

HONG LEONG INVESTMENT BANK BERHAD
(Company No: 10209-W)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2016

	Note	The Group		The Bank	
		As at	As at	As at	As at
		30.09.2016	30.06.2016	30.09.2016	30.06.2016
		RM'000	RM'000	RM'000	RM'000
ASSETS					
Cash and short-term funds		316,723	230,436	316,693	228,694
Deposits and placements with banks and other financial institutions		-	40,359	-	40,359
Financial assets at fair value through profit or loss	8	1,248,274	1,416,719	1,248,274	1,416,719
Financial investments available-for-sale	9	809,578	865,113	809,223	864,761
Financial investments held-to-maturity	10	658,708	528,100	658,708	528,100
Derivative financial assets	17	33,201	42,694	33,201	42,694
Loans and advances	11	336,282	372,162	336,282	372,162
Clients' and brokers' balances	12	318,569	192,239	318,569	192,239
Other assets	13	50,873	45,679	50,872	45,674
Statutory deposits with Bank Negara Malaysia		45,700	32,400	45,700	32,400
Investment in subsidiaries		-	-	200	361
Deferred tax assets		94,075	91,882	94,075	91,882
Property and equipment		5,969	5,551	5,969	5,551
Intangible assets - computer software		6,077	5,393	6,077	5,393
Goodwill		28,986	28,986	28,986	28,986
TOTAL ASSETS		<u>3,953,015</u>	<u>3,897,713</u>	<u>3,952,829</u>	<u>3,895,975</u>
LIABILITIES AND SHAREHOLDER'S FUNDS					
Deposits from customers	15	804,417	1,031,929	804,417	1,031,929
Deposits and placements of banks and other financial institutions	16	2,090,787	1,904,770	2,090,787	1,904,770
Derivative financial liabilities	17	79,295	80,685	79,295	80,685
Clients' and brokers' balances		305,733	241,167	305,733	241,167
Provision for tax		1	-	-	-
Other liabilities	18	108,507	93,264	108,583	91,803
Subordinated obligations	19	50,928	50,247	50,928	50,247
TOTAL LIABILITIES		<u>3,439,668</u>	<u>3,402,062</u>	<u>3,439,743</u>	<u>3,400,601</u>
EQUITY					
Share capital		165,000	165,000	165,000	165,000
Reserves		348,347	330,651	348,086	330,374
TOTAL EQUITY		<u>513,347</u>	<u>495,651</u>	<u>513,086</u>	<u>495,374</u>
TOTAL EQUITY AND LIABILITIES		<u>3,953,015</u>	<u>3,897,713</u>	<u>3,952,829</u>	<u>3,895,975</u>
COMMITMENTS AND CONTINGENCIES					
	25	<u>8,924,880</u>	<u>8,738,501</u>	<u>8,924,880</u>	<u>8,738,501</u>
Net assets per ordinary share (RM)		<u>3.11</u>	<u>3.00</u>	<u>3.11</u>	<u>3.00</u>

The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 30 June 2016.

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

CONDENSED FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2016

	Note	The Group			
		Individual Quarter		Cumulative Months Ended	
		Current	Last year's	Current	Last
		quarter ended	quarter ended	year ended	year's ended
		30.09.2016	30.09.2015	30.09.2016	30.09.2015
		RM'000	RM'000	RM'000	RM'000
Interest income	20	36,630	29,685	36,630	29,685
Interest expense	21	(26,051)	(21,797)	(26,051)	(21,797)
Net interest income		10,579	7,888	10,579	7,888
Non-interest income	22	24,035	23,537	24,035	23,537
Net income		34,614	31,425	34,614	31,425
Overhead expenses	23	(19,487)	(19,712)	(19,487)	(19,712)
Net operating profit		15,127	11,713	15,127	11,713
Write-back of impairment losses on loans and advances and other losses	24	12	4	12	4
Profit before taxation		15,139	11,717	15,139	11,717
Taxation		2,280	2,902	2,280	2,902
Net profit for the financial period		17,419	14,619	17,419	14,619
Earnings per share (sen)					
- Basic		10.6	8.9	10.6	8.9
- Diluted		10.6	8.9	10.6	8.9

The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 30 June 2016.

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

CONDENSED FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2016

	Individual Quarter		The Group	
	Current	Last year's	Cumulative Months Ended	Last
	quarter ended	quarter ended	year ended	year's ended
	30.09.2016	30.09.2015	30.09.2016	30.09.2015
	RM'000	RM'000	RM'000	RM'000
Net profit for the financial period	17,419	14,619	17,419	14,619
Other comprehensive (expense)/income:				
Items that will be reclassified subsequently to profit or loss				
Net fair value changes on financial investments available-for-sale	365	(5,723)	365	(5,723)
Income tax relating to net fair value changes on financial investments available-for-sale	(88)	1,373	(88)	1,373
Other comprehensive income/(expense) for the financial period, net of tax	277	(4,350)	277	(4,350)
Total comprehensive income for the financial period, net of tax	17,696	10,269	17,696	10,269

The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 30 June 2016.

HONG LEONG INVESTMENT BANK BERHAD
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CONDENSED FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2016

	Note	The Bank			
		Individual Quarter		Cumulative Months Ended	
		Current quarter ended 30.09.2016 RM'000	Last year's quarter ended 30.09.2015 RM'000	Current year ended 30.09.2016 RM'000	Last year's ended 30.09.2015 RM'000
Interest income	20	36,604	29,685	36,604	29,685
Interest expense	21	(26,051)	(21,797)	(26,051)	(21,797)
Net interest income		10,553	7,888	10,553	7,888
Non-interest income	22	24,026	23,481	24,026	23,481
Net income		34,579	31,369	34,579	31,369
Overhead expenses	23	(19,437)	(19,666)	(19,437)	(19,666)
Net operating profit		15,142	11,703	15,142	11,703
Write-back of impairment losses on loans and advances and other losses	24	12	4	12	4
Profit before taxation		15,154	11,707	15,154	11,707
Taxation		2,281	2,904	2,281	2,904
Net profit for the financial period		17,435	14,611	17,435	14,611
Earnings per share (sen)					
- Basic		10.6	8.9	10.6	8.9
- Diluted		10.6	8.9	10.6	8.9

The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 30 June 2016.

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

CONDENSED FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2016

	Individual Quarter		The Bank	
	Current	Last year's	Cumulative	Months Ended
	quarter ended	quarter ended	year ended	year's ended
	30.09.2016	30.09.2015	30.09.2016	30.09.2015
	RM'000	RM'000	RM'000	RM'000
Net profit for the financial period	17,435	14,611	17,435	14,611
Other comprehensive (expense)/income:				
Items that will be reclassified subsequently to profit or loss				
Net fair value changes on financial investments available-for-sale	365	(5,723)	365	(5,723)
Income tax relating to net fair value changes on financial investments available-for-sale	(88)	1,373	(88)	1,373
Other comprehensive income/(expense) for the financial period, net of tax	277	(4,350)	277	(4,350)
Total comprehensive income for the financial period, net of tax	17,712	10,261	17,712	10,261

The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 30 June 2016.

HONG LEONG INVESTMENT BANK BERHAD
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CONDENSED FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2016

	Note	Attributable to owner of the parent					Retained profits/ RM'000	Total RM'000
		Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Fair value reserve RM'000		
The Group								
At 1 July 2016		165,000	87,950	196,867	3,563	5,637	36,634	495,651
Net profit for the financial period		-	-	-	-	-	17,419	17,419
Other comprehensive income, net of tax		-	-	-	-	277	-	277
Total comprehensive income for the financial period		-	-	-	-	277	17,419	17,696
Transfer to regulatory reserve		-	-	-	(385)	-	385	-
At 30 September 2016		165,000	87,950	196,867	3,178	5,914	54,438	513,347
At 1 July 2015		165,000	87,950	196,867	3,031	1,778	23,040	477,666
Net profit for the financial period		-	-	-	-	-	14,619	14,619
Other comprehensive expense, net of tax		-	-	-	-	(4,350)	-	(4,350)
Total comprehensive (expense)/income for the financial period		-	-	-	-	(4,350)	14,619	10,269
Transfer to regulatory reserve		-	-	-	(101)	-	101	-
At 30 September 2015		165,000	87,950	196,867	2,930	(2,572)	37,760	487,935

The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 30 June 2016.

HONG LEONG INVESTMENT BANK BERHAD
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CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2016

	Non-distributable				Distributable		Total RM'000
	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Fair value reserve RM'000	Retained profits/ RM'000	
<u>The Bank</u>							
At 1 July 2016	165,000	87,950	196,867	3,563	5,637	36,357	495,374
Net profit for the financial period	-	-	-	-	-	17,435	17,435
Other comprehensive income, net of tax	-	-	-	-	277	-	277
Total comprehensive income for the financial period	-	-	-	-	277	17,435	17,712
Transfer from regulatory reserve	-	-	-	(385)	-	385	-
At 30 September 2016	165,000	87,950	196,867	3,178	5,914	54,177	513,086
At 1 July 2015	165,000	87,950	196,867	3,031	1,778	22,742	477,368
Net profit for the financial period	-	-	-	-	-	14,611	14,611
Other comprehensive expense, net of tax	-	-	-	-	(4,350)	-	(4,350)
Total comprehensive (expense)/income for the financial period	-	-	-	-	(4,350)	14,611	10,261
Transfer to regulatory reserve	-	-	-	(101)	-	101	-
At 30 September 2015	165,000	87,950	196,867	2,930	(2,572)	37,454	487,629

The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 30 June 2016.

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

CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2016

	The Group		The Bank	
	30.09.2016	30.09.2015	30.09.2016	30.09.2015
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
Profit before taxation	15,139	11,717	15,154	11,707
Adjustments for non-cash items	(16,288)	4,329	(16,288)	4,329
Operating (loss)/profit before changes in working capital	(1,149)	16,046	(1,134)	16,036
Changes in working capital:				
Net changes in operating assets	97,863	417,259	98,028	417,267
Net changes in operating liabilities	38,314	(441,708)	39,851	(439,748)
Net income tax refund/(paid)	5	(1)	-	-
Net cash generated from/(used in) operating activities	135,033	(8,404)	136,745	(6,445)
Net cash used in investing activities	(48,746)	(148,719)	(48,746)	(148,723)
Net changes in cash and cash equivalents	86,287	(157,123)	87,999	(155,168)
Cash and cash equivalents at beginning of financial period	230,436	440,318	228,694	438,100
Cash and cash equivalents at end of financial period	316,723	283,195	316,693	282,932
Cash and cash equivalents comprise:				
Cash and short term funds	316,723	283,195	316,693	282,932

The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 30 June 2016.

HONG LEONG INVESTMENT BANK BERHAD
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EXPLANATORY NOTES

1. Basis of preparation

The unaudited condensed financial statements for the financial period ended 30 September 2016 have been prepared under the historical cost convention, as modified by the revaluation of financial investments available-for-sale and financial assets/financial liabilities at fair value through profit or loss (including derivative financial instruments).

The unaudited condensed financial statements have been prepared in accordance with MFRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standard Board ("MASB") and should be read in conjunction with the audited annual financial statements for the Group and the Bank for the financial year ended 30 June 2016. 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 2016.

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 2016 and modified for the adoption of the following Amendments to MFRSs applicable for financial period beginning on or after 1 July 2016:

- Amendments to MFRS 11 'Joint Arrangements'
- Amendments to MFRS 116 'Property Plant and Equipment' and MFRS 138 'Intangible Assets'

The adoption of the above annual improvements and amendments do not give rise to any material financial impact to the Group and to the Bank.

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.

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.

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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 30 September 2016.

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 September 2016.

6. Issuance and repayments

There were no cancellation, repurchase, resale or repayment of debt and equity securities during the current financial quarter ended 30 September 2016.

7. Dividends

There were no dividends paid during the financial quarter ended 30 September 2016.

8. Financial assets at fair value through profit or loss

	The Group and the Bank	
	30.09.2016	30.06.2016
	RM'000	RM'000
Financial assets held-for-trading		
Money market instruments		
Negotiable instruments of deposits	511,966	763,252
Bankers' acceptances	79,103	-
	591,069	763,252
Quoted securities		
In Malaysia:		
Shares	38,226	14,450
Unquoted securities		
Foreign currency bonds	32	21,057
Corporate bond and/or sukuk	618,807	617,820
	618,839	638,877
	1,248,134	1,416,579
Financial assets designated at fair value through profit or loss		
Quoted securities		
In Malaysia:		
Shares	140	140
	1,248,274	1,416,719

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EXPLANATORY NOTES

9. Financial investments available-for-sale

	The Group		The Bank	
	30.09.2016	30.06.2016	30.09.2016	30.06.2016
	RM'000	RM'000	RM'000	RM'000
Money market instruments				
Malaysian Government Securities	31,179	30,606	31,179	30,606
Malaysian Government Investment Issues	31,175	30,889	31,175	30,889
Cagamas bonds	15,188	15,094	15,188	15,094
	77,542	76,589	77,542	76,589
Quoted securities				
Unit trust investment	355	352	-	-
Unquoted securities				
Shares	245	245	245	245
Foreign currency bonds	132,460	168,754	132,460	168,754
Corporate bond and/or sukuk	598,976	619,173	598,976	619,173
	731,681	788,172	731,681	788,172
	809,578	865,113	809,223	864,761

10. Financial investments held-to-maturity

	The Group and the Bank	
	30.09.2016	30.06.2016
	RM'000	RM'000
Money market instruments		
Malaysian Government Securities	80,336	81,194
Malaysian Government Investment Issues	354,169	266,161
	434,505	347,355
Unquoted securities		
Foreign currency bonds	128,443	125,456
Corporate bond and/or sukuk	95,760	55,289
	224,203	180,745
	658,708	528,100

HONG LEONG INVESTMENT BANK BERHAD
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EXPLANATORY NOTES

11. Loans and advances

	The Group and the Bank	
	30.09.2016	30.06.2016
	RM'000	RM'000
Term loan financing	72,533	84,527
Share margin financing	264,074	288,004
Staff loans	69	71
Other loans	574	574
Gross loans and advances	337,250	373,176
Less: Allowance for losses on loans and advances		
- individual assessment allowance	(100)	(100)
- collective assessment allowance	(868)	(914)
Total net loans and advances	336,282	372,162
 (i) Gross loans and advances disbursed by type of customers are as follows:		
Domestic business enterprises		
- Small and medium enterprises	20,283	20,273
- Others	205,673	216,899
Individuals	103,190	127,909
Foreign entities	8,104	8,095
	337,250	373,176
 (ii) Gross loans and advances analysed by interest rate sensitivity are as follows:		
Variable rate	336,607	372,531
Fixed rate		
- Staff housing loans	69	71
- Other fixed rate loans	574	574
	337,250	373,176
 (iii) Gross loans and advances analysed by residual contractual maturity are as follows:		
Maturing within one year	317,693	308,648
One year to three years	19,488	64,457
Over five years	69	71
	337,250	373,176

HONG LEONG INVESTMENT BANK BERHAD
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EXPLANATORY NOTES

11. Loans and advances (continued)

	The Group and the Bank	
	30.09.2016	30.06.2016
	RM'000	RM'000
(iv) Loans and advances analysed by their economic purposes are as follows:		
Working capital	32,493	33,969
Purchase of securities	304,114	338,562
Purchase of transport vehicles	100	100
Purchase of landed properties	543	545
	337,250	373,176
(v) Gross loans and advances analysed by geographical distribution are as follows:		
Malaysia	337,250	373,176
(vi) Movements in impaired loans and advances ("impaired loans") are as follows:		
At 1 July	574	623
Amount written-back during the financial period/year	-	(38)
Amount written-off during the financial period/year	-	(11)
At 30 September/30 June	574	574
(vii) Movements in allowance for loans and advances are as follows:		
Individual assessment allowance		
At 1 July	100	111
Allowance written-off during the financial period/year	-	(11)
At 30 September/30 June	100	100
Collective assessment allowance		
At 1 July	914	892
Allowance (written-back)/made during the financial period/year	(46)	22
At 30 September/30 June	868	914
(viii) Impaired loans and advances analysed by their economic purposes are as follows:		
Purchase of transport vehicles	100	100
Purchase of landed properties	474	474
	574	574

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EXPLANATORY NOTES

12. Clients' and brokers' balances

	The Group and the Bank	
	30.09.2016	30.06.2016
	RM'000	RM'000
Performing accounts	317,420	191,148
Impaired accounts	1,482	1,390
	318,902	192,538
Less: Allowance for bad and doubtful debts		
- individual assessment allowance	(318)	(282)
- collective assessment allowance	(15)	(17)
	318,569	192,239

13. Other assets

	The Group		The Bank	
	30.09.2016	30.06.2016	30.09.2016	30.06.2016
	RM'000	RM'000	RM'000	RM'000
Tax recoverable	1	6	-	-
Amount due from related companies	284	331	284	331
Deposits and prepayments	5,939	7,235	5,939	7,235
Fee income receivables	6,821	7,743	6,821	7,743
Collaterals pledged for derivative transactions	34,118	27,271	34,118	27,271
Other receivables	3,710	3,093	3,710	3,094
	50,873	45,679	50,872	45,674

14. Valuation of property and equipment

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

HONG LEONG INVESTMENT BANK BERHAD
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EXPLANATORY NOTES

15. Deposits from customers

	The Group and the Bank	
	30.09.2016	30.06.2016
	RM'000	RM'000
Fixed Deposit	804,417	1,031,929
<p>(i) The deposits are sourced from the following customers:</p>		
Government & statutory bodies	519,578	873,906
Business enterprises	271,463	144,774
Individuals	13,376	13,249
	804,417	1,031,929
<p>(ii) The maturity structure of fixed deposits is as follows:</p>		
Due within:		
- six months	804,417	1,030,876
- six months to one year	-	1,053
	804,417	1,031,929

16. Deposits and placements of banks and other financial institutions

	The Group and the Bank	
	30.09.2016	30.06.2016
	RM'000	RM'000
Licensed banks	787,164	641,635
Other financial institutions	1,303,623	1,263,135
	2,090,787	1,904,770

HONG LEONG INVESTMENT BANK BERHAD
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EXPLANATORY NOTES

17. 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
30.09.2016			
Interest rate related contracts:			
- Interest rate swaps	5,703,500	24,978	(46,680)
- Futures	149,300	58	(78)
- Cross currency swaps	82,715	66	(13,270)
Foreign exchange related contracts:			
- Foreign currency swaps	2,240,236	7,088	(19,191)
- Foreign currency forwards	34,586	1	(76)
- Foreign currency spots	21	-	-
Equity related contracts:			
- Futures	30,502	316	-
- Call options	7,000	694	-
	8,247,860	33,201	(79,295)
30.06.2016			
Interest rate related contracts:			
- Interest rate swaps	5,413,500	19,664	(36,729)
- Futures	139,893	-	(1,567)
- Cross currency swaps	120,945	3,412	(11,085)
Foreign exchange related contracts:			
- Foreign currency swaps	2,308,659	18,347	(30,597)
- Foreign currency forwards	45,938	-	(696)
Equity related contracts:			
- Futures	5,032	-	(11)
- Call options	7,000	1,271	-
	8,040,967	42,694	(80,685)

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EXPLANATORY NOTES

18. Other liabilities

	The Group		The Bank	
	30.09.2016	30.06.2016	30.09.2016	30.06.2016
	RM'000	RM'000	RM'000	RM'000
Amount due to holding company	251	1,283	251	1,283
Amount due to a subsidiary companies	-	-	-	1
Remisiers' trust deposits	13,386	12,998	13,386	12,998
Other payables and accrued liabilities	94,672	78,786	94,748	77,324
Provision for post employment benefits	198	197	198	197
	108,507	93,264	108,583	91,803

19. Subordinated obligations

	The Group and the Bank	
	30.09.2016	30.06.2016
	RM'000	RM'000
RM50.0 million Tier 2 subordinated notes, at par	50,000	50,000
Add: Interest payable	1,074	407
	51,074	50,407
Less: Unamortised discounts	(146)	(160)
	50,928	50,247

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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EXPLANATORY NOTES

20. Interest income

	The Group			
	Individual Quarter		Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
	30.09.2016	30.09.2015	30.09.2016	30.09.2015
	RM'000	RM'000	RM'000	RM'000
Loans and advances	5,779	5,417	5,779	5,417
Money at call and deposit placements with financial institutions	459	1,540	459	1,540
Financial assets at fair value through profit or loss	12,760	6,997	12,760	6,997
Financial investments available-for-sale	8,504	8,471	8,504	8,471
Financial investments held-to-maturity	5,181	3,494	5,181	3,494
Derivative financial instruments	1,876	1,486	1,876	1,486
Others	2,071	2,280	2,071	2,280
Total interest income	36,630	29,685	36,630	29,685

	The Bank			
	Individual Quarter		Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
	30.09.2016	30.09.2015	30.09.2016	30.09.2015
	RM'000	RM'000	RM'000	RM'000
Loans and advances	5,779	5,417	5,779	5,417
Money at call and deposit placements with financial institutions	433	1,540	433	1,540
Financial assets at fair value through profit or loss	12,760	6,997	12,760	6,997
Financial investments available-for-sale	8,504	8,471	8,504	8,471
Financial investments held-to-maturity	5,181	3,494	5,181	3,494
Derivative financial instruments	1,876	1,486	1,876	1,486
Others	2,071	2,280	2,071	2,280
Total interest income	36,604	29,685	36,604	29,685

21. 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
	30.09.2016	30.09.2015	30.09.2016	30.09.2015
	RM'000	RM'000	RM'000	RM'000
Deposits and placements of banks and other financial institutions	6,352	3,769	6,352	3,769
Deposits from customers	15,433	13,545	15,433	13,545
Derivative financial instruments	3,492	3,638	3,492	3,638
Subordinated notes	681	711	681	711
Others	93	134	93	134
Total interest expense	26,051	21,797	26,051	21,797

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EXPLANATORY NOTES

22. Non-interest income

	The Group			
	Individual Quarter		Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
30.09.2016	30.09.2015	30.09.2016	30.09.2015	
RM'000	RM'000	RM'000	RM'000	
<u>Fee and commission income:</u>				
Corporate advisory fees	985	795	985	795
Arranger fees	600	3,274	600	3,274
Underwriting commissions	-	212	-	212
Brokerage income	12,608	12,956	12,608	12,956
Fees on loans and advances	52	104	52	104
Other fee income	1,352	1,114	1,352	1,114
	15,597	18,455	15,597	18,455
<u>Net income from securities</u>				
Net realised gain/(loss) arising from sale of:				
- financial assets at fair value through profit or loss	7,757	692	7,757	692
- financial investments available-for-sale	2,621	(25)	2,621	(25)
- derivative financial instruments	(3,199)	(24,814)	(3,199)	(24,814)
Net unrealised loss on revaluation of:				
- financial assets at fair value through profit or loss	(363)	(6,651)	(363)	(6,651)
- derivative financial instruments	(6,928)	(13,857)	(6,928)	(13,857)
Dividend income from:				
- financial assets at fair value through profit or loss	390	796	390	796
- financial investments available-for-sale	3	-	3	-
	281	(43,859)	281	(43,859)
<u>Other income:</u>				
Gain on disposal of property and equipment	82	-	82	-
Loss on liquidation of subsidiaries	(7)	-	(7)	-
Foreign exchange gain	8,077	48,937	8,077	48,937
Other non-operating income	5	4	5	4
	8,157	48,941	8,157	48,941
Total non-interest income	24,035	23,537	24,035	23,537

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EXPLANATORY NOTES

22. Non-interest income (continued)

	Individual Quarter		The Bank Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
	30.09.2016	30.09.2015	30.09.2016	30.09.2015
	RM'000	RM'000	RM'000	RM'000
<u>Fee and commission income:</u>				
Corporate advisory fees	985	795	985	795
Arranger fees	600	3,274	600	3,274
Underwriting commissions	-	212	-	212
Brokerage income	12,608	12,956	12,608	12,956
Fees on loans and advances	52	104	52	104
Other fee income	1,344	1,058	1,344	1,058
	15,589	18,399	15,589	18,399
<u>Net income from securities</u>				
Net realised gain/(loss) arising from sale of:				
- financial assets at fair value through profit or loss	7,757	692	7,757	692
- financial investments available-for-sale	2,621	(25)	2,621	(25)
- derivative financial instruments	(3,199)	(24,814)	(3,199)	(24,814)
Net unrealised loss on revaluation of:				
- financial assets at fair value through profit or loss	(363)	(6,651)	(363)	(6,651)
- derivative financial instruments	(6,928)	(13,857)	(6,928)	(13,857)
Dividend income from:				
- financial assets at fair value through profit or loss	390	796	390	796
	278	(43,859)	278	(43,859)
<u>Other income:</u>				
Gain on disposal of property and equipment	82	-	82	-
Loss on liquidation of subsidiaries	(4)	-	(4)	-
Foreign exchange gain	8,077	48,937	8,077	48,937
Other non-operating income	4	4	4	4
	8,159	48,941	8,159	48,941
Total non-interest income	24,026	23,481	24,026	23,481

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EXPLANATORY NOTES

23. Overhead expenses

	Individual Quarter		The Group Cumulative Months Ended	
	Current	Last year's	Current	Last
	quarter ended	quarter ended	year ended	year's ended
	30.09.2016	30.09.2015	30.09.2016	30.09.2015
	RM'000	RM'000	RM'000	RM'000
Personnel expenses	11,242	11,886	11,242	11,886
Promotion and marketing related expenses	490	435	490	435
Establishment related expenses	3,898	3,745	3,898	3,745
General administrative expenses	3,857	3,646	3,857	3,646
	19,487	19,712	19,487	19,712
(i) Personnel expenses comprise the following:				
Salaries, bonuses and allowances	9,138	9,460	9,138	9,460
Defined contribution plan	1,456	1,398	1,456	1,398
Other employee benefits	648	1,028	648	1,028
	11,242	11,886	11,242	11,886
(ii) Promotion and marketing related expenses comprise the following:				
Advertisement and publicity expenses	1	1	1	1
Entertainment and business improvement	431	396	431	396
Others	58	38	58	38
	490	435	490	435
(iii) Establishment related expenses comprise the following:				
Depreciation of property and equipment	332	348	332	348
Amortisation of intangible assets	717	372	717	372
Rental expenses	1,122	1,391	1,122	1,391
Others	1,727	1,634	1,727	1,634
	3,898	3,745	3,898	3,745
(iv) General administrative expenses comprise the following:				
Auditors' remuneration				
- Statutory audit fees	65	70	65	70
Legal and professional fees	860	721	860	721
Others	2,932	2,855	2,932	2,855
	3,857	3,646	3,857	3,646

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EXPLANATORY NOTES

23. 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
	30.09.2016	30.09.2015	30.09.2016	30.09.2015
	RM'000	RM'000	RM'000	RM'000
Personnel expenses	11,205	11,852	11,205	11,852
Promotion and marketing related expenses	490	435	490	435
Establishment related expenses	3,888	3,736	3,888	3,736
General administrative expenses	3,854	3,643	3,854	3,643
	19,437	19,666	19,437	19,666
(i) Personnel expenses comprise the following:				
Salaries, bonuses and allowances	9,107	9,431	9,107	9,431
Defined contribution plan	1,450	1,393	1,450	1,393
Other employee benefits	648	1,028	648	1,028
	11,205	11,852	11,205	11,852
(ii) Promotion and marketing related expenses comprise the following:				
Advertisement and publicity expenses	1	1	1	1
Entertainment and business improvement	431	396	431	396
Others	58	38	58	38
	490	435	490	435
(iii) Establishment related expenses comprise the following:				
Depreciation of property and equipment	332	348	332	348
Amortisation of intangible assets	717	372	717	372
Rental expenses	1,114	1,383	1,114	1,383
Others	1,725	1,633	1,725	1,633
	3,888	3,736	3,888	3,736
(iv) General administrative expenses comprise the following:				
Auditors' remuneration				
- Statutory audit fees	63	68	63	68
Legal and professional fees	860	721	860	721
Others	2,931	2,854	2,931	2,854
	3,854	3,643	3,854	3,643

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EXPLANATORY NOTES

24. Write-back of impairment losses on loans and advances and other losses

	Individual Quarter		The Group and the Bank Cumulative Months Ended	
	Current quarter ended 30.09.2016 RM'000	Last year's quarter ended 30.09.2015 RM'000	Current year ended 30.09.2016 RM'000	Last year's ended 30.09.2015 RM'000
Write-back of/(allowance for) losses on impaired loans and advances:				
(a) Collective assessment written-back during the financial period	46	7	46	7
Write-back of/(allowance for) losses on clients' and brokers' balances:				
(a) Individual assessment allowance				
- made during the financial period	(59)	(64)	(59)	(64)
- written-back during the financial period	23	65	23	65
(b) Collective assessment written-back/(made) during the financial period	2	(4)	2	(4)
	12	4	12	4

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EXPLANATORY NOTES

25. 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	
	30.09.2016	30.06.2016
	Principal Amount RM'000	Principal Amount RM'000
Commitments and Contingent Liabilities		
Direct Credit Substitutes	1,000	8,000
Other commitments, such as formal standby facilities and credit lines		
- maturity less than one year	15,000	2,165
- maturity over one year	2,239	589
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice		
- maturity less than one year	658,781	686,780
	677,020	697,534
Derivative Financial Instruments		
Interest rate related contracts:		
- One year or less	1,677,800	1,388,708
- Over one year to five years	3,702,715	3,630,630
- Over five years	555,000	655,000
Foreign exchange related contracts:		
- One year or less	2,274,843	2,354,597
Equity related contracts:		
- One year or less	30,502	5,032
- Over one year to five years	7,000	7,000
	8,247,860	8,040,967
	8,924,880	8,738,501

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EXPLANATORY NOTES

26. 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

26. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy

The Group	Level 1	Level 2	Level 3	Total
30.09.2016	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financial assets at fair value through profit or loss	38,226	1,210,048	-	1,248,274
- Money market instruments	-	591,069	-	591,069
- Quoted securities	38,226	140	-	38,366
- Unquoted securities	-	618,839	-	618,839
Financial investments available-for-sale	355	808,978	245	809,578
- Money market instruments	-	77,542	-	77,542
- Quoted securities	355	-	-	355
- Unquoted securities	-	731,436	245	731,681
Derivative financial assets	-	33,201	-	33,201
	38,581	2,052,227	245	2,091,053
Financial liability				
Derivative financial liabilities	-	79,295	-	79,295
30.06.2016				
Financial assets				
Financial assets at fair value through profit or loss	14,450	1,402,269	-	1,416,719
- Money market instruments	-	763,252	-	763,252
- Quoted securities	14,450	140	-	14,590
- Unquoted securities	-	638,877	-	638,877
Financial investments available-for-sale	352	864,516	245	865,113
- Money market instruments	-	76,589	-	76,589
- Quoted securities	352	-	-	352
- Unquoted securities	-	787,927	245	788,172
Derivative financial assets	-	42,694	-	42,694
	14,802	2,309,479	245	2,324,526
Financial liability				
Derivative financial liabilities	-	80,685	-	80,685

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EXPLANATORY NOTES

26. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy (continued)

The Bank	Level 1	Level 2	Level 3	Total
30.09.2016	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financial assets at fair value through profit or loss	38,226	1,210,048	-	1,248,274
- Money market instruments	-	591,069	-	591,069
- Quoted securities	38,226	140	-	38,366
- Unquoted securities	-	618,839	-	618,839
Financial investments available-for-sale	-	808,978	245	809,223
- Money market instruments	-	77,542	-	77,542
- Unquoted securities	-	731,436	245	731,681
Derivative financial assets	-	33,201	-	33,201
	38,226	2,052,227	245	2,090,698
Financial liability				
Derivative financial liabilities	-	79,295	-	79,295
30.06.2016				
Financial assets				
Financial assets at fair value through profit or loss	14,450	1,402,269	-	1,416,719
- Money market instruments	-	763,252	-	763,252
- Quoted securities	14,450	140	-	14,590
- Unquoted securities	-	638,877	-	638,877
Financial investments available-for-sale	-	864,516	245	864,761
- Money market instruments	-	76,589	-	76,589
- Unquoted securities	-	787,927	245	788,172
Derivative financial assets	-	42,694	-	42,694
	14,450	2,309,479	245	2,324,174
Financial liability				
Derivative financial liabilities	-	80,685	-	80,685

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

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EXPLANATORY NOTES

26. 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	Financial investments available-for-sale	
	30.09.2016	30.06.2016
	RM'000	RM'000
At beginning/end of financial year	245	245

27. 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	
	30.09.2016	30.06.2016	30.09.2016	30.06.2016
	RM'000	RM'000	RM'000	RM'000
Before deducting proposed dividends:				
Common equity tier 1 ("CET1") capital ratio	28.814%	29.225%	28.798%	29.202%
Tier 1 capital ratio	28.814%	29.225%	28.798%	29.202%
Total capital ratio	33.107%	33.608%	33.087%	33.576%
After deducting proposed dividends: ⁽¹⁾				
CET1 capital ratio	24.653%	25.011%	24.635%	24.986%
Tier 1 capital ratio	24.653%	25.011%	24.635%	24.986%
Total capital ratio	28.946%	29.394%	28.924%	29.360%

Note:

⁽¹⁾ Proposed dividends of RM52,300,000 (2016: RM52,300,000).

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EXPLANATORY NOTES

27. 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	
	30.09.2016	30.06.2016	30.09.2016	30.06.2016
	RM'000	RM'000	RM'000	RM'000
CET1 Capital				
Paid-up ordinary share capital	165,000	165,000	165,000	165,000
Share premium	87,950	87,950	87,950	87,950
Retained profits	36,634	36,634	36,357	36,357
Other reserves	202,781	202,504	202,781	202,504
Less: goodwill and intangibles	(35,063)	(34,379)	(35,063)	(34,379)
Less: deferred tax assets	(91,882)	(91,882)	(91,882)	(91,882)
Less: investment in subsidiary companies	-	-	(120)	(217)
Less: 55% of cumulative gains of financial instruments available-for-sale	(3,253)	(3,100)	(3,253)	(3,100)
Total CET1 Capital	362,167	362,727	361,770	362,233
Tier 1 Capital	362,167	362,727	361,770	362,233
Tier 2 Capital				
Collective assessment allowance ⁽²⁾ and regulatory reserve ⁽³⁾	3,962	4,394	3,962	4,394
Subordinated obligations	50,000	50,000	50,000	50,000
Regulatory adjustments:				
- Investment in subsidiary companies	-	-	(80)	(144)
Total Tier 2 Capital	53,962	54,394	53,882	54,250
Total Capital	416,129	417,121	415,652	416,483

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 of RM3,178,000 (2016: RM3,563,000).

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

	The Group		The Bank	
	30.09.2016	30.06.2016	30.09.2016	30.06.2016
	RM'000	RM'000	RM'000	RM'000
Credit risk	481,242	520,793	480,881	520,091
Market risk	473,777	416,042	473,777	416,042
Operational risk	301,894	304,312	301,583	304,287
	1,256,913	1,241,147	1,256,241	1,240,420

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EXPLANATORY NOTES

28. Significant events during the financial quarter ended 30 September 2016

There were no material significant events during the financial quarter.

29. Changes in the composition of the Group

There were no changes in composition of the Group since last financial quarter, except for the following:

On 7 September 2016, the liquidator of HLG Nominee (Tempatan) Sdn Bhd ("HLG Nominee"), a wholly-owned subsidiary of HLIB, had convened the final meeting for HLG Nominee to conclude the member's voluntary winding-up of HLG Nominee.

The Return by Liquidator Relating to Final Meeting of HLG Nominee was lodged on 7 September 2016 with the Companies Commission of Malaysia and the Official Receiver, and on the expiration of 3 months after the said lodgement date, HLG Nominee will be dissolved.

30. 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.

31. Review of performance for the financial quarter ended 30 September 2016 against the corresponding financial quarter

For the current financial quarter ended 30 September 2016, the Group recorded a profit before tax of RM15.1 million, as compared to a RM11.7 million recorded in the corresponding financial quarter. The increase in profit of RM3.4 million was primarily attributable to the higher income earned from its Investment Banking Division.

32. Prospects for 2017

FY2017 is expected to be a challenging year ahead due to weak investors sentiment caused by economic uncertainties both domestically and internationally.

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

For Stockbroking business, the Bank envisages the retail segment to grow in the next 10 years when the millennials with higher disposal income and savings start to invest and trade more in the market. Anticipating the shift in the market landscape with higher retail participation going forward, new initiatives is being carried out accordingly to focus on the online broking business. New applications will be developed to ensure effective client engagement with value add trading ideas and market news.