# Hong Leong Investment Bank Berhad

**Company no: 43526-P**

**(Incorporated in Malaysia)**

# Reports and financial statements for the financial year ended 30 June 2011

# Hong Leong Investment Bank Berhad

**Company no: 43526-P**
**(Incorporated in Malaysia)**

## Reports and financial statements
## for the financial year ended 30 June 2011

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# Hong Leong Investment Bank Berhad

**Company no: 43526-P**
**(Incorporated in Malaysia)**

**Directors' report**
**for the financial year ended 30 June 2011**

The Directors of Hong Leong Investment Bank Berhad ("the Bank" or "HLIB") have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 30 June 2011.

## Principal activities

The Bank is principally engaged in securities and stock broking, investment banking and futures broking.

The principal activities of the subsidiary companies are nominee and custodian services as disclosed in Note 13 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

## Financial results

| | The Group RM'000 | The Bank RM'000 |
|---|---|---|
| Net profit for the financial year | 34,443 | 34,356 |

## Dividends

No dividend has been paid by the Bank since the end of the previous financial year.

Subject to Bank Negara Malaysia ("BNM")'s approval, the Directors of the Bank declared the payment of a single-tier final dividend of 10.0 sen per share on the Bank's issued and paid-up Redeemable Preference Shares comprising 163,076,524 Redeemable Preference Shares amounting to RM16,307,652 for the financial year ended 30 June 2011. The payment of the dividend was approved by BNM on 26 August 2011, pursuant to Section 58 of the Banking and Financial Institutions Act 1989.

These financial statements do not reflect this dividend as no obligation exists at the end of the reporting period. The dividend will be accounted for in the shareholder's equity as an appropriation of retained profits during the financial year ending 30 June 2012.

## Business strategy for the current financial year

The Bank's strategy is to focus to expand the range of investment banking products and to enable clients access to other foreign capital markets.

## Outlook and business plan for the coming financial year

The key focus for the coming financial year is to strengthen and build on the existing stockbroking business and to offer innovative investment banking solutions while leveraging on Hong Leong Group relationship.

## Hong Leong Investment Bank Berhad
**Company no: 43526-P**
**(Incorporated in Malaysia)**

**Directors' report**
**for the financial year ended 30 June 2011**

**Significant events during the financial year**

Significant events during the financial year are disclosed in Note 43 to the financial statements.

**Reserves and provisions**

All material transfers to or from reserves and provisions during the financial year are disclosed in the financial statements.

**Directors**

The Directors in office since the date of the last report are as follows:

| | |
|---|---|
| YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman | (Chairman, Independent Non-Executive Director) |
| Ms Lee Jim Leng | (Managing Director, Chief Executive, Non-Independent) |
| YBhg Tan Sri A. Razak bin Ramli | (Independent Non-Executive Director) |
| Mr Choong Yee How | (Non-Independent Non-Executive Director) |
| Mr Martin Giles Manen | (Independent Non-Executive Director) |

In accordance with Article 121 of the Bank's Articles of Association, YBhg Tan Sri A. Razak bin Ramli retires by rotation at the forthcoming Annual General Meeting ("AGM") and being eligible, offers himself for re-election.

In accordance with Article 129 of the Companies Act, 1965, YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman retires at the forthcoming AGM and being eligible, offers himself for re-appointment.

**Statements of Directors' Responsibility**

In preparing the financial statements, the Directors have ensured that the Malaysian Accounting Standards Board (MASB) Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia Guidelines, and the provisions of the Companies Act, have been complied with and reasonable and prudent judgements and estimates have been made.

It is the responsibility of the Directors to ensure that the financial statements of the Group and of the Bank present a true and fair view of the state of affairs of the Group and of the Bank as at 30 June 2011 and of the results and cash flows of the Group and of the Bank for financial year ended on that date.

The financial statements are prepared on a going concern basis and the Directors have ensured that proper accounting records are kept so as to enable the preparation of the financial statements with reasonable accuracy.

The Directors have also overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group and of the Bank and for the implementation and continued operation of adequate accounting and internal control systems for the prevention and detection of fraud and other irregularities. The system of internal controls is designed to provide reasonable and not absolute assurance for acheiving certain internal control standards and helps the Group and the Bank manage the risk of failure to achieve business.

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 110.

**Directors' report**
**for the financial year ended 30 June 2011**

## Directors' interests

No Director holding office at the end of the financial year end had any beneficial interest in the ordinary shares/warrants/options/irredeemable convertible unsecured loan stocks of the Bank and/or its related corporations during the financial year ended 30 June 2011 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, except for YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman and Mr Choong Yee How whose beneficial interests are disclosed in the Directors' Report of the immediate holding company as provided for under Section 134 of the said Act, and Ms Lee Jim Leng whose beneficial interests are as follows:-

| | | Number of shares to be issued arising from the exercise of options | | | |
|---|---|---|---|---|---|
| | **Nominal value per share RM** | **At 01-07-2010** | **Acquired/ Granted** | **Sold** | **At 30-06-2011** |
| **Interest of Ms Lee Jim Leng** | | | | | |
| Hong Leong Capital Berhd (formerly known as HLG Capital Berhad) | 1.00 | - | 1,500,000 | - | 1,500,000 |

## Directors' benefits

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefits (other than benefits included in the aggregate amount of emoluments received or due and receivable by certain Directors as shown in the financial statements or the fixed salary of a full-time employee of the Bank or of related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, other than Affirmative Action Bonus Options granted pursuant to the Executive Share Option Scheme of Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) ("HLCB"), the immediate holding company of the Bank.

**Share capital**

There was no change in the issued and paid-up capital of the Bank during the financial year.

**Executive share option scheme ("ESOS" OR "Scheme")**

The Executive Share Option Scheme ("ESOS") of up to fifteen percent (15%) of the issued and paid-up ordinary share capital of the Bank's immediate holding company, HLCB, which was approved by the shareholders of HLCB on 8 November 2005, was established on 23 January 2006 and would be in force for a period of ten (10) years.

Bursa Malaysia Securities Berhad had approved-in-principle the listing of new ordinary shares of HLCB to be issued pursuant to the exercise of options under the ESOS at any time during the existence of the ESOS.

The ESOS would provide an opportunity for eligible executives who had contributed to the growth and development of the HLCB Group to participate in the equity of HLCB.

The main features of the ESOS are, inter alia, as follows:-

1. Eligible executives are those executives of the HLCB Group who have been confirmed in service on the date of offer or directors (executive or non-executive) of HLCB and its subsidiaries. The maximum allowable allotments for the full time Executive Directors had been approved by the shareholders of the HLCB in a general meeting. The Board may from time to time at its discretion select and identify suitable eligible executives to be offered options.

2. The aggregate number of shares to be issued under the ESOS shall not exceed 15% of the issued and paid-up ordinary share capital of HLCB for the time being.

3. The Scheme shall be in force for a period of ten (10) years from 23 January 2006.

4. The option price shall not be at a discount of more than ten percent (10%) (or such discount as the relevant authorities shall permit) from the 5-day weighted average market price of the shares of HLCB preceding the date of offer and shall in no event be less than the par value of the shares of HLCB.

5. The option granted to an option holder under the ESOS is exercisable by the option holder only during his employment with HLCB Group and within the option exercise period subject to any maximum limit as may be determined by the Board of HLCB under the Bye-Laws of the ESOS.

6. The exercise of the options may, at the absolute discretion of the Board of Directors of HLCB, be satisfied by way of issuance of new shares; transfer of existing shares purchased by a trust established for the ESOS; or a combination of both new shares and existing shares.

**Executive share option scheme ("ESOS" OR "Scheme")** (continued)

Pursuant to this, a trust has been set up for the ESOS and it is administered by an appointed trustee. This trustee will be entitled from time to time to accept financial assistance from HLCB upon such terms and conditions as HLCB and the trustee may agree to purchase HLCB's shares from the open market for the purposes of this trust.

The trustee will manage the trust in accordance with the trust deed. Upon termination of the trust, the trustee will dispose all remaining trust shares, if any, and deal with any surplus or deficit of the trust in accordance with the instructions of HLCB.

## Corporate Governance

Corporate Governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interests of other stakeholders.

The Bank adheres to the principles and minimum standards for sound corporate governance as set out in BNM's Guidelines on Corporate Governance for Licensed Institutions (Revised BNM/GP1).

### A Board of Directors ("Board")

### I The Board

The Board assumes responsibility for effective stewardship and control of the Bank and has established terms of reference to assist in the discharge of this responsibility.

The role and responsibilities of the Board broadly cover formulation of corporate policies and strategies, overseeing and evaluating the conduct of the Bank's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage these risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals and major capital expenditure and such other responsibilities required of them by BNM as specified in guidelines or circulars issued by BNM from time to time.

The Board observes the Bank's Directors' Code of Ethics established by the Companies Commission of Malaysia and BNM/GP7 Code of Ethics: Guidelines on Code of Conduct for Directors, Officers and Employees in the Banking industry.

**Corporate Governance** (continued)

**A Board of Directors** (continued)

**II Board Balance**

The Board comprises five (5) directors, four (4) of whom are non-executive. Of the non-executive directors, three (3) are independent.

The Board is of view that the current Board composition fairly reflects the investment of shareholders in the Bank.

The Chaiman ensures the smooth and effective functioning of the Board.

The Managing Director/Chief Executive Officer ("MD/CEO") is responsible for implementing the policies and decisions of the Board, overseeing the day-to-day operations, setting the plan and direction, benchmark and targets for operating companies, tracking compliance and business progress, initiating innovative business ideas to create competitive edge and development of business and corporate strategies with the aim of enhancing shareholders' wealth.

**III Board Meetings**

The Board met seven (7) times during the financial year ended 30 June 2011 with timely notices of issues to be discussed. Details of attendance of each director are as follow:

| **Director** | **Attendance** |
|---|---|
| YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman | 7/7 |
| Ms Lee Jim Leng | 7/7 |
| Y Bhg Tan Sri A. Razak bin Ramli | 7/7 |
| Mr Choong Yee How | 7/7 |
| Mr Martin Giles Manen | 7/7 |

At the Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. Any director who has an interest in the subject matter to be deliberated shall abstain from deliberating and voting on the same during the meetings.

**IV Supply of Information**

All Board members are supplied with information in a timely manner. Board reports are circulated prior to Board meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, performance of the Bank and management's proposals which require the approval of the Board.

All Directors have access to the advice and services of the Company Secretary and Internal Auditors. All Directors also have access to independent professional advice at the Bank's expense, in consultation with the Chairman or the MD/CEO of the Bank.

**Corporate Governance** (continued)

**A Board of Directors** (continued)

**V Board Audit and Risk Management Committee ("BARMC")**

The financial reporting and internal control system of the Bank are overseen by the BARMC, which was established on 14 December 2009.

**COMPOSITION**

| | |
|---|---|
| YBhg Tan Sri A. Razak bin Ramli | (Chairman, Independent Non-Executive Director) |
| Mr Martin Giles Manen | (Independent Non-Executive Director) |
| Mr Choong Yee How | (Non-Independent Non-Executive Director) |

**SECRETARY**

The secretary of the BARMC is the Group Chief Internal Auditor.

**TERMS OF REFERENCE**

(a) To nominate and recommend for the approval of the Board, a person or persons as external auditor(s).
(b) To review the external audit fees.
(c) To review, with the external auditors, the audit scope and plan.
(d) To review, with the external auditors, the audit report and audit findings and the management's response thereto.
(e) To assess objectivity, performance and independence of external auditors.
(f) To consider the provision of non-audit services by the external auditors.
(g) To ensure that there are proper checks and balances in place so that the provision of non-audit services does not interfere with the exercise of independent judgment of the external auditors.
(h) To ensure that the accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies and bad and doubtful debts.
(i) To review the assistance given by the officers of the Bank and its subsidiaries ("the Group") to the external auditors.
(j) To engage on a continuous basis with senior management, such as the chairman, the chief executive officer, the finance director, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Bank.
(k) To review the quarterly reports and annual financial statements of the Group and of the Bank prior to the approval by the Board.
(l) To review the adequacy of the internal audit scope and plan, functions, competency and resources of the Internal Audit Department.
(m) To review the report and findings of the Internal Audit Department including any findings of internal investigations and the management's response thereto.
(n) To review any related party transactions that may arise within the Bank or the Group.

**Corporate Governance** (continued)

**A Board of Directors** (continued)

**V BARMC** (continued)

**TERMS OF REFERENCE** (continued)

(o) To verify the allocation of options under the Employees' Share Options Scheme at the end of each financial year.
(p) To review and report to the Board measures taken to:-
    (i) identify and examine principal risks faced by the Bank;
    (ii) implement appropriate systems and internal controls to manage these risks.
(q) To evaluate and recommend to the Board, risk management policies, strategies and risk tolerance proposed by management.
(r) To review periodic reports on risk exposure, risk portfolio composition and risk management activities.
(s) To review the adequacy and effectiveness of internal controls and risk management process.
(t) To obtain independent legal or other professional advice as it considers necessary.
(u) Other functions as might be agreed to by the BARMC and the Board.

During the financial year ended 30 June 2011, four (4) BARMC meetings were held and the attendance of the Members was as follows:-

| **Member** | **Attendance** |
|---|---|
| YBhg Tan Sri A. Razak bin Ramli | 4/4 |
| Mr Martin Giles Manen | 4/4 |
| Mr Choong Yee How | 4/4 |

**AUTHORITY**

(a) The BARMC is authorised by the Board to review any activity of the Company within its Terms of Reference. It is authorised to seek any information it requires from any Director or member of management and all employees are directed to co-operate with any request made by the Committee.

(b) The BARMC is authorised by the Board to obtain independent legal or other professional advice if it considers necessary.

**Corporate Governance** (continued)

**A Board of Directors** (continued)

**V BARMC** (continued)

**MEETINGS**

(a) The BARMC meets at least four (4) times a year and additional meetings may be called at any time as and when necessary. All meetings to review the quarterly reports and annual financial statements are held prior to such quarterly reports and annual financial statements being presented to the Board for approval.

(b) The MD/CEO of HLIB, Group Financial Controller of HLCB, Group Chief Internal Auditor, Head of Operations of HLIB, Chief Risk Officer of HLCB, Head of Legal and Compliance of HLCB, Head of Broking of HLIB and external auditors are invited to attend BARMC meetings, where applicable.

(c) Two (2) members of the BARMC, who shall be independent and non-executive, shall constitute a quorum.

(d) After each meeting, the BARMC report and update the Board on significant issues and concerns discussed during the meetings and where applicable, make the necessary recommendations to the Board.

**ACTIVITIES**

(a) The BARMC carried out its duties in accordance with its Terms of Reference.

(b) The BARMC met four (4) times during the financial year ended 30 June 2011. YBhg Tan Sri A. Razak bin Ramli, Mr Martin Giles Manen and Mr Choong Yee How attended all the meetings held during the financial year.

(c) The BARMC reviewed the quarterly reports and annual financial statements of the Bank. The BARMC met with the external auditors and discussed the nature and scope of the audit, considered significant changes in accounting and auditing issues, reviewed the management letter and management's response, examined pertinent issues which had significant impact on the results of the Bank and discussed applicable accounting and auditing standards. The BARMC also reviewed the internal auditors' audit findings and recommendations as well as Bank Negara Malaysia's Examination Reports on the Bank.

(d) In addition, the BARMC reviewed the adequacy and integrity of internal control systems, including risk management and relevant management information system. It also reviewed the process put in place to identify, evaluate and manage the significant risks encountered by the Bank.

(e) The BARMC reviewed various related party transactions carried out by the Bank.

**Corporate Governance** (continued)

**A Board of Directors** (continued)

**VI Nominating and Remuneration Committee ("NRC")**

The NRC was established on 14 December 2009 and the members are as follows:-

| | |
|---|---|
| YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman | (Chairman, Independent Non-Executive Director) |
| YBhg Tan Sri A. Razak bin Ramli | (Independent Non-Executive Director) |
| Mr Martin Giles Manen | (Independent Non-Executive Director) |
| Mr Choong Yee How | (Non-Independent Non-Executive Director) |

**Term of Reference for Nominating Functions**

(a) Responsible for the nomination of related matters of the Board of HLIB. The NRC assists the Board of HLIB in formulating and developing remuneration packages of Directors, Chief Executive Officers ("CEO") and key senior management staff as well as Board and Committee appointments through the periodical review of the relevant mix of skills and experiences inherent in the respective Boards.

(b) Establishing the minimum requirements for the Board of HLIB namely required mix of skills, experience, qualification and other core competencies required of a director. The NRC is also responsible for establishing the minimum requirements for the CEO. The requirements and criteria should be approved by the full Board.

(c) Recommending and assessing the nominees for directorship, board committee members as well as nominees for the CEO and ensuring compliance with Section 56 of the Banking and Financial Institutions Act 1989. This includes assessing directors for reappointment, before an application for approval is submitted to Bank Negara Malaysia. The actual decision as to who shall be nominated should be the responsibility of the full Board.

(d) Overseeing the overall composition of the Board and Board Committees, in terms of the appropriate size and skills, and the balance between executive directors, non-executive directors and independent directors through annual review.

(e) Recommending to the Board the removal of a Director/CEO/key senior management officer from the Board/management if the Director/CEO/key senior management officer is ineffective, errant and negligent in discharging his/her responsibilities.

(f) Establishing a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO and other key senior management officers. Annual assessment should be conducted based on an objective performance criterion. Such performance criteria should be approved by the full Board.

**Corporate Governance** (continued)

**A Board of Directors** (continued)

**VI NRC** (continued)

**Term of Reference for Nominating Functions** (continued)

(g) Ensuring that all directors receive an appropriate continuous training program in order to keep abreast with the latest developments in the industry.
(h) Overseeing the appointment, management succession planning and performance evaluation of key senior management officers.
(i) Assessing, on an annual basis, to ensure that the Directors and key senior management officers are not disqualified under section 56 of the Banking and Financial Institutions Act 1989.
(j) The nomination role of the NRC should not be delegated with decision-making powers but should report to the full Board for decision.

**Term of Reference for Remuneration Functions**

(a) Recommending a framework of remuneration for Directors, CEO and key senior management officers for the full Board’s approval. The remuneration framework should support the Group culture, objectives and strategy and should reflect the responsibility and commitment, which goes with board membership and responsibilities of the CEO and senior management officers. There should be balance in determining the remuneration package, which should be sufficient to attract and retain directors of caliber, and yet not excessive to the extent of licensed institution’s funds are used to subsidise the excessive remuneration packages. The framework should cover all aspects of remuneration including director’s fees, salaries, allowances, bonuses, options and benefits-in-kind.

(b) Recommending specific remuneration packages for Executive Directors and the CEO. The remuneration package should be structured such that it is competitive and consistent with the Group culture, objectives and strategy. Salary scales drawn up should be within the scope of the general business policy and not be dependent on short-term performance to avoid incentives for excessive risk-taking. As for non-executive directors and independent directors, the level of remuneration should be linked to their level of responsibilities undertaken and contribution to the effective functioning of the board. In addition, the remuneration of each board member may differ based on their level of expertise, knowledge and experience.

During the financial year ended 30 June 2011, two (2) NRC meetings were held and the attendance of the members was as follows:-

| Member | Attendance |
|---|---|
| YBhg Tan Sri Dato’ Seri Khalid Ahmad bin Sulaiman | 2/2 |
| YBhg Tan Sri A. Razak bin Ramli | 2/2 |
| Mr Martin Giles Manen | 2/2 |
| Mr Choong Yee How | 2/2 |

**Corporate Governance** (continued)

**A Board of Directors** (continued)

**VI NRC** (continued)

The NRC reviewed the membership of the Board, the professional qualifications and experience of the directors and was satisfied that the Board composition in terms of size, the balance between executive, non-executive and independent directors and mix of skills was adequate. The NRC also reviewed the performance of the Board against its terms of reference and was satisfied that the Board was competent and effective in discharging its functions.

The Group's remuneration scheme for executive directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Group's annual plan and budget.

The level of remuneration of non-executive directors reflects the level of responsibilities undertaken by them.

The fees of directors, including Non-Executive directors, are recommended and endorsed by the Board for approval by the shareholder of the Bank at its AGM.

**Re-election**

All Directors are required to submit themselves for re-election every three years.

**B Accountability and Audit**

The BARMC is supported by the Internal Audit Department whose principal responsibility is to conduct periodic audits on the internal control matters to ensure compliance with systems and/or standard operating procedures of the Bank. Investigation will be made at the request of the Board and senior management on specific areas of concern when necessary. Significant breaches and deficiencies identified are discussed at the Board meetings where appropriate actions will be taken.

**I Financial Reporting**

The Board is responsible for ensuring the proper maintenance of accounting records of the Bank. The Board receives the recommendation to adopt the financial statements from the BARMC which assesses the financial statements with the assistance of the external auditors.

**Corporate Governance** (continued)

**B Accountability and Audit** (continued)

**II Internal Control**

The Board has overall responsibility for maintaining a system of internal controls which covers financial and operational controls and risk management. This system provides reasonable but not absolute assurance against material misstatements, losses and fraud.

**III Relationship with Auditors**

The appointment of external auditors is recommended by the BARMC to the Board, which determines the remuneration of the external auditors. During the financial year under review, the external auditors met with the BARMC to:

- present the scope of the audit before the commencement of audit; and
- review the results of the audit as well as the management letter after the conclusion of the audit.

The external auditors met with the BARMC Members twice a year without the presence of executive directors and the management.

**C Risk Management**

**I Overview**

The risk management functions of the Bank are undertaken by its immediate holding company, HLCB, under its established risk management framework. To support risk management at executive management level, a dedicated capability for monitoring, measuring and evaluating risk has been established and is undertaken by the Risk Management Department, which reports to the BARMC at HLIB and HLCB.

**II Overall Risk Management Framework**

The Board oversees the implementation of the risk management framework of the Bank. In discharging this responsibility, the Board ensures that the Bank has in place their respective risk management policies, methodologies and control limits for management of key areas of risks i.e. credit, market, liquidity and operational risks. The Board provides oversight on the proper functioning of risk management framework of the Bank by undertaking periodic review of their risk management processes to the extend permissible under the regulatory framework of the Bank and is also given assurance at these reviews on the adequacy and integrity of the system of internal controls. In discharging this oversight role, the Board is assisted by the Risk Management Department, Group Internal Audit Department, the Bank's Compliance Officer and the Head of Finance.

The controls built into the risk management framework are not expected to eliminate all risks of failure to achieve business objectives but to provide reasonable and not absolute assurance against material misstatement of management and financial information or against financial losses and fraud. Refer to Note 41 for further details.

# Hong Leong Investment Bank Berhad

**Company no: 43526-P**
**(Incorporated in Malaysia)**

**Directors' report**
**for the financial year ended 30 June 2011**

**Statutory information regarding the Group and the Bank**

**(a) As at the end of the financial year**

Before the financial statements of the Group and the Bank were made out, the Directors took reasonable steps:

- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- to ensure that any current assets, other than debts, which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

**(b) From the end of the financial year to the date of this report**

(i) The Directors are not aware of any circumstances:

- which would render the amount written off for bad debts or the amount of the allowance for doubtful debts inadequate to any material extent;
- which would render the values attributed to current assets in the financial statements misleading; and
- which had arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and the Bank misleading or inappropriate.

(ii) In the opinion of the Directors:

- the results of the operations of the Group and the Bank for the financial year ended 30 June 2011 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and
- no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and the Bank to meet their obligations as and when they fall due.

**(c) As at the date of this report**

(i) There are no charges on the assets of the Group and the Bank which had arisen since the end of the financial year to secure the liabilities of any other person.

(ii) There are no contingent liabilities which had arisen since the end of the financial year.

(iii) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements which would render any amount stated in the financial statements misleading.

**Statutory information regarding the Group and the Bank** (continued)

(c) **As at the date of this report** (continued)

(iii) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements which would render any amount stated in the financial statements misleading.

**Holding and ultimate holding companies**

The immediate holding and ultimate holding companies are Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) and Hong Leong Company (Malaysia) Berhad respectively, both incorporated in Malaysia. Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) is listed on the Main Market of Bursa Malaysia Securities Berhad.

**Auditors**

The auditors, Messrs PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 28 July 2011.

**Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman**
**Director**

**Lee Jim Leng**
**Director**

Kuala Lumpur
20 September 2011

# Hong Leong Investment Bank Berhad

**Company no: 43526-P**
**(Incorporated in Malaysia)**

## Statements of Financial Position as at 30 June 2011

| | | The Group | | The Bank | |
|---|---|---|---|---|---|
| | | | Restated | | Restated |
| | | **2011** | 2010 | **2011** | 2010 |
| | Note | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Assets** | | | | | |
| Cash and short-term funds | 4 | **850,712** | 660,553 | **850,415** | 658,043 |
| Reverse repurchase agreements | | **159,684** | - | **159,684** | - |
| Deposits and placements with banks and other financial institutions | 5 | **60,125** | 45,000 | **60,125** | 45,000 |
| Financial assets held-for-trading | 6 | **423,345** | 431,411 | **423,345** | 431,411 |
| Financial investments available-for-sale | 7 | **74,882** | 245 | **74,882** | 245 |
| Financial investments held-to-maturity | 8 | **112,647** | 10,000 | **112,647** | 10,000 |
| Derivative financial assets | 20 | **5,358** | 23 | **5,358** | 23 |
| Loans and advances | 9 | **107,975** | 117,926 | **107,975** | 117,926 |
| Clients' and brokers' balances | 10 | **165,813** | 80,590 | **165,813** | 80,590 |
| Other assets | 11 | **68,022** | 13,277 | **68,743** | 15,309 |
| Statutory deposits with Bank Negara Malaysia | 12 | **17,800** | 4,000 | **17,800** | 4,000 |
| Tax recoverable | | **17** | 131 | **17** | 131 |
| Investment in subsidiary companies | 13 | **-** | - | **588** | 588 |
| Deferred tax assets | 14 | **41,716** | 52,597 | **41,716** | 52,597 |
| Property and equipment | 15 | **7,800** | 6,427 | **7,800** | 6,427 |
| Goodwill | 16 | **28,986** | 28,986 | **30,236** | 30,236 |
| Intangible assets | 17 | **993** | 1,229 | **993** | 1,229 |
| **Total assets** | | **2,125,875** | 1,452,395 | **2,128,137** | 1,453,755 |
| **Liabilities** | | | | | |
| Deposits from customers | 18 | **395,243** | 31,218 | **395,243** | 31,218 |
| Deposits and placements of banks and other financial institutions | 19 | **747,999** | 600,990 | **747,999** | 600,990 |
| Derivative financial liabilities | 20 | **5,159** | 1,194 | **5,159** | 1,194 |
| Clients' and brokers' balances | 21 | **582,461** | 223,440 | **582,461** | 222,317 |
| Other liabilities | 22 | **75,519** | 307,928 | **76,639** | 309,182 |
| **Total liabilities** | | **1,806,381** | 1,164,770 | **1,807,501** | 1,164,901 |
| **Equity** | | | | | |
| Share capital | 23 | **265,535** | 265,535 | **265,535** | 265,535 |
| Redeemable preference shares | 24 | **1,631** | 1,631 | **1,631** | 1,631 |
| Reserves | 25 | **52,328** | 20,459 | **53,470** | 21,688 |
| **Total equity** | | **319,494** | 287,625 | **320,636** | 288,854 |
| **Total equity and liabilities** | | **2,125,875** | 1,452,395 | **2,128,137** | 1,453,755 |
| **Commitments and contingencies** | 36 | **2,958,703** | 3,492,940 | **2,958,703** | 3,492,940 |

## Hong Leong Investment Bank Berhad

**Company no: 43526-P**
**(Incorporated in Malaysia)**

## Income Statements
## for the financial year ended 30 June 2011

| | | The Group | | The Bank | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 |
| | Note | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Interest income | 26 | **58,571** | 14,645 | **58,571** | 14,645 |
| Interest expense | 27 | **(39,606)** | (3,947) | **(39,606)** | (3,947) |
| Net interest income | | **18,965** | 10,698 | **18,965** | 10,698 |
| Non-interest income | 28 | **87,372** | 55,310 | **87,042** | 55,096 |
| | | **106,337** | 66,008 | **106,007** | 65,794 |
| Overhead expenses | 29 | **(60,864)** | (46,018) | **(60,642)** | (45,795) |
| Operating profit before allowances | | **45,473** | 19,990 | **45,365** | 19,999 |
| Writeback of /(allowance for) impairment losses on loans and advances and other losses | 30 | **748** | (1,041) | **748** | (1,041) |
| **Profit before taxation** | | **46,221** | 18,949 | **46,113** | 18,958 |
| Taxation | 32 | **(11,778)** | (5,595) | **(11,757)** | (5,595) |
| **Net profit for the financial year** | | **34,443** | 13,354 | **34,356** | 13,363 |
| | | | | | |
| **Earnings per share (sen)** | | | | | |
| - Basic | 33 | **13.0** | 8.4 | **12.9** | 8.4 |

# Hong Leong Investment Bank Berhad

**Company no: 43526-P**
**(Incorporated in Malaysia)**

## Statements of Comprehensive Income
## for the financial year ended 30 June 2011

| | | The Group | | The Bank | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 |
| | Note | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Net profit for the financial year | | **34,443** | 13,354 | **34,356** | 13,363 |
| Other comprehensive income: | | | | | |
| Net fair value changes on financial investments available-for-sale | | **74** | - | **74** | - |
| Income tax relating to net fair value changes on financial investments available-for-sale | 14 | **(18)** | - | **(18)** | - |
| Other comprehensive income for the year, net of tax | | **56** | - | **56** | - |
| Total comprehensive income for the financial year, net of tax | | **34,499** | 13,354 | **34,412** | 13,363 |

# Hong Leong Investment Bank Berhad

**Company no: 43526-P**
**(Incorporated in Malaysia)**

## Statements of changes in equity for the financial year ended 30 June 2011

| | | Attributable to owner of the parent | | | | | |
|---|---|---|---|---|---|---|---|
| **The Group** | **Note** | **Share capital RM'000** | **Redeemable preference shares RM'000** | **Statutory reserve RM'000** | **Fair value reserve RM'000** | **Retained profits RM'000** | **Total RM'000** |
| **At 1 July 2010** | | | | | | | |
| - as previously reported | | **265,535** | **1,631** | **11,044** | **-** | **9,415** | **287,625** |
| - effect of adopting FRS 139 | 44 | **-** | **-** | **-** | **-** | **(2,630)** | **(2,630)** |
| At 1 July 2010, as restated | | **265,535** | **1,631** | **11,044** | **-** | **6,785** | **284,995** |
| Net profit for the financial year | | **-** | **-** | **-** | **-** | **34,443** | **34,443** |
| Other comprehensive income | | **-** | **-** | **-** | **56** | **-** | **56** |
| Total comprehensive income for the financial year | | **-** | **-** | **-** | **56** | **34,443** | **34,499** |
| Transfer to statutory reserve | | **-** | **-** | **17,178** | **-** | **(17,178)** | **-** |
| **At 30 June 2011** | | **265,535** | **1,631** | **28,222** | **56** | **24,050** | **319,494** |

# Hong Leong Investment Bank Berhad
**Company no: 43526-P**
**(Incorporated in Malaysia)**

## Statements of changes in equity for the financial year ended 30 June 2011 (continued)

| | | Attributable to owner of the parent | | | | | |
|---|---|---|---|---|---|---|---|
| **The Group** | **Note** | **Share capital RM'000** | **Redeemable preference shares RM'000** | **Share premium RM'000** | **Statutory reserve RM'000** | **Retained profits RM'000** | **Total RM'000** |
| **At 1 July 2009** | | 123,500 | 1,631 | 142,035 | 4,362 | 2,743 | 274,271 |
| Net profit for the financial year | | - | - | - | - | 13,354 | 13,354 |
| Total comprehensive income for the financial year | | - | - | - | - | 13,354 | 13,354 |
| Transfer to statutory reserve | | - | - | - | 6,682 | (6,682) | - |
| Issue of ordinary shares | 23 | 142,035 | - | (142,035) | - | - | - |
| **At 30 June 2010** | | 265,535 | 1,631 | - | 11,044 | 9,415 | 287,625 |

## Hong Leong Investment Bank Berhad
**Company no: 43526-P**
**(Incorporated in Malaysia)**

## Statements of changes in equity for the financial year ended 30 June 2011 (continued)

| | | Non-distributable | | | | Distributable | |
|---|---|---|---|---|---|---|---|
| | | | Redeemable | | Fair | | |
| | | Share | preference | Statutory | value | Retained | |
| | | capital | shares | reserve | reserve | profits | Total |
| **The Bank** | **Note** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **At 1 July 2010** | | | | | | | |
| - as previously reported | | **265,535** | **1,631** | **11,044** | **-** | **10,644** | **288,854** |
| - effect of adopting FRS 139 | 44 | **-** | **-** | **-** | **-** | **(2,630)** | **(2,630)** |
| At 1 July 2010, as restated | | **265,535** | **1,631** | **11,044** | **-** | **8,014** | **286,224** |
| Net profit for the financial year | | **-** | **-** | **-** | **-** | **34,356** | **34,356** |
| Other comprehensive income | | **-** | **-** | **-** | **56** | **-** | **56** |
| Total comprehensive income for the financial year | | **-** | **-** | **-** | **56** | **34,356** | **34,412** |
| Transfer to statutory reserve | | **-** | **-** | **17,178** | **-** | **(17,178)** | **-** |
| **At 30 June 2011** | | **265,535** | **1,631** | **28,222** | **56** | **25,192** | **320,636** |

## Hong Leong Investment Bank Berhad
**Company no: 43526-P**
**(Incorporated in Malaysia)**

## Statements of changes in equity for the financial year ended 30 June 2011 (continued)

| | | Non-distributable | | | | Distributable | |
|---|---|---|---|---|---|---|---|
| **The Bank** | **Note** | **Share capital RM'000** | **Redeemable preference shares RM'000** | **Share premium RM'000** | **Statutory reserve RM'000** | **Retained profits RM'000** | **Total RM'000** |
| **At 1 July 2009** | | 123,500 | 1,631 | 142,035 | 4,362 | 3,963 | 275,491 |
| Net profit for the financial year | | - | - | - | - | 13,363 | 13,363 |
| Total comprehensive income for the financial year | | - | - | - | - | 13,363 | 13,363 |
| Transfer to statutory reserve | | - | - | - | 6,682 | (6,682) | - |
| Issue of ordinary shares | 23 | 142,035 | - | (142,035) | - | - | - |
| **At 30 June 2010** | | 265,535 | 1,631 | - | 11,044 | 10,644 | 288,854 |

# Hong Leong Investment Bank Berhad

**Company no: 43526-P**
**(Incorporated in Malaysia)**

## Statements of cash flows for the financial year ended 30 June 2011

| | Note | The Group | | The Bank | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 |
| | | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Cash flows from operating activities** | | | | | |
| Profit before taxation | | **46,221** | 18,949 | **46,113** | 18,958 |
| Adjustments for : | | | | | |
| Depreciation of property and equipment | | **2,180** | 1,667 | **2,180** | 1,667 |
| Amortisation of intangible assets | | **779** | 632 | **779** | 632 |
| Option charge arising from ESOS | | **249** | - | **249** | - |
| Gain on sale of property and equipment | | **(1)** | (248) | **(1)** | (248) |
| Allowance for impairment losses on clients' and brokers' balances | | **111** | 373 | **111** | 373 |
| (Writeback of)/allowance for impairment losses on loans and advances | | **(581)** | 709 | **(581)** | 709 |
| Net unrealised loss/(gain) on revaluation of financial assets held-for-trading | | **1,014** | (2,625) | **1,014** | (2,625) |
| Net unrealised (gain)/loss on revaluation of derivatives | | **(1,363)** | 1,177 | **(1,363)** | 1,177 |
| Interest income: | | | | | |
| - financial assets held-for-trading | | **(30,061)** | (2,603) | **(30,061)** | (2,603) |
| - financial investments available-for-sale | | **(5,788)** | (2,328) | **(5,788)** | (2,328) |
| - financial investments held-to-maturity | | **(2,179)** | (292) | **(2,179)** | (292) |
| Dividend income | | **(766)** | (635) | **(766)** | (635) |
| | | **(36,406)** | (4,173) | **(36,406)** | (4,173) |
| **Operating profit before working capital changes** | | **9,815** | 14,776 | **9,707** | 14,785 |
| **(Increase)/decrease in operating assets** | | | | | |
| Deposits and placements with banks and other financial institutions | | **(15,125)** | (44,976) | **(15,125)** | (44,976) |
| Reverse repurchase agreements | | **(159,684)** | - | **(159,684)** | - |
| Financial assets held-for-trading | | **37,106** | (423,862) | **37,106** | (423,862) |
| Financial investments available-for-sale | | **(66,575)** | - | **(66,575)** | - |
| Financial investments held-to-maturity | | **(100,468)** | (10,000) | **(100,468)** | (10,000) |
| Loan and advances | | **7,026** | (36,296) | **7,026** | (36,296) |
| Clients' and brokers' balances | | **(85,334)** | 63,597 | **(85,334)** | 63,597 |
| Other assets | | **(86,488)** | 1,358 | **(85,156)** | (548) |
| Statutory deposits with Bank Negara Malaysia | | **(13,800)** | (4,000) | **(13,800)** | (4,000) |
| **Increase/(decrease) in operating liabilities** | | | | | |
| Deposits from customers | | **(205,747)** | 31,218 | **(205,747)** | 31,218 |
| Deposits and placements of other financial institutions | | **716,781** | 591,170 | **716,781** | 591,170 |
| Clients' and brokers' balances | | **359,021** | (29,128) | **360,144** | (30,117) |
| Other liabilities | | **(517,266)** | 272,859 | **(517,400)** | 274,044 |
| **Cash (used in)/generated from operating activities** | | **(120,738)** | 426,716 | **(118,525)** | 425,015 |
| Income tax refund/(paid) | | **120** | (63) | **120** | - |
| **Net cash (used in)/generated from operating activities** | | **(120,618)** | 426,653 | **(118,405)** | 425,015 |

## Statements of cash flows for the financial year ended 30 June 2011 (continued)

| | Note | The Group 2011 RM'000 | The Group 2010 RM'000 | The Bank 2011 RM'000 | The Bank 2010 RM'000 |
|---|---|---|---|---|---|
| **Cash flows from investing activities** | | | | | |
| Goodwill acquisition arising from capitalisation of merger costs | | **-** | (236) | **-** | (236) |
| Net cash inflow arising from acquisition of assets and liabilities of HLG Futures Sdn Bhd ("HLG Futures") | 43 | **21,804** | - | **21,804** | - |
| Proceeds from disposal of property and equipment | | **1** | 260 | **1** | 260 |
| Interest received from financial assets held-for-trading, financial investments available-for-sale and financial investments held-to-maturity | | **33,794** | 1,658 | **33,794** | 1,658 |
| Dividends from financial assets held-for-trading and financial investments available-for-sale | | **742** | 635 | **742** | 635 |
| Net purchase of intangible assets | | **(536)** | (924) | **(536)** | (924) |
| Purchase of property and equipment | | **(3,490)** | (2,764) | **(3,490)** | (2,764) |
| **Net cash generated from/(used in) investing activities** | | **52,315** | (1,371) | **52,315** | (1,371) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(68,303)** | 425,282 | **(66,090)** | 423,644 |
| **Cash and cash equivalents at beginning of financial year** | | **480,828** | 55,546 | **478,318** | 54,674 |
| **Cash and cash equivalents at end of financial year** | | **412,525** | 480,828 | **412,228** | 478,318 |
| **Cash and cash equivalents comprise:** | | | | | |
| Cash and short term funds | 4 | **850,712** | 660,553 | **850,415** | 658,043 |
| Less: Remisiers' and clients' trust monies | | **(438,187)** | (179,725) | **(438,187)** | (179,725) |
| | | **412,525** | 480,828 | **412,228** | 478,318 |

## Summary of Significant Accounting Policies for the financial year ended 30 June 2011

The following accounting policies have been used consistently in dealing with items that are considered material in relation to the financial statements. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

### 1 Basis of preparation of the financial statements

The financial statements of the Group and the Bank have been prepared in accordance with the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia ("BNM") Guidelines and comply with the provisions of the Companies Act, 1965.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets held-for-trading, financial investments available-for-sale and derivative financial instruments.

The preparation of financial statements in conformity with Financial Reporting Standards 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 financial statements, and the reported amounts of revenues 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 judgement are based on the management and Directors' best knowledge of current events and actions, actual results may differ from those estimates.

### (i) Standards, amendments to published standards and interpretations that are applicable to the Group and the Bank and are effective

The new accounting standards, amendments and improvements to published standards and interpretations that are applicable and effective for the Group and Bank's financial year beginning on or after 1 July 2010 are as follows:

- FRS 3 (revised) "Business Combination"
- FRS 7 "Financial Instruments: Disclosures" and the related amendments
- FRS 101 (revised) "Presentation of Financial Statements"
- FRS 123 "Borrowing Costs"
- FRS 127 (revised) "Consolidated and Separate Financial Statements"
- FRS 139 "Financial Instruments: Recognition and Measurement" and the related amendments ("FRS 139")
- Amendments to FRS 2 "Share-based Payment: Vesting Conditions and Cancellations"
- Amendments to FRS 132 "Financial Instruments: Presentation" and FRS 101 (revised) "Presentation of Financial Statements" - Puttable financial instruments and obligations arising on liquidation
- IC Interpretation 9 "Reassessment of Embedded Derivatives" and the related Amendments
- IC Interpretation 10 "Interim Financial Reporting and Impairment"
- IC Interpretation 11 "FRS 2 Group and Treasury Share Transactions"
- Improvements to FRSs (2009 and 2010)

**1 Basis of preparation of the financial statements** (continued)

**(i) Standards, amendments to published standards and interpretations that are applicable to the Group and the Bank and are effective** (continued)

A summary of the impact of the new accounting standards, amendments and improvements to published standards and interpretations on the financial statements of the Group and the Bank is set out in Note 44.

**(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective**

- Amendments to FRS 2 "Share-based payment: Group, cash-settled share based payment transactions" (effective from 1 January 2011) clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the Group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments also incorporate guidance previously included in IC Interpretation 8 "Scope of FRS 2" and IC Interpretation 11 "FRS 2 - Group and Treasury Share Transactions", which shall be withdrawn on application of these amendments.

- Amendments to FRS 7 "Improving Disclosures about financial instruments" (effective from 1 January 2011) requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendments require disclosure of fair value measurements by level of a fair value measurement hierarchy.

- IC Interpretation 4 "Determining whether an arrangement contains a lease" (effective from 1 January 2011) requires the Group to identify any arrangement that does not take the legal form of a lease, but conveys a right to use an asset in return for a payment or series of payments. This interpretation provides guidance for determining whether such arrangement are, or contain, leases. The assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset. If the arrangement contains a lease, the requirements of FRS 117 "Leases" should be applied to the lease element of the arrangement.

- IC Interpretation 19 "Extinguishing financial liabilities with equity instruments" (effective from 1 July 2011) provides clarification when an entity renegotiates the terms of a financial liabilities with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. A gain or loss, being the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, shall be receognised in profit or loss. Entities are no longer permitted to reclassify the carrying value of the existing financial liability into entity with no gain or loss recognised in profit or loss.

- FRS 101 "Presentation of financial statements" (effective from 1 January 2011) removes the requirement for each item of other comprehensive income to be presented separately in the statement of changes in equity.

  The Group and the Bank will apply these standards from financial years beginning on or after 1 July 2011. The adoption of these new standards, amendments to published standards and interpretations are not expected to have a material impact to the financial results of the Group and the Bank.

**1 Basis of preparation of the financial statements** (continued)

**(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective** (continued)

- The revised FRS 124 "Related party disclosures" (effective from 1 January 2012) removes the exemption to dislose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:

  - The name of the government and the nature of their relationship;
  - The nature and amount if each individually significant transactions; and
  - The extent of any collectively significant transactions, qualitatively or quantitatively.

  The Group and the Bank will apply this standard from financial years beginning on or after 1 July 2012. The adoption of this standard is not expected to have a material impact to the financial results of the Group and the Bank.

## 2 Summary of significant accounting policies

### A Consolidation

#### (i) Subsidiaries

The Bank treats as subsidiaries those corporations, partnerships or other entities (including special purpose entities) in which the Bank has the power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries are prepared for the same reporting date as the Bank.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Subsidiaries are consolidated using the purchase method of accounting, except for business combinations involving entities or businesses under common control with agreement dates on/after 1 January 2006 which were accounted for using merger accounting principles.

The consideration transferred for acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

**2 Summary of significant accounting policies** (continued)

**A Consolidation** (continued)

**(i) Subsidiaries** (continued)

In a business combination achieved in stages, the previously held equity interest in the acquiree is remeasured at acquisition date fair value and the resulting gain or loss is recognised in the profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the gain is recognised in the profit or loss.

**(ii) Changes in ownership interest**

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. This fair value is its fair value on initial recognition as a financial asset in accordance with FRS 139. Any amounts previously recognised in other comprehensive income in respect of the entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

**(iii) Investment in subsidiaries**

In the Bank's financial statements, the investment in subsidiaries is stated at cost less impairment losses. At each reporting date, the Bank assesses whether there is an indication of impairment. If such indication exist, an analysis is performed to assess whether the carrying amount of the investment is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. Any subsequent increase in recoverable amount is recognised in the profit or loss.

**B Recognition of interest income**

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

**2 Summary of significant accounting policies** (continued)

**B Recognition of interest income** (continued)

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Change in accounting policy

The Group and the Bank have changed its accounting policy for interest income recognition upon adoption of FRS 139 on 1 July 2010.

Prior to the adoption of FRS 139, interest income and interest expense on financial instruments are recognised based on contractual interest rate. Where an account is classified as non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing are reversed out of income and set off against the accrued interest receivable amount in the statement of financial position. Subsequently, the interest earned on non-performing loans is recognised as income on a cash basis instead of being accrued and suspended at the same time as prescribed previously.

The Group and the Bank have applied the new policy according to the transitional provision by recognising and measuring the financial instruments as at 1 July 2010 and recording any adjustments to opening retained profits. The change in this accounting policy does not have material financial impact to the Group's and the Bank's financial result.

**C Recognition of fees and other income**

Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled. Commitment fees and guarantee fees which are material are recognised as income based on time apportionment. Service charges and other fee income are recognised as income when the services are rendered.

Dividends from financial assets held-for-trading, financial investments available-for-sale, financial investments held-to-maturity and subsidiary companies are recognised when the rights to receive payment is established.

Net profit from financial assets held-for-trading and financial investments available-for-sale are recognised upon disposal of the financial instruments, as the difference between net disposal proceeds and the carrying amount of the financial instruments.

**2 Summary of significant accounting policies** (continued)

**C Recognition of fees and other income** (continued)

Net brokerage income, margin income, rollover fees, nominees service and handling charges are recognised on an accrual basis.

Corporate advisory fees are recognised as income on completion of each stage of the engagement and issuance of invoice.

Commission from future clients is recognised upon execution of trade on behalf of clients.

**D Financial assets**

**(a) Classification**

The Group and the Bank classify their financial assets into the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity. Management determines the classifications of its securities up-front at the point when transactions are entered into.

**(i) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss comprise of financial assets held-for-trading and other financial assets designated by the Group and the Bank as fair value through profit or loss upon initial recognition.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

**(iii) Financial investments held-to-maturity**

Financial investments held-to-maturity are non-derivative instruments with fixed or determinable payments and fixed maturities that the Group's and the Bank's management has the positive intent and ability to hold to maturity. If the Group and the Bank sell other than an insignificant amount of financial investments held-to-maturity, the entire category will be tainted and reclassified as financial investments available-for-sale.

**2 Summary of significant accounting policies** (continued)

**D Financial assets** (continued)

**(a) Classification** (continued)

**(iv) Financial investments available-for-sale**

Financial investments available-for-sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate, exchange rates or equity prices or that are not classified as financial assets at fair value through profit or loss, loans and receivables and financial investments held-to-maturity.

**(b) Recognition and initial measurement**

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs for securities carried at fair value through profit or loss are taken directly to the profit or loss.

**(c) Subsequent measurement**

Financial assets at fair value through profit or loss and financial investments available-for-sale are subsequently carried at fair value, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured in which case the investments are stated at cost. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit or loss in the period which they arise. Gains and losses arising from changes in fair value of financial investments available-for-sale are recognised directly in equity, until the securities are derecognised or impaired at which time the cumulative gains or losses previously recognised in equity are recognised in the profit or loss. Foreign exchange gains or losses of financial investments available-for-sale are recognised in the profit and loss in the period it arises.

Financial investments held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from de-recognition or impairment of the securities are recognised in the profit or loss.

Interest from financial assets held at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity is calculated using the effective interest method and is recognised in the profit or loss. Dividends from available-for-sale equity instruments are recognised in the profit or loss when the entity's right to receive payment is established.

**2 Summary of significant accounting policies** (continued)

**D Financial assets** (continued)

**(c) Subsequent measurement** (continued)

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including the transaction costs, and measured subsequently at amortised cost using the effective interest rate method. Interest on loans is included in the profit or loss. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the profit or loss.

<u>Change in accounting policy</u>

The Group and the Bank have changed its accounting policy for financial assets upon adoption of FRS 139 on 1 July 2010.

Upon adoption of FRS 139, interest receivable previously classified under other assets are now reclassified into the respective category of financial assets.

The Group and the Bank have applied the new policy according to the transitional provisions by re-measuring all financial assets, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or, if appropriate, another category of equity, of current financial year. Comparatives have not been restated.

Refer to Note 44 for the impact of this change in accounting policy.

# Summary of Significant Accounting Policies for the financial year ended 30 June 2011

**2 Summary of significant accounting policies** (continued)

**E Financial liabilities**

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial liabilities are derecognised when extinguished.

**(a) Financial liabilities at fair value through profit or loss**

This category comprises two sub-categories: financial liabilities classified as held-for-trading, and financial liabilities designated at fair value through profit or loss upon initial recognition. The Group does not have any non-derivative financial liabilities designated at fair value through profit or loss.

A financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated and effective as hedging instruments.

**(b) Financial liabilities at amortised cost**

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost.

Change in accounting policy

Upon adoption of FRS 139, interest payable previously classified under other liabilities are now reclassified into the respective category of financial liabilities.

The Group and the Bank have applied the new policy according to the transitional provisions by re-measuring all financial liabilities, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or, if appropriate, another category of equity, of current financial year. Comparatives have not been restated.

Refer to Note 44 for the impact of this change in accounting policy.

## 2 Summary of significant accounting policies (continued)

### F Clients' and brokers' balances

In line with the implementation of FRS 139, Bursa Malaysia Securities Berhad (the "Bursa") has amended the Rules of Bursa Securities issued on 4 November 2010. In accordance with the Rules of Bursa Securities, clients' accounts are classified as impaired accounts (previously referred to as as non-performing) under the following circumstances:

| | Criteria for classification as impaired | |
|---|---|---|
| Types | Doubtful | Bad |
| Contra losses | When account remains outstanding for 16 to 30 calendar days from the date of contra transaction | When account remains outstanding for more than 30 calendar days from the date of contra transaction |
| Overdue purchase contracts | When account remains outstanding from T+3 market days to 30 calendar days | When account remains outstanding for more than 30 calendar days |

Bad debts are written off when identified. Impairment allowances are made for balances due from clients and brokers which are considered doubtful or which have been classified as impaired, after taking into consideration collateral held by the Group and deposits of and amounts due to dealer representative in accordance with the Rules of Bursa Securities.

### G Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

Property and equipment are depreciated on a straight line basis to write off the cost of the assets to their residual values over their estimated useful lives, summarised as follows:

| | |
|---|---|
| Leasehold land | Over the lease period of 999 years |
| Leasehold building | Over the remaining period of the lease or 50 years whichever is shorter |
| Office and computer equipment | 20% - 33% |
| Furniture and fittings | 20% |
| Renovations | 20% |
| Motor vehicles | 20% |

**2 Summary of significant accounting policies** (continued)

**G Property and equipment and depreciation** (continued)

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date.

Property and equipment are reviewed for impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of the asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Any subsequent increase in the recoverable amount is recognised in the profit or loss. Refer to Note J on the impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in non-interest income in profit or loss.

**H Intangible assets**

**(a) Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 years.

**(b) Goodwill**

Goodwill represents the excess of the cost of acquisition of subsidiaries over the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities of subsidiaries at the date of acquisition.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGU") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination in which the goodwill arose. Each CGU represents the lowest level at which the goodwill is mentioned and is not larger than a reportable business segment. Impairment testing is performed annually by comparing the present value of the CGU's projected cash flows against the carrying amount of its net assets which include allocated goodwill.

**2 Summary of significant accounting policies** (continued)

**I Lease**

**(a) Finance lease**

Assets purchased under lease which in substance transfers the risks and benefits of ownership of the assets to the Group or the Bank are capitalised under property and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease term. Such leased assets are subject to depreciation on the same basis as other property and equipment.

Leases which do not meet such criteria are classified as operating lease and the related rentals are charged to profit or loss.

**(b) Operating lease**

Leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statements on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Change in accounting policy

From the adoption of the improvement to FRS 117 “Leases”, leasehold land in which the Group and the Bank have substantially all the risks and rewards incidental to ownership have been reclassified retrospectively from operating lease to finance lease.

Previously, leasehold land was classified as an operating lease unless title is expected to pass to the lessee at the end of the lease term.

Refer to Note 44 for the impact of this change in accounting policy.

**J Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**2 Summary of significant accounting policies** (continued)

**J Impairment of non-financial assets** (continued)

The impairment loss is charged to the profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

**K Income taxes**

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group and the Bank operates and includes all taxes based upon the taxable profits.

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is recognised on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax related to fair value re-measurement of financial investments available-for-sale, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

**L Derivative financial instruments**

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the profit or loss.

**2 Summary of significant accounting policies** (continued)

**L Derivative financial instruments** (continued)

The best evidence of fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group and the Bank recognise profit or loss immediately.

**M Currency translations**

**(a) Functional and presentation currency**

Items included in the financial statements of each of the Group and the Bank's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia, which is the Group's and the Bank's functional and presentation currency.

**(b) Foreign currency transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the financial asset and other changes in the carrying amount of the financial asset. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as financial investments available-for-sale are included in the fair value reserve in equity.

**2 Summary of significant accounting policies** (continued)

**N Employee benefits**

*Short term employee benefits*

The Group and the Bank recognise a liability and an expense for bonuses. The Group and the Bank recognise a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group and the Bank.

*Defined contribution plan*

A defined contribution plan is a pension plan under which the Group and the Bank pays fixed contributions into a fund and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The Group and the Bank contributes to a national defined contribution plan (the Employee Provident Fund) on a mandatory basis and the amounts contributed to the plan are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group and the Bank has no further payment obligations.

*Share-based compensation*

The Group operates an cash-settled, share-based compensation plan for the employees of the Group. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the profit or loss over the vesting periods of the grant with a corresponding increase in liability.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each reporting date, the Group and the Bank measure the fair value of the liability and at the date of settlement, with any changes in fair value recognised in profit or loss. The Group and the Bank revise its estimates of the number of share options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the profit or loss, with a corresponding adjustment to liability.

**2 Summary of significant accounting policies** (continued)

**O Impairment of financial assets**

**(a) Assets carried at amortised cost**

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The criteria the Group and the Bank use to determine that there is objective evidence of impairment loss include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default of delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group and the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. If a loan or financial investments held-to-maturity have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

In accordance with the Amendments to FRS 139, MASB has included an additional transitional arrangement for entities in financial sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment by banking institutions. This transitional arrangement is prescribed in BNM's guidelines on Classification and Impairment Provisions for Loans/Financing, whereby banking institutions are required to maintain collective assessment impairment allowances of at least 1.5% of total outstanding loans/financing, net of individual impairment allowance.

The collective assessment impairment allowance of the Group and the Bank as at the reporting date have been arrrived at based on this transitional arrangement issued by BNM.

**2 Summary of significant accounting policies** (continued)

**O Impairment of financial assets** (continued)

**(a) Assets carried at amortised cost** (continued)

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written-off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

If in a subsequent period, the amount of impairment losses decreases and the decrease can be related objectively to an event occuring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

**(b) Assets carried at available-for-sale**

The Group and the Bank assess at each reporting date whether there is objective evidence that the financial asset is impaired.

For debt securities, the Group and the Bank use criteria and measurement of impairment loss applicable for “assets carried at amortised cost” above. If in a subsequent period, the fair value of a debt instrument classified as financial investments available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

In the case of equity instruments classified as financial investments available-for-sale, in addition to the criteria for assets carried at amortised cost above, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If there is an objective evidence that an impairment loss on financial investments available-for-sale has been incurred, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in the profit or loss. The amount of cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through the profit or loss.

<u>Change in accounting policy</u>

The Group and the Bank have changed its accounting policy for impairment of loans and advances upon adoption of FRS 139.

Prior to the adoption of FRS 139, the Group's and the Bank's allowance on impairment losses is in conformity with the minimum requirements of BNM/GP3. The basis of classification of non-performing loans/financing, and the corresponding specific allowance follows the period of default for non-performing loans/financing of 3 months.

**2 Summary of significant accounting policies** (continued)

**O Impairment of financial assets** (continued)

Change in accounting policy (continued)

The Group and the Bank have applied the new accounting policy to the transitional provisions by re-measuring all financial assets, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or if appropriate, another category of equity, of the current financial year.

Refer to Note 44 for the impact of this change in accounting policy.

**P Derecognition of financial assets and financial liabilities**

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral furnished by the Bank under standard repurchase agreements transactions is not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

**Q Provision**

Provisions are recognised by the Group and the Bank when all of the following conditions have been met:

(i) the Group and the Bank have a present legal or constructive obligation as a result of past events;
(ii) it is probable that an outflow of resources to settle the obligation will be required; and
(iii) a reliable estimate of the amount of obligation can be made.

Where the Group and the Bank expect to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present values of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**2 Summary of significant accounting policies** (continued)

### R Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liability under such guarantees are measured at the higher of the initial amount, less amortisation of fee recognised in accordance with FRS 137 "Provisions, Contingent Liabilities and Contingent Assets", and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the profit or loss.

### S Cash and cash equivalents

Cash and cash equivalents are cash and short terms funds held for the purpose of meeting short term commitments and readily convertible into cash without significant risk of changes in value, net of monies held in trust for clients and remisiers.

### T Share capital

**(a) Classification**

Ordinary shares and redeemable preference shares with discretionary dividends are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

**(b) Share issue costs**

Incremental external costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(c) Dividends**

Dividends on ordinary shares and redeemable preference shares are recognised as a liability when the shareholders' right to receive the dividend is established.

## Summary of Significant Accounting Policies for the financial year ended 30 June 2011

**2 Summary of significant accounting policies** (continued)

**U Sale and repurchase agreements**

Securities purchased under resale agreements are securities which the Group and the Bank have purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the statements of financial position.

Conversely, obligations on securities sold under repurchase agreements are securities which the Group and the Bank have sold from its portfolio, with a commitment to repurchase at future dates. Such financing and the obligation to repurchase the securities is reflected as a liability on the statement of financial position.

The difference between sale and repurchase price as well as purchase and resale price are amortised as interest income and interest expense respectively on an effective yield method.

## 3 General information

The principal activities of the Bank are securities and stock broking, investment banking and futures broking.

The principal activities of the subsidiary companies are nominee and custodian services as disclosed in Note 13 to the financial statements.

The immediate holding and ultimate holding companies are HLCB and Hong Leong Company (Malaysia) Berhad respectively, both incorporated in Malaysia. HLCB is listed on the Main Market of Bursa Malaysia Securities Berhad.

The address of the registered office of the Bank is Level 8, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur.

## 4 Cash and short-term funds

| | **The Group** | | **The Bank** | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Cash and bank balances with banks and other financial institutions | **49,269** | 317,344 | **48,972** | 314,834 |
| Money at call and deposit placements maturing within one month | **801,443** | 343,209 | **801,443** | 343,209 |
| | **850,712** | 660,553 | **850,415** | 658,043 |

Included in cash and short term funds of the Group and the Bank are trust accounts maintained in trust for clients' and dealers' representatives amounting to RM438,187,000 (2010: RM179,725,000).

## 5 Deposits and placements with banks and other financial institutions

| | **The Group and the Bank** | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Licensed banks | **60,125** | 45,000 |

## 6 Financial assets held-for-trading

| | The Group and the Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **Money market instruments** | | |
| Bank Negara Malaysia Bills | **-** | 188,748 |
| Negotiable instruments of deposits | **20,143** | 45,003 |
| Bankers' acceptances | **212,418** | - |
| | **232,561** | 233,751 |
| **Quoted securities** | | |
| In Malaysia: | | |
| Shares | **52,463** | 7,117 |
| Outside Malaysia: | | |
| Foreign currency bonds | **98,036** | - |
| | **150,499** | 7,117 |
| **Unquoted securities** | | |
| Private and Islamic debt securities | **40,285** | 190,543 |
| | **423,345** | 431,411 |

## 7 Financial investments available-for-sale

| | The Group and the Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **Money market instruments** | | |
| Cagamas bonds | **5,140** | - |
| **Quoted securities** | | |
| Outside Malaysia: | | |
| Foreign currency bonds | **10,902** | - |
| **Unquoted securities** | | |
| Shares | **2,445** | 245 |
| Private and Islamic debt securities | **56,395** | - |
| | **74,882** | 245 |

## Notes to the financial statements
## for the financial year ended 30 June 2011

### 8 Financial investments held-to-maturity

| | The Group and the Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **Money market instruments** | | |
| Negotiable instruments of deposits | **-** | 10,000 |
| Malaysian Government Investment Issues | **5,153** | - |
| Cagamas bonds | **10,319** | - |
| | **15,472** | 10,000 |
| **Quoted securities** | | |
| Outside Malaysia: | | |
| Foreign currency bonds | **76,710** | - |
| **Unquoted securities** | | |
| Private and Islamic debt securities | **20,465** | - |
| | **112,647** | 10,000 |

### 9 Loans and advances

| | The Group and the Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Term loan financing | **15,022** | 47,559 |
| Share margin financing | **76,819** | 46,647 |
| Revolving credit | **22,457** | 28,204 |
| Gross loans and advances | **114,298** | 122,410 |
| Less: | | |
| Allowance for losses on loans and advances: | | |
| - individual assessment allowance | **(4,679)** | - |
| - collective assessment allowance | **(1,644)** | - |
| - specific allowance | **-** | (2,688) |
| - general allowance | **-** | (1,796) |
| Total net loans and advances | **107,975** | 117,926 |

(i) The maturity structure of loans and advances is as follows:

| | | |
|---|---|---|
| Maturing within one year | **114,298** | 122,410 |

## Notes to the financial statements for the financial year ended 30 June 2011

**9 Loans and advances** (continued)

| | The Group and the Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **(ii)** The loans and advances are disbursed to the following type of customers: | | |
| Domestic business enterprises | | |
| - Small and medium enterprises | **8,807** | 2,007 |
| - Others | **35,568** | 73,526 |
| Individuals | **68,722** | 45,197 |
| Foreign entities | **1,201** | 1,680 |
| Gross loans and advances | **114,298** | 122,410 |
| **(iii)** Loans and advances analysed by interest rate sensitivity are as follows: | | |
| Fixed rate | | |
| - Other fixed rate loans | **76,819** | 46,647 |
| Variable rate | | |
| - Cost plus | **37,479** | 75,763 |
| Gross loans and advances | **114,298** | 122,410 |
| **(iv)** Loans and advances analysed by their economic purposes are as follows: | | |
| Purchase of securities | **89,354** | 61,569 |
| Working capital | **24,944** | 60,841 |
| Gross loans and advances | **114,298** | 122,410 |
| **(v)** Loans and advances analysed by geographical distribution are as follows: | | |
| Malaysia | **114,298** | 122,410 |

## Notes to the financial statements
## for the financial year ended 30 June 2011

**9 Loans and advances** (continued)

| | | Note | The Group and the Bank 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|---|
| (vi) | Movement in the impaired loans and advances are as follows: | | | |
| | At 1 July | | | |
| | - As previously reported | | **2,688** | 2,521 |
| | - Effect of adopting FRS 139 | **44** | **10,012** | - |
| | At 1 July, as restated | | **12,700** | 2,521 |
| | Impaired during the year | | **107** | 178 |
| | Amount written back | | **(2,347)** | (11) |
| | Amount written off | | **(1,086)** | - |
| | At 30 June | | **9,374** | 2,688 |
| | % of impaired loans to total loans and advances net of individual assessment allowance | | **8.6%** | 2.2% |
| (vii) | Movement in the allowance for loss on loans and advances are as follows: | | | |
| | **Individual assessment allowance** | | | |
| | At 1 July | | | |
| | - as previously reported | | **-** | - |
| | - effect of adopting FRS 139 | **44** | **6,247** | - |
| | At 1 July, as restated | | **6,247** | - |
| | Allowance made during the financial year | | **107** | - |
| | Amount written back | | **(589)** | - |
| | Amount written off | | **(1,086)** | - |
| | At 30 June | | **4,679** | - |
| | **Collective assessment allowance** | | | |
| | At 1 July | | | |
| | - as previously reported | | **-** | - |
| | - effect of adopting FRS 139 | **44** | **1,743** | - |
| | At 1 July, as restated | | **1,743** | - |
| | Allowance written back | | **(99)** | - |
| | At 30 June | | **1,644** | - |

## Notes to the financial statements for the financial year ended 30 June 2011

**9 Loans and advances** (continued)

| | | Note | The Group and the Bank 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|---|
| (vii) | Movement in the allowance for loss on loans and advances are as follows: | | | |
| | **Specific allowance** | | | |
| | At 1 July | | | |
| | - as previously reported | | **2,688** | 2,521 |
| | - effect of adopting FRS 139 | **44** | **(2,688)** | - |
| | At 1 July, as restated | | **-** | 2,521 |
| | Allowances made during the financial year | | **-** | 178 |
| | Amount written back | | **-** | (11) |
| | At 30 June | | **-** | 2,688 |
| | **General allowance** | | | |
| | At 1 July | | | |
| | - as previously reported | | **1,796** | 1,254 |
| | - effect of adopting FRS 139 | **44** | **(1,796)** | - |
| | At 1 July, as restated | | **-** | 1,254 |
| | Allowance made during the financial year | | **-** | 542 |
| | At 30 June | | **-** | 1,796 |
| (viii) | Impaired loans and advances analysed by their economic purposes are as follows: | | | |
| | Purchase of securities | | **1,120** | 2,688 |
| | Working capital | | **8,254** | - |
| | | | **9,374** | 2,688 |
| (ix) | Impaired loans and advances analysed by geographical distribution are as follows: | | | |
| | Malaysia | | **9,374** | 2,688 |

## 10 Clients' and brokers' balances

Clients’ and brokers’ balances represent amounts receivable from outstanding purchase contracts in respect of the Group and the Bank’s stockbroking business entered on behalf of clients, amount due from brokers and contra losses.

| | Note | The Group and the Bank 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| Performing accounts | | **165,605** | 79,829 |
| Impaired accounts | | **12,589** | 37,813 |
| | | **178,194** | 117,642 |
| Less: Allowance for bad and doubtful debts | | | |
| - individual assessment allowance | | **(12,381)** | - |
| - specific allowance | | **-** | (37,043) |
| - general allowance | | **-** | (9) |
| | | **165,813** | 80,590 |

Movements of impaired accounts are as follows:

| | | 2011 | 2010 |
|---|---|---|---|
| At 1 July | | **37,813** | 73,459 |
| Impaired during the year | | **(442)** | 1,157 |
| Amount written off | | **(24,782)** | (36,803) |
| At 30 June | | **12,589** | 37,813 |

Movements in the allowance for losses on clients' and brokers' balances are as follows:

| | Note | 2011 | 2010 |
|---|---|---|---|
| <u>Individual assessment allowance</u> | | | |
| At 1 July | | | |
| - as previously stated | | **-** | - |
| - effect of adopting FRS139 | **44** | **37,043** | - |
| At 1 July, as restated | | **37,043** | - |
| Allowance made during the financial year | | **1,562** | - |
| Allowance written back during the financial year | | **(1,442)** | - |
| Amount written off | | **(24,782)** | - |
| At 30 June | | **12,381** | - |

## Notes to the financial statements for the financial year ended 30 June 2011

### 10 Clients' and brokers' balances (continued)

| | Note | The Group and the Bank 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| Movements in the allowance for losses on clients' and brokers' balances are as follows (continued): | | | |
| Specific allowance | | | |
| At 1 July | | | |
| - as previously stated | | **37,043** | 73,432 |
| - effect of adopting FRS139 | **44** | **(37,043)** | - |
| At 1 July, as restated | | **-** | 73,432 |
| Allowance made during the financial year | | **-** | 831 |
| Allowance written back in respect of recoveries | | **-** | (417) |
| Amount written off | | **-** | (36,803) |
| At 30 June | | **-** | 37,043 |
| General allowance | | | |
| At 1 July | | **9** | 50 |
| Allowance written back during the financial year | | **(9)** | (41) |
| At 30 June | | **-** | 9 |

### 11 Other assets

| | The Group 2011 RM'000 | The Group 2010 RM'000 | The Bank 2011 RM'000 | The Bank 2010 RM'000 |
|---|---|---|---|---|
| Amount due from subsidiary companies | **-** | - | **808** | 745 |
| Amount due from holding company | **384** | - | **384** | - |
| Other receivables, deposits and prepayments (a) | **67,638** | 13,277 | **67,551** | 14,564 |
| | **68,022** | 13,277 | **68,743** | 15,309 |

(a) Included in other receivables of the Group and the Bank are as follows:

(i) Prepayment for a discounted foreign currency bond of RM30,108,000 (2010: Nil).

(ii) A balance of RM10,876,000 (2010: Nil) which arising from a warehousing facility.

### 12 Statutory deposits with Bank Negara Malaysia ("BNM")

The non-interest bearing statutory deposits are maintained by the Bank with BNM in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amount is determined at set percentages of total eligible liabilities.

## 13 Investment in subsidiary companies

| | The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Subsidiary companies: | | |
| Unquoted shares, at cost | **588** | 588 |

The subsidiary companies of the Bank are as follows:

| Name of company | Country of incorporation | Effective equity interest 2011 % | Effective equity interest 2010 % | Principal activities |
|---|---|---|---|---|
| HLG Nominee (Tempatan) Sdn Bhd | Malaysia | 100 | 100 | Nominee and custodian services for Malaysian clients |
| HLG Nominee (Asing) Sdn Bhd | Malaysia | 100 | 100 | Nominee and custodian services for foreign clients |
| RC Holdings Sdn Bhd | Malaysia | 100 | 100 | Dormant |
| RC Research Sdn Bhd | Malaysia | 100 | 100 | Dormant |
| RC Nominees (Tempatan) Sdn Bhd | Malaysia | 100 | 100 | Dormant |
| RC Nominees (Asing) Sdn Bhd | Malaysia | 100 | 100 | Dormant |

## 14 Deferred taxation

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

| | | The Group and the Bank | |
|---|---|---|---|
| | **Note** | **2011** | 2010 |
| | | **RM'000** | RM'000 |
| Deferred tax assets | (a) | **42,492** | 52,699 |
| Deferred tax liabilities | (b) | **(776)** | (102) |
| | | **41,716** | 52,597 |

**14 Deferred taxation** (continued)

| | Note | The Group and the Bank 2011 RM'000 | The Group and the Bank 2010 RM'000 |
|---|---|---|---|
| At 1 July | | | |
| - as previously stated | | **52,597** | 58,192 |
| - effect of adopting FRS139 | **44** | **876** | - |
| At 1 July, as restated | | **53,473** | 58,192 |
| Transfer from profit or loss (Note 32) | | **(11,739)** | (5,595) |
| Transfer from equity | | **(18)** | - |
| At 30 June | | **41,716** | 52,597 |

| | The Group and the Bank 2011 RM'000 | The Group and the Bank 2010 RM'000 |
|---|---|---|
| Deferred tax assets | | |
| - settled more than 12 months | **25,764** | 39,550 |
| - settled within 12 months | **16,728** | 13,149 |
| | **42,492** | 52,699 |
| Deferred tax liabilities | | |
| - settled more than 12 months | **(444)** | (128) |
| - settled within 12 months | **(332)** | 26 |
| | **(776)** | (102) |
| | **41,716** | 52,597 |

**14 Deferred taxation** (continued)

The movements in deferred tax assets and liabilities during the financial year comprise the following:

**(a) Deferred tax assets**

| The Group and the Bank | Note | Collective assessment allowance RM'000 | Unabsorbed tax losses RM'000 | Other temporary differences RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| At 1 July 2010 | | | | | |
| - as previously stated | | **451** | **51,636** | **612** | **52,699** |
| - effect of adopting FRS139 | **44** | **(13)** | **889** | **-** | **876** |
| At 1 July 2010, as restated | | **438** | **52,525** | **612** | **53,575** |
| (Charged)/credited to profit or loss | | **(27)** | **(13,480)** | **2,424** | **(11,083)** |
| At 30 June 2011 | | **411** | **39,045** | **3,036** | **42,492** |
| At 1 July 2009 | | 327 | 57,231 | 1,238 | 58,796 |
| Credited/(charged) to profit or loss | | 124 | (5,595) | (626) | (6,097) |
| At 30 June 2010 | | 451 | 51,636 | 612 | 52,699 |

**(b) Deferred tax liabilities**

| The Group and the Bank | Property and equipment RM'000 | Financial investments available-for-sale RM'000 | Total RM'000 |
|---|---|---|---|
| At 1 July 2010 | **102** | **-** | **102** |
| Charged to profit or loss | **656** | **-** | **656** |
| Charged to equity | **-** | **18** | **18** |
| At 30 June 2011 | **758** | **18** | **776** |
| At 1 July 2009 | 604 | - | 604 |
| Credited to profit or loss | (502) | - | (502) |
| At 30 June 2010 | 102 | - | 102 |

# Hong Leong Investment Bank Berhad
**Company no: 43526-P**
**(Incorporated in Malaysia)**

## Notes to the financial statements
## for the financial year ended 30 June 2011

### 15 Property and equipment

| The Group and the Bank | Note | Leasehold land more than 50 years RM'000 | Leasehold buiding RM'000 | Office and computer equipment RM'000 | Furniture and fittings RM'000 | Office renovations RM'000 | Motor vehicles RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| Net book value at 1 July 2010 | | | | | | | | |
| - as previously reported | | - | 843 | 1,914 | 730 | 1,444 | 365 | 5,296 |
| - effect of adopting FRS 117 improvement | 44 | 1,131 | - | - | - | - | - | 1,131 |
| As restated | | 1,131 | 843 | 1,914 | 730 | 1,444 | 365 | 6,427 |
| Arising from acquisition of assets & liabilities of HLG Futures | 43 | - | - | 54 | 2 | 7 | - | 63 |
| Additions | | - | - | 998 | 140 | 2,101 | 251 | 3,490 |
| Depreciation | | (1) | (18) | (1,062) | (201) | (768) | (130) | (2,180) |
| Net book value at 30 June 2011 | | 1,130 | 825 | 1,904 | 671 | 2,784 | 486 | 7,800 |
| **At 30 June 2011** | | | | | | | | |
| Cost | | 1,133 | 867 | 15,272 | 2,127 | 9,408 | 912 | 29,719 |
| Accumulated depreciation | | (3) | (42) | (13,368) | (1,456) | (6,624) | (426) | (21,919) |
| Net book value | | 1,130 | 825 | 1,904 | 671 | 2,784 | 486 | 7,800 |

**15 Property and equipment** (continued)

| **The Group and the Bank** | **Note** | **Leasehold land more than 50 years RM'000** | **Leasehold buiding RM'000** | **Office and computer equipment RM'000** | **Furniture and fittings RM'000** | **Office renovations RM'000** | **Motor vehicles RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|---|---|
| Net book value at 1 July 2009 | | | | | | | | |
| - as previously reported | | - | 860 | 2,131 | 256 | 874 | 89 | 4,210 |
| - effect of adopting FRS 117 improvement | 44 | 1,132 | - | - | - | - | - | 1,132 |
| As restated | | 1,132 | 860 | 2,131 | 256 | 874 | 89 | 5,342 |
| Additions | | - | - | 877 | 572 | 927 | 388 | 2,764 |
| Disposals | | - | - | - | (2) | - | (10) | (12) |
| Depreciation | | (1) | (17) | (1,094) | (96) | (357) | (102) | (1,667) |
| Net book value at 30 June 2010 | | 1,131 | 843 | 1,914 | 730 | 1,444 | 365 | 6,427 |
| **At 30 June 2010** | | | | | | | | |
| Cost | | 1,133 | 867 | 13,704 | 1,905 | 7,307 | 1,169 | 26,085 |
| Accumulated depreciation | | (2) | (24) | (11,790) | (1,175) | (5,863) | (804) | (19,658) |
| Net book value | | 1,131 | 843 | 1,914 | 730 | 1,444 | 365 | 6,427 |

### 16 Goodwill

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Cost** | | | | |
| At 1 July | **28,986** | 28,750 | **30,236** | 30,000 |
| Goodwill arising during the year | **-** | 236 | **-** | 236 |
| At 30 June | **28,986** | 28,986 | **30,236** | 30,236 |

**Allocation of goodwill to cash-generating units**

Goodwill has been allocated to the following cash-generating units ("CGUs"):

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **CGU** | | | | |
| Investment banking and stock broking | **28,986** | 28,986 | **30,236** | 30,236 |

**Impairment test on goodwill**

The fair value is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by directors covering a one-year period. Cash flows beyond the one-year period are assumed to grow at 4% p.a. (2010: 4% p.a.) to infinity.

The cash flow projections are derived based on a number of key factors including the past performance and management's expectations at the market development. The pre-tax discount rate is 14.67% (2010: 9.6%) and reflect specific risks relating to the segment.

For the current year, impairment was not required (2010: RM nil) for goodwill arising from investment banking and stock broking segment.

Management believes that any reasonable possible change to the assumptions applied is not likely to cause the recoverable amount to be lower than carrying amount.

## Notes to the financial statements for the financial year ended 30 June 2011

### 17 Intangible assets - Computer software

| | | The Group and the Bank | |
|---|---|---|---|
| | **Note** | **2011** | 2010 |
| | | **RM'000** | RM'000 |
| **Cost** | | | |
| At 1 July | | **9,645** | 8,721 |
| Additions | | **536** | 935 |
| Transfer | | **-** | (11) |
| Arising from acqusition of assets and liabilities of HLG Futures | **43** | **19** | - |
| At 30 June | | **10,200** | 9,645 |
| **Amortisation** | | | |
| At 1 July | | **(8,416)** | (7,784) |
| Additions | | **(779)** | (632) |
| Arising from acqusition of assets and liabilities of HLG Futures | **43** | **(12)** | - |
| At 30 June | | **(9,207)** | (8,416) |
| **Net book value** | | **993** | 1,229 |

### 18 Deposit from customers

| | The Group and the Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Fixed deposits | **395,243** | 31,218 |

(i) The maturity structure of fixed deposits of deposit are as follows:

| | | |
|---|---|---|
| Due within six month | **395,243** | 31,218 |

(ii) The deposits are sourced from the following customers:

| | | |
|---|---|---|
| Government and statutory bodies | **205,501** | - |
| Business enterprises | **188,724** | 31,218 |
| Individual | **1,018** | - |
| | **395,243** | 31,218 |

### 19 Deposit and placements of bank and other financial institutions

| | The Group and the Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Licensed banks | **211,431** | 61,000 |
| Other financial institutions | **536,568** | 539,990 |
| | **747,999** | 600,990 |

### 20 Derivative financial assets/liabilities

| | The Group and the Bank | | |
|---|---|---|---|
| | **Contract or underlying principal amount RM'000** | **Year-end positive fair value RM'000** | **Year-end negative fair value RM'000** |
| **2011** | | | |
| Interest rate related contracts: | | | |
| - Interest rate swaps | **455,000** | **622** | **(1,600)** |
| - Futures | **2,013,753** | **515** | **(919)** |
| Foreign exchange related contracts | | | |
| - Cross currency swaps | **64,471** | **1,192** | **(2,247)** |
| - Foreign currency spot | **18,119** | **29** | **(25)** |
| - Foreign currency forwards | **30,198** | **-** | **(301)** |
| Equity related contracts: | | | |
| - Futures | **44,675** | **-** | **(67)** |
| - Call option | **10,000** | **3,000** | **-** |
| | | **5,358** | **(5,159)** |
| **2010** | | | |
| Interest rate related contracts: | | | |
| - Interest rate swaps | 25,000 | 23 | - |
| - Futures | 3,200,000 | - | (1,194) |
| | | 23 | (1,194) |

### 21 Clients and brokers' balances

Included in clients' and brokers' balances are clients' trust balances, held in trust for clients of RM227,141,000 (2010: RM153,563,000).

### 22 Other liabilities

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Amount due to subsidiary companies (a) | **-** | **-** | **88** | 89 |
| Amount due to immediate holding company (a) | **-** | 272 | **-** | 272 |
| Remisiers' trust deposits | **10,210** | 10,687 | **10,210** | 10,687 |
| ESOS liabilities | **249** | - | **249** | - |
| Other payables and accrued liabilities (b) | **64,628** | 296,549 | **65,660** | 297,714 |
| Post employment benefits obligation - defined contribution plan | **432** | 420 | **432** | 420 |
| | **75,519** | 307,928 | **76,639** | 309,182 |

(a) The amounts due to subsidiary companies and immediate holding company are unsecured, interest free and repayable on demand.

(b) Included in other payables and accrued liabilities of the Group and the Bank in 2010 are as follows:

(i) A net balance of RM6,263,000 derived from a bond amounting to RM177,750,000 set off against deposit from customer and coupon received on the bond of RM184,013,000. The terms of the arrangement of the acquisition of the bond required the issuer of the bond to deposit at least an amount equivalent or higher with the Bank. The net amount of RM6,263,000 is presented in the statements of financial position in accordance with FRS 132 Financial Instruments: Presentation, where the Bank has a legally enforceable right to set off the recognised amounts and has the intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(ii) An amount received from a customer of RM280 million which is to be placed as fixed deposits on 1 July 2010.

## 23 Share capital

| | The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **Authorised:** | | |
| Ordinary shares of RM1.00 each | **600,000** | 600,000 |
| **Issued and fully paid capital:** | | |
| Ordinary shares of RM1.00 each | | |
| At 1 July | **265,535** | 123,500 |
| Issued during the year | **-** | 142,035 |
| At 30 June | **265,535** | 265,535 |

## 24 Redeemable preference shares

| | The Group and the Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **Authorised:** | | |
| Non-cumulative redeemable preference shares of RM0.01 each | **400,000** | 400,000 |
| **Issued and fully paid capital:** | | |
| Non-cumulative redeemable preference shares of RM0.01 each | | |
| At 1 July/30 June | **1,631** | 1,631 |

The main features of the RPS are as follows:

(a) The RPS have right to dividends at the discretion of the Directors of the Bank, subject to BNM's approval pursuant to Section 58 of the BAFIA

(b) The RPS rank pari passu in all aspects among themselves.

(c) The RPS will not be convertible into ordinary shares.

(d) The RPS have no fixed maturity date and can be redeemed at any time by giving 7 days notice in writing.

(e) The RPS will not be listed on any stock exchange.

## 25 Reserves

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Retained profits | **24,050** | 9,415 | **25,192** | 10,644 |
| Statutory reserve (a) | **28,222** | 11,044 | **28,222** | 11,044 |
| Fair value reserve | **56** | - | **56** | - |
| | **52,328** | 20,459 | **53,470** | 21,688 |

(a) The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividend.

## 26 Interest income

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Loans and advances | **6,058** | 6,211 | **6,058** | 6,211 |
| Money at call and deposit placements with financial institutions | **13,067** | 2,799 | **13,067** | 2,799 |
| Financial investments available-for-sale | **5,788** | 2,328 | **5,788** | 2,328 |
| Financial investments held-to-maturity | **2,179** | 292 | **2,179** | 292 |
| Others | **1,885** | 527 | **1,885** | 527 |
| | **28,977** | 12,157 | **28,977** | 12,157 |
| Financial assets held-for-trading | **30,061** | 2,603 | **30,061** | 2,603 |
| Accretion of discount less amortisation of premium | **(467)** | (115) | **(467)** | (115) |
| | **58,571** | 14,645 | **58,571** | 14,645 |
| Of which: | | | | |
| Interest income earned on impaired loans and advances | **374** | - | **374** | - |

### 27 Interest expense

| | The Group and the Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Deposits and placements of banks and other financial institutions | **13,320** | 1,151 |
| Deposits from customers | **26,286** | 2,796 |
| | **39,606** | 3,947 |

### 28 Non-interest income

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Fee income** | | | | |
| Fee on loans and advances | **2,328** | 548 | **2,328** | 548 |
| Arranger fees | **15,044** | 5,111 | **15,044** | 5,111 |
| Corporate advisory fees | **5,826** | 1,233 | **5,826** | 1,233 |
| Underwriting commissions | **1,838** | - | **1,838** | - |
| Brokerage commissions | **46,643** | 42,264 | **46,643** | 42,264 |
| Net commission from futures business | **699** | - | **699** | - |
| Other fee income | **14,255** | 2,588 | **13,925** | 2,374 |
| | **86,633** | 51,744 | **86,303** | 51,530 |
| **Net income from securities** | | | | |
| Net realised gain arising from sale of: | | | | |
| - Financial assets held-for-trading | **2,995** | 897 | **2,995** | 897 |
| - Financial investments available-for-sale | **690** | - | **690** | - |
| Dividend income from: | | | | |
| - Financial assets held-for-trading | **674** | 598 | **674** | 598 |
| - Financial investments available-for-sale | **92** | 37 | **92** | 37 |
| Net unrealised (loss)/gain on revaluation of: | | | | |
| - Financial assets held-for-trading | **(1,014)** | 2,625 | **(1,014)** | 2,625 |
| - Derivatives | **1,363** | (1,177) | **1,363** | (1,177) |
| | **4,800** | 2,980 | **4,800** | 2,980 |
| **Other income** | | | | |
| Gain on disposal of property and equipment | **1** | 248 | **1** | 248 |
| Foreign exchange (loss)/gain | **(3,548)** | 163 | **(3,548)** | 163 |
| Other non-operating (loss)/income | **(514)** | 175 | **(514)** | 175 |
| | **(4,061)** | 586 | **(4,061)** | 586 |
| Total non-interest income | **87,372** | 55,310 | **87,042** | 55,096 |

### 29 Overhead expenses

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Personnel costs** | | | | |
| Salaries, allowances and bonuses | **28,742** | 20,640 | **28,621** | 20,505 |
| Option charge arising from ESOS | **249** | - | **249** | - |
| Others | **5,271** | 5,342 | **5,256** | 5,321 |
| | **34,262** | 25,982 | **34,126** | 25,826 |
| **Establishment costs** | | | | |
| Depreciation of property and equipment | **2,180** | 1,667 | **2,180** | 1,667 |
| Amortisation of intangible assets | **779** | 632 | **779** | 632 |
| Rental | **4,346** | 3,835 | **4,316** | 3,835 |
| Information technology expenses | **4,257** | 4,123 | **4,257** | 4,123 |
| Others | **2,508** | 994 | **2,503** | 994 |
| | **14,070** | 11,251 | **14,035** | 11,251 |
| **Marketing expenses** | | | | |
| Advertisement and publicity | **53** | 22 | **53** | 22 |
| Entertainment and business improvement | **1,043** | 495 | **1,043** | 495 |
| Others | **194** | 119 | **194** | 119 |
| | **1,290** | 636 | **1,290** | 636 |
| **Administration and general expenses** | | | | |
| Management fees | **1,900** | 1,032 | **1,900** | 1,032 |
| Teletransmission expenses | **1,724** | 983 | **1,724** | 983 |
| Auditors' remuneration | | | | |
| - Statutory audit | **159** | 137 | **150** | 127 |
| - Tax compliance fee | | | | |
| - current year | **12** | 12 | **12** | 12 |
| - underprovision in prior year | **-** | 10 | **-** | 10 |
| - Other fees | **33** | - | **33** | - |
| Legal and professional fees | **3,743** | 2,843 | **3,735** | 2,834 |
| Others | **3,671** | 3,132 | **3,637** | 3,084 |
| | **11,242** | 8,149 | **11,191** | 8,082 |
| Total overhead expenses | **60,864** | 46,018 | **60,642** | 45,795 |

Included in the overhead expenses of the Group and the Bank are Directors' remuneration totalling RM2,476,000 (2010: RM4,882,000).

### 30 (Writeback of)/allowance for losses on loans and advances and other losses

| | The Group and the Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Allowance for/(write-back of) losses on impaired loans and advances: | | |
| (a) Specific allowance | | |
| - made during the financial year | **-** | 178 |
| - written back | **-** | (11) |
| (b) General allowance | | |
| - made during the financial year | **-** | 542 |
| (c) Individual assessment allowance | | |
| - made during the financial year | **107** | - |
| - written back | **(589)** | - |
| (d) Collective assessment allowance | | |
| - written back | **(99)** | - |
| | **(581)** | 709 |
| Bad debts on loans and advance | | |
| - recovered | **(278)** | (41) |
| Allowance for losses on clients' and brokers' balances: | | |
| (a) Specific allowance | | |
| - made during the financial year | **-** | 831 |
| - written back | **-** | (417) |
| (b) General allowance | | |
| - written back during the financial year | **(9)** | (41) |
| (c) Individual assessment allowance | | |
| - made during the financial year | **1,562** | - |
| - written back | **(1,442)** | - |
| | **111** | 373 |
| | **(748)** | 1,041 |

## 31 Directors' remuneration

Forms of remuneration in aggregate for all Directors for the year as follows:

| | The Group and the Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Managing Director/Chief Executive Officer: | | |
| - Ms Lee Jim Leng [(1)] | | |
| - Salary and other remunerations | **2,119** | 4,655 |
| - Benefits-in-kind | **7** | 6 |
| | **2,126** | 4,661 |
| Non-Executive Directors - Fees: | | |
| - YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman | **75** | 53 |
| - Y Bhg Tan Sri A. Razak bin Ramli | **95** | 59 |
| - Mr. Choong Yee How [(2)] | **90** | 56 |
| - Mr Martin Giles Manen | **90** | 53 |
| | **350** | 221 |
| | **2,476** | 4,882 |

The movement and details of the Directors of the Bank in office and interests in shares and share options are reported in the Directors' Report.

Note :

[(1)] The remuneration amount in 2010 has included the remuneration received by the director as an employee of the Bank.

[(2)] These fees have been assigned in favour of the company where the Director is employed.

## 32 Taxation

| | Note | The Group | | The Bank | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 |
| | | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Malaysian income tax | | | | | |
| - current year’s charge | | **39** | - | **18** | - |
| Deferred taxation | **14** | | | | |
| - relating to origination and reversal of temporary differences | | **11,966** | 5,595 | **11,966** | 5,595 |
| - overprovision in prior years | | **(227)** | - | **(227)** | - |
| | | **11,778** | 5,595 | **11,757** | 5,595 |

**32 Taxation** (continued)

The effective tax rate for the Group and the Bank differed from the statutory rate of taxation due to:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Profit before taxation | **46,221** | 18,949 | **46,113** | 18,958 |
| Tax calculated at a rate of 25% (2010: 25%) | **11,555** | 4,737 | **11,528** | 4,740 |
| Tax effects of: | | | | |
| - Income not subject to tax | **(120)** | - | **(120)** | - |
| - Expenses not deductible for tax purposes | **570** | 858 | **576** | 855 |
| - Other temporary differences not recognised previously | **(227)** | - | **(227)** | - |
| Taxation | **11,778** | 5,595 | **11,757** | 5,595 |

**33 Earnings per share**

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **(a) Basic earnings per share** | | | | |
| Weighted average number of number of ordinary shares in issue | **265,535** | 159,301 | **265,535** | 159,301 |
| Net profit attributable to equity holder of the Bank | **34,443** | 13,354 | **34,356** | 13,363 |
| Basic earnings per share (sen) | **13.0** | 8.4 | **12.9** | 8.4 |

**(b) Diluted earnings per share**

There is no diluted earnings per share as the Group and the Bank have no category of dilutive potential ordinary shares outstanding as at 30 June 2011 and 30 June 2010.

## 34 Significant related party transaction

### (a) Related parties and relationships

The related parties and their relationships with the Bank are as follows:

| Related parties | Relationship |
|---|---|
| Hong Leong Company (Malaysia) Berhad | Ultimate holding company |
| Hong Leong Financial Group Berhad | Penultimate holding company |
| HLCB | Immediate holding company |
| Subsidiary companies of Hong Leong Financial Group Berhad as disclosed in its financial statements | Subsidiary companies of penultimate holding company |
| Hong Leong Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements | Subsidiary and associated companies of ultimate holding company |
| Hume Industries (Malaysia) Berhad and its subsidiary and associated companies as disclosed in its financial statements | Subsidiary and associated companies of ultimate holding company |
| Guoco Group Limited and its subsidiary and associated companies as disclosed in its financial statements | Subsidiary and associated companies of ultimate holding company |
| GuocoLand (Malaysia) Berhad and its subsidiary and associated companies as disclosed in its financial statements | Subsidiary and associated companies of ultimate holding company |

**34 Significant related party transaction** (continued)

**(a) Related parties and relationships** (continued)

The related parties and their relationships with the Bank are as follows (continued):

| **Related parties** | **Relationship** |
|---|---|
| Key management personnel | The key management personnel of the Bank consists of:<br>- All Directors of the Bank and key management personnel of the Bank who are in charge of the Bank |
| Related parties of key management personnel (deemed as related to the Bank) | (i) Close family members and dependents of key management personnel<br>(ii) Entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members |

**(b) Related parties transactions**

Transactions with related parties are as follows:

| **The Group 2011** | **Parent company RM'000** | **Other related companies RM'000** | **Key management personnel RM'000** |
|---|---|---|---|
| **Income** | | | |
| Brokerage income | - | 3,409 | 80 |
| Corporate advisory fee | 100 | 1,074 | - |
| Arranger fee | - | 6,058 | - |
| | 100 | 10,541 | 80 |
| **Expenditure** | | | |
| Rental | - | 3,130 | - |
| Management fees | - | 1,775 | - |
| Other miscellaneuos | - | 312 | - |
| | - | 5,217 | - |

**34 Significant related party transaction** (continued)

**(b) Related parties transactions** (continued)

Transactions with related parties are as follows (continued):

| **The Group 2011** | **Parent company RM'000** | **Other related companies RM'000** | **Key management personnel RM'000** |
|---|---|---|---|
| **Amounts due from:** | | | |
| Current account | - | **31,745** | - |
| Money at call and deposit placements | - | **301,471** | - |
| Financial assets held-for-trading | - | **12,332** | - |
| | - | **345,548** | - |
| **Amounts due to:** | | | |
| Fixed deposits | - | **48,615** | - |

| **The Group 2010** | **Parent company RM'000** | **Other related companies RM'000** | **Key management personnel RM'000** |
|---|---|---|---|
| **Income** | | | |
| Brokerage income | - | 2,851 | 67 |
| **Expenditure** | | | |
| Rental | - | 2,269 | - |
| Management fees | - | 1,032 | - |
| Other miscellaneuos | - | 337 | - |
| | - | 3,638 | - |
| **Amounts due from:** | | | |
| Current account | - | 170,476 | - |
| **Amounts due to:** | | | |
| Interbank placements | - | 5,000 | - |
| Fixed deposits | - | 105,007 | - |
| Others | 272 | - | - |
| | 272 | 110,007 | - |

| **The Bank 2011** | **Parent company RM'000** | **Subsidiaries RM'000** | **Other related companies RM'000** | **Key management personnel RM'000** |
|---|---|---|---|---|
| **Income** | | | | |
| Brokerage income | - | - | **3,409** | **80** |
| Corporate advisory fee | - | - | **1,174** | - |
| Arranger fee | - | - | **6,058** | - |
| | - | - | **10,641** | 80 |

**34 Significant related party transaction** (continued)

**(b) Related parties transactions** (continued)

Transactions with related parties are as follows (continued):

| **The Bank 2011** | **Parent company RM'000** | **Subsidiaries RM'000** | **Other related companies RM'000** | **Key management personnel RM'000** |
|---|---|---|---|---|
| **Expenditure** | | | | |
| Rental | - | - | 3,130 | - |
| Management fees | - | - | 1,775 | - |
| Other miscellaneuos | - | - | 312 | - |
| | - | - | 5,217 | - |
| **Amounts due from:** | | | | |
| Current account | - | - | 31,519 | - |
| Money at call and deposit placements | | - | 301,471 | - |
| Financial assets held-for-trading | - | - | 12,332 | - |
| Others | 384 | 808 | - | - |
| | 384 | 808 | 345,322 | - |
| **Amounts due to:** | | | | |
| Fixed deposits | - | - | 48,615 | - |
| Others | - | 88 | - | - |
| | - | 88 | 48,615 | - |
| **The Bank 2010** | | | | |
| **Income** | | | | |
| Brokerage income | - | - | 2,851 | 67 |
| **Expenditure** | | | | |
| Rental | - | - | 2,269 | - |
| Management fees | - | - | 1,032 | - |
| Other miscellaneuos | - | - | 337 | - |
| | - | - | 3,638 | - |
| **Amounts due from:** | | | | |
| Current account | - | - | 170,476 | - |

**34 Significant related party transaction** (continued)

**(b) Related parties transactions** (continued)

Transactions with related parties are as follows (continued):

| **The Bank 2010** | **Parent company RM'000** | **Subsidiaries RM'000** | **Other related companies RM'000** | **Key management personnel RM'000** |
|---|---|---|---|---|
| **Amounts due to:** | | | | |
| Interbank placements | - | - | 5,000 | - |
| Fixed deposits | - | - | 105,007 | - |
| Others | 272 | 89 | - | - |
| | 272 | 89 | 110,007 | - |

**(c) Key management personnel**

| | **The Group and the Bank 2011 RM'000** | 2010 RM'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **1,899** | 4,162 |
| Fees | **350** | 221 |
| Defined contribution plan | **227** | 499 |
| | **2,476** | 4,882 |

Included in the above is the Directors' remuneration which is disclosed in Note 31.

**(d) Credit transactions and exposure with connected parties**

There are no credit exposures with connected parties as per Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties.

**35 Dividends**

No dividend on ordinary shares has been paid by the Bank since the end of the previous financial year.

Subject to BNM's approval, the Directors of the Bank declared the payment of a single-tier final dividend of 10.0 sen per share on the Bank's issued and paid-up Redeemable Preference Shares comprising 163,076,524 Redeemable Preference Shares amounting to RM16,307,652 for the financial year ended 30 June 2011. The payment of the dividend was approved by BNM on 26 August 2011, pursuant to Section 58 of the BAFIA.

These financial statements do not reflect this dividend as no obligation exists at the end of the reporting period. The dividend will be accounted for in the shareholder's equity as an appropriation of retained profits during the financial year ending 30 June 2012.

## Notes to the financial statements
## for the financial year ended 30 June 2011

### 36 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 | 2011 Principal amount RM'000 | 2011 Credit equivalent amount RM'000 | 2011 Risk weighted assets RM'000 | 2010 Principal amount RM'000 | 2010 Credit equivalent amount RM'000 | 2010 Risk weighted assets RM'000 |
|---|---|---|---|---|---|---|
| **Commitments and contingent liabilities** | | | | | | |
| Obligations under underwriting agreement | **20,238** | **10,119** | **10,119** | - | - | - |
| Any commitments that are unconditionally cancelled at any time by the Bank without prior notice | | | | | | |
| - Maturity less than 1 year | **302,249** | **-** | **-** | 267,940 | - | - |
| **Derivative Financial Instruments** | | | | | | |
| Interest rate related contracts: | | | | | | |
| - One year or less | **527,573** | **-** | **-** | 680,000 | - | - |
| - Over one year to five years | **1,817,370** | **18,572** | **3,714** | 2,545,000 | 1,021 | 204 |
| - Over five years | **123,810** | **-** | **-** | **-** | **-** | **-** |
| Foreign exchange related contracts | | | | | | |
| - One year or less | **112,788** | **5,750** | **1,512** | - | - | - |
| Equity related contracts: | | | | | | |
| - One year or less | **44,675** | **-** | **-** | - | - | - |
| - Over one year to five years | **10,000** | **-** | **-** | - | - | - |
| | **2,958,703** | **34,441** | **15,345** | 3,492,940 | 1,021 | 204 |

### 37 Capital commitments

| | The Group and the Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Property and equipment | | |
| - Approved and contracted but not provided for | **794** | 964 |
| - Approved but not contracted for | **269** | 115 |
| | **1,063** | 1,079 |

### 38 Lease commitments

The Group and the Bank have lease commitments in respect of rented premises and hired equipment, all of which are classified as operating lease. A summary of the future minimum lease payments, net of sublease, under non-cancellable operating lease commitments are as follows:

| | The Group and the Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Less than one year | **3,719** | 4,255 |
| More than one year but less than five years | **3,057** | 6,254 |
| More than five years | **1** | - |

### 39 Capital Management

The Bank's capital is in relation to its risk profile and strategic objectives set by the Board to meet shareholder' requirements and expectations. The Bank's Capital Management Framework for maintaining appropriate capital levels is in line with the Bank Negara Malaysia's Revised Risk Weighted Capital Adequacy Framework.

### 40 Capital adequacy

BNM guidelines require the Bank to maintain a certain minimum level of capital funds against the “risk-weighted” value of assets and certain commitments and contingencies. The capital funds of the Bank as at 30 June 2011 met the minimum requirement.

As at 30 June 2011, the capital ratios of the Group and the Bank are computed in accordance with BNM’s revised Risk Weighted Capital Adequacy Framework: Standardised Approach for Credit and Market Risk, and Basic Indicator Approach for Operational Risk (Basel II).

**40 Capital adequacy** (continued)

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

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| **Before deducting proposed dividends:** | | | | |
| Core capital ratio | **38.1%** | 33.0% | **38.2%** | 33.1% |
| Risk-weighted capital ratio | **38.6%** | 33.6% | **38.6%** | 33.5% |
| **After deducting proposed dividends:** | | | | |
| Core capital ratio | **35.6%** | 33.0% | **35.7%** | 33.1% |
| Risk-weighted capital ratio | **36.1%** | 33.6% | **36.1%** | 33.5% |

(ii) The components of Tier 1 and Tier 2 Capital of the Group and the Bank are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Tier I Capital** | | | | |
| Paid-up ordinary share capital | **265,535** | 265,535 | **265,535** | 265,535 |
| Other reserves (1) | **52,272** | 20,459 | **53,414** | 21,688 |
| Less: Goodwill | **(28,986)** | (28,986) | **(30,236)** | (30,236) |
| Less: Deferred tax assets - net | **(41,716)** | (52,597) | **(41,716)** | (52,597) |
| Total Tier-1 capital | **247,105** | 204,411 | **246,997** | 204,390 |
| **Tier-2 capital** | | | | |
| Redeemable preference shares ("RPS") | **1,631** | 1,631 | **1,631** | 1,631 |
| Collective assessment allowance for losses on loans and advances (2) | **1,574** | - | **1,574** | - |
| General allowance for losses on loans and advances | **-** | 1,805 | **-** | 1,805 |
| Total Tier-2 capital | **3,205** | 3,436 | **3,205** | 3,436 |
| Eligible Tier-2 capital | **3,205** | 3,436 | **3,205** | 3,436 |
| Total capital | **250,310** | 207,847 | **250,202** | 207,826 |
| Less: Investment in subsidiaries | **-** | - | **(588)** | (588) |
| Total capital base | **250,310** | 207,847 | **249,614** | 207,238 |

**40 Capital adequacy** (continued)

(ii) The components of Tier 1 and Tier 2 Capital of the Group and the Bank are as follows (continued):

Note :
(1) Fair value reserve has been excluded from the above Group's and the Bank's capital base.
(2) Excludes collective assessment allowance attributable to loans and advances classified as impaired.

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

| | **The Group** | | **The Bank** | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Credit risk | **286,172** | 354,669 | **286,833** | 356,198 |
| Market risk | **237,494** | 177,473 | **237,494** | 177,473 |
| Operational risk | **124,294** | 86,750 | **122,594** | 84,507 |
| | **647,960** | 618,892 | **646,921** | 618,178 |

### 41 Financial instruments

### (a) Risk management objectives and policies

Risk Management is one of the core activities of the Bank to strike a balance between sound practices and risk-return. An effective risk management is therefore vital to ensure that the Bank conducts its business in a prudent manner to ensure that the risk of potential losses is reduced.

**Credit Risk**

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, credit limits and monitoring procedures. Credit risk include settlement risk, default risk and concentration risk. Exposure to credit risk arises mainly from financing, underwriting, securities and derivative exposures of the Bank.

The Bank has set out Board approved policies and guidelines for the management of credit risk. To oversee all credit related matters of the Bank, the Management Credit and Underwriting Committee ("MCUC") was setup in 2011 in addition to an independent Credit Department.

The Board has delegated appropriate Delegation of Authority to the MCUC and senior management for the approval of credit facilities. Credit limit setting for Treasury activities are endorsed by the MCUC and approved by the Board at least annually. Adherence to established credit policies, guidelines and limits is monitored daily by the Credit Control Department, Credit Department and the Risk Management Department.

**Market Risk**

Market risk is the risk of loss arising from adverse fluctuation in market prices, such as interest rates, equity prices and foreign currency. The Bank monitors all such exposures arising from trading activities of the treasury and stockbroking business activities on a daily basis and management is alerted on the financial impact of these risks. To mitigate market risk, the Bank also uses derivative financial instruments.

The Bank has in place a set of policies, guidelines, measurement methodologies and control limits which includes Value-at-Risk ("VaR"), Present-Value-Basis-Point ("PVBP"), Management Action Trigger ("MAT"), notional limits and concentration limits to mitigating market risk.

Stress testing is also employed to capture the potential market risk exposures from unexpected market movements. Concerns and significant findings are communicated to the senior management at the Assets and Liabilities Management Committee ("ALMCO") and to the Board.

## 41 Financial instruments

### (a) Risk management objectives and policies (continued)

**Liquidity Risk**

Liquidity risk is the risk of financial loss arising from the inability to fund increases in assets and/or meet obligations as they fall due. Financial obligations arises from the withdrawal of deposits, funding of loans committed and repayment of borrowed funds. It is the Bank's policy to ensure that there is adequate liquidity across all business units to sustain ongoing operations, as well as sufficient liquidity to fund asset growth and strategic opportunities.

**Operational Risk**

Operational risk is the risk of direct and indirect loss resulting from inadequate or failed internal processes and controls due to error, inefficiencies, omission and unauthorised access, including external events beyond the control of the Bank. In order to reduce or mitigate these risks, the Bank has established internal control mechanisms within the various levels of the organisation, which include the setting up of procedural and control systems by the various units to manage the day-to-day operational risk inherent in their respective business and functional areas.

The Operational Risk Management ("ORM") Policy is in place to ensure that controls and segregation of duties exists to mitigate operational risks. The Bank has taken an initiative to promote operational risk awareness among its staff and an in-house awareness programme was completed in 2011. The Bank has begun presenting loss data reports on monthly basis to the senior management and the Board. This will also provide the foundation for mapping and collecting data on loss events and self-assessment models in subsequent phases of the ORM initiatives.

### (b) Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as interest rates and foreign currency rates, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Group and the Bank as at 30 June 2011.

**41 Financial instruments** (continued)

**(b) Market risk** (continued)

(i) Interest rate sensitivity analysis

The following table shows the sensitivity of the Group's and the Bank's profit after tax and its equity with an immediate up and down +/-50 basis points ('bps') parallel shift in the interest rate.

| | The Group | | The Bank | |
|---|---|---|---|---|
| **2011** | **Impact on profit after tax RM'000** | **Impact on equity RM'000** | **Impact on profit after tax RM'000** | **Impact on equity RM'000** |
| +50 bps | **2,267** | **(1,066)** | **2,267** | **(1,066)** |
| -50 bps | **(2,267)** | **1,066** | **(2,267)** | **1,066** |

The results above represent financial assets and liabilities that have been prepared on the following basis:

Impact on the profit after tax is the sum of valuation changes on fixed income instruments held in the trading portfolio and earnings movement for all short-term interest rate sensitive assets and liabilities (with maturity or re-pricing tenure of up to one year) that is not held in the trading portfolio. Earnings movement for the short term interest rate sensitive assets and liabilities uses a set of risk weights with its respective time band to simulate the 50 basis point interest rate change impact. For assets and liabilities with non fix maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of these interest bearing assets and liabilities.

Impact on equity represents the changes in fair values of fixed income instruments held in the available-for-sale portfolio arising from the shift in the interest rate.

(ii) Foreign currency sensitivity analysis

The foreign currency sensitivity represents the affect of the appreciation or depreciation of the foreign currency rates on the consolidated currency position, while other variables remain constant.

| **The Group and the Bank 2011** | **Impact on profit after tax RM'000** |
|---|---|
| +5 bps | **(15)** |
| -5 bps | **15** |

**41 Financial instruments** (continued)

**(b) Market risk** (continued)

**Interest rate risk**

The tables below summarise the Group's and the Bank's exposure to interest rate risks. Included in the tables are the Group's and the Bank's assets and liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest rates and yield curves change over time, the Group and the Bank may be exposed to loss in earnings due to the effects of interest rates on the structure of the statement of financial position. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding.

| | ← Non–trading book | | | | | → | | |
|---|---|---|---|---|---|---|---|---|
| **The Group 2011** | **Up to 1 month RM'000** | **1 – 3 months RM'000** | **3 to 12 months RM'000** | **1 – 5 years RM'000** | **Over 5 years RM'000** | **Non-interest rate sensitive RM'000** | **Trading book RM'000** | **Total RM'000** |
| **Assets** | | | | | | | | |
| Cash and short-term funds | 801,443 | - | - | - | - | 49,269 | - | 850,712 |
| Reverse repurchase agreements | 86,423 | 73,261 | - | - | - | - | - | 159,684 |
| Deposits and placements with banks and other financial institutions | - | 60,125 | - | - | - | - | - | 60,125 |
| Financial assets held-for-trading | - | - | - | - | - | - | 423,345 | 423,345 |
| Financial investments available-for-sale | - | - | - | 72,437 | - | 2,445 | - | 74,882 |
| Financial investments held-to-maturity | - | - | - | 52,077 | 60,570 | - | - | 112,647 |
| Derivative financial assets | - | - | - | - | - | - | 5,358 | 5,358 |
| Loans and advances | 18,615 | 89,360 | - | - | - | - | - | 107,975 |
| Clients' and brokers' balances | - | - | - | - | - | 165,813 | - | 165,813 |
| Other assets * | - | - | - | - | - | 165,334 | - | 165,334 |
| **Total assets** | **906,481** | **222,746** | **-** | **124,514** | **60,570** | **382,861** | **428,703** | **2,125,875** |

* Includes property and equipment, intangible assets, statutory deposits with Bank Negara Malaysia, tax recoverable, deferred tax assets and goodwill.

**41 Financial instruments** (continued)

**(b) Market risk** (continued)

**Interest rate risk** (continued)

| **The Group 2011** | **Up to 1 month RM'000** | **1 – 3 months RM'000** | **3 to 12 months RM'000** | **1 – 5 years RM'000** | **Over 5 years RM'000** | **Non-interest rate sensitive RM'000** | **Trading book RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|---|---|
| | ← | | | **Non–trading book** | | → | | |
| **Liabilities** | | | | | | | | |
| Deposits from customers | 391,005 | 4,238 | - | - | - | - | - | 395,243 |
| Deposits and placements of banks and other financial institutions | 746,079 | - | 1,920 | - | - | - | - | 747,999 |
| Derivative financial liabilities | - | - | - | - | - | - | 5,159 | 5,159 |
| Clients' and brokers' balances | - | - | - | - | - | 582,461 | - | 582,461 |
| Other liabilities | - | - | - | - | - | 75,519 | - | 75,519 |
| **Total liabilities** | 1,137,084 | 4,238 | 1,920 | - | - | 657,980 | 5,159 | 1,806,381 |
| Total equity | - | - | - | - | - | 319,494 | - | 319,494 |
| **Total liabilities and equity** | 1,137,084 | 4,238 | 1,920 | - | - | 977,474 | 5,159 | 2,125,875 |
| On-balance sheet interest sensitivity gap | (230,603) | 218,508 | (1,920) | 124,514 | 60,570 | | | |
| Off-balance sheet interest sensitivity gap | - | - | - | - | - | | | |
| **Total interest rate sensitivity gap** | (230,603) | 218,508 | (1,920) | 124,514 | 60,570 | | | |

## Notes to the financial statements for the financial year ended 30 June 2011

**41 Financial instruments** (continued)

**(b) Market risk** (continued)

**Interest rate risk** (continued)

| The Bank 2011 | Non–trading book: Up to 1 month RM'000 | 1 – 3 months RM'000 | 3 to 12 months RM'000 | 1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest rate sensitive RM'000 | Trading book RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and short-term funds | 801,443 | - | - | - | - | 48,972 | - | 850,415 |
| Reverse repurchase agreements | 86,423 | 73,261 | - | - | - | - | - | 159,684 |
| Deposits and placements with banks and other financial institutions | - | 60,125 | - | - | - | - | - | 60,125 |
| Financial assets held-for-trading | - | - | - | - | - | - | 423,345 | 423,345 |
| Financial investments available-for-sale | - | - | - | 72,437 | - | 2,445 | - | 74,882 |
| Financial investments held-to-maturity | - | - | - | 52,077 | 60,570 | - | - | 112,647 |
| Derivative financial assets | - | - | - | - | - | - | 5,358 | 5,358 |
| Loans and advances | 18,615 | 89,360 | - | - | - | - | - | 107,975 |
| Clients' and brokers' balances | - | - | - | - | - | 165,813 | - | 165,813 |
| Other assets * | - | - | - | - | - | 167,893 | | 167,893 |
| **Total assets** | 906,481 | 222,746 | - | 124,514 | 60,570 | 385,123 | 428,703 | 2,128,137 |

* Includes property and equipment, intangible assets , statutory deposits with Bank Negara Malaysia, tax recoverable, deferred tax assets, goodwill and investment in subsidiaries.

**41 Financial instruments** (continued)

**(b) Market risk** (continued)

**Interest rate risk** (continued)

| The Bank 2011 | Non–trading book: Up to 1 month RM'000 | 1 – 3 months RM'000 | 3 to 12 months RM'000 | 1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest rate sensitive RM'000 | Trading book RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | |
| Deposits from customers | 391,005 | 4,238 | - | - | - | - | - | 395,243 |
| Deposits and placements of banks and other financial institutions | 746,079 | - | 1,920 | - | - | - | - | 747,999 |
| Derivative financial liabilities | - | - | - | - | - | - | 5,159 | 5,159 |
| Clients' and brokers' balances | - | - | - | - | - | 582,461 | - | 582,461 |
| Other liabilities | - | - | - | - | - | 76,639 | - | 76,639 |
| **Total liabilities** | 1,137,084 | 4,238 | 1,920 | - | - | 659,100 | 5,159 | 1,807,501 |
| Total equity | - | - | - | - | - | 320,636 | - | 320,636 |
| **Total liabilities and equity** | 1,137,084 | 4,238 | 1,920 | - | - | 979,736 | 5,159 | 2,128,137 |
| On-balance sheet interest sensitivity gap | (230,603) | 218,508 | (1,920) | 124,514 | 60,570 | | | |
| Off-balance sheet interest sensitivity gap | - | - | - | - | - | | | |
| **Total interest rate sensitivity gap** | (230,603) | 218,508 | (1,920) | 124,514 | 60,570 | | | |

## Notes to the financial statements
## for the financial year ended 30 June 2011

**41 Financial instruments** (continued)

**(c) Liquidity risk**

Liquidity risk is defined as the current and prospective risk asiring from the inability of the Group and the Bank to meet its contractual or regulatory obligations when they come due without incurring substantial losses. Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturity, extensions of credit and working capital needs. The Group and the Bank seek the project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The table below analyses the carrying amount of assets and liabilites (include non-financial instruments) as at 30 June 2011 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM/GP8:

| **The Group 2011** | **Up to 1 week RM'000** | **1 week to 1 month RM'000** | **1 to 3 months RM'000** | **3 to 6 months RM'000** | **6 to 12 months RM'000** | **Over 1 year RM'000** | **No specific maturity RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and short-term funds | 670,677 | 180,035 | - | - | - | - | - | 850,712 |
| Reverse repurchase agreements | - | 86,423 | 73,261 | - | - | - | - | 159,684 |
| Deposits and placements with banks and other financial institutions | - | - | 60,125 | - | - | - | - | 60,125 |
| Financial assets held-for-trading | 19,262 | 134,903 | 78,477 | 20,071 | 5,036 | 113,133 | 52,463 | 423,345 |
| Financial investments available-for-sale | - | - | - | - | 10,099 | 62,338 | 2,445 | 74,882 |
| Financial investments held-to-maturity | - | - | - | - | - | 112,647 | - | 112,647 |
| Derivative financial assets | 161 | 217 | 896 | 47 | 48 | 3,989 | - | 5,358 |
| Loans and advances | 74,565 | 13,988 | 14,798 | - | - | 4,624 | - | 107,975 |
| Clients' and brokers' balances | 165,813 | - | - | - | - | - | - | 165,813 |
| Other assets * | 30,727 | 433 | 12,201 | - | 41,059 | 25,320 | 55,594 | 165,334 |
| **Total assets** | 961,205 | 415,999 | 239,758 | 20,118 | 56,242 | 322,051 | 110,502 | 2,125,875 |

* Includes other assets, statutory deposits with Bank Negara Malaysia, property and equipment, intangible assets, tax recoverable, deferred tax assets and goodwill.

## Notes to the financial statements
## for the financial year ended 30 June 2011

**41 Financial instruments** (continued)

**(c) Liquidity risk** (continued)

The table below analyses the carrying amount of assets and liabilites (include non-financial instruments) as at 30 June 2011 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM/GP8 (continued):

| The Group 2011 | Up to 1 week RM'000 | 1 week to 1 month RM'000 | 1 to 3 months RM'000 | 3 to 6 months RM'000 | 6 to 12 months RM'000 | Over 1 year RM'000 | No specific maturity RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | |
| Deposits from customers | 309,917 | 81,088 | 4,238 | - | - | - | - | 395,243 |
| Deposits and placements of banks and other financial institutions | 540,705 | 201,288 | - | 4,448 | 1,558 | - | - | 747,999 |
| Derivative financial liabilities | 733 | 451 | 1,432 | 26 | 2 | 2,515 | - | 5,159 |
| Clients' and brokers' balances | 582,461 | - | - | - | - | - | - | 582,461 |
| Other liabilities | 10,823 | 352 | 1,429 | - | 62,666 | 249 | - | 75,519 |
| **Total liabilities** | 1,444,639 | 283,179 | 7,099 | 4,474 | 64,226 | 2,764 | - | 1,806,381 |
| Total equity | - | - | - | - | - | - | 319,494 | 319,494 |
| **Total liabilities and equity** | 1,444,639 | 283,179 | 7,099 | 4,474 | 64,226 | 2,764 | 319,494 | 2,125,875 |

Hong Leong Investment Bank Berhad
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## Notes to the financial statements
## for the financial year ended 30 June 2011

**41 Financial instruments** (continued)

**(c) Liquidity risk** (continued)

The table below analyses the carrying amount of assets and liabilites (include non-financial instruments) as at 30 June 2011 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM/GP8 (continued):

| **The Bank 2011** | **Up to 1 week RM'000** | **1 week to 1 month RM'000** | **1 to 3 months RM'000** | **3 to 6 months RM'000** | **6 to 12 months RM'000** | **Over 1 year RM'000** | **No specific maturity RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and short-term funds | 670,380 | 180,035 | - | - | - | - | - | 850,415 |
| Reverse repurchase agreements | - | 86,423 | 73,261 | - | - | - | - | 159,684 |
| Deposits and placements with banks and other financial institutions | - | - | 60,125 | - | - | - | - | 60,125 |
| Financial assets held-for-trading | 19,262 | 134,903 | 78,477 | 20,071 | 5,036 | 113,133 | 52,463 | 423,345 |
| Financial investments available-for-sale | - | - | - | - | 10,099 | 62,338 | 2,445 | 74,882 |
| Financial investments held-to-maturity | - | - | - | - | - | 112,647 | - | 112,647 |
| Derivative financial assets | 161 | 217 | 896 | 47 | 48 | 3,989 | - | 5,358 |
| Loans and advances | 74,565 | 13,988 | 14,798 | - | - | 4,624 | - | 107,975 |
| Clients' and brokers' balances | 165,813 | - | - | - | - | - | - | 165,813 |
| Other assets * | 31,535 | 433 | 12,201 | - | 40,971 | 25,320 | 57,433 | 167,893 |
| **Total assets** | 961,716 | 415,999 | 239,758 | 20,118 | 56,154 | 322,051 | 112,341 | 2,128,137 |

* Includes other assets, statutory deposits with Bank Negara Malaysia, investment in subsidiary companies, property and equipment, intangible assets, tax recoverable, deferred tax assets and goodwill.

## Notes to the financial statements
## for the financial year ended 30 June 2011

**41 Financial instruments** (continued)

**(c) Liquidity risk** (continued)

The table below analyses the carrying amount of assets and liabilites (include non-financial instruments) as at 30 June 2011 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

| **The Bank 2011** | **Up to 1 week RM'000** | **1 week to 1 month RM'000** | **1 to 3 months RM'000** | **3 to 6 months RM'000** | **6 to 12 months RM'000** | **Over 1 year RM'000** | **No specific maturity RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | |
| Deposits from customers | **309,917** | **81,088** | **4,238** | **-** | **-** | **-** | **-** | **395,243** |
| Deposits and placements of banks and other financial institutions | **540,705** | **201,288** | **-** | **4,448** | **1,558** | **-** | **-** | **747,999** |
| Derivative financial liabilities | **733** | **451** | **1,432** | **26** | **2** | **2,515** | **-** | **5,159** |
| Clients' and brokers' balances | **582,461** | **-** | **-** | **-** | **-** | **-** | **-** | **582,461** |
| Other liabilities | **10,911** | **352** | **1,429** | **-** | **63,698** | **249** | **-** | **76,639** |
| **Total liabilities** | **1,444,727** | **283,179** | **7,099** | **4,474** | **65,258** | **2,764** | **-** | **1,807,501** |
| Total equity | **-** | **-** | **-** | **-** | **-** | **-** | **320,636** | **320,636** |
| **Total liabilities and equity** | **1,444,727** | **283,179** | **7,099** | **4,474** | **65,258** | **2,764** | **320,636** | **2,128,137** |

**41 Financial instruments** (continued)

**(d) Liquidity risk** (continued)

The following table shows the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The balances in the table below will not agree to the balances reported in the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

| **The Group**<br>**2011** | **Up to 1 month RM'000** | **1 to 6 months RM'000** | **6 to 12 months RM'000** | **1 to 3 years RM'000** | **3 to 5 years RM'000** | **Over 5 years RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Deposits from customers | **391,286** | **4,240** | **-** | **-** | **-** | **-** | **395,526** |
| Deposits and placements of banks and other financial institutions | **742,272** | **4,507** | **1,584** | **-** | **-** | **-** | **748,363** |
| Derivative financial liabilities | | | | | | | |
| - Gross settled derivatives | | | | | | | |
| - Inflow | **(557,566)** | **(303,551)** | **-** | **-** | **-** | **-** | **(861,117)** |
| - Outflow | **558,279** | **304,201** | **-** | **-** | **-** | **-** | **862,480** |
| - Net settled derivatives | **(38)** | **547** | **311** | **1,370** | **123** | **18** | **2,331** |
| Clients' and brokers' balances | **582,461** | **-** | **-** | **-** | **-** | **-** | **582,461** |
| Other liabilities | **10,642** | **-** | **62,666** | **174** | **75** | **-** | **73,557** |
| **Total financial liabilities** | **1,727,336** | **9,944** | **64,561** | **1,544** | **198** | **18** | **1,803,601** |

## Notes to the financial statements for the financial year ended 30 June 2011

**41 Financial instruments** (continued)

**(d) Liquidity risk** (continued)

The following table shows the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The balances in the table below will not agree to the balances reported in the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

| The Bank 2011 | Up to 1 month RM'000 | 1 to 6 months RM'000 | 6 to 12 months RM'000 | 1 to 3 years RM'000 | 3 to 5 years RM'000 | Over 5 years RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Deposits from customers | 391,286 | 4,240 | - | - | - | - | 395,526 |
| Deposits and placements of banks and other financial institutions | 742,272 | 4,507 | 1,584 | - | - | - | 748,363 |
| Derivative financial liabilities | | | | | | | |
| - Gross settled derivatives | | | | | | | |
| - Inflow | (557,566) | (303,551) | - | - | - | - | (861,117) |
| - Outflow | 558,279 | 304,201 | - | - | - | - | 862,480 |
| - Net settled derivatives | (38) | 547 | 311 | 1,370 | 123 | 18 | 2,331 |
| Clients' and brokers' balances | 582,461 | - | - | - | - | - | 582,461 |
| Other liabilities | 10,730 | - | 63,698 | 174 | 75 | - | 74,677 |
| **Total financial liabilities** | 1,727,424 | 9,944 | 65,593 | 1,544 | 198 | 18 | 1,804,721 |

**41 Financial instruments** (continued)

**(d) Credit risk**

(i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statement of financial position is the amounts on the statement of financial position as well as off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers. The table below shows the maximum exposure to credit risk for the Group and the Bank:

| **2011** | **The Group RM'000** | **The Bank RM'000** |
|---|---|---|
| Credit risk exposure relating to on-balance sheet assets: | | |
| Short-term funds (exclude cash in hand) | **850,701** | **850,404** |
| Reverse repurchase agreements | **159,684** | **159,684** |
| Deposits and placements with banks and other financial institutions | **60,125** | **60,125** |
| Financial assets and investments portfolios (exclude shares) | | |
| - Financial assets held-for-trading | **370,882** | **370,882** |
| - Financial investments available-for-sale | **72,437** | **72,437** |
| - Financial investments held-to-maturity | **112,647** | **112,647** |
| Loans and advances | **107,975** | **107,975** |
| Clients' and brokers' balances | **165,813** | **165,813** |
| Other assets | **67,410** | **68,131** |
| Derivative financial assets | **5,358** | **5,358** |
| | **1,973,032** | **1,973,456** |
| Credit risk exposure relating to off-balance sheet items: | | |
| Commitments and contingencies | **322,487** | **322,487** |
| Total maximum credit risk exposure | **2,295,519** | **2,295,943** |

(ii) Collaterals

The main type of collaterals obtained by the Group and the Bank are as follows:
(a) Fixed deposits, foreign currency deposits and cash deposits/margins
(b) Land and buildings
(c) Quoted shares

**41 Financial instruments** (continued)

**(d) Credit risk** (continued)

(ii) Collaterals (continued)

The Group and the Bank also accept non-tangible securities such as support, guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract payments, which are subject to internal guidelines on eligibility.

(iii) Credit quality

(a) Loans and advances

All loans and advances are categorised as either:
- neither past due nor impaired;
- past due but not impaired; or
- impaired

Past due loans and advances refer to loans that are overdue by one day or more. Impaired loans and advances are loans and advances with months-in-arrears more than 90 days or with impaired allowances.

Loans and advances are summarised as follows:

| **The Group and the Bank** | **2011 RM'000** |
|---|---|
| Neither past due nor impaired | **104,924** |
| Past due but not impaired | **-** |
| Individually impaired | **9,374** |
| Gross loans and advances | **114,298** |
| Less : Allowance for impaired loans, advances and financing | |
| - Individual assessment allowance | **(4,679)** |
| - Collective assessment allowance | **(1,644)** |
| Total net loans and advances | **107,975** |

**41 Financial instruments** (continued)

**(d) Credit risk** (continued)

(iii) Credit quality (continued)

(a) Loans and advances (continued)

(i) Loans and advances neither past due nor impaired

Analysis of loans and advances that are neither past due nor impaired based on the Group's and the Bank's credit grading system is as follows:

| **The Group and the Bank** | **2011 RM'000** |
|---|---|
| Grading classification | |
| - Good | **104,924** |
| - Fair | **-** |
| Total neither past due nor impaired | **104,924** |

The definition of the grading classification of loans and advances can be summarised as follows:

*Good*:
Refers to loans and advances and financing which have never been past due in the last 6 months and have never undergone any restructuring or rescheduling exercise previously.

*Fair :*
Refers to loans and advances which have been past due at some point within the last 6 months, or have undergone restructuring or rescheduling exercise previously.

(ii) Loans and advances past due but not impaired

A financial asset is defined as "past due" when the counterparty has failed to make a principal or interest payment when contractually due.

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary.

There was no loans and advances past due but not impaired for the Group and the Bank.

**41 Financial instruments** (continued)

**(d) Credit risk** (continued)

(iii) Credit quality (continued)

(a) Loans and advances (continued)

(iii) Loans and advances that are individually determined to be impaired as at 30 June 2011 are as follows:

| **The Group and the Bank** | **2011 RM'000** |
|---|---|
| Gross amount of individually impaired loans | **9,374** |
| Less: Individual assessment allowance | **(4,679)** |
| Total net amount individually impaired loans | **4,695** |
| Fair value of collateral | **-** |

(b) The credit quality of financial assets other than loans and advances are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other international rating agencies as defined below:

- AAA to AA3
- A1 to A3
- Baa1 to Baa3
- P1 to P3

**41 Financial instruments** (continued)

**(d) Credit risk** (continued)

(iii) Credit quality (continued)

(b) Short term funds, deposits and placements with banks and other financial institutions, reverse repurchase agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets.

Short term funds deposits and placements with banks and other financial institutions, reverse repurchase agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets are summarised as follows:-

| 2011 | Short term funds and deposits and placements with financial institutions RM'000 | Reverse repurchase agreements RM'000 | Financial assets held-for-trading RM'000 | Financial investments available-for-sale RM'000 | Financial investments held-to-maturity RM'000 | Clients' and brokers' balances RM'000 | Other assets RM'000 | Derivative financial assets RM'000 |
|---|---|---|---|---|---|---|---|---|
| **The Group** | | | | | | | | |
| Neither past due nor impaired | **910,826** | **159,684** | **370,882** | **72,437** | **112,647** | **165,605** | **67,410** | **5,358** |
| Individually impaired | **-** | **-** | **-** | **-** | **-** | **12,589** | **-** | **-** |
| Less : Impairment losses | **-** | **-** | **-** | **-** | **-** | **(12,381)** | **-** | **-** |
| | **910,826** | **159,684** | **370,882** | **72,437** | **112,647** | **165,813** | **67,410** | **5,358** |

**41 Financial instruments** (continued)

**(d) Credit risk** (continued)

(iii) Credit quality (continued)

(b) Short term funds, deposits and placements with banks and other financial institutions, reverse repurchase agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets (continued).

Short term funds deposits and placements with banks and other financial institutions, reverse repurchase agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets are summarised as follows (continued):-

| 2011 | Short term funds and deposits and placements with financial institutions RM'000 | Reverse repurchase agreements RM'000 | Financial assets held-for-trading RM'000 | Financial investments available-for-sale RM'000 | Financial investments held-to-maturity RM'000 | Clients' and brokers' balances RM'000 | Other assets RM'000 | Derivative financial assets RM'000 |
|---|---|---|---|---|---|---|---|---|
| **The Bank** | | | | | | | | |
| Neither past due nor impaired | **910,529** | **159,684** | **370,882** | **72,437** | **112,647** | **165,605** | **68,131** | **5,358** |
| Individually impaired | **-** | **-** | **-** | **-** | **-** | **12,589** | **-** | **-** |
| Less : Impairment losses | **-** | **-** | **-** | **-** | **-** | **(12,381)** | **-** | **-** |
| | **910,529** | **159,684** | **370,882** | **72,437** | **112,647** | **165,813** | **68,131** | **5,358** |

The amount of short term funds, deposits and placements with banks and other financial institutions, financial assets and investment portfolios, other assets and derivative assets that are past due but not impaired is not material.

**Hong Leong Investment Bank Berhad**
**Company no: 43526-P**
**(Incorporated in Malaysia)**

## Notes to the financial statements
## for the financial year ended 30 June 2011

**41 Financial instruments** (continued)

**(d) Credit risk** (continued)

(iii) Credit quality (continued)

(b) Short term funds, deposits and placements with banks and other financial institutions, reverse repurchase agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets (continued).

(i) Analysis of short term funds, deposits and placements with banks and other financial institutions, reverse repurchase agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets that are neither past due nor impaired by rating agency designation as at 30 June 2011 are as follows:

| **2011** <br> **The Group** | **Short term funds and deposits and placements with financial institutions** <br> **RM'000** | **Reverse repurchase agreements** <br> **RM'000** | **Financial assets held-for-trading** <br> **RM'000** | **Financial investments available-for-sale** <br> **RM'000** | **Financial investments held-to-maturity** <br> **RM'000** | **Clients' and brokers' balances** <br> **RM'000** | **Other assets** <br> **RM'000** | **Derivative financial assets** <br> **RM'000** |
|---|---|---|---|---|---|---|---|---|
| AAA to AA3 | **-** | **-** | **265,033** | **51,298** | **20,565** | **-** | **11,213** | **1,842** |
| A1 to A3 | **-** | **-** | **17,436** | **10,902** | **-** | **-** | **30,108** | **-** |
| Baa1 to Baa3 | **-** | **-** | **68,210** | **-** | **76,710** | **-** | **-** | **-** |
| P1 to P3 | **696,972** | **-** | **20,143** | **-** | **-** | **-** | **-** | **-** |
| Non-rated, of which: | | | | | | | | |
| - Bank Negara Malaysia | **193,831** | **159,684** | **-** | **-** | **-** | **-** | **-** | **-** |
| - Malaysian Government Investment Issues | **-** | **-** | **-** | **-** | **5,153** | **-** | **-** | **-** |
| - Government Guaranteed Private Debt Securities | **-** | **-** | **-** | **10,237** | **10,219** | **-** | **-** | **-** |
| - Others | **20,023** | **-** | **60** | **-** | **-** | **165,813** | **26,089** | **3,516** |
| | **213,854** | **159,684** | **60** | **10,237** | **15,372** | **165,813** | **26,089** | **3,516** |
| | **910,826** | **159,684** | **370,882** | **72,437** | **112,647** | **165,813** | **67,410** | **5,358** |

## Notes to the financial statements
## for the financial year ended 30 June 2011

**41 Financial instruments** (continued)

**(d) Credit risk** (continued)

(iii) Credit quality (continued)

(b) Short term funds, deposits and placements with bank and other financial institutions, reverse repurchase agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets (continued).

(i) Analysis of short term funds, deposits and placements with banks and other financial institutions, reverse repurchase agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets that are neither past due nor impaired by rating agency designation as at 30 June 2011 are as follows (continued):

| **2011**<br>**The Bank** | **Short term funds and deposits and placements with financial institutions**<br>**RM'000** | **Reverse repurchase agreements**<br>**RM'000** | **Financial assets held-for-trading**<br>**RM'000** | **Financial investments available-for-sale**<br>**RM'000** | **Financial investments held-to-maturity**<br>**RM'000** | **Clients' and brokers' balances**<br>**RM'000** | **Other assets**<br>**RM'000** | **Derivative financial assets**<br>**RM'000** |
|---|---|---|---|---|---|---|---|---|
| AAA to AA3 | **-** | **-** | **265,033** | **51,298** | **20,565** | | **11,213** | **1,842** |
| A1 to A3 | **-** | **-** | **17,436** | **10,902** | **-** | | **30,108** | **-** |
| Baa1 to Baa3 | **-** | **-** | **68,210** | **-** | **76,710** | | **-** | **-** |
| P1 to P3 | **696,675** | **-** | **20,143** | **-** | **-** | | **-** | **-** |
| Non-rated, of which: | | | | | | | | |
| - Bank Negara Malaysia | **193,831** | **159,684** | **-** | **-** | **-** | **-** | **-** | **-** |
| - Malaysian Government Investment Issues | **-** | **-** | **-** | **-** | **5,153** | **-** | **-** | **-** |
| - Government Guaranteed Private Debt Securities | **-** | **-** | **-** | **10,237** | **10,219** | **-** | **-** | **-** |
| - Others | **20,023** | **-** | **60** | **-** | **-** | **165,813** | **26,810** | **3,516** |
| | **213,854** | **159,684** | **60** | **10,237** | **15,372** | **165,813** | **26,810** | **3,516** |
| | **910,529** | **159,684** | **370,882** | **72,437** | **112,647** | **165,813** | **68,131** | **5,358** |

**41 Financial instruments** (continued)

**(d) Credit risk** (continued)

(iv) Loans and advances renegotiated

Credit facilities are classified as rescheduled and restructured ("R&R") assets when the Group and the Bank grant concessions to a borrower because of deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule. A R&R credit facility is classified into the appropriate facility grade depending on the assessment of the financial condition of the borrower and the ability of the borrower to repay based on the R&R terms.

R&R assets are not classified as non impaired until there are reasonable grounds to conclude that the borrower will be able to service all future principal and interest payments on the credit facility in accordance with the R&R terms during the observable period.

| **The Group and the Bank** | **2011 RM'000** |
|---|---|
| Carrying amount of renegotiated loans and advances that would otherwise be past due or impaired | - |

(v) Collateral and other credit enhancements obtained

(a) Fair value of collateral held for loans and advances which are individually impaired

| **The Group and the Bank** | **2011 RM'000** |
|---|---|
| Properties | - |
| Shares | - |
| | - |

(b) Repossessed collateral

As and when required, the Group and the Bank will take possession of collateral they hold as securities and will dispose of them as soon as practicable but not later than 5 years from the date they take possession, with the proceeds used to reduce the outstanding indebtedness. There is no repossessed collateral as at the reporting date.

## Notes to the financial statements
## for the financial year ended 30 June 2011

**41 Financial instruments** (continued)

**(d) Credit risk** (continued)

Credit risk exposure analysed by industry in respect of the Group's and the Bank's financial assets, including off -balance financial instruments are set out below:

| **The Group 2011** | **Short term funds and deposits and placements with financial institutions RM'000** | **Reverse repurchase agreements RM'000** | **Financial assets held-for-trading RM'000** | **Financial investments available-for-sale RM'000** | **Financial investments held-to-maturity RM'000** | **Loans and advances RM'000** | **Clients' and brokers' balances RM'000** | **Other assets RM'000** | **Derivative financial assets RM'000** | **On-balance sheet total RM'000** | **Credit related commitments and contingencies RM'000** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture | - | - | - | 10,099 | - | 15,588 | - | - | - | 25,687 | - |
| Mining and quarrying | - | - | - | - | - | 4,627 | - | - | - | 4,627 | - |
| Manufacturing | - | - | - | - | 10,246 | 12,108 | - | - | - | 22,354 | - |
| Electricity, gas and water | - | - | - | 6,482 | - | - | - | - | - | 6,482 | 20,078 |
| Construction | - | - | - | - | - | - | - | - | 3,000 | 3,000 | - |
| Wholesale and retail | - | - | - | 10,398 | - | - | - | - | - | 10,398 | - |
| Transport, storage and communications | - | - | 59,163 | - | 5,089 | - | - | - | - | 64,252 | - |
| Finance, insurance, real estate and business services | 717,776 | - | 311,719 | 19,797 | 92,159 | - | - | 43,269 | 2,358 | 1,187,078 | 160 |
| Government and government agencies | 193,050 | 159,684 | - | 25,661 | 5,153 | - | - | 9,976 | - | 393,524 | - |
| Purchase of securities | - | - | - | - | - | 74,564 | 165,813 | - | | 240,377 | 302,249 |
| Others | - | - | - | - | - | 1,088 | - | 14,165 | - | 15,253 | - |
| | 910,826 | 159,684 | 370,882 | 72,437 | 112,647 | 107,975 | 165,813 | 67,410 | 5,358 | 1,973,032 | 322,487 |

**41 Financial instruments** (continued)

**(d) Credit risk (continued)**

Credit risk exposure analysed by industry in respect of the Group's and the Bank's financial assets, including off-balance financial instruments are set out below (continued):

| The Bank 2011 | Short term funds and deposits and placements with financial RM'000 | Reverse repurchase agreements RM'000 | Financial assets held-for-trading RM'000 | Financial investments available-for-sale RM'000 | Financial investments held-to-maturity RM'000 | Loans and advances RM'000 | Clients' and brokers' balances RM'000 | Other assets RM'000 | Derivative financial assets RM'000 | On-balance sheet total RM'000 | Credit related commitments and contingencies RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture | - | - | - | 10,099 | - | 15,588 | - | - | - | 25,687 | - |
| Mining and quarrying | - | - | - | - | - | 4,627 | - | - | - | 4,627 | - |
| Manufacturing | - | - | - | - | 10,246 | 12,108 | - | - | - | 22,354 | - |
| Electricity, gas and water | - | - | - | 6,482 | - | - | - | - | - | 6,482 | 20,078 |
| Construction | - | - | - | - | - | - | - | - | 3,000 | 3,000 | - |
| Wholesale and retail | - | - | - | 10,398 | - | - | - | - | - | 10,398 | - |
| Transport, storage and communications | - | - | 59,163 | - | 5,089 | - | - | - | - | 64,252 | - |
| Finance, insurance, real estate and business services | 717,479 | - | 311,719 | 19,797 | 92,159 | - | - | 43,269 | 2,358 | 1,186,781 | 160 |
| Government and government agencies | 193,050 | 159,684 | - | 25,661 | 5,153 | - | - | 9,976 | - | 393,524 | - |
| Purchase of securities | - | - | - | - | - | 74,564 | 165,813 | - | - | 240,377 | 302,249 |
| Others | - | - | - | - | - | 1,088 | - | 14,886 | - | 15,974 | - |
| | 910,529 | 159,684 | 370,882 | 72,437 | 112,647 | 107,975 | 165,813 | 68,131 | 5,358 | 1,973,456 | 322,487 |

**41 Financial instruments** (continued)

**(e) Fair value for financial instruments**

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the reporting date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors.

As at 30 June 2011, the total fair value of each financial instrument approximates its carrying amount.

The fair values are based on the following methodologies and assumptions:

**Short term funds and placements with financial institutions**

For deposits and placements with banks and other financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

**Financial assets held-for-trading, financial investments available-for-sale and financial investments held-to-maturity**

The estimated fair value is generally based on quoted and observable market prices. Where there is no ready market in certain securities, the Group and the Bank establish the fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

**Loans and advances**

For floating rate loans, the carrying value is generally a reasonable estimate of fair value. For fixed rate loans, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risks and maturities.

The fair value of impaired floating and fixed rate loans are represented by their value, net of individual assessment allowance, being the expected recoverable amount.

**41 Financial instruments** (continued)

**(f) Fair value for financial instruments** (continued)

**Clients' and brokers' balances**

The carrying amount as at reporting date approximate fair values due to relatively short term maturity of these financial instruments.

**Other assets and liabilities**

The carrying value less any estimated allowance for financial assets and liabilities included in 'other assets and liabilities' are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

**Deposits from customers**

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For each deposit with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

**Deposits and placements of banks and other financial institutions**

The estimated fair values of deposits and placements of other financial institutions with maturities of less than six months approximate the carrying values. For the items with maturities six months and above, the fair values are estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturities.

**Credit related commitment and contingencies**

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received less associated costs.

## 42 Equity compensation benefit

### Executive Share Option Scheme ("ESOS" or "Scheme")

The Executive Share Option Scheme ("ESOS") of up to fifteen percent (15%) of the issued and paid-up ordinary share capital of the Bank's immediate holding company, HLCB, which was approved by the shareholders of HLCB on 8 November 2005, was established on 23 January 2006 and would be in force for a period of ten (10) years.

Bursa Malaysia Securities Berhad had approved-in-principle the listing of new ordinary shares of HLCB to be issued pursuant to the exercise of options under the ESOS at any time during the existence of the ESOS.

The ESOS would provide an opportunity for eligible executives who had contributed to the growth and development of the HLCB Group to participate in the equity of HLCB.

The main features of the ESOS are, inter alia, as follows:-

1. Eligible executives are those executives of the HLCB Group who have been confirmed in service on the date of offer or directors (executive or non-executive) of HLCB and its subsidiaries. The maximum allowable allotments for the full time Executive Directors had been approved by the shareholders of the HLCB in a general meeting. The Board may from time to time at its discretion select and identify suitable eligible executives to be offered options.

2. The aggregate number of shares to be issued under the ESOS shall not exceed 15% of the issued and paid-up ordinary share capital of HLCB for the time being.

3. The Scheme shall be in force for a period of ten (10) years from 23 January 2006.

4. The option price shall not be at a discount of more than ten percent (10%) (or such discount as the relevant authorities shall permit) from the 5-day weighted average market price of the shares of HLCB preceding the date of offer and shall in no event be less than the par value of the shares of HLCB.

5. The option granted to an option holder under the ESOS is exercisable by the option holder only during his employment with HLCB Group and within the option exercise period subject to any maximum limit as may be determined by the Board of HLCB under the Bye-Laws of the ESOS.

6. The exercise of the options may, at the absolute discretion of the Board of Directors of HLCB, be satisfied by way of issuance of new shares; transfer of existing shares purchased by a trust established for the ESOS; or a combination of both new shares and existing shares.

On 19 January 2011, the Bank granted 4,475,000 conditional incentive share options of HLCB shares (Affirmative Action Bonus ("AAB") Options) to eligible executives of the Bank pursuant to the ESOS of the Group at exercise price of RM1.42.

## 42 Equity compensation benefit (continued)

**Executive Share Option Scheme ("ESOS" or "Scheme")** (continued)

The said options, is vested, will be satisfied by existing shares purchased by a trust established for the ESOS.

Pursuant to this, a trust has been set up for the ESOS and it is administered by an appointed trustee. This trustee will be entitled from time to time to accept financial assistance from HLCB upon such terms and conditions as HLCB and the trustee may agree to purchase the HLCB's shares from the open market for the purposes of this trust.

The trustee will manage the trust in accordance with the trust deed. Upon termination of the trust, the trustee will dispose all remaining trust shares, if any, and deal with any surplus or deficit of the trust in accordance with the instructions of the Group.

The ordinary share options of HLCB granted under the ESOS are as follows:

**30 June 2011**

| Grant date | Expiry date | | As at 30-Jun-11 |
|---|---|---|---|
| 19 January 2011 | 18 July 2013 | * | 1,342,500 |
| 19 January 2011 | 18 April 2014 | ^ | 1,566,250 |
| 19 January 2011 | 18 April 2015 | ^ | 1,566,250 |
| | | | 4,475,000 |

* The exercise period is up to 6 months from the date of notification of entitlement ("Vesting Date").

^ The exercise period is up to 3 months from the date of Vesting Date.

The estimated fair value of each share option granted is between RM0.30 to RM0.43 per option. This was calculated using the Black-Scholes model. The model inputs were the share price at reporting date of RM1.39, exercise price of RM1.42, expected volatility of 31.9%, expected yield of 0% and a risk free interest rate of 3.8%.

The options outstanding at 30 June 2011 had an exercise price of RM1.42 and weighted average remaining contractual life (from grant date to the end of exercise period) of 3 years.

### 43 Significant events during the financial year

The Bank and HLG Futures Sdn Bhd (“HLG Futures”), had on 22 April 2010, entered into a Business Transfer Agreement, whereby HLG Futures would transfer all its assets, liabilities, activity, business and the undertaking of the business carried on by HLG Futures as a going concern (“HLG Futures Business”) to the Bank ("Proposed Integration") with effect from 31 July 2010 (or such other date as may be agreed by the parties hereto) ("Transfer Date").

The consideration for the transfer of the HLG Futures Business would be based on the value of the net assets of HLG Futures as at the Transfer Date, and would be satisfied by the Bank in cash.

The Securities Commission had, vide its letter dated 18 June 2010, informed that the transfer of HLG Futures Business to the Bank had been approved pursuant to Section 139 of the Capital Markets and Services Act 2007.

On 12 July 2010, the Bank and HLG Futures entered into a Supplemental Business Transfer Agreement to revise the Transfer Date to 2 October 2010.

On 28 July 2010, the High Court had granted the aproval for the Proposed Integration.

The Proposed Integration was completed on 2 October 2010.

The effect of the acquisition on the Group's and the Bank's cash flow is as follows:

| | The Group and the Bank RM'000 |
|---|---|
| **At date of acquisition:** | |
| Bank balances and deposits with banks | **28,652** |
| Financial investments available-for-sale | **2,200** |
| Other assets | **2,072** |
| Intangible assets | **7** |
| Property and equipment | **63** |
| Other liabilities | **(26,146)** |
| Fair value of net assets acquired at the date of acquisition | **6,848** |
| Goodwill arising from acquisition | **-** |
| Total purchase consideration | **6,848** |
| Less: Cash and cash equivalents of business acquired | **(28,652)** |
| Net cash inflow of the Group and the Bank on acquisition of business | **(21,804)** |

The financial results of HLG Futures in the period between the date of acquisition and the date of statement of financial position was not significant to the Group and the Bank.

### 44 Changes in accounting policies and comparatives

During the financial year, the Group and the Bank changed the following accounting policies upon adoption of the new accounting standards, amendments and improvements to published standards and interpretations:

- Leasehold land
- Financial assets
- Financial liabilities
- Impairment of financial assets

Refer to summary of significant accounting policies for the details of the changes in accounting policies.

The impact of such changes on the financial statements of the Group and the Bank are set out below.

(i) Impact on the Group's and the Bank's statement of financial position:

| | Balance as at 30 June 2009 | | |
|---|---|---|---|
| **The Group and the Bank** | **As previously reported RM'000** | **Improvement to FRS 117 RM'000** | **As restated RM'000** |
| Property and equipment | 4,210 | 1,132 | 5,342 |
| Prepaid lease payments | 1,132 | (1,132) | - |

| | Balance as at 30 June 2010 | | |
|---|---|---|---|
| **The Group and the Bank** | **As previously reported RM'000** | **Improvement to FRS 117 RM'000** | **As restated RM'000** |
| Property and equipment | 5,296 | 1,131 | 6,427 |
| Prepaid lease payments | 1,131 | (1,131) | - |

# Notes to the financial statements for the financial year ended 30 June 2011

## 44 Changes in accounting policies and comparatives (continued)

(i) Impact on the Group's and the Bank's statement of financial position (continued):

| | As at 1 July 2010 RM'000 | Effect of adopting FRS 139 RM'000 | Adjusted as at 1 July 2010 RM'000 |
|---|---|---|---|
| **The Group** | | | |
| Retained profits | **9,415** | **(2,630)** | **6,785** |
| Loans and advances | **117,926** | **(3,506)** | **114,420** |
| Deferred tax assets | **52,597** | **876** | **53,473** |
| Loans and advances of which: | | | |
| - Impaired loans and advances | **2,688** | **10,012** | **12,700** |

| | As at 1 July 2010 RM'000 | Effect of adopting FRS 139 RM'000 | Adjusted as at 1 July 2010 RM'000 |
|---|---|---|---|
| **The Bank** | | | |
| Retained profits | **10,644** | **(2,630)** | **8,014** |
| Loans and advances | **117,926** | **(3,506)** | **114,420** |
| Deferred tax assets | **52,597** | **876** | **53,473** |
| Loans and advances of which: | | | |
| - Impaired loans and advances | **2,688** | **10,012** | **12,700** |

### 44 Changes in accounting policies and comparatives (continued)

(i) Impact on the Group's and the Bank's statement of financial position (continued):

| | Increase/(decrease) to balance as at 30 June 2011 | | |
|---|---|---|---|
| | **FRS 117 RM'000** | **FRS 139 RM'000** | **Total RM'000** |
| **The Group** | | | |
| **Assets** | | | |
| Cash and short term funds | - | 274 | 274 |
| Reverse repurchase agreements | - | 279 | 279 |
| Deposits and placements with banks and other financial institutions | - | 125 | 125 |
| Financial assets held-for-trading | - | 2,697 | 2,697 |
| Financial investments available-for-sale | - | 667 | 667 |
| Financial investments held-to-maturity | - | 949 | 949 |
| Loans and advances | - | (3,761) | (3,761) |
| Other assets | - | (4,992) | (4,992) |
| Deferred tax assets | - | 940 | 940 |
| Prepaid lease payments | (1,130) | - | (1,130) |
| Property and equipment | 1,130 | - | 1,130 |
| **Liabilities** | | | |
| Deposits from customers | - | 118 | 118 |
| Deposits and placements of banks and other financial institutions | - | 359 | 359 |
| Other liabilities | - | (477) | (477) |
| **Equity** | | | |
| Retained profits | - | (2,822) | (2,822) |

(ii) Impact on the Group's and the Bank's income statement:

| | Increase/(decrease) for the financial year ended 30 June 2011 |
|---|---|
| **FRS 139** | **RM'000** |
| Interest income | (259) |
| Allowance for impairment losses on loans and advances and other losses | (4) |
| Profit before taxation | (255) |
| Taxation | (63) |
| Net profit for the financial year | (192) |
| Earnings per share (sen) | |
| - Basic | (0.07) |

### 45 Approval of financial statements

The financial statements were authorised for issue by the Board of Directors of the Bank in accordance with a resolution of the Directors on 28 July 2011.

**Hong Leong Investment Bank Berhad**
**Company no: 43526-P**
**(Incorporated in Malaysia)**

## Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

We, Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman and Lee Jim Leng, two of the Directors of Hong Leong Investment Bank Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 16 to 109 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 30 June 2011 and of the results and the cash flows of the Group and the Bank for the year then ended on that date, in accordance with the provisions of the Companies Act, 1965, the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and Bank Negara Malaysia Guidelines.

On behalf of the Board.

**Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman**
**Director**

**Lee Jim Leng**
**Director**

Kuala Lumpur
20 September 2011

## Statutory declaration pursuant to Section 169(16) of the Companies Act, 1965

I, Lau Yew Sun, the officer primarily responsible for the financial management of Hong Leong Investment Bank Berhad, do solemnly and sincerely declare that the financial statements set out on pages 16 to 109 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Lau Yew Sun
Kuala Lumpur in Wilayah Persekutuan on
20 September 2011

Before me,

Commissioner for Oaths

COMMISSIONER FOR OATHS
No: W 436
G. PARAMASWARY
MALAYSIA

No. 2A, Jalan 53
Desa Jaya, Kepong
52100 Kuala Lumpur

# INDEPENDENT AUDITORS' REPORT
# TO THE MEMBER OF HONG LEONG INVESTMENT BANK BERHAD
(Incorporated in Malaysia)
(Company No: 43526-P)

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Hong Leong Investment Bank Berhad, which comprise the statements of financial position as at 30 June 2011 of the Group and of the Bank, and the statements of income, comprehensive income, changes in equity and cash flow of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 16 to 109.

### Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with the Companies Act, 1965, the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and Bank Negara Malaysia Guidelines, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965, the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as of 30 June 2011 and of their financial performance and cash flows for the year then ended.

*PricewaterhouseCoopers (AF 1146), Chartered Accountants,*
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# INDEPENDENT AUDITORS' REPORT
# TO THE MEMBER OF HONG LEONG INVESTMENT BANK BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No: 43526-P)

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(c) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

## OTHER MATTERS

This report is made solely to the members of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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|---|---|
| PRICEWATERHOUSECOOPERS | ONG CHING CHUAN |
| (No. AF: 1146) | (No. 2907/11/11 (J)) |
| Chartered Accountants | Chartered Accountant |

Kuala Lumpur
20 September 2011