reserve for non-impaired loans and advances (30.06.2018: RM2,071,000).
- (4) Pursuant to BNM's policy document on Financial Reporting, general provision refers to loss allowance, measured at an amount equal to 12-month and lifetime expected credit losses and regulatory reserve, to the extent they are ascribed to non-credit impaired exposures, determined under Standardised Approach for credit risk.

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

	The Group		The Bank	
	31.03.2019	30.06.2018	31.03.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Credit risk	396,215	407,913	396,190	407,598
Market risk	537,008	457,231	536,406	457,231
Operational risk	275,305	285,193	274,921	284,840
	1,208,528	1,150,337	1,207,517	1,149,669

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31. Significant events during the financial quarter ended 31 March 2019

There were no material significant events during the financial quarter.

32. Changes in the composition of the Group

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

33. 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.

34. Review of performance for the financial quarter ended 31 March 2019 against the corresponding financial quarter

For the current financial quarter ended 31 March 2019, the Group recorded a profit before tax of RM11.2 million, as compared to a RM16.8 million recorded in the corresponding financial quarter. The decrease in profit of RM5.6 million was primarily attributable to lower income earned from its Stockbroking Division.

35. 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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36. 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

36. 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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36. 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	30 June 2018 RM'000	Classification and measurement RM'000	Expected credit losses RM'000	1 July 2018 RM'000
Assets				
Cash and short-term funds	55,967	-	-	55,967
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	57,973	-	1,281,957
Financial investments at FVOCI	-	1,341,551	(205)	1,341,346
Financial investments at amortised cost	-	667,393	(24)	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)	(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
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	4,202,759	2,305	(2,014)	4,203,050
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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36. 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	30 June 2018 RM'000	Classification and measurement RM'000	Expected credit losses RM'000	1 July 2018 RM'000
Equity				
Share capital	252,950	-	-	252,950
Reserves	249,030	2,305	(2,014)	249,321
Regulatory reserve	2,071	10,672	-	12,743
Fair value reserve	(3,355)	1,759	-	(1,596)
Retained profits	250,314	(10,126)	(2,014)	238,174
	<u>501,980</u>	<u>2,305</u>	<u>(2,014)</u>	<u>502,271</u>
Total equity and liabilities	<u>4,202,759</u>	<u>2,305</u>	<u>(2,014)</u>	<u>4,203,050</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	(205)	1,341,346
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>(2,014)</u>	<u>4,202,847</u>

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EXPLANATORY NOTES

36. 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	30 June 2018 RM'000	Classification and measurement RM'000	Expected credit losses RM'000	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	(2,014)	249,092
Regulatory reserve	2,071	10,672	-	12,743
Fair value reserve	(3,355)	1,759	-	(1,596)
Retained profits	250,085	(10,126)	(2,014)	237,945
	<u>501,751</u>	<u>2,305</u>	<u>(2,014)</u>	<u>502,042</u>
Total equity and liabilities	<u>4,202,556</u>	<u>2,305</u>	<u>(2,014)</u>	<u>4,202,847</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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36. 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
- recognition of expected credit losses under MFRS 9	(205)	(205)
Opening balance under MFRS 9 as at 1 July 2018	<u>1,341,346</u>	<u>1,341,346</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)
- Other classification and measurement	(11)	(11)
Opening balance under MFRS 9 as at 1 July 2018	<u>225,351</u>	<u>225,351</u>

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36. 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
- in respect of other classification and measurement	2	2
Opening balance under MFRS 9 as at 1 July 2018	<u>87,490</u>	<u>87,490</u>
Regulatory reserve		
Closing balance as at 30 June 2018	2,071	2,071
- Transfer from retained profits (Revised Financial Reporting Guidelines)	10,672	10,672
Opening balance as at 1 July 2018	<u>12,743</u>	<u>12,743</u>
Fair value reserve		
Closing balance as at 30 June 2018	(3,355)	(3,355)
- Unrealised gain on financial investments at FVOCI	2,314	2,314
- Deferred tax in respect of unrealised gain on financial investments at FVOCI	(555)	(555)
Opening balance as at 1 July 2018	<u>(1,596)</u>	<u>(1,596)</u>
Retained profits		
Closing balance 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	729	729
- 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	464	464
- Other classification and measurement	(11)	(11)
Opening balance as at 1 July 2018	<u>238,174</u>	<u>237,945</u>