

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES

FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES

FOR THE FINANCIAL PRIOD ENDED 31 DECEMBER 2014

Content	Page
INTRODUCTION	1
SCOPE OF APPLICATION	1
CAPITAL STRUCTURE AND ADEQUACY	1 - 7
RISK MANAGEMENT	8 - 39
EQUITY EXPOSURES IN BANKING BOOK	40
INTEREST RATE RISK/RATE OF RETURN RISK IN BANKING BOOK	41

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

1. INTRODUCTION

The capital adequacy ratios of Hong Leong Investment Bank Berhad ("HLIBB" or "the Bank") and its subsidiaries ("the Group") are computed in accordance with the Bank Negara Malaysia's ("BNM") revised Risk-Weighted Capital Adequacy Framework ("RWCAF") - Basel II effective from 1 January 2008.

The Group places great importance to Basel II and view Basel II as a group-wide initiative that will ensure that the Group continues to meet international best practices for the credit, market and operational risk management practices. By adopting Basel II, the Group will be able to enhance and embed sound risk management practices within the Group and be equipped with the right risk management discipline, practices, processes and systems.

The following information concerning the Group's risk exposures, risk management practices and capital adequacy is disclosed as accompanying information to the annual report and does not form part of the audited accounts.

2. SCOPE OF APPLICATION

The capital adequacy ratios of the Group consist of capital base and risk-weighted assets derived from consolidated balances of the Bank and its subsidiary companies.

The capital adequacy ratios of the Bank and the Group are computed in accordance with BNM's revised RWCAF - Basel II. The Bank and the Group have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

The Group's capital requirements are generally based on the principles of consolidation adopted in the preparation of its annual financial statements, as discussed in Note 2A to the Financial Statements for financial year ended 30 June 2014, and differs from that used for regulatory capital purposes.

During the course of the year, the Bank and its subsidiaries did not experience any restrictions or other major impediments on transfer of funds or regulatory capital within the Group.

3. CAPITAL STRUCTURE AND ADEQUACY

The Group monitors the capital adequacy position of the Bank and its subsidiaries to ensure compliance with requirements of BNM and to take prompt actions to address projected capital deficiency. The capital position is reviewed on a monthly basis by undertaking stress tests and taking into account the levels and trend of material risks. The sufficiency of capital is assessed against the various risks in the balance sheet as well as future capital requirements based on the Group's expansion plans.

The Group has also formalised an overall capital management framework, which seeks to ensure that there is an adequate balance between Tier I and Tier II capital. The Group is also following very closely the global developments on capital management.

The following table sets forth details on the capital resources, capital adequacy ratios and risk-weighted assets for the Group and the Bank as at 31 December 2014. BNM's revised RWCAF - Basel II sets out the minimum capital adequacy ratios for the banking institutions and the methodology for calculating these ratios. As at 31 December 2014, the Group's and the Bank's Tier I and the total capital adequacy ratios were higher than BNM's minimum requirements.

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

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

31 December 2014

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

	The Group	The Bank
Before deducting proposed dividends:		
Common equity tier 1 ("CET1") ratio	17.558%	17.538%
Tier 1 capital ratio	17.558%	17.538%
Total capital ratio	<u>20.928%</u>	<u>20.889%</u>
After deducting proposed dividends:		
CET I capital ratio	17.558%	17.538%
Tier 1 capital ratio	17.558%	17.538%
Total capital ratio	<u>20.928%</u>	<u>20.889%</u>

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

	The Group	The Bank
	RM'000	RM'000
CET1 capital		
Paid-up ordinary share capital	165,000	165,000
Share premium	87,950	87,950
Other reserves	<u>157,263</u>	<u>156,922</u>
	410,213	409,872
Regulatory adjustments:		
- Goodwill and intangible assets	(30,153)	(30,153)
- Deferred tax assets	(103,671)	(103,671)
- Other regulatory adjustments	-	(77)
Total CET1 capital	<u>276,389</u>	<u>275,971</u>
Tier 1 capital	276,389	275,971
Tier-2 capital		
Redeemable preference shares ("RPS")	1,631	1,631
Subordinated notes	50,000	50,000
Collective assessment allowance for losses on loans and advances (1)	1,419	1,419
Regulatory adjustments:		
- Investment in subsidiaries	-	(306)
Total Tier 2 capital	<u>53,050</u>	<u>52,744</u>
Total capital	<u>329,439</u>	<u>328,715</u>

Note:

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

Breakdown of risk-weighted assets in the various risk weights:

	The Group	The Bank
	RM'000	RM'000
Credit risk	741,716	741,572
Market risk	582,316	582,316
Operational risk	<u>250,104</u>	<u>249,717</u>
	<u>1,574,136</u>	<u>1,573,605</u>

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

30 June 2014

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

	The Group	The Bank
Before deducting proposed dividends:		
Common equity tier 1 ("CET1") ratio	20.128%	20.108%
Tier I capital ratio	20.128%	20.108%
Total capital ratio	<u>20.296%</u>	<u>20.259%</u>
After deducting proposed dividends:		
CET I capital ratio	16.422%	16.401%
Tier I capital ratio	16.422%	16.401%
Total capital ratio	<u>16.590%</u>	<u>16.552%</u>

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

	The Group RM'000	The Bank RM'000
CET1 capital		
Paid-up ordinary share capital	165,000	165,000
Share premium	87,950	87,950
Other reserves	<u>219,033</u>	<u>218,692</u>
	471,983	471,642
Regulatory adjustments:		
- Goodwill and intangible assets	(29,978)	(29,978)
- Deferred tax assets	(103,671)	(103,671)
- Other regulatory adjustments	-	(77)
Total CET1 capital	<u>338,334</u>	<u>337,916</u>
Tier 1 capital	338,334	337,916
Tier-2 capital		
Redeemable preference shares ("RPS")	1,631	1,631
Collective assessment allowance for losses on loans and advances (1)	1,204	1,204
Regulatory adjustments:		
- Investment in subsidiaries	-	(306)
Total Tier 2 capital	<u>2,835</u>	<u>2,529</u>
Total capital	<u>341,169</u>	<u>340,445</u>

Note:

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

Breakdown of risk-weighted assets in the various risk weights:

	The Group RM'000	The Bank RM'000
Credit risk	896,229	896,087
Market risk	571,557	571,557
Operational risk	213,166	212,853
	<u>1,680,952</u>	<u>1,680,497</u>

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows:

The Group 31 December 2014 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns & Central Banks	431,245	431,245	-	-
Public Sector Entities	8	8	2	-
Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDBs")	707,006	707,006	223,188	17,855
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-
Corporates	971,364	756,624	440,200	35,216
Residential Mortgages	793	793	793	63
Other Assets	182,286	182,286	32,319	2,586
Equity Exposures	245	245	245	20
Total On-Balance Sheet Exposures	2,292,947	2,078,207	696,747	55,740
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	14,964	14,964	9,364	749
Derivative Financial Instruments	157,326	157,326	35,605	2,848
Total Off-Balance Sheet Exposures	172,290	172,290	44,969	3,597
Total On and Off-Balance Sheet Exposures	2,465,237	2,250,497	741,716	59,337
(ii) Large Exposure Risk Requirement	-	-	-	-
(iii) Market Risk				
	Long Position	Short Position		
Interest Rate Risk	7,566,967	6,305,058	542,827	43,426
Equity Risk	10,249	-	22,575	1,806
Foreign Exchange Risk	9,888	8,546	9,888	791
Options Risk	5,899	-	7,025	562
	7,593,003	6,313,604	582,316	46,585
(iv) Operational Risk			250,104	20,008
Total RWA and Capital Requirements			1,574,136	125,930

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows (continued):

The Group 30 June 2014 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns & Central Banks	628,630	628,630	-	-
Public Sector Entities	7	7	1	-
Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDBs")	1,233,617	1,233,617	327,532	26,203
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-
Corporates	887,514	596,130	317,583	25,407
Residential Mortgages	1,258	1,258	1,258	101
Other Assets	335,838	335,838	50,435	4,035
Equity Exposures	245	245	245	20
Total On-Balance Sheet Exposures	3,087,109	2,795,725	697,054	55,766
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	192,639	192,639	176,139	14,091
Derivative Financial Instruments	92,620	92,620	23,036	1,843
Total Off-Balance Sheet Exposures	285,259	285,259	199,175	15,934
Total On and Off-Balance Sheet Exposures	3,372,368	3,080,984	896,229	71,700
(ii) Large Exposure Risk Requirement	-	-	-	-
(iii) Market Risk				
	Long Position	Short Position		
Interest Rate Risk	5,337,113	4,462,345	262,369	20,989
Equity Risk	8,360	-	16,725	1,338
Foreign Exchange Risk	16,430	16,276	16,000	1,280
Options Risk	195,414	-	276,463	22,117
	5,557,317	4,478,621	571,557	45,724
(iv) Operational Risk			213,166	17,053
Total RWA and Capital Requirements			1,680,952	134,477

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows (continued):

The Bank 31 December 2014 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns & Central Banks	431,245	431,245	-	-
Public Sector Entities	-	-	-	-
Banks, DFI & MDBs	706,295	706,295	223,046	17,844
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-
Corporates	971,364	756,624	440,200	35,216
Residential Mortgages	793	793	793	63
Other Assets	182,286	182,286	32,319	2,586
Equity Exposures	245	245	245	20
Total On-Balance Sheet Exposures	2,292,228	2,077,488	696,603	55,729
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	14,964	14,964	9,364	749
Derivative Financial Instruments	157,326	157,326	35,605	2,848
Total Off-Balance Sheet Exposures	172,290	172,290	44,969	3,597
Total On and Off-Balance Sheet Exposures	2,464,518	2,249,778	741,572	59,326
(ii) Large Exposure Risk Requirement				
(iii) Market Risk				
	Long Position	Short Position		
Interest Rate Risk	7,566,967	6,305,058	542,827	43,426
Equity Risk	10,249	-	22,575	1,806
Foreign Exchange Risk	9,888	8,546	9,888	791
Options Risk	5,899	-	7,025	562
	7,593,003	6,313,604	582,316	46,585
(iv) Operational Risk			249,717	19,977
Total RWA and Capital Requirements			1,573,605	125,888

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows (continued):

The Bank 30 June 2014 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns & Central Banks	628,630	628,630	-	-
Public Sector Entities	-	-	-	-
Banks, DFI & MDBs	1,232,915	1,232,915	327,392	26,191
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-
Corporates	887,514	596,130	317,582	25,407
Residential Mortgages	1,258	1,258	1,258	101
Other Assets	335,838	335,838	50,435	4,035
Equity Exposures	245	245	245	20
Total On-Balance Sheet Exposures	3,086,400	2,795,016	696,912	55,754
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	192,639	192,639	176,139	14,091
Derivative Financial Instruments	92,620	92,620	23,036	1,843
Total Off-Balance Sheet Exposures	285,259	285,259	199,175	15,934
Total On and Off-Balance Sheet Exposures	3,371,659	3,080,275	896,087	71,688
(ii) Large Exposure Risk Requirement				
	-	-	-	-
(iii) Market Risk				
	Long Position	Short Position		
Interest Rate Risk	5,337,113	4,462,345	262,369	20,989
Equity Risk	8,360	-	16,725	1,338
Foreign Exchange Risk	16,430	16,276	16,000	1,280
Options Risk	195,414	-	276,463	22,117
	5,557,317	4,478,621	571,557	45,724
(iv) Operational Risk				
			212,853	17,028
Total RWA and Capital Requirements			1,680,497	134,440

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT

Overview

The Group believes that an integrated risk management framework is key to ensuring the overall financial soundness and stability of the Group's business operations. Key components of our enterprise wide risk management framework include:

- (i) A structured risk governance model, incorporating strong Board and senior management oversight.
- (ii) Sound capital management processes.
- (iii) Comprehensive assessment of material risks.
- (iv) A rigorous system of check and balance reviews.
- (v) Regular monitoring and reporting.
- (vi) Independent reviews by the internal and external auditors.

Risk governance structure

The Board has overall responsibility for providing leadership, overseeing risk appetite and ensuring that a robust risk and compliance culture prevails. The Board is assisted by the following Board and management committees:

- (i) Board, Audit and Risk Management Committee ("BARMC").
- (ii) Assets and Liabilities Management Committee ("ALMCO").
- (iii) Management Credit and Underwriting Committee ("MCUC").

The BARMC is responsible for the following:

- (i) Reviewing and recommending risk management strategies, policies and risk tolerance for the Board's approval.
- (ii) Reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
- (iii) Ensuring infrastructure, resources and systems are in place for risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of risk taking activities.
- (iv) Reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

The Risk Management Department is responsible for assisting the BARMC, ALMCO, MCUC and the Board in ensuring that the risk management activities are carried out as per their directives. Amongst others, Risk Management Department is responsible for setting the risk management framework and developing tools and methodologies for the identification, measurement, monitoring, control and valuation of risks. The Risk Management Department consists of three main units namely Market and Liquidity Risk, Operational Risk and Credit Risk Management.

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (continued)

Risk governance structure (continued)

The Group Internal Audit function complements the Risk Management Department in the management of risk by:

- (i) Ensuring that the risk policies prepared by the Risk Management Department are enforced through its regular audit cycle.
- (ii) Performing independent reviews to assess the risk control environment developed by the Risk Management Department.
- (iii) Performing independent reviews to assess the risk grading system and the credit process.
- (iv) Forming independent opinions on risk controls being formulated by the Risk Management Department.

Eight broad principles of risk management

- (i) Align risk appetite and strategy

Risk appetite is the degree of risk that the Group is willing to accept in pursuit of its goals. Risk appetite is set first in evaluating strategic alternatives, then in setting objectives aligned with the selected strategy and in developing mechanisms to manage the related risks.

- (ii) Link growth, risk and return

Framework provides an enhanced ability to identify and assess risks and establish acceptable levels of risk relative to growth and return objectives.

- (iii) Enhance risk response decisions

The Group strives to identify and select among alternative risk responses - risk avoidance, reduction, sharing and acceptance based on generally accepted practices and methodologies.

- (iv) Minimise operational surprises and losses

The Group continually enhances its capability to identify potential events, assess risk and establish responses, thereby reducing the occurrence of surprises and related costs or losses.

- (v) Identify and manage cross-risks

Every product faces a myriad of risks. The Group not only manages the individual risks, but also manages interrelated impacts.

- (vi) Provide integrated responses to multiple risks

Business processes carry many inherent risks and the Group continually finds solutions for managing the risks.

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (continued)

Eight broad principles of risk management (continued)

(vii) Seize opportunities

The Group considers potential events, using risk management as offensive initiatives rather than just risks (defensive), and by considering a full range of events, the Group gains an understanding of how certain events represent opportunities.

(viii) Rationalise capital

More robust information on total risk allows the Group to more effectively assess overall capital needs and improve capital allocation.

Risk management framework

The Group's risk management framework outlines the overall structure, aspirations, values and risk management strategies, and is a structured approach in balancing risks and returns.

Appropriate methodologies and measures have been developed in our risk management approaches to manage uncertainties such that the deviations from the intended strategic objectives are monitored and kept within tolerable levels.

Risk management culture

The risk management culture of the Group encompasses the following:

(i) Developing strategies

Documentation that is approved by the Board which expresses the Group's risk management strategies and appetite.

(ii) Adopting skills

The capabilities and resources required for implementing the risk management function.

(iii) Cultivating shared values

The universal risk management culture that the Group expects and promotes throughout the business units.

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (continued)

Risk management approach

The risk management approach is summarised as follows:

(i) Strategy

Risk management policies are integrated with business and strategies, in line with Board approved risk appetite.

(ii) Policy

Risks are addressed using specific risk policies.

(iii) Tools

Risks are measured and assessed using clearly defined models, methodologies and benchmarking.

(iv) Communication

Risks are adequately communicated across the Group in a timely manner.

(v) Implementation

Risks and returns are identified and managed by respective accountable business, support and operating units.

(vi) Maintenance

Risk management policies are clearly and formally documented, with a review in place to respond to changes in operating environment.

Risk management process

The risk management approaches are based on four simple processes:

(i) Identify what, why and how risks can arise:

- Nature of risk.
- Circumstances.
- Causes.
- Potential contributing factors.

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (continued)

Risk management process (continued)

(ii) Analyse and evaluate risks:

- Analyse and measure risk exposures using impact and probability analysis.
- Establish priorities using risk matrix.
- Compare risk exposures with Group's risk appetite.

(iii) Measures to control or mitigate the identified risks:

- Measures to mitigate the identified risks or risk controls.
- Action plans to either prevent or mitigate the risks.

(iv) Monitor and review the performance of the risk management process:

- Review effectiveness of mitigating measures or controls.
- Tracking of incidences and losses.
- Review feedback from internal reports and take appropriate action.

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk

Credit risk arises as a result of customers or counterparties not being able to or willing to fulfill their financial and contractual obligations as and when they fall due. These obligations arise from lending, trade finance and other activities undertaken by the Group.

The primary objective of the credit risk management framework is to ensure that exposure to credit risk is kept within the Group's financial capacity to withstand potential future losses. Lending activities are guided by internal credit policies and guidelines that are approved by the Board. These policies were reviewed and further enhanced during the year.

Credit portfolio management strategies and significant exposures are reviewed by the Board. These portfolio management strategies are designed to achieve a desired ideal portfolio risk tolerance level and sector distribution. This includes minimum credit rating targets for new credit facilities.

The Group's credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. While the business units are responsible for credit origination, the credit approving function rests mainly with the MCUC.

Credit risk is also identified as part of the new product sign-off process to ensure that new products prior to marketing are acceptable from a credit risk management perspective.

The Group also believes that authority limits for credit approvals should be directly related to the risk levels of the borrower and the transaction. In this respect, a Delegated Authority Limit structure had been implemented.

Credit Risk Management Process

(i) Identification

- Risk assessment on the potential impact of internal and external factors on transactions and positions.

(ii) Assessment/Measurement

- Internal credit rating systems to evaluate customer's credit worthiness.

(iii) Control/Mitigation

- Credit risk management policies and guidelines on credit rating, collateral and loan recovery.
- Exposure limits based on credit worthiness level for corporate groups, and prudent thresholds by economic sectors.
- Monitoring the benchmark return to consider the risk taken.

(iv) Monitoring/Review

- Analysis/review on loan exposures, asset quality evaluation, and movement of impaired loans and advances.
- Reporting on exposures against approved credit limits.

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014**4. RISK MANAGEMENT (CONTINUED)****(A) Credit risk (continued)****Credit quality of loans and advances**

A loan 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 advances and financing less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary.

A loan or a group of loans 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.

For description of approaches adopted by the Group and the Bank for the determination of individual and collective assessment impairment allowances, refer to Note 20(a) to the audited financial statements for financial year ended 30 June 2014.

Gross credit exposure

- (i) The table below sets out the breakdown of gross credit exposures by geographical distribution as follows:

The Group and the Bank	Malaysia	Other	Total
	RM'000	countries	RM'000
		RM'000	RM'000
31 December 2014			
On-Balance Sheet Exposures			
Financial assets held-for-trading *	1,144,903	109,036	1,253,939
Financial investments available-for-sale *	734,476	102,340	836,816
Financial investments held-to-maturity	190,393	157,967	348,360
Derivatives financial assets	52,893	990	53,883
Loans and advances	403,729	-	403,729
Clients' and brokers' balances	149,243	-	149,243
Total On-Balance Sheet Exposures	2,675,637	370,334	3,045,970
Off-Balance Sheet Exposures			
Credit-related exposures	14,964	-	14,964
Derivative financial instruments	156,757	569	157,326
	171,721	569	172,290
Total On and Off-Balance Sheet Exposures	2,847,358	370,903	3,218,260

* Excludes equity securities

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014**4. RISK MANAGEMENT (CONTINUED)****(A) Credit risk (continued)****Gross credit exposure (continued)**

- (i) The table below sets out the breakdown of gross credit exposures by geographical distribution as follows (continued):

The Group and the Bank	Malaysia	Other	Total
	RM'000	countries	RM'000
		RM'000	RM'000
30 June 2014			
On-Balance Sheet Exposures			
Financial assets held-for-trading *	826,127	33,777	859,904
Financial investments available-for-sale *	604,301	32,039	636,340
Financial investments held-to-maturity	212,793	145,620	358,413
Derivatives financial assets	40,514	437	40,951
Loans and advances	431,414	-	431,414
Clients' and brokers' balances	284,378	-	284,378
Total On-Balance Sheet Exposures	<u>2,399,527</u>	<u>211,874</u>	<u>2,611,400</u>
Off-Balance Sheet Exposures			
Credit-related exposures	192,639	-	192,639
Derivative financial instruments	90,567	2,053	92,620
	<u>283,206</u>	<u>2,053</u>	<u>285,259</u>
Total On and Off-Balance Sheet Exposures	<u>2,682,733</u>	<u>213,927</u>	<u>2,896,659</u>

* Excludes equity securities

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

(ii) The table below sets out the breakdown of gross credit exposures by sector as follows:

The Group and the Bank 31 December 2014	Financial assets held- for-trading RM'000	Financial investments available-for- sale RM'000	Financial investments held-to- maturity RM'000	Derivative financial assets RM'000	Loans and advances RM'000	Clients' and brokers' balances RM'000	On-balance sheet total RM'000	Credit- related Exposures RM'000	Derivative Financial Instruments RM'000	Total off- balance sheet credit risk exposures RM'000	Total on and off-balance sheet credit risk exposures RM'000
Agriculture	20,295	15,122	45,244	-	-	-	80,661	-	-	-	80,661
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	15,039	-	5,052	-	-	-	20,091	-	-	-	20,091
Electricity, gas and water	-	70,444	-	-	22,504	-	92,948	-	-	-	92,948
Construction	235,928	15,143	-	4,941	56,620	-	312,632	-	-	-	312,632
Wholesale and retail	7,624	83,906	-	-	-	-	91,530	6,841	-	6,841	98,371
Transport, storage and communications	17,601	10,189	-	-	22,376	-	50,166	-	-	-	50,166
Finance, insurance, real estate and business services	729,283	431,921	226,429	48,943	30,963	-	1,467,539	8,123	157,326	165,449	1,632,988
Government and government agencies	177,089	210,091	71,635	-	-	-	458,815	-	-	-	458,815
Household	-	-	-	-	165,877	-	165,877	-	-	-	165,877
Purchase of securities	-	-	-	-	-	149,243	149,243	-	-	-	149,243
Others	51,079	-	-	-	105,389	-	156,468	-	-	-	156,468
	1,253,938	836,816	348,360	53,884	403,729	149,243	3,045,970	14,964	157,326	172,290	3,218,260

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

(ii) The table below sets out the breakdown of gross credit exposures by sector as follows:

The Group and the Bank 30 June 2014	Financial assets held- for-trading RM'000	Financial investments available-for- sale RM'000	Financial investments held-to- maturity RM'000	Derivative financial assets RM'000	Loans and advances RM'000	Clients' and brokers' balances RM'000	On-balance sheet total RM'000	Credit- related Exposures RM'000	Derivative Financial Instruments RM'000	Total off- balance sheet credit risk exposures RM'000	Total on and off-balance sheet credit risk exposures RM'000
Agriculture	-	24,871	10,035	-	-	-	34,906	-	-	-	34,906
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	5,055	-	30,005	-	35,060	-	-	-	35,060
Electricity, gas and water	-	-	-	-	27,480	-	27,480	70,000	-	70,000	97,480
Construction	35,218	15,128	-	-	17,082	-	67,428	37,129	-	37,129	104,557
Wholesale and retail	19,419	29,938	15,261	-	-	-	64,618	-	-	-	64,618
Transport, storage and communications	-	12,394	-	-	-	-	12,394	-	-	-	12,394
Finance, insurance, real estate and business services	779,861	384,098	251,229	40,951	120,515	-	1,576,654	85,499	92,620	178,119	1,754,773
Government and government agencies	-	169,911	76,833	-	-	-	246,744	-	-	-	246,744
Household	-	-	-	-	232,775	-	232,775	-	-	-	232,775
Purchase of securities	-	-	-	-	-	284,378	284,378	-	-	-	284,378
Others	25,406	-	-	-	3,557	-	28,963	11	-	11	28,974
	859,904	636,340	358,413	40,951	431,414	284,378	2,611,400	192,639	92,620	285,259	2,896,659

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure

(iii) The table below sets out the breakdown of gross credit exposures by residual contractual maturity as follows:

The Group and the Bank 31 December 2014	Up to 1 Year	1 to 5 Years	Over 5 Years	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet Exposures					
Financial assets held-for-trading	615,370	140,795	497,774	-	1,253,939
Financial investments available-for-sale	118,113	559,405	159,298	-	836,816
Financial investments held-to-maturity	168,071	180,289	-	-	348,360
Derivatives financial assets	36,889	16,172	822	-	53,883
Loans and advances	340,606	62,278	845	-	403,729
Clients and brokers balances	149,243	-	-	-	149,243
Total On-Balance Sheet Exposures	1,428,292	958,939	658,739	-	3,045,970
Off-Balance Sheet Exposures					
Credit-related Exposures	1,000	6,964	7,000	-	14,964
Derivative Financial Instruments	63,805	66,649	26,872	-	157,326
Total Off-Balance Sheet Exposures	64,805	73,613	33,872	-	172,290
Total On and Off-Balance Sheet Exposures	1,493,097	1,032,552	692,611	-	3,218,260

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure

(iii) The table below sets out the breakdown of gross credit exposures by residual contractual maturity as follows:

The Group and the Bank 30 June 2014	Up to 1 Year RM'000	1 to 5 Years RM'000	Over 5 Years RM'000	No specific maturity RM'000	Total RM'000
On-Balance Sheet Exposures					
Financial assets held-for-trading	720,067	49,597	90,240	-	859,904
Financial investments available-for-sale	240,707	385,497	10,136	-	636,340
Financial investments held-to-maturity	76,906	281,507	-	-	358,413
Derivatives financial assets	27,113	13,838	-	-	40,951
Loans and advances	364,104	67,227	83	-	431,414
Clients and brokers balances	284,378	-	-	-	284,378
Total On-Balance Sheet Exposures	1,713,275	797,666	100,459	-	2,611,400
Off-Balance Sheet Exposures					
Credit-related Exposures	104,583	4,931	83,125	-	192,639
Derivative Financial Instruments	33,180	59,440	-	-	92,620
Total Off-Balance Sheet Exposures	137,763	64,371	83,125	-	285,259
Total On and Off-Balance Sheet Exposures	1,851,038	862,037	183,584	-	2,896,659

HONG LEONG INVESTMENT BANK BERHAD
Company no: 43526-P
(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans and advances

(i) The table below sets out the breakdown by sector the amount of past due loans and advances, impaired loans and advances, individual assessment allowance, collective assessment allowance, charges for individual assessment allowance during the financial year and write-offs during the financial year as follows:

The Group and the Bank 31 December 2014	Past due loans and advances RM'000	Impaired Loans and advances RM'000	Individual assessment allowance RM'000	Collective assessment allowance RM'000	Write-back of individual assessment allowance during the year RM'000	Write offs during the year RM'000
Agriculture	-	-	-	-	-	-
Electricity, gas and water	-	-	-	(83)	-	-
Mining and quarrying	-	-	-	-	-	-
Manufacturing	-	-	-	(177)	-	-
Construction	-	-	-	-	-	-
Finance, insurance, real estate and business services	-	-	-	(84)	-	-
Household	-	-	-	(448)	-	-
Purchase of securities	-	-	-	-	-	-
Transport, storage and communications	-	-	-	(156)	-	-
Wholesale and retail	-	-	-	-	-	-
Others	-	906	(111)	(574)	-	-
Total	-	906	(111)	(1,522)	-	-

HONG LEONG INVESTMENT BANK BERHAD
Company no: 43526-P
(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans and advances

(i) The table below sets out the breakdown by sector the amount of past due loans and advances, impaired loans and advances, individual assessment allowance, collective assessment allowance during the financial year and write-offs during the financial year as follows (continued):

The Group and the Bank 30 June 2014	Past due loans and advances RM'000	Impaired Loans and advances RM'000	Individual assessment allowance RM'000	Collective assessment allowance RM'000	Write-back of individual assessment allowance during the year RM'000	Write offs during the year RM'000
Agriculture	-	-	-	-	-	-
Electricity, gas and water	-	-	-	(24)	-	-
Mining and quarrying	-	-	-	-	-	-
Manufacturing	-	-	-	(82)	-	-
Construction	-	-	-	(63)	-	-
Finance, insurance, real estate and business services	-	-	-	(398)	-	-
Household	-	-	-	-	-	-
Purchase of securities	-	-	-	(630)	-	-
Transport, storage and communications	-	-	-	-	-	-
Wholesale and retail	-	-	-	-	-	-
Others	-	853	(194)	(110)	-	-
Total	-	853	(194)	(1,307)	-	-

Note: Refer to Note 9 to the financial statement for financial year ended 30 June 2013 for "movement in individual assessment allowance and collective assessment allowance" during the year for the Group and the Bank.

HONG LEONG INVESTMENT BANK BERHAD
Company no: 43526-P
(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans and advances (continued)

(ii) The table below sets out the breakdown by geographical areas the amount of past due loans and advances, impaired loans and advances, individual assessment allowance and collective assessment allowance as follows:

	Past due loans and advances RM'000	Impaired Loans and advances RM'000	Individual assessment allowance RM'000	Collective assessment allowance RM'000
The Group and the Bank 31 December 2014				
Malaysia	-	906	(111)	(1,522)
The Group and the Bank 30 Jun 2014				
Malaysia	-	853	(194)	(1,307)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight

The breakdown of credit risk exposures by risk weight is as follows:

Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Residential Mortgages RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
The Group 31 December 2014										
0%	431,245	-	-	-	-	-	147,125	-	578,370	-
20%	-	8	586,534	-	354,635	-	3,553	-	944,730	188,946
50%	-	-	272,623	-	94,845	-	-	-	367,468	183,734
100%	-	-	-	-	309,070	793	31,608	245	341,716	341,716
150%	-	-	-	-	18,213	-	-	-	18,213	27,320
Total	431,245	8	859,157	-	776,763	793	182,286	245	2,250,497	741,716
Risk-Weighted Assets by Exposures	-	2	253,618	-	454,739	793	32,319	245	741,716	
Average Risk Weights	0.0%	25.0%	29.5%	0.0%	58.5%	100.0%	17.7%	100.0%	33.0%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight (continued)

The breakdown of credit risk exposures by risk weight is as follows:

Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Residential Mortgages RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
The Group 30 June 2014										
0%	628,630	-	-	-	-	-	283,219	-	911,849	-
20%	-	7	1,051,234	-	308,533	-	2,730	-	1,362,504	272,501
50%	-	-	269,363	-	96,441	-	-	-	365,804	182,902
100%	-	-	-	-	389,423	1,269	49,889	245	440,826	440,826
150%	-	-	-	-	-	-	-	-	-	-
Total	628,630	7	1,320,597	-	794,397	1,269	335,838	245	3,080,983	896,229
Risk-Weighted Assets by Exposures	-	1	344,928	-	499,351	1,269	50,435	245	896,229	
Average Risk Weights	0.0%	14.3%	26.1%	0.0%	62.9%	100.0%	15.0%	100.0%	29.1%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	

HONG LEONG INVESTMENT BANK BERHAD
Company no: 43526-P
(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight

The breakdown of credit risk exposures by risk weight is as follows:

Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Residential Mortgages RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
The Bank 31 December 2014										
0%	431,245	-	-	-	-	-	147,125	-	578,370	-
20%	-	-	585,823	-	354,635	-	3,553	-	944,011	188,802
50%	-	-	272,623	-	94,845	-	-	-	367,468	183,734
100%	-	-	-	-	309,070	793	31,608	245	341,716	341,716
150%	-	-	-	-	18,213	-	-	-	18,213	27,320
Total	431,245	-	858,446	-	776,763	793	182,286	245	2,249,778	741,572
Risk-Weighted Assets by Exposures	-	-	253,476	-	454,739	793	32,319	245	741,572	
Average Risk Weights	0.0%	0.0%	29.5%	0.0%	58.5%	100.0%	17.7%	100.0%	33.0%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight

The breakdown of credit risk exposures by risk weight is as follows:

Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Residential Mortgages RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
The Bank 30 June 2014										
0%	628,630	-	-	-	-	-	283,219	-	911,849	-
20%	-	-	1,050,533	-	308,533	-	2,730	-	1,361,796	272,359
50%	-	-	269,363	-	96,441	-	-	-	365,804	182,902
100%	-	-	-	-	389,423	1,269	49,889	245	440,826	440,826
150%	-	-	-	-	-	-	-	-	-	-
Total	628,630	-	1,319,896	-	794,397	1,269	335,838	245	3,080,275	896,087
Risk-Weighted Assets by Exposures	-	-	344,788	-	499,350	1,269	50,435	245	896,087	
Average Risk Weights	0.0%	0.0%	26.1%	0.0%	62.9%	100.0%	15.0%	100.0%	29.1%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs")

Under Basel II, credit risk for the Group is computed using the Standardised Approach.

External credit assessments (or external ratings) on the customer (the issuer) or specific securities issued by the issuer (the issue) form as a basis for the determination of risk weights under the Standardised Approach for exposures to sovereigns, central banks, public sector entities, banking institutions, corporates as well as certain other specific portfolios.

The approved External Credit Assessment Institutions ("ECAI") ratings and the prescribed risk weights on the above stated asset classes are used in the computation of regulatory capital. An exposure would be deemed to have an external rating if the issuer or the issue has a rating provided by an ECAI. In cases where an exposure does not have an issuer or issue rating, the exposure shall be deemed unrated and shall be accorded a risk weight appropriate for unrated exposures in their respective exposure category.

The ECAI used by the Group are Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's"), Standard & Poor's ("S&P"), Malaysia Rating Corporation Berhad ("MARC") and Rating Agency Malaysia ("RAM"). ECAI ratings are mapped to a common credit quality grade as prescribed by BNM.

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs")

The following tables summarise the rated exposures according to ratings ECAIs as follows:

(i) Ratings of Corporate by Approved ECAIs

	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating &					
The Group and the Bank	Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2014						
On and Off-Balance Sheet Exposures						
Public Sector Entities		-	-	-	-	8
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-
Corporates		347,635	94,845	107,611	18,213	208,459
		347,635	94,845	107,611	18,213	208,467
30 June 2014						
On and Off-Balance Sheet Exposures						
Public Sector Entities		-	-	-	-	7
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-
Corporates		287,910	96,438	71,532	124	338,393
		287,910	96,438	71,532	124	338,400

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs") (continued)

(ii) Short term Ratings of Banking Institutions and Corporate by Approved ECAIs

	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	Rating & Investment Inc	a-1+, a-1	a-2	a-3	b, c	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2014						
On and Off-Balance Sheet Exposures						
Banks, MDBs and FDIs		472,299	-	-	-	-
30 June 2014						
On and Off-Balance Sheet Exposures						
Banks, MDBs and FDIs		1,007,606	-	-	-	-

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs") (continued)

(iii) Ratings of Sovereigns and Central Banks by Approved ECAIs

	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA- RM'000	A+ to A- RM'000	BBB+ to BBB- RM'000	BB+ to B- RM'000	CCC+ to C RM'000	Unrated RM'000
The Group and the Bank							
31 December 2014							
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks		-	-	-	-	-	431,245
30 June 2014							
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks		-	-	-	-	-	628,630

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs") (continued)

(iv) Ratings of Banking Institutions by Approved ECAIs

	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB+ to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA- RM'000	A+ to A- RM'000	BBB+ to BBB- RM'000	BB+ to B- RM'000	CCC+ to C RM'000	Unrated RM'000
The Group and the Bank							
31 December 2014							
On and Off-Balance Sheet Exposures							
Banks, MDBs and FDIs		180,396	46,082	159,453	216	-	-
30 June 2014							
On and Off-Balance Sheet Exposures							
Banks, MDBs and FDIs		162,100	51,540	99,351	-	-	-

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit Risk Mitigation ("CRM")

The Group's and the Bank's credit principle is principally granting credit facilities on the basis of the borrower's credit standing, repayment and debt servicing ability. Where possible, collateral is taken to mitigate and reduce any credit risk for the particular credit facility extended. The value of the collateral is monitored periodically and where applicable, a revised valuation may be requested from the borrower. The main types of collateral accepted are cash, marketable securities and securities from listed exchange. There are policies and processes in place to monitor collateral concentration. For credit risk mitigation ("CRM") purposes, only collateral or guarantees that are legally enforceable are taken into account. The credit exposures are computed on a net basis only when there is a legally enforceable netting arrangements for loans and deposits. The Group and the Bank use the Comprehensive Approach for computation of the adjusted exposures.

The following tables present the credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach for the Group. Eligible financial collateral consists primarily of securities from listed exchange. The Group does not have any credit exposure which is reduced through the application of other eligible collateral.

	31 December 2014		30 June 2014	
	Exposures before CRM RM'000	Exposures covered by eligible financial collateral RM'000	Exposures before CRM RM'000	Exposures covered by eligible financial collateral RM'000
The Group				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	431,245	-	628,630	-
Public Sector Entities	8	-	7	-
Banks, DFIs and MDBs	707,006	-	1,233,617	-
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-
Corporates	971,364	214,740	887,514	291,384
Residential Mortgages	793	-	1,258	-
Other Assets	182,286	-	335,838	-
Equity Exposures	245	-	245	-
Total On-Balance Sheet Exposures	2,292,947	214,740	3,087,109	291,384
Off-Balance Sheet Exposures				
Credit-related Exposures	14,964	-	192,639	-
Derivative Financial Instruments	157,326	-	92,620	-
Other Treasury-related Exposures	-	-	-	-
Total Off-Balance Sheet Exposures	172,290	-	285,259	-
Total On and Off-Balance Sheet Exposures	2,465,237	214,740	3,372,368	291,384

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit Risk Mitigation (continued)

The following tables present the credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach for the Group. Eligible financial collateral consists primarily of securities from listed exchange. The Group does not have any credit exposure which is reduced through the application of other eligible collateral.

	31 December 2014		30 June 2014	
	Exposures before CRM RM'000	Exposures covered by eligible financial collateral RM'000	Exposures before CRM RM'000	Exposures covered by eligible financial collateral RM'000
The Bank				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	431,245	-	628,630	-
Public Sector Entities	-	-	-	-
Banks, DFIs and MDBs	706,295	-	1,232,915	-
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-
Corporates	971,364	214,740	887,514	291,384
Residential Mortgages	793	-	1,258	-
Other Assets	182,286	-	335,838	-
Equity Exposures	245	-	245	-
Total On-Balance Sheet Exposures	2,292,228	214,740	3,086,400	291,384
Off-Balance Sheet Exposures				
Credit-related Exposures	14,964	-	192,639	-
Derivative Financial Instruments	157,326	-	92,620	-
Total Off-Balance Sheet Exposures	172,290	-	285,259	-
Total On and Off-Balance Sheet Exposures	2,464,518	214,740	3,371,659	291,384

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Off-Balance Sheet exposures and counterparty credit risk

Credit limits are established to ensure that the Group and the Bank are not duly exposed to unnecessary credit risk with parties who are unable to meet or honour their financial obligations with the Group and the Bank.

The counterparty limits for the Group and the Bank are established by taking into consideration the tenor of the obligation, rating assignment of the counterparty, counterparty's shareholder's funds, the Group's and the Bank's shareholder's funds.

The credit exposure limit for derivative transactions is calculated based on the standardised approach by applying a specific percentage of risk factor i.e. the potential loss of the contract value to the counterparty limit for the Group and the Bank, which in general is a fraction of the derivative contract or notional amount used to express the volume of instruments.

Nature of commitments and contingencies

Obligations under underwriting agreements arise from underwriting agreements relating to the issuance of equity and debts securities, where the Group and the Bank are obliged to subscribe for or purchase the securities in the event the securities are not taken up when issued.

Irrevocable commitments to extend credit include all obligations on the part of the Group and the Bank to provide funding facilities or the undrawn portion of an approved credit facilities to customers.

Forward foreign exchange contracts are agreements to buy or sell fixed amounts of currency at agreed rates of exchange on a specified future date.

Interest rate swaps involve the exchange of interest obligations with a counterparty for a specified period without the exchange of the underlying principal.

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Off-Balance Sheet exposures and counterparty credit risk (continued)

The off-balance sheet exposures and their related counterparty credit risk of the Group and the Bank are as follows:

The Group and the Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
31 December 2014				
Derivative financial instruments				
Interest rate related contracts:				
- One year or less	1,625,681	5,716	7,525	1,505
- Over one year to five years	2,594,445	10,273	66,649	16,786
- Over five years	365,000	822	26,872	5,374
Foreign exchange related contracts				
- One year or less	1,707,627	31,174	56,280	11,940
Equity related contracts:				
- One year or less	-	-	-	-
- Over one year to five years	11,500	5,899	6,964	6,964
	6,304,253	53,884	164,290	42,569
Commitments				
Direct Credit Substitutes	8,000	-	8,000	2,400
Obligations under underwriting agreement	-	-	-	-
Other commitments, such as formal standby facilities and credit lines				
- maturity less than one year	-	-	-	-
- maturity more than one year	-	-	-	-
Any commitment that are unconditionally cancelled at any time by the Bank without prior notice				
- maturity less than one year	688,644	-	-	-
Others				
- monies held in trust for stockbroking clients	734,744	-	-	-
	1,431,388	-	8,000	2,400
Total Off-Balance Sheet Exposures	7,735,641	53,884	172,290	44,969

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Off-Balance Sheet exposures and counterparty credit risk (continued)

The off-balance sheet exposures and their related counterparty credit risk of the Group and the Bank are as follows (continued):

The Group and the Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
30 June 2014				
Derivative financial instruments				
Interest rate related contracts:				
- One year or less	724,036	466	2,353	471
- Over one year to five years	2,246,000	9,987	59,441	15,704
- Over five years	-	-	-	-
Foreign exchange related contracts				
- One year or less	1,537,568	9,238	30,827	6,861
Equity related contracts:				
- One year or less	1,429	17,410	17,495	17,495
- Over one year to five years	11,500	3,850	4,931	4,931
	<u>4,520,533</u>	<u>40,951</u>	<u>115,047</u>	<u>45,462</u>
Commitments				
Direct Credit Substitutes	20,625	-	20,625	4,126
Obligations under underwriting agreement	299,154	-	149,576	149,576
Other commitments, such as formal standby facilities and credit lines				
- maturity less than one year	23	-	11	11
- maturity more than one year	-	-	-	-
Any commitment that are unconditionally cancelled at any time by the Bank without prior notice				
- maturity less than one year	627,233	-	-	-
Others				
- monies held in trust for stockbroking clients	648,976	-	-	-
	<u>1,596,011</u>	<u>-</u>	<u>170,212</u>	<u>153,713</u>
Total Off-Balance Sheet Exposures	<u>6,116,544</u>	<u>40,951</u>	<u>285,259</u>	<u>199,175</u>

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(B) Market risk

Market risk is defined as the risk of potential losses in earnings arising from changes in interest rates, foreign exchange rates, credit spreads, equity prices and commodity prices. This change can affect the value of financial instruments and may also affect proprietary trading revenues.

The main objectives of Market Risk Management is to ensure that losses from market risk can be promptly addressed without incurring a potential loss that is beyond the Group's and the Bank risk appetite.

Management of market risk

The ALMCO is the management level committee which supports the BARMC in the oversight of market and liquidity risk. The ALMCO is chaired by the Chief Executive Officer ("CEO") and includes senior representatives from both business and support units. It is primarily responsible for the development, implementation and review of frameworks, broad strategies and policies for managing the Group's and the Bank's balance sheet, funding management, market risk and liquidity risk.

The Risk Management Department is responsible for the development, implementation and maintenance of consistent policies and methodologies to identify, measure, monitor, control and report market risk and liquidity risk.

Market risk is inherent in the ordinary course of the Group's and the Bank's business and is prevalent especially in treasury activities of the Group and the Bank. The Group and the Bank broadly classify their financial instruments as Held-for-Trading ("HFT"), Available-for-Sale ("AFS") and Held-to-Maturity ("HTM") securities. The major differences between the classifications are the accounting treatment and intention of acquiring the financial instruments.

Market Risk Management Process

(i) Identification

- Identify market risks within existing and new products.
- Review market-related information e.g. market trends, economic data.

(ii) Assessment/Measurement

- Sensitivity.
- Value-at-Risk.
- Stress test.

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(B) Market risk (continued)

Market Risk Management Process (continued)

(iii) Control/Mitigation

- Establish market risk limits.
- Limits are set with reference to business profitability, budgets and aligned with the risk appetite approved by the Board.

(iv) Monitoring/Review

- Monitoring of limits.
- Periodical review and reporting.

Regulatory Capital Requirements

The following tables present the minimum regulatory capital requirement on market risk.

	Long Position RM'000	Short Position RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
The Group and the Bank				
31 December 2014				
Interest Rate Risk	7,566,967	6,305,058	542,827	43,426
Equity Risk	10,249	-	22,575	1,806
Foreign Currency Risk	9,888	8,546	9,888	791
Option Risk	5,899	-	7,025	562
	7,593,003	6,313,604	582,316	46,585
30 June 2014				
Interest Rate Risk	5,337,113	4,462,345	262,369	20,989
Equity Risk	8,360	-	16,725	1,338
Foreign Currency Risk	16,430	16,276	16,000	1,280
Option Risk	195,414	-	276,475	22,117
	5,557,317	4,478,621	571,570	45,724

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

4. RISK MANAGEMENT (CONTINUED)

(C) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risks.

An Operational Risk Management Framework, approved by the HLIBB's Board, has been implemented across the Group to all business and support units. The Framework consists of operational risk's tools including loss event data reporting, control self-assessment and key risk indicators, to assist these units to identify, assess, monitor and control their operational risks. The information is channeled to the Risk Management Department to facilitate risk analysis, monitoring and reporting.

Related policies and procedures are in place to provide guidance to risk taking units in the areas of developing new products and services and outsourcing of operational functions.

A Business Continuity Framework has been developed to ensure business sustainability in event of business disruptions.

The Risk Management Department oversees the Group's operational risk management infrastructure, including the Framework, policies, processes, information, methodologies and systems. The Risk Management Department performs regular reviews of the operational risk profiles of the Group, and recommends related operational risk policies to be endorsed and approved at management and Board level.

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014**5. EQUITY EXPOSURES IN BANKING BOOK**

The Group's and the Bank's banking book's equity investments consist of equity holdings in organisations which are set up for specific socio-economic reasons (i.e. equity interest in Cagamas, MEPS, RAM, IBBM and CGC) and equity holdings and equity instruments received as a result of loan/financing restructuring or loan/financing conversion.

The Group's and the Bank's banking book's equity investments are classified and measured in accordance with FRS 139 and are categorised as financial investments available-for-sale. Refer to Note 2D to the audited financial statements for financial year ended 30 June 2014 for the accounting policies of the Group and the Bank.

The following table summarises the Group and the Bank's equity exposures in the banking book.

The Group and the Bank	31 December 2014		30 June 2014	
	Exposures subject to risk- weighting RM'000	Risk weights %	Exposures subject to risk- weighting RM'000	Risk weights %
<u>Financial investments available-for-sale</u>				
Unquoted equity securities	245	100	245	100

Gain and Loss on Equity Exposures in Banking Book

The tables below present the gains and losses on equity exposure in the banking book.

	31 December 2014 RM'000	30 June 2014 RM'000
Realised gains/losses recognised in the income statements	-	-
Unrealised gain recognised in revaluation reserve - Unquoted equity securities	-	-

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014**6. INTEREST RATE RISK/RATE OF RETURN RISK IN BANKING BOOK**

To evaluate the potential impact of interest/profit rate risk in the Banking Book, the Group and the Bank consider the effect on their underlying economic value.

The economic perspective provides a measurement of the underlying value of the Group's and the Bank's current position and seeks to evaluate the sensitivity of that value to changes in interest/profit rates. This perspective will allow the Group and the Bank to evaluate the changes in economic value of assets, liabilities, and off-balance sheet instruments against the movement in interest/profit rate. The economic values of these instruments are equivalent to the instruments' present value of future cash flows.

By analyzing the impact of interest/profit rate changes on the value of all future cash flows, the economic perspective can provide a more comprehensive measurement of interest/profit rate risk. The future cash flow projections used to estimate the economic exposure provides a pro forma estimate of the future income generated by its current position. In general, the measurement of present value of the instrument will be able to give an overview of the Group's and the Bank's economic value of equity ("EVE") over a longer time period.

The increase or decline in economic value for upward and downward rate shocks which are consistent with shocks applied in the Group's and the Bank's stress test for measuring IRR/RORR in the banking book are as follows:

The following tables present the projected Group's sensitivity to a 100 basis point parallel shock to interest rates across all maturities applied on the Group's interest sensitivity gap as at reporting date.

Type of currency	Impact on Position as at 31 December 2014		Impact on Position as at 30 June 2014	
	- 100 bps Increase/(Decrease) in Economic Value RM'000	+ 100 bps RM'000	- 100 bps Increase/(Decrease) in Economic Value RM'000	+ 100 bps RM'000
Ringgit Malaysia	21,023	(21,023)	17,880	(17,880)
US Dollar	8,446	(8,446)	3,834	(3,834)
	29,469	(29,469)	21,714	(21,714)