

**Hong Leong Investment Bank Berhad**

**Company no: 10209-W**

**(Incorporated in Malaysia)**

**Reports and financial statements  
for the financial year ended 30 June 2014**

# **Hong Leong Investment Bank Berhad**

**Company no: 10209-W**

**(Incorporated in Malaysia)**

## **Reports and financial statements for the financial year ended 30 June 2014**

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# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Directors' report

for the financial year ended 30 June 2014

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 2014.

## Principal activities

The Bank is principally engaged in investment banking, stockbroking business, futures broking and related financial services.

The principal activities of the subsidiary companies are nominee and custodian services as disclosed in Note 14 to the financial statements.

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

## Financial results

	<b>The Group RM'000</b>	<b>The Bank RM'000</b>
Net profit for the financial year	<u>109,501</u>	<u>109,526</u>

## Dividends

The dividends paid by the Bank since 30 June 2013 were as follows:-

In respect of financial year ended 30 June 2013:

	<b>RM'000</b>
Single tier final dividend of 17.17 sen per share on the Bank's issued and paid-up Redeemable Preferences Shares paid on 8 November 2013	<u>28,000</u>

The Directors of the Bank recommend the payment of a single-tier final dividend of 38.20 sen per share on the Bank's issued and paid-up Redeemable Preference Share Capital, amounting to RM62,295,232 for the financial year ended 30 June 2014.

## 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.

# **Hong Leong Investment Bank Berhad**

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## **Directors' report**

**for the financial year ended 30 June 2014 (continued)**

### **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.

### **Significant events during the financial year**

Significant events during the financial year are disclosed in Note 45 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 who have held office since the date of the last report and at the date of this report are as follows:

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	(Chairman, Non-Independent Non-Executive Director)
Ms Lee Jim Leng	(Group Managing Director/Chief Executive Officer)
Mr Choong Yee How	(Non-Independent Non-Executive Director)
YBhg Tan Sri A. Razak bin Ramli	(Independent Non-Executive Director)
YBhg Dato' Mohzani bin Abdul Wahab	(Independent Non-Executive Director)
Mr Martin Giles Manen	(Independent Non-Executive Director)
YBhg Dato' Wee Hoe Soon @ Gooi Hoe Soon	(Independent Non-Executive Director)

# **Hong Leong Investment Bank Berhad**

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## **Directors' report**

**for the financial year ended 30 June 2014 (continued)**

### **Statements of Directors' Responsibility**

In preparing the financial statements, the Directors have ensured that the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965 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 2014 and of the results and cash flows of the Group and of the Bank for the 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 achieving 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 129.

### **Directors' interests**

None of the Directors holding office at the end of the financial year end had any beneficial interest in the ordinary shares/options of the Bank and/or its related corporations during the financial year ended 30 June 2014, as recorded in the Register of Directors' Shareholdings kept by the Bank 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 interests are disclosed in the Directors' Report of the immediate holding company as provided for under Section 134 of the Companies Act, 1965, and Ms Lee Jim Leng whose interests are as follows:-

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## Directors' report

for the financial year ended 30 June 2014 (continued)

### Directors' interests (continued)

**Shareholdings in which Directors have direct interests**  
**Number of ordinary shares/preference shares/\*shares issued or to be**  
**issued or acquired**  
**arising from the exercise of options**

	Nominal value per share RM	As at			As at
		01.07.2013	Acquired	Sold	30.06.2014
<b>Interests of Ms Lee Jim Leng in:</b>					
Hong Leong Capital Berhad	1.00	951,000	1,525,000 <sup>(1)</sup>	(2,476,000)	-
		2,050,000*	-	(1,525,000) <sup>(1)</sup>	525,000*

### Notes:

<sup>(1)</sup> Exercise of share options

### Directors' benefits

Since the end of the previous financial year, none of the Directors of the Bank received or became entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the 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 its related corporations 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.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any other arrangements to which the Bank is a party, with the object or objects of enabling 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 the shares options granted pursuant to the Executive Share Option Scheme.

### Share capital

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

# **Hong Leong Investment Bank Berhad**

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## **Directors' report**

**for the financial year ended 30 June 2014 (continued)**

### **Corporate Governance**

Corporate Governance is the process and structure used to direct and manage the business and affairs of the Bank 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.

### **II Board Balance**

The Board comprises seven (7) directors, six (6) of whom are non-executive. Of the non-executive directors, four (4) are independent.

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

The Chairman leads the Board and ensures its smooth and effective functioning.

The Group Managing Director/Chief Executive Officer ("GMD/CEO") is responsible for the vision and strategic direction of the Group, implementing the policies and decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing shareholder wealth, setting the benchmark and targets for operating companies, overseeing the day-to-day operations and tracking compliance and business progress.

# Hong Leong Investment Bank Berhad

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## Directors' report

for the financial year ended 30 June 2014 (continued)

### Corporate Governance (continued)

#### A Board of Directors (continued)

### III Board Meetings

The Board met seven (7) times during the financial year ended 30 June 2014 with timely notices of issues to be discussed. Details of attendance of each director are as follow:

<b>Director</b>	<b>Attendance</b>
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	7/7
Ms Lee Jim Leng	7/7
Mr Choong Yee How	7/7
YBhg Tan Sri A. Razak bin Ramli	6/7
YBhg Dato' Mohzani bin Abdul Wahab	7/7
Mr Martin Giles Manen	7/7
YBhg Dato' Wee Hoe Soon @ Gooi Hoe Soon	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 GMD/CEO of the Bank.



# Hong Leong Investment Bank Berhad

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## Directors' report

for the financial year ended 30 June 2014 (continued)

### 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.

#### Composition

The BARMC should comprise of only non-executive directors with at least three (3) members. The BARMC should be chaired by an independent director. The BARMC comprises:

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(ies) to the BARMC are the Company Secretary(ies) of the Bank.

#### Terms of Reference

##### Audit

- (a) To review the external audit fees.
- (b) To nominate and recommend for the approval of the Board, a person or persons as external auditor(s).
- (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 review the assistance given by the officers of the Bank and its subsidiaries (the "Group") to the external auditors.
- (f) To review and assess the objectivity, performance and independence of the external auditors and to recommend the appointment or re-appointment of 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 engage on a continuous basis with the Chairman, senior management, such as the Chief Executive Officer, the Chief Risk Officer, the Head of Compliance, the Group Financial Controller, the Chief Internal Auditor and the external auditors in order to be kept informed of matters affecting the Bank.

# Hong Leong Investment Bank Berhad

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## Directors' report

for the financial year ended 30 June 2014 (continued)

### Corporate Governance (continued)

#### A Board of Directors (continued)

#### V Board Audit and Risk Management Committee ("BARMC") (continued)

##### Terms of Reference (continued)

##### Audit (continued)

- (j) To review the quarterly reports and annual financial statements of the Bank prior to the approval by the Board.
- (k) To review the performance and adequacy of the internal audit scope and plan, functions, competency and resources of the internal audit function as stipulated in the Service Level Agreement.
- (l) To review the report and findings of the Group Internal Audit Department including any findings of internal investigations and the management's response thereto.
- (m) To consider the provision of non-audit services by the external auditors.
- (n) To advise on the appointment, remuneration, performance, evaluation, removal and redeployment of the Chief Internal Auditor.
- (o) To review the audit plan, audit charter and budget of the Group Internal Audit Department as well as the scope of internal audit procedures and to ensure that the Group Internal Audit Department is distinct and has the appropriate status within the overall organisation structure for the internal auditors to achieve their audit objectives.
- (p) Other audit functions as may be agreed to by the BARMC and the Board.

##### Risk Management

- (a) To oversee senior management's activities in managing credit, market, liquidity, operational, and IT risks and to ensure that the risk management process is in place and functioning.
- (b) 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.
- (c) To review, recommend and/or endorse the Bank's major risk management policies, strategies and risk tolerance for Board's approval.
- (d) To endorse the Bank's risk appetite, internal capital target, Internal Capital Adequacy Assessment Process ("ICAAP") and Capital Management Framework for Board's approval.
- (e) To oversee and monitor implementation of the Risk and Capital Management Framework and activities adopted by the Bank.
- (f) To ensure that senior management discharges its responsibilities for the development and effective implementation of the ICAAP.
- (g) To oversee the control of the ICAAP within the Bank.
- (h) To review the implementation of capital management in line with the Capital Management Framework, contingency funding plan.
- (i) To review and endorse capital plan.

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## Directors' report

for the financial year ended 30 June 2014 (continued)

### Corporate Governance (continued)

#### A Board of Directors (continued)

#### V Board Audit and Risk Management Committee ("BARMC") (continued)

##### Terms of Reference (continued)

##### Risk Management (continued)

- (j) To review and endorse the Bank's internal capital assessment.
- (k) To review capital stress test scenarios, parameters, key assumptions and results.
- (l) To endorse action plans for any capital limit or Management Action Trigger ("MAT") breaches.
- (m) To endorse the allocation of risk-adjusted capital (if applicable).
- (n) To review periodic reports on risk appetite, risk exposure, risk portfolio composition, stress testing and risk management activities.
- (o) To review the adequacy and effectiveness of internal controls and risk management process.
- (p) To review and assess adequacy of risk management and compliance policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
- (q) To review related party transactions and conflict of interest situations that may arise within the Bank or Group including any transaction, procedure or conduct that raises questions of management integrity.
- (r) To ensure 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 the Group's risk taking activities.
- (s) Other risk management functions as may be agreed to by the BARMC and the Board.

##### Authority

- (a) The BARMC is authorised by the Board to review any activity of the Bank within its terms of reference. It is authorised to seek any information it requires from any Director or member of management.
- (b) The BARMC is authorised by the Board to obtain independent legal or other professional advice if it considers necessary.

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## Directors' report

for the financial year ended 30 June 2014 (continued)

### Corporate Governance (continued)

#### A Board of Directors (continued)

#### V Board Audit and Risk Management Committee ("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 Group Managing Director, Chief Executive Officer, Chief Risk Officer, Head of Compliance, Chief Internal Auditor, Group Financial Controller 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 BARMC meeting, the BARMC shall report and update the Board on significant issues and concerns discussed during the BARMC meetings and where appropriate, make the necessary recommendations to the Board.

##### Activities

- (a) The BARMC carried out its duties in accordance with its terms of reference.
- (b) During the financial year ended 30 June 2014, four (4) BARMC meetings were held and the attendance of the Members was as follows:-

<b>Member</b>	<b>Attendance</b>
YBhg Tan Sri A. Razak bin Ramli	4/4
Mr Martin Giles Manen	4/4
Mr Choong Yee How	4/4

- (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.

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## Directors' report for the financial year ended 30 June 2014 (continued)

### Corporate Governance (continued)

#### A Board of Directors (continued)

#### V Board Audit and Risk Management Committee ("BARMC") (continued)

##### Activities (continued)

(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.

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

The NRC members are as follows:-

YBhg Tan Sri A. Razak bin Ramli (Chairman, Independent Non-Executive Director)

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman (Non- Independent Non-Executive Director)

YBhg Dato' Mohzani bin Abdul Wahab (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 Bank or such other person as nominated by the Board will be the secretary of the NRC.

##### Terms of Reference

##### Nominating Functions and Duties

- (a) Responsible for the nomination related matters of the Board of HLIB. The NRC assists the Board of HLIB in formulating and developing remuneration packages of Directors, Chief Executive Officer ("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 59 of the Financial Services Act 2013. 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.

# **Hong Leong Investment Bank Berhad**

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## **Directors' report**

**for the financial year ended 30 June 2014 (continued)**

### **Corporate Governance (continued)**

#### **A Board of Directors (continued)**

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

##### **Terms of Reference (continued)**

##### **Nominating Functions and Duties (continued)**

- (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 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.
- (g) Ensuring that all Directors receive an appropriate continuous training programme 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 59 of the Financial Services Act 2013.
- (j) The nomination role of the NRC should not be delegated with decision-making powers but should report to the full Board for decision.

##### **Remuneration Functions and Duties**

- (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 licenced 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.

# Hong Leong Investment Bank Berhad

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## Directors' report

for the financial year ended 30 June 2014 (continued)

### Corporate Governance (continued)

#### A Board of Directors (continued)

#### VI Nominating and Remuneration Committee ("NRC") (continued)

##### Remuneration Functions and Duties (continued)

- (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 2014, two (2) NRC meeting were held and the attendance of the members was as follows:-

Member	Attendance
YBhg Tan Sri A. Razak bin Ramli (Chairman)	2/2
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	2/2
YBhg Dato' Mohzani bin Abdul Wahab	2/2
Mr Martin Giles Manen	2/2
Mr Choong Yee How	2/2

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.

# **Hong Leong Investment Bank Berhad**

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## **Directors' report**

**for the financial year ended 30 June 2014 (continued)**

### **Corporate Governance (continued)**

#### **A Board of Directors (continued)**

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

##### **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.

#### **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.



# **Hong Leong Investment Bank Berhad**

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## **Directors' report**

**for the financial year ended 30 June 2014 (continued)**

### **Corporate Governance (continued)**

#### **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 extent 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 42 for further details.

#### **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 be realised at their book values in the ordinary course of business had been written down to their estimated realisable values.

# **Hong Leong Investment Bank Berhad**

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## **Directors' report**

**for the financial year ended 30 June 2014 (continued)**

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

#### **(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 2014 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.

# **Hong Leong Investment Bank Berhad**

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**(Incorporated in Malaysia)**

## **Directors' report**

**for the financial year ended 30 June 2014 (continued)**

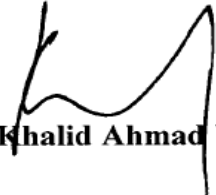
### **Holding and ultimate holding companies**

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.

### **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 22 July 2014.

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

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

Kuala Lumpur  
18 September 2014

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Statements of Financial Position as at 30 June 2014

	Note	The Group		The Bank	
		30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
<b>Assets</b>					
Cash and short-term funds	4	674,965	556,269	674,550	554,702
Clients' and brokers' balances	5	284,378	147,539	284,378	147,539
Reverse repurchase agreements		280,176	274,388	280,176	274,388
Deposits and placements with banks and other financial institutions	6	331,159	325,201	330,873	324,930
Financial assets at fair value through profit or loss	7	868,264	662,973	868,264	662,973
Financial investments available- for-sale	8	636,585	264,638	636,585	264,638
Financial investments held-to-maturity	9	358,413	253,911	358,413	253,911
Loans and advances	10	431,414	174,184	431,414	174,184
Other assets	11	46,064	13,070	46,055	13,067
Derivative financial assets	22	40,951	40,941	40,951	40,941
Statutory deposits with Bank Negara Malaysia	12	30,750	24,500	30,750	24,500
Deferred tax assets	13	103,671	61,978	103,671	61,978
Investment in subsidiary companies	14	-	-	383	1,455
Property and equipment	16	5,487	6,667	5,487	6,667
Intangible assets	17	992	1,054	992	1,054
Goodwill	18	28,986	28,986	28,986	28,986
<b>Total assets</b>		<b>4,122,255</b>	<b>2,836,299</b>	<b>4,121,928</b>	<b>2,835,913</b>
<b>Liabilities</b>					
Clients' and brokers' balances		250,437	127,327	250,437	127,327
Deposits from customers	19	631,566	470,169	631,566	470,169
Deposits and placements of banks and other financial institutions	20	2,054,960	1,542,975	2,054,960	1,542,975
Repurchased agreements		179,087	177,033	179,087	177,033
Other liabilities	21	507,814	92,265	507,832	92,245
Derivative financial liabilities	22	24,773	32,773	24,773	32,773
Provision for tax		4	-	-	-
<b>Total liabilities</b>		<b>3,648,641</b>	<b>2,442,542</b>	<b>3,648,655</b>	<b>2,442,522</b>
<b>Equity</b>					
Share capital	23	165,000	165,000	165,000	165,000
Redeemable preference shares	24	1,631	1,631	1,631	1,631
Reserves	25	306,983	227,126	306,642	226,760
<b>Total equity</b>		<b>473,614</b>	<b>393,757</b>	<b>473,273</b>	<b>393,391</b>
<b>Total equity and liabilities</b>		<b>4,122,255</b>	<b>2,836,299</b>	<b>4,121,928</b>	<b>2,835,913</b>
<b>Commitments and contingencies</b>	37	<b>6,116,545</b>	<b>6,181,545</b>	<b>6,116,545</b>	<b>6,181,545</b>

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Income Statements

for the financial year ended 30 June 2014

		The Group		The Bank	
	Note	30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
Interest income	26	97,914	59,262	97,906	59,262
Interest expense	27	(69,052)	(35,299)	(69,052)	(35,299)
Net interest income		28,862	23,963	28,854	23,963
Non-interest income	28	164,425	124,981	164,227	124,734
		193,287	148,944	193,081	148,697
Overhead expenses	29	(124,559)	(86,345)	(124,340)	(86,111)
Operating profit before allowances		68,728	62,599	68,741	62,586
Allowance for impairment losses on advances and other losses	30	(360)	(12)	(360)	(153)
Allowance for impairment losses on securities	31	-	(1,759)	-	(1,759)
<b>Profit before taxation</b>		<b>68,368</b>	<b>60,828</b>	<b>68,381</b>	<b>60,674</b>
Taxation	33	41,133	28,764	41,145	28,767
<b>Net profit for the financial year</b>		<b>109,501</b>	<b>89,592</b>	<b>109,526</b>	<b>89,441</b>
<b>Earnings per share (sen)</b>					
- Basic	34	66.4	62.6	66.4	62.5
- Diluted	34	66.4	62.6	66.4	62.5

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Statements of Comprehensive Income for the financial year ended 30 June 2014

	Note	The Group		The Bank	
		30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
Net profit for the financial year		<b>109,501</b>	89,592	<b>109,526</b>	89,441
Other comprehensive expense:					
Items that will be reclassified subsequently to profit or loss					
Net fair value changes on financial investments available-for-sale		<b>(2,192)</b>	(13,457)	<b>(2,192)</b>	(13,457)
Income tax relating to net fair value changes on financial investments available-for-sale	<b>13</b>	<b>548</b>	3,364	<b>548</b>	3,364
Other comprehensive expense for the year, net of tax		<b>(1,644)</b>	(10,093)	<b>(1,644)</b>	(10,093)
Total comprehensive income for the financial year, net of tax		<b>107,857</b>	79,499	<b>107,882</b>	79,348

## Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

### Statements of changes in equity for the financial year ended 30 June 2014

	Note	Attributable to owner of the parent					(Accumulated losses)/ retained profits	Total
		Share capital	Share premium	Redeemable preference shares	Statutory reserve	Fair value reserve		
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>The Group</b>								
<b>At 1 July 2013</b>		<b>165,000</b>	<b>87,950</b>	<b>1,631</b>	<b>153,097</b>	<b>954</b>	<b>(14,875)</b>	<b>393,757</b>
Net profit for the financial year		-	-	-	-	-	109,501	109,501
Other comprehensive expense, net of tax		-	-	-	-	(1,644)	-	(1,644)
Total comprehensive (expense)/income for the financial year		-	-	-	-	(1,644)	109,501	107,857
Transfer to statutory reserve		-	-	-	27,382	-	(27,382)	-
Dividend paid	36	-	-	-	-	-	(28,000)	(28,000)
<b>At 30 June 2014</b>		<b>165,000</b>	<b>87,950</b>	<b>1,631</b>	<b>180,479</b>	<b>(690)</b>	<b>39,244</b>	<b>473,614</b>

## Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

### Statements of changes in equity for the financial year ended 30 June 2014 (continued)

	Attributable to owner of the parent						Total RM'000
	Share capital RM'000	Share premium RM'000	Redeemable preference shares RM'000	Statutory reserve RM'000	Fair value reserve RM'000	Accumulated losses RM'000	
<b>The Group</b>							
<b>At 1 July 2012</b>	75,000	87,950	-	83,385	-	(70,801)	175,534
Net profit for the financial year	-	-	-	-	-	89,592	89,592
Other comprehensive expense, net of tax	-	-	-	-	(10,093)	-	(10,093)
Total comprehensive (expense)/income for the financial year	-	-	-	-	(10,093)	89,592	79,499
Vesting of assets & liabilities from Promilia Berhad							
- issuance of ordinary shares	90,000	-	-	-	-	-	90,000
- issuance of Redeemable Preference Shares	-	-	1,631	-	-	-	1,631
- effect of predecessor accounting	-	-	-	47,352	11,047	(14,622)	43,777
- merger deficit adjusted to retained earnings	-	-	-	-	-	(1,848)	(1,848)
	90,000	-	1,631	47,352	11,047	(16,470)	133,560
Gain arising from purchase of shares held for ESOS	-	-	-	-	-	1,875	1,875
Gain arising from call option for purchase of shares for ESOS	-	-	-	-	-	3,289	3,289
Transfer to statutory reserve	-	-	-	22,360	-	(22,360)	-
<b>At 30 June 2013</b>	165,000	87,950	1,631	153,097	954	(14,875)	393,757



## Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

### Statements of changes in equity for the financial year ended 30 June 2014 (continued)

	Note	Non-distributable			Distributable		Total	
		Share capital RM'000	Share premium RM'000	Redeemable preference shares RM'000	Statutory reserve RM'000	Fair value reserve RM'000		(Accumulated losses)/ retained profits RM'000
<b>The Bank</b>								
<b>At 1 July 2013</b>		<b>165,000</b>	<b>87,950</b>	<b>1,631</b>	<b>153,097</b>	<b>954</b>	<b>(15,241)</b>	<b>393,391</b>
Net profit for the financial year		-	-	-	-	-	109,526	109,526
Other comprehensive expense, net of tax		-	-	-	-	(1,644)	-	(1,644)
Total comprehensive (expense)/income for the financial year		-	-	-	-	(1,644)	109,526	107,882
Transfer to statutory reserve		-	-	-	27,382	-	(27,382)	-
Dividend paid	36	-	-	-	-	-	(28,000)	(28,000)
<b>At 30 June 2014</b>		<b>165,000</b>	<b>87,950</b>	<b>1,631</b>	<b>180,479</b>	<b>(690)</b>	<b>38,903</b>	<b>473,273</b>

## Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

### Statements of changes in equity for the financial year ended 30 June 2014 (continued)

	Non-distributable			Distributable			Total RM'000
	Share capital RM'000	Share premium RM'000	Redeemable preference shares RM'000	Statutory reserve RM'000	Fair value reserve RM'000	Accumulated losses RM'000	
<b>The Bank</b>							
<b>At 1 July 2012</b>	75,000	87,950	-	83,385	-	(71,016)	175,319
Net profit for the financial year	-	-	-	-	-	89,441	89,441
Other comprehensive expense, net of tax	-	-	-	-	(10,093)	-	(10,093)
Total comprehensive (expense)/income for the financial year	-	-	-	-	(10,093)	89,441	79,348
Vesting of assets & liabilities from Promilia Berhad							
- issuance of ordinary shares	90,000	-	-	-	-	-	90,000
- issuance of Redeemable Preference Shares	-	-	1,631	-	-	-	1,631
- effect of predecessor accounting	-	-	-	47,352	11,047	(14,893)	43,506
- merger deficit adjusted to retained earnings	-	-	-	-	-	(1,577)	(1,577)
	90,000	-	1,631	47,352	11,047	(16,470)	133,560
Gain arising from purchase of shares held for ESOS	-	-	-	-	-	1,875	1,875
Gain arising from call option for purchase of shares for ESOS	-	-	-	-	-	3,289	3,289
Transfer to statutory reserve	-	-	-	22,360	-	(22,360)	-
<b>At 30 June 2013</b>	165,000	87,950	1,631	153,097	954	(15,241)	393,391

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Statements of cash flows for the financial year ended 30 June 2014

	The Group		The Bank	
	30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
<b>Cash flows from operating activities</b>				
Profit before taxation	68,368	60,828	68,381	60,674
Adjustments for:				
Depreciation of property and equipment	1,899	1,673	1,899	1,673
Amortisation of intangible assets	523	427	523	427
Option charge arising from ESOS	30,535	8,141	30,535	8,141
Loss on liquidation of subsidiaries	3	-	3	-
Property and equipment written off	-	12	-	12
Allowance for impairment losses on loans and advances	511	85	511	85
Writeback of allowance for impairment losses on clients' and brokers' balances	(26)	(131)	(26)	(131)
(Writeback of)/allowance for losses on other debtors	(68)	345	(68)	345
Allowance for impairment on subsidiary	-	-	-	100
Allowance for impairment losses on securities	-	1,759	-	1,759
Net unrealised (gain)/loss on revaluation of financial assets at fair value through profit or loss	(7,540)	151	(7,540)	151
Net unrealised gain on revaluation of derivative financial instruments	(23,916)	(9,185)	(23,916)	(9,185)
Interest income:				
- financial assets at fair value through profit or loss	(19,554)	(21,225)	(19,554)	(21,225)
- financial investments available-for-sale	(19,127)	(4,140)	(19,127)	(4,140)
- financial investments held-to-maturity	(13,758)	(8,782)	(13,758)	(8,782)
- derivative financial instruments	(2,729)	(2,417)	(2,729)	(2,417)
Interest expense for derivative financial instruments	6,650	3,255	6,650	3,255
Dividends from financial assets held-for-trading and financial investments available-for-sale	(689)	(671)	(689)	(671)
	(47,286)	(30,703)	(47,286)	(30,603)
<b>Operating profit before working capital changes</b>	<b>21,082</b>	<b>30,125</b>	<b>21,095</b>	<b>30,071</b>
<b>(Increase)/decrease in operating assets</b>				
Clients' and brokers' balances	(136,813)	53,548	(136,813)	53,548
Reverse repurchase agreements	(5,788)	(274,388)	(5,788)	(274,388)
Deposits and placements with banks and other financial institutions	(5,958)	(192,627)	(5,943)	(192,627)
Financial assets at fair value through profit or loss	(196,731)	428,325	(196,731)	428,325
Loans and advances	(257,741)	100,620	(257,741)	100,620
Other assets	(32,934)	37,273	(32,920)	42,809
Derivative financial assets	15,513	54	15,513	54
Statutory deposits with Bank Negara Malaysia	(6,250)	(16,200)	(6,250)	(16,200)

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Statements of cash flows for the financial year ended 30 June 2014 (continued)

	The Group		The Bank	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
	RM'000	RM'000	RM'000	RM'000
<b>Increase/(decrease) in operating liabilities</b>				
Clients' and brokers' balances	123,110	(47,130)	123,110	(47,130)
Deposits from customers	161,397	(318,561)	161,397	(318,561)
Deposits and placements of banks and other financial institutions	511,985	579,921	511,985	579,921
Repurchased agreements	2,054	65,773	2,054	65,773
Other liabilities	385,014	(41,191)	385,052	(41,037)
<b>Cash generated from operating activities</b>	<b>577,940</b>	<b>405,542</b>	<b>578,020</b>	<b>411,178</b>
Income tax paid	(3)	(30)	-	-
<b>Net cash generated from operating activities</b>	<b>577,937</b>	<b>405,512</b>	<b>578,020</b>	<b>411,178</b>
<b>Cash flows from investing activities</b>				
Vesting of assets and liabilities from Promilia	-	(3,269)	-	(9,746)
Proceeds from liquidation of subsidiaries	-	-	1,069	-
Net (purchase)/disposal of:				
- financial investments available-for-sale	(371,501)	34,889	(371,501)	34,889
- financial investments held-to-maturity	(104,174)	5,987	(104,174)	5,987
Interest received from financial assets at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity	48,453	45,146	48,453	45,146
Interest expense paid for derivative financial instruments	(3,528)	(1,054)	(3,528)	(1,054)
Dividends from financial assets at fair value through profit or loss and financial investments available-for-sale	689	601	689	601
Net purchase of intangible assets	(461)	(550)	(461)	(550)
Net purchase of property and equipment	(719)	(1,105)	(719)	(1,105)
Investment in subsidiaries	-	-	-	(337)
<b>Net cash (used in)/generated from investing activities</b>	<b>(431,241)</b>	<b>80,645</b>	<b>(430,172)</b>	<b>73,831</b>
<b>Cash flows from financing activities</b>				
Dividend paid to owners of redeemable preference shares	(28,000)	-	(28,000)	-
<b>Net cash used in financing activities</b>	<b>(28,000)</b>	<b>-</b>	<b>(28,000)</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>	<b>118,696</b>	<b>486,157</b>	<b>119,848</b>	<b>485,009</b>
<b>Cash and cash equivalents at beginning of financial year</b>	<b>556,269</b>	<b>70,112</b>	<b>554,702</b>	<b>69,693</b>
<b>Cash and cash equivalents at end of financial year</b>	<b>674,965</b>	<b>556,269</b>	<b>674,550</b>	<b>554,702</b>
<b>Cash and cash equivalents comprise:</b>				
Cash and short-term funds	4 674,965	556,269	674,550	554,702

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014

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 Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”) and the requirements of the Companies Act, 1965.

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

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Group’s and the Bank’s accounting policies. Although these estimates and judgement are based on the Directors’ best knowledge of current events and actions, actual results may differ from those estimates. The area involving higher degree of judgement or complexity, or area where assumptions and estimates are significant to the financial statements includes the following:

#### Deferred tax asset (Note 13)

Deferred tax assets are recognised for all the unutilised tax credits to the extent that it is probable that future taxable profit will be available against which the tax credits can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the probability and level of future taxable profits.

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

- MFRS 10 “Consolidated Financial Statements”
- MFRS 12 “Disclosures of Interests in Other Entities”
- MFRS 13 “Fair Value Measurement”
- The revised MFRS 127 “Separate Financial Statements”
- Amendment to MFRS 7 “Financial Instruments: Disclosures”
- Amendments to MFRS 10, 11 & 12 “Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance”
- Annual improvements 2009-2011 Cycle

The adoption of the above accounting standards and amendments to published standards does not give rise to any material financial impact to the Group and the Bank.

#### (b) Standards early adopted by the Group and the Bank

The amendments to MFRS 136 “Impairment of Assets” removed certain disclosures of the recoverable amount of CGUs which had been included in MFRS 136 by the issuance of MFRS 13. The amendment is not mandatory for the Group until 1 July 2014, however the Group has decided to early adopt the amendment as of 1 July 2013.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)

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

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2014. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- MFRS 9 "Financial Instruments Classification and Measurement of Financial Assets and Financial Liabilities" will replace MFRS 139 "Financial Instruments: Recognition and Measurement". MFRS 9 has two measurement categories - amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 "Financial Instruments Hedge Accounting" brings into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. The revised standard establishes a more principle-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in MFRS 139.

- IC Interpretation 21 "Levies" sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation clarifies that a liability to pay a levy is recognised when the obligating event occurs. Obligating event is the event identified by the legislation that triggers the payment of levy.

The Group is in the process of reviewing the financial impact of IC Interpretation 21 and requirements of MFRS 9 and expects this process to be completed prior to the effective date.

### 2 Summary of significant accounting policies

#### A Consolidation

##### (i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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 in the same reporting date as the Bank.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)

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

#### A Consolidation (continued)

##### (i) Subsidiaries (continued)

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition- by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The Group applies predecessor accounting to account for business combinations under common control. Under the predecessor accounting, assets and liabilities acquired are not restated to their respective fair values but at the carrying amounts from the consolidated financial statements of the ultimate holding company of the Group. The difference between any consideration given and the aggregate carrying amounts of the assets and liabilities (at the date of the transaction) of the acquired entity is recorded as an adjustment to retained earnings. No additional goodwill is recognised. Acquisition-related costs are expensed as incurred. The Group incorporates the subsidiary's results, assets and liabilities prospectively from the date on which the business combination between entities under common control occurred. Consequently, the consolidated financial statements do not reflect the results of the acquired entity before the transaction occurred and the corresponding amounts for the previous year are also not restated.

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 identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statements.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances, unrealised gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)

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

#### A Consolidation (continued)

##### (ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

##### (iii) Disposal of subsidiaries

When the Group ceases to have control over a subsidiary, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

##### (iv) Investment in subsidiaries

In the Bank's separate financial statements, the investment in subsidiaries is stated at cost less accumulated 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.

On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

The amounts due from subsidiaries of which the Bank does not expect repayment in the foreseeable future are considered as part of the Bank's investments in subsidiaries.

#### 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.



# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)

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

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

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

#### 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.

Brokerage income is recognised when contracts are executed. Rollover fees, nominees services 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 futures 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 financial assets 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.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)

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

#### D Financial assets (continued)

##### (a) Classification (continued)

###### (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.

###### (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

Regular purchases and sales of financial assets are recognised on the settlement date, the date an asset is delivered to or by the Group.

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 other comprehensive income, 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.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)

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

#### D Financial assets (continued)

##### (c) Subsequent measurement (continued)

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.

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.

#### 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.

#### F 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.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)

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

#### F Impairment of financial assets

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

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 or 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 assess 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 and the Bank determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, they include the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Group and in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the financial period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from financial period to financial period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group and the Bank to reduce any differences between loss estimates and actual loss experience.

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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If 'loans and receivables' or a 'held-to-maturity investment' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

When an asset is uncollectible, it is written off against the related allowance account. Such assets 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 occurring 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.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)

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

#### F Impairment of financial assets (continued)

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

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

For debt securities, the Group and the Bank uses 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.

#### G 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.

#### H Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)

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

#### I Clients' and brokers' balances

In accordance with the Rules of Bursa Malaysia Securities Berhad, clients' accounts are classified as impaired accounts (previously referred to as non-performing) under the following circumstances:

<u>Types</u>	<u>Criteria for classification as impaired</u>
Contra losses	When account remains outstanding for more than 16 calendar days from the date of contra transaction.
Overdue purchase contracts	When an account remains outstanding from T+5 market days onwards (non-margin purchase) and T+9 market days onwards (discretionary financing)

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.

#### J Property and equipment and depreciation

Freehold land is not depreciated as it has an infinite life. Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes its purchase price and any cost 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 year 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 remaining period of the lease or 100 years whichever is shorter
Buildings on leasehold land	Over the remaining period of the lease or 50 years whichever is shorter
Buildings on freehold land	50 years
Office and computer equipment	3 - 10 years
Furniture and fittings	3 - 10 years
Renovations	5 - 10 years
Motor vehicles	4 - 5 years

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 M on the impairment of non-financial assets.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)

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

#### J Property and equipment and depreciation (continued)

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.

#### K 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 to 5 years. Computer software classified as intangible assets are stated at cost less accumulated amortisation and accumulated impairment loss, if any.

##### (b) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

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 monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

#### L 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 the significant portion of 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.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)

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

#### M 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.

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 reserve.

#### N Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries operate and generate taxable income.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes 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 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.

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

Deferred income tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled by the parent 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 statements together with the deferred gain or loss.



# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)

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

#### N Income taxes (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balance on a net basis.

#### O Currency translations

##### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's 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 other comprehensive income.

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 other comprehensive income.

#### P 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.

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 the fair value of derivatives in profit or loss immediately.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)

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

#### Q 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 Bank operates a cash-settled, share-based compensation plan under which the Bank receives services from employees as consideration for equity instruments (share options) of the parent. 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 liabilities.

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 estimate 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.

A trust has been set up for the Employee Share Option Scheme (“ESOS”) and is administered by an appointed trustee.

#### R 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.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)

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

#### R Provision (continued)

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.

#### S 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 guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with MFRS 137 “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where financial guarantees in relation to loans or payables of subsidiaries are provided by the Bank for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment in subsidiaries.

#### T Cash and cash equivalents

Cash and cash equivalents are cash and short-term funds held for the purpose of meeting short term commitments and readily convertible into cash without significant risk of changes in value.

#### U 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 contractual 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.

# **Hong Leong Investment Bank Berhad**

**Company no: 10209-W**

**(Incorporated in Malaysia)**

## **Summary of Significant Accounting Policies for the financial year ended 30 June 2014 (continued)**

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

#### **U Share capital (continued)**

##### **(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.

#### **V 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 statements 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.

#### **W Contingent assets and liabilities**

The Group and the Bank do not recognise contingent assets and liabilities, but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts. A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Bank. The Group and the Bank do not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

#### **X Transaction with owners**

Transaction with owners in their capacity as owners are recognised in statement of changes in equity and are presented separately from non-owner changes in equity,

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements for the financial year ended 30 June 2014

### 3 General information

The principal activities of the Bank are investment banking, stockbroking business, futures broking and related financial services.

The principal activities of the subsidiary companies are stated in Note 14 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

	<b>The Group</b>		<b>The Bank</b>	
	<b>30.06.2014</b>	30.06.2013	<b>30.06.2014</b>	30.06.2013
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Cash and bank balances with banks and other financial institutions	<b>109,539</b>	68,724	<b>109,124</b>	67,157
Money at call and deposit placements maturing within one month	<b>565,426</b>	487,545	<b>565,426</b>	487,545
	<b>674,965</b>	556,269	<b>674,550</b>	554,702

Inclusive in cash and short-term funds of the Group are accounts in trust for dealer's representative amounting to RM13,777,000 (30.06.2013: RM15,482,000).

### 5 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, amounts due from brokers and contra losses.

	<b>The Group and The Bank</b>	
	<b>30.06.2014</b>	30.06.2013
	<b>RM'000</b>	RM'000
Performing accounts	<b>283,807</b>	147,145
Impaired accounts	<b>956</b>	805
	<b>284,763</b>	147,950
Less: Allowance for bad and doubtful debts		
- individual assessment allowance	<b>(370)</b>	(378)
- collective assessment allowance	<b>(15)</b>	(33)
	<b>284,378</b>	147,539

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

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

	<b>The Group and The Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Movements of impaired accounts are as follows:		
At 1 July	<b>805</b>	185
Impaired during the financial year	<b>562</b>	-
Vested from Promilia Berhad ("Promilia")	-	735
Amount written back during the financial year	<b>(411)</b>	(115)
At 30 June	<b>956</b>	805

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

#### **Individual assessment allowance**

At 1 July	<b>378</b>	132
Vested from Promilia	-	260
Allowance made during the financial year	<b>119</b>	138
Allowance written back during the financial year	<b>(127)</b>	(152)
At 30 June	<b>370</b>	378

#### **Collective assessment allowance**

At 1 July	<b>33</b>	133
Vested from Promilia	-	17
Amount written back during the financial year	<b>(18)</b>	(117)
At 30 June	<b>15</b>	33

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

	<b>The Group</b>		<b>The Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Licensed banks	<b>301,156</b>	275,188	<b>300,870</b>	274,917
Licensed investment banks	<b>30,003</b>	50,013	<b>30,003</b>	50,013
	<b>331,159</b>	325,201	<b>330,873</b>	324,930

# Hong Leong Investment Bank Berhad

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 7 Financial assets at fair value through profit or loss

	<b>The Group and The Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Financial assets held-for-trading</b>		
<b>Money market instruments</b>		
Malaysian Government Securities	-	20,107
Negotiable instruments of deposits	<b>403,428</b>	150,372
Bankers' acceptance	<b>316,639</b>	219,476
	<b>720,067</b>	<b>389,955</b>
<b>Quoted securities</b>		
In Malaysia:		
Shares	<b>8,360</b>	9,570
<b>Unquoted securities</b>		
Foreign currency bonds	<b>33,777</b>	63,074
Private and Islamic debt securities	<b>106,060</b>	194,599
	<b>139,837</b>	<b>257,673</b>
	<b>868,264</b>	<b>657,198</b>
<b>Financial assets designated at fair value through profit or loss</b>		
<b>Quoted securities</b>		
In Malaysia:		
Shares	-	5,775
	<b>868,264</b>	<b>662,973</b>

### 8 Financial investments available-for-sale

	<b>The Group and The Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Money market instruments</b>		
Malaysian Government Securities	<b>30,512</b>	20,205
Malaysian Government Investment Issues	<b>139,398</b>	59,669
Cagamas bonds	<b>15,063</b>	5,122
	<b>184,973</b>	<b>84,996</b>
<b>Unquoted securities</b>		
Shares	<b>245</b>	686
Foreign currency bonds	<b>72,619</b>	86,476
Private and Islamic debt securities	<b>378,748</b>	92,480
	<b>451,612</b>	<b>179,642</b>
	<b>636,585</b>	<b>264,638</b>

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 9 Financial investments held-to-maturity

	<b>The Group and The Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Money market instruments</b>		
Malaysian Government Securities	51,316	-
Malaysian Government Investment Issues	25,517	5,107
Negotiable instruments of deposits	51,499	-
Cagamas bonds	-	10,161
	<b>128,332</b>	<b>15,268</b>
<b>Unquoted securities</b>		
Foreign currency bonds	194,666	192,912
Private and Islamic debt securities	35,415	45,731
	<b>230,081</b>	<b>238,643</b>
	<b>358,413</b>	<b>253,911</b>

### 10 Loans and advances

	<b>The Group and The Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Term loan financing	140,112	33,533
Share margin financing	291,384	139,049
Revolving credit	-	60
Staff loans	100	458
Other loans	1,319	2,074
Gross loans and advances	<b>432,915</b>	<b>175,174</b>
Less:		
Allowance for losses on loans and advances:		
- individual assessment allowance	(194)	(252)
- collective assessment allowance	(1,307)	(738)
Total net loans and advances	<b>431,414</b>	<b>174,184</b>

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

Maturing within one year	365,350	172,658
One year to three years	3	149
Three years to five years	67,479	119
Over five years	83	2,248
Gross loans and advances	<b>432,915</b>	<b>175,174</b>



# Hong Leong Investment Bank Berhad

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 10 Loans and advances (continued)

	<b>The Group and The Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
(ii) The loans and advances are disbursed to the following type of customers:		
Domestic business enterprises		
- small and medium enterprises	<b>72,653</b>	26,600
- others	<b>115,866</b>	52,708
Individuals	<b>244,144</b>	95,563
Foreign entities	<b>252</b>	303
Gross loans and advances	<b>432,915</b>	175,174
(iii) Loans and advances analysed by interest rate sensitivity are as follows:		
Variable rate	<b>385,479</b>	123,482
Fixed rate		
- staff housing loans	<b>83</b>	388
- other fixed rate loans	<b>47,353</b>	51,237
Non-interest bearing	<b>-</b>	67
Gross loans and advances	<b>432,915</b>	175,174
(iv) Loans and advances analysed by their economic purposes are as follows:		
Purchase of securities	<b>291,384</b>	139,049
Purchase of transport vehicles	<b>157</b>	235
Purchase of landed properties	<b>1,256</b>	2,298
Working capital	<b>140,112</b>	33,592
Others	<b>6</b>	-
Gross loans and advances	<b>432,915</b>	175,174
(v) Loans and advances analysed by geographical distribution are as follows:		
Malaysia	<b>432,915</b>	175,174

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 10 Loans and advances (continued)

	<b>The Group and The Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
(vi) Movement in the impaired loans and advances are as follows:		
At 1 July	<b>1,123</b>	-
Vested from Promilia	-	196
Impaired during the financial year	<b>156</b>	1,123
Amount written back during the financial year	<b>(426)</b>	(196)
At 30 June	<b>853</b>	1,123
% of impaired loans to total loans and advances net of individual assessment allowance	<b>0.2%</b>	0.6%
(vii) Movement in the allowance for losses on loans and advances are as follows:		
<b>Individual assessment allowance</b>		
At 1 July	<b>252</b>	-
Allowance made during the financial year	<b>2</b>	252
Amount written back during the financial year	<b>(60)</b>	-
At 30 June	<b>194</b>	252
<b>Collective assessment allowance</b>		
At 1 July	<b>738</b>	160
Vested from Promilia	-	745
Allowance made/(written back) during the financial year	<b>569</b>	(167)
At 30 June	<b>1,307</b>	738
(viii) Impaired loans and advances analysed by their economic purposes are as follows:		
Purchase of transport vehicles	<b>115</b>	156
Purchase of landed properties	<b>738</b>	967
	<b>853</b>	1,123
(ix) Impaired loans and advances analysed by geographical distribution are as follows:		
Malaysia	<b>853</b>	1,123

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 11 Other assets

	The Group		The Bank	
	30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
Tax recoverable	7	5	-	-
Amount due from holding company	-	793	-	793
Amounts due from related companies	283	352	283	352
Amounts due from subsidiary companies	-	-	-	3
Deposits	3,784	3,493	3,784	3,493
Prepayments	749	571	749	571
Fee income receivable	33,943	3,910	33,943	3,910
Other receivables	7,298	3,946	7,296	3,945
	<b>46,064</b>	<b>13,070</b>	<b>46,055</b>	<b>13,067</b>

### 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 Deferred tax assets/(liabilities)

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 statements of financial position:

	Note	The Group and The Bank	
		30.06.2014 RM'000	30.06.2013 RM'000
Deferred tax assets	(a)	104,363	63,172
Deferred tax liabilities	(b)	(692)	(1,194)
		<b>103,671</b>	<b>61,978</b>
At 1 July		61,978	35,271
Credited to income statements (Note 33)		60,931	47,804
Credited to equity		548	3,364
Reversal against taxation payable		(19,786)	(19,962)
Vested from Promilia		-	(4,499)
At 30 June		<b>103,671</b>	<b>61,978</b>

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 13 Deferred tax assets/(liabilities) (continued)

	<b>The Group and The Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Deferred tax assets		
- settled more than 12 months	74,625	39,310
- settled within 12 months	29,738	23,862
	<b>104,363</b>	<b>63,172</b>
Deferred tax liabilities		
- settled more than 12 months	(305)	(834)
- settled within 12 months	(387)	(360)
	<b>(692)</b>	<b>(1,194)</b>
	<b>103,671</b>	<b>61,978</b>

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

#### (a) Deferred tax assets

<b>The Group and the Bank</b>	<b>Collective assessment allowance RM'000</b>	<b>Financial investments available- for-sale RM'000</b>	<b>Unutilised tax credits RM'000</b>	<b>Provisions RM'000</b>	<b>Total RM'000</b>
At 1 July 2013	-	-	54,872	8,300	63,172
Credited to income statements	-	-	59,839	908	60,747
Reversal against taxation payable	-	-	(19,786)	-	(19,786)
Reclassified from deferred tax liabilities	-	230	-	-	230
At 30 June 2014	-	230	94,925	9,208	104,363
At 1 July 2012	137	-	35,060	365	35,562
(Charged)/credited to income statements	(137)	-	39,774	7,935	47,572
Reversal against taxation payable	-	-	(19,962)	-	(19,962)
At 30 June 2013	-	-	54,872	8,300	63,172

#### (b) Deferred tax liabilities

<b>The Group and the Bank</b>	<b>Property and equipment RM'000</b>	<b>Financial investments available- for-sale RM'000</b>	<b>Other temporary differences RM'000</b>	<b>Total RM'000</b>
At 1 July 2013	876	318	-	1,194
Credited to income statements	(184)	-	-	(184)
Credited to equity	-	(548)	-	(548)
Reclassified to deferred tax assets	-	230	-	230
At 30 June 2014	692	-	-	692

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 13 Deferred tax assets/(liabilities) (continued)

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

##### (b) Deferred tax liabilities

<b>The Group and the Bank</b>	<b>Property and equipment RM'000</b>	<b>Financial investments available- for-sale RM'000</b>	<b>Other temporary differences RM'000</b>	<b>Total RM'000</b>
At 1 July 2012	-	-	291	291
Vested from Promilia	817	3,682	-	4,499
Charged/(credited) to income statements	59	-	(291)	(232)
Credited to equity	-	(3,364)	-	(3,364)
At 30 June 2013	<u>876</u>	<u>318</u>	<u>-</u>	<u>1,194</u>

Deferred tax assets have not been recognised on the following as it is not probable that the Group and the Bank will generate sufficient future taxable profits available against which the deductible temporary differences can be utilised:

	<b>The Group and the Bank 30.06.2014 RM'000</b>	<b>30.06.2013 RM'000</b>
Unused tax credits carried forward	<u>174,908</u>	<u>204,825</u>

#### 14 Investment in subsidiary companies

	<b>The Bank 30.06.2014 RM'000</b>	<b>30.06.2013 RM'000</b>
Subsidiary companies: Unquoted shares, at cost	<u>383</u>	<u>1,455</u>

The subsidiary companies of the Bank are as follows:

<b>Name of company</b>	<b>Country of incorporation</b>	<b>Effective equity interest</b>		<b>Principal activities</b>
		<b>30.06.2014 %</b>	<b>30.06.2013 %</b>	
ECS Jaya (1969) Sdn Bhd	Malaysia	<b>100</b>	100	In member's voluntary liquidation
MIMB Nominees (Tempatan) Sendirian Berhad <sup>1</sup>	Malaysia	-	100	Dissolved

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 14 Investment in subsidiary companies

The subsidiary companies of the Bank are as follows: (continued)

Name of company	Country of incorporation	Effective equity interest		Principal activities
		30.06.2014	30.06.2013	
		%	%	
MIMB Nominees (Asing) Sendirian Berhad <sup>1</sup>	Malaysia	-	100	Dissolved
HLIB Nominees (Tempatan) Sdn Bhd	Malaysia	100	100	Nominee and custodian services for Malaysia clients
HLIB Nominees (Asing) Sdn Bhd	Malaysia	100	100	Nominee and custodian services for foreign clients
SSSB Jaya (1987) Sdn Bhd and its subsidiaries	Malaysia	100	100	In creditor's voluntary liquidation
SSSB Nominees (Tempatan) Sdn Bhd <sup>2</sup>	Malaysia	-	100	Dissolved
SSSB Nominees (Asing) Sdn Bhd <sup>2</sup>	Malaysia	-	100	Dissolved
HLG Nominee (Tempatan) Sdn Bhd	Malaysia	100	100	In member's voluntary winding-up
HLG Nominee (Asing) Sdn Bhd	Malaysia	100	100	In member's voluntary winding-up
RC Nominees (Asing) Sdn Bhd	Malaysia	100	100	In member's voluntary winding-up
RC Nominees (Tempatan) Sdn Bhd	Malaysia	100	100	In member's voluntary winding-up
RC Research Sdn Bhd	Malaysia	100	100	In member's voluntary winding-up
Unincorporated trust for ESOS	Malaysia	-	-	Special purpose vehicle for ESOS purpose

<sup>1</sup> The subsidiary was dissolved on 19 May 2014.

<sup>2</sup> The subsidiary was dissolved on 12 December 2013.

# **Hong Leong Investment Bank Berhad**

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## **Notes to the financial statements**

**for the financial year ended 30 June 2014 (continued)**

### **14 Investment in subsidiary companies**

#### **Significant judgments and assumptions used to determine the scope of the consolidation**

Determining whether the Group has control of an entity is generally straight forward based on ownership of the majority of the voting capital. However, in certain instances this determination will involve significant judgment, particularly in the case of structured entities where voting rights are often not the determining factor in decisions over the relevant activities. This judgment may involve assessing the purpose and design of the entity. It will also often be necessary to consider whether the group, or another involved party with power over the relevant activities, is acting as a principal in its own right or as an agent on behalf of others.

There is also often considerable judgment involved in the ongoing assessment of control over structured entities. In this regard, where market conditions have deteriorated such that the other investors' exposures to the structure's variable returns have been substantively eliminated, the Group may conclude that the Group which acts as managers of the structured entity are acting as its principal and therefore will consolidate the structured entity.

An interest in equity voting rights exceeding 50% would typically indicate that the Group has control of an entity. However certain entities are excluded from consolidation because the Group does not have exposure to their variable returns.

### **15 Structured entities**

A structured entity ("SE") is an entity in which voting or similar rights are not the dominant factor in deciding control. SEs are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. Depending on the Group's power over the activities of the entity and its exposure to and ability to influence its own returns, it may consolidate the entity. In other cases it may sponsor or have exposure to such an entity but not consolidate it.

#### **Unconsolidated structured entities in which the Group has an interest**

An interest in a SE is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Group. Such interests include holdings of debt securities, lending and derivatives.

HLIB has been involved in the setting up of the SEs to facilitate the sell down of the debt securities originated and arranged by HLIB. HLIB has power over the relevant activities but no significant exposure to these SEs.

# Hong Leong Investment Bank Berhad

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 15 Structured entities (continued)

The carrying amounts of assets and liabilities recognised in the Group's and the Bank's statement of financial position relating to the interests in unconsolidated SEs is summarised as below:

<b>30.06.2014</b>	<b>RM'000</b>
<u>Assets</u>	
Loans and advances	40,652
Derivative financial assets	3,851
<u>Liabilities</u>	
Other liabilities	12,267
Derivative financial liabilities	11,276

The Group's and the Bank's income and expenses in relation to unconsolidated SEs recognised during the financial year is summarised as below:

<b>30.06.2014</b>	<b>RM'000</b>
<u>Interest income</u>	
- Loans and advances	1,743
<u>Non-interest income</u>	
- Arranger fees	1,830
- Other fee income	611
- Upfront income on interest rate swaps ("IRS")	8,550
- Unrealised loss on revaluation of derivative financial assets - call options	(1,011)
<u>Interest expense</u>	
- IRS	1,977

The principal amount of the derivative financial instruments relating to unconsolidated SEs is summarised as below:

<b>30.06.2014</b>	<b>RM'000</b>
<u>Commitments and contingencies</u>	
Interest rate related contracts:	
- IRS	156,000
Equity related contracts:	
- Call options	11,500

The Group's and the Bank's maximum exposure to loss is the total of its on-balance sheet positions. Exposure to loss is mitigated through collateral held.



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### Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

#### 16 Property and equipment

The Group and the Bank	Freehold land RM'000	Leasehold land more than 50 years RM'000	Leasehold building RM'000	Office and computer equipment RM'000	Furniture and fittings RM'000	Office renovations RM'000	Motor vehicles RM'000	Total RM'000
<b>Cost</b>								
At 1 July 2013	350	780	804	2,922	1,032	5,749	209	11,846
Additions	-	-	-	559	82	78	-	719
At 30 June 2014	<b>350</b>	<b>780</b>	<b>804</b>	<b>3,481</b>	<b>1,114</b>	<b>5,827</b>	<b>209</b>	<b>12,565</b>
<b>Accumulated depreciation</b>								
At 1 July 2013	-	-	12	1,483	280	3,356	48	5,179
Charge for the financial year	-	14	16	697	283	825	64	1,899
At 30 June 2014	-	14	28	2,180	563	4,181	112	7,078
<b>Net book value</b>								
At 30 June 2014	<b>350</b>	<b>766</b>	<b>776</b>	<b>1,301</b>	<b>551</b>	<b>1,646</b>	<b>97</b>	<b>5,487</b>

# Hong Leong Investment Bank Berhad

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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 16 Property and equipment (continued)

The Group and the Bank	Freehold land RM'000	Leasehold land more than 50 years RM'000	Leasehold building RM'000	Office and computer equipment RM'000	Furniture and fittings RM'000	Office renovations RM'000	Motor vehicles RM'000	Total RM'000
<b>Cost</b>								
At 1 July 2012	-	-	-	1,099	210	3,196	-	4,505
Vested from Promilia	350	780	804	1,182	528	2,413	209	6,266
Additions	-	-	-	641	294	170	-	1,105
Write-offs	-	-	-	-	-	(30)	-	(30)
At 30 June 2013	350	780	804	2,922	1,032	5,749	209	11,846
<b>Accumulated depreciation</b>								
At 1 July 2012	-	-	-	781	73	2,670	-	3,524
Charge for the financial year	-	-	12	702	207	704	48	1,673
Write-offs	-	-	-	-	-	(18)	-	(18)
At 30 June 2013	-	-	12	1,483	280	3,356	48	5,179
<b>Net book value</b>								
At 30 June 2013	350	780	792	1,439	752	2,393	161	6,667

# Hong Leong Investment Bank Berhad

Company no: 10209-W  
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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 17 Intangible assets - Computer software

	<b>The Group and the Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cost</b>		
At 1 July	1,519	61
Vested from Promilia	-	908
Additions	461	550
At 30 June	<u>1,980</u>	<u>1,519</u>
<b>Amortisation</b>		
At 1 July	465	38
Charge for the financial year	523	427
At 30 June	<u>988</u>	<u>465</u>
<b>Net book value</b>	<u>992</u>	<u>1,054</u>

### 18 Goodwill

	<b>The Group and the Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cost</b>		
At 1 July	28,986	-
Arising from vesting of assets and liabilities from Promilia	-	28,986
At 30 June	<u>28,986</u>	<u>28,986</u>

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

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

	<b>The Group and the Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>CGU</b>		
Investment banking and stockbroking	<u>28,986</u>	<u>28,986</u>

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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 18 Goodwill (continued)

#### Impairment test on goodwill

The recoverable amount of CGUs have been determined based on value in use calculation. These calculations use pre-tax cash flows projections based on financial budgets approved by Directors covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates of 4.5% (30.06.2013: 4%) and discounted using pre-tax discount rates which reflect the specific risks relating to CGU.

The cash flows projections are derived based on a number of key factors including the past performance and management's expectations on the market development. The following are the discount rates used in determining the recoverable amount of each CGUs:

	<b>The Group and the Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
Investment banking and stockbroking	<b>15.0%</b>	16.0%

For the current financial year, impairment was not required 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.

### 19 Deposit from customers

	<b>The Group and the Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Fixed deposits	<b>631,566</b>	470,169
(i) The maturity structure of fixed deposits is as follows:		
Due within six months	<b>631,566</b>	470,169
(ii) The deposits are sourced from the following customers:		
Government and statutory bodies	<b>534,103</b>	429,322
Business enterprises	<b>96,453</b>	40,847
Individuals	<b>1,010</b>	-
	<b>631,566</b>	470,169

# Hong Leong Investment Bank Berhad

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 20 Deposits and placements of banks and other financial institutions

	The Group and the Bank	
	30.06.2014 RM'000	30.06.2013 RM'000
Bank Negara Malaysia	96,343	316,207
Licensed banks	553,736	128,060
Licensed investment banks	52,804	105,866
Other financial institutions	1,352,077	992,842
	<b>2,054,960</b>	<b>1,542,975</b>

#### 21 Other liabilities

	The Group		The Bank	
	30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
Amount due to holding company (a)	266	-	266	-
Amounts due to subsidiary companies (a)	-	-	153	-
Amounts due to related companies (a)	2	-	2	-
Remisiers' trust deposits	13,777	15,482	13,777	15,482
ESOS liabilities	14,624	8,428	14,624	8,428
Advance payments received for corporate exercise	416,545	-	416,545	-
Other payables and accrued liabilities	62,299	68,059	62,164	68,039
Post employment benefits obligation:				
- defined contribution plan	301	296	301	296
	<b>507,814</b>	<b>92,265</b>	<b>507,832</b>	<b>92,245</b>

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

# Hong Leong Investment Bank Berhad

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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 22 Derivative financial assets/(liabilities)

The table below shows the Group's and the Bank's derivative financial instruments as at the reporting date. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative assets) and gross negative (derivative liabilities) fair values at the reporting date are analysed below:

	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
<b>30.06.2014</b>			
Interest rate related contracts:			
- interest rate swaps	2,411,000	9,769	(18,537)
- futures	494,816	489	-
- cross currency swaps	64,220	195	(36)
Foreign exchange related contracts:			
- foreign currency swaps	1,432,090	9,204	(5,969)
- foreign currency forwards	57,314	14	(207)
- foreign currency spots	48,165	19	(24)
Equity related contracts:			
- call options	12,929	21,261	-
	<u>4,520,534</u>	<u>40,951</u>	<u>(24,773)</u>
<b>30.06.2013</b>			
Interest rate related contracts:			
- interest rate swaps	1,888,500	6,615	(11,778)
- futures	894,809	2,239	(942)
- cross currency swaps	94,809	222	(278)
Foreign exchange related contracts:			
- foreign currency swaps	2,064,470	14,835	(19,645)
- foreign currency forwards	19,011	-	(128)
- foreign currency spots	12,641	12	(2)
Equity related contracts:			
- call options	12,858	17,018	-
	<u>4,987,098</u>	<u>40,941</u>	<u>(32,773)</u>

# Hong Leong Investment Bank Berhad

Company no: 10209-W  
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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 23 Share capital

	The Group and the Bank	
	30.06.2014	30.06.2013
	RM'000	RM'000
<b>Authorised:</b>		
Ordinary shares of RM1.00 each		
At 1 July	600,000	500,000
Increased during the financial year	-	100,000
At 30 June	<u>600,000</u>	<u>600,000</u>
<b>Issued and fully paid capital:</b>		
Ordinary shares of RM1.00 each		
At 1 July	165,000	75,000
Issued during the financial year	-	90,000
At 30 June	<u>165,000</u>	<u>165,000</u>

### 24 Redeemable preference shares ("RPS")

	The Group and the Bank	
	30.06.2014	30.06.2013
	RM'000	RM'000
<b>Authorised:</b>		
Non-cumulative redeemable preference shares of RM0.01 each		
At 1 July	20,000	-
Increased during the financial year	-	20,000
At 30 June	<u>20,000</u>	<u>20,000</u>
<b>Issued and fully paid capital:</b>		
Non-cumulative redeemable preference shares of RM0.01 each		
At 1 July	1,631	-
Issued during the financial year	-	1,631
At 30 June	<u>1,631</u>	<u>1,631</u>

The main features of the RPS are as follows:

- The RPS have right to dividends at the discretion of the Directors of the Bank, subject to BNM's approval pursuant to Section 51 of Financial Services Act 2013.
- The RPS rank pari passu in all respects among themselves.
- The RPS will not be convertible into ordinary shares.
- The RPS have no fixed maturity date and can be redeemed at any time by giving 7 days notice in writing.
- The RPS will not be listed on any stock exchange.

# Hong Leong Investment Bank Berhad

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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 25 Reserves

	The Group		The Bank	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
	RM'000	RM'000	RM'000	RM'000
Share premium	87,950	87,950	87,950	87,950
Statutory reserve (a)	180,479	153,097	180,479	153,097
Fair value reserve (b)	(690)	954	(690)	954
Retained profits/(accumulated loss) (c)	39,244	(14,875)	38,903	(15,241)
	<b>306,983</b>	<b>227,126</b>	<b>306,642</b>	<b>226,760</b>

(a) The statutory reserve is maintained in compliance with Section 47 of Financial Services Act 2013 and is not distributable as cash dividend.

(b) Fair value reserve arises from a change in the fair value of financial investments available-for-sale. The gains or losses are transferred to the profit or loss upon derecognition or impairment of such financial investments.

(c) Pursuant to the Finance Act, 2007 which was gazetted on 28 November 2007, dividends paid, credited or distributed to shareholders are not tax deductible by the Company, but are exempted from tax to the shareholders ('single tier system'). The Company's unutilised tax credits as at 31 December 2013, under Section 108 of the Income Tax Act, 1967, was disregarded with effect from 1 January 2014.

### 26 Interest income

	The Group		The Bank	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
	RM'000	RM'000	RM'000	RM'000
Loans and advances	16,627	12,343	16,627	12,343
Money at call and deposit placements with financial institutions	25,077	9,305	25,069	9,305
Financial assets at fair value through profit or loss	19,554	21,225	19,554	21,225
Financial investments available-for-sale	19,127	4,140	19,127	4,140
Financial investments held-to-maturity	13,758	8,782	13,758	8,782
Derivative financial instruments	2,729	2,417	2,729	2,417
Others	1,042	1,050	1,042	1,050
	<b>97,914</b>	<b>59,262</b>	<b>97,906</b>	<b>59,262</b>

### 27 Interest expense

	The Group and the Bank	
	30.06.2014	30.06.2013
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	15,979	6,763
Deposits from customers	45,946	25,277
Derivative financial instruments	6,650	3,255
Others	477	4
	<b>69,052</b>	<b>35,299</b>



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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 28 Non-interest income

	The Group		The Bank	
	30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
<b>Fee income</b>				
Fee on loans and advances	1,284	1,108	1,284	1,108
Arranger fees	15,295	9,277	15,295	9,277
Guarantee fees	1,314	647	1,314	647
Placement fees	24,521	25,041	24,521	25,041
Corporate advisory fees	8,058	5,675	8,058	5,675
Underwriting commissions	2,274	855	2,274	855
Brokerage income	60,576	33,724	60,576	33,724
Commissions from future contracts	1,090	878	1,090	878
Other fee income	19,193	15,106	18,993	14,859
	<b>133,605</b>	<b>92,311</b>	<b>133,405</b>	<b>92,064</b>
<b>Net income from securities</b>				
Net realised gain/(loss) arising from sale/redemption of:				
- Financial assets at fair value through profit or loss	(4,648)	1,859	(4,648)	1,859
- Financial investments available-for-sale	4,528	15,724	4,528	15,724
- Financial investments held-to-maturity	12	-	12	-
- Derivative financial instruments	9,624	(12,748)	9,624	(12,748)
Net gain/(loss) on revaluation of:				
- Financial assets at fair value through profit or loss	7,540	(151)	7,540	(151)
- Derivative financial instruments	23,916	9,185	23,916	9,185
Dividend income from:				
- Financial assets at fair value through profit or loss	640	553	640	553
- Financial investments available-for-sale	49	118	49	118
	<b>41,661</b>	<b>14,540</b>	<b>41,661</b>	<b>14,540</b>
<b>Other income</b>				
Loss on liquidation of subsidiaries	(3)	-	(3)	-
Foreign exchange (loss)/gain	(11,571)	17,920	(11,571)	17,920
Other non-operating income	733	210	735	210
	<b>(10,841)</b>	<b>18,130</b>	<b>(10,839)</b>	<b>18,130</b>
Total non-interest income	<b>164,425</b>	<b>124,981</b>	<b>164,227</b>	<b>124,734</b>

# Hong Leong Investment Bank Berhad

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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 29 Overhead expenses

	The Group		The Bank	
	30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
<b>Personnel costs</b>				
Salaries, allowances and bonuses	54,177	46,601	54,078	46,530
Option charge arising from ESOS	30,535	8,141	30,535	8,141
Others	6,764	5,846	6,746	5,829
	<b>91,476</b>	<b>60,588</b>	<b>91,359</b>	<b>60,500</b>
<b>Establishment costs</b>				
Depreciation of property and equipment	1,899	1,673	1,899	1,673
Amortisation of intangible assets	523	427	523	427
Rental expenses	5,602	4,344	5,570	4,320
Information technology expenses	5,240	3,990	5,240	3,990
Others	2,838	2,075	2,829	2,049
	<b>16,102</b>	<b>12,509</b>	<b>16,061</b>	<b>12,459</b>
<b>Marketing expenses</b>				
Advertisement and publicity	256	77	256	77
Entertainment and business improvement	1,922	839	1,922	839
Others	272	244	272	244
	<b>2,450</b>	<b>1,160</b>	<b>2,450</b>	<b>1,160</b>
<b>Administration and general expenses</b>				
Management fees	2,863	2,197	2,861	2,197
Teletransmission expenses	3,375	2,244	3,375	2,244
Auditors' remuneration				
- Statutory audit	277	299	267	282
- Tax compliance fee	9	24	9	24
- Other fees	185	21	185	21
Legal and professional fees	3,661	3,414	3,636	3,344
Property and equipment written off	-	12	-	12
Others	4,161	3,877	4,137	3,868
	<b>14,531</b>	<b>12,088</b>	<b>14,470</b>	<b>11,992</b>
Total overhead expenses	<b>124,559</b>	<b>86,345</b>	<b>124,340</b>	<b>86,111</b>

Included in the overhead expenses of the Group and the Bank are Directors' remuneration totalling RM6,361,000 (2013: RM4,881,000).

# Hong Leong Investment Bank Berhad

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 30 Allowance for impairment losses on loans and advances and other losses

	The Group		The Bank	
	30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
Allowance for/(writeback of) losses on impaired loans and advances:				
(a) Individual assessment allowance				
- made during the financial year	2	252	2	252
- written back during the financial year	(60)	-	(60)	-
(b) Collective assessment allowance				
- made/(written back) during the financial year	569	(167)	569	(167)
	511	85	511	85
Bad debts on loans and advances				
- written off	-	2	-	2
Allowance for/(writeback of) losses on clients' and brokers' balances:				
(a) Individual assessment allowance				
- made during the financial year	119	138	119	138
- written back during the financial year	(127)	(152)	(127)	(152)
(b) Collective assessment allowance				
- written back during the financial year	(18)	(117)	(18)	(117)
	(26)	(131)	(26)	(131)
Bad debts on clients' and brokers' balances				
- recovered	(57)	(309)	(57)	(309)
Allowance for/(writeback of) losses on other debtors:				
(a) Individual assessment allowance				
- made during the financial year	85	415	85	415
- writtenback during the financial year	(153)	(70)	(153)	(70)
	(68)	345	(68)	345
Bad debts on other assets				
- written off	-	20	-	61
Allowance for impairment on subsidiary	-	-	-	100
	<b>360</b>	<b>12</b>	<b>360</b>	<b>153</b>

#### 31 Allowance for impairment losses on securities

	The Group and the Bank	
	30.06.2014 RM'000	30.06.2013 RM'000
Financial investments available-for-sale	-	1,759

# Hong Leong Investment Bank Berhad

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 32 Directors' remuneration

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

	<b>The Group and the Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Group Managing Director/Chief Executive Officer:		
Ms Lee Jim Leng		
- salary and other remunerations	<b>5,954</b>	4,492
- benefits-in-kind	<b>7</b>	5
	<b>5,961</b>	<b>4,497</b>
Non-Executive Directors - Fees:		
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	<b>75</b>	57
YBhg Dato' Wee Hoe Soon @ Gooi Hoe Soon	<b>60</b>	77
YBhg Tan Sri A. Razak bin Ramli	<b>105</b>	78
YBhg Dato' Mohzani bin Abdul Wahab	<b>65</b>	49
Mr Martin Giles Manen	<b>95</b>	71
Mr Choong Yee How <sup>(1)</sup>	-	-
Dr Zaha Rina binti Zahari (Resigned on 29.09.2012)	-	26
Ms Lim Lean See (Resigned on 29.09.2012)	-	26
	<b>400</b>	<b>384</b>
	<b>6,361</b>	<b>4,881</b>

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 directors' compensation is paid by the penultimate holding company, which makes no recharge to the Bank.

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 33 Taxation

	Note	The Group		The Bank	
		30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
Malaysian income tax:					
- current financial year's charge		20,326	19,040	20,314	19,037
- over provision in prior financial years		(528)	-	(528)	-
		<u>19,798</u>	<u>19,040</u>	<u>19,786</u>	<u>19,037</u>
Deferred taxation					
- relating to origination and reversal of temporary differences	13	(60,931)	(47,804)	(60,931)	(47,804)
		<u>(60,931)</u>	<u>(47,804)</u>	<u>(60,931)</u>	<u>(47,804)</u>
		<u>(41,133)</u>	<u>(28,764)</u>	<u>(41,145)</u>	<u>(28,767)</u>

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to tax income at the effective income tax rate of the Group and the Bank is as follows:

	The Group		The Bank	
	30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
Profit before taxation	68,368	60,828	68,381	60,674
Tax calculated at a rate of 25% (2013: 25%)	17,092	15,207	17,095	15,169
Tax effects of:				
- Income not subject to tax	(6,245)	(2,915)	(6,236)	(2,894)
- Expenses not deductible for tax purposes	8,218	2,935	8,194	2,949
- Over provision in prior financial years	(528)	-	(528)	-
- Effect of change in tax rate	3	-	3	-
- Origination of temporary differences previously not recognised	(59,673)	(43,991)	(59,673)	(43,991)
Tax income for the financial year	<u>(41,133)</u>	<u>(28,764)</u>	<u>(41,145)</u>	<u>(28,767)</u>

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 34 Earnings per share

	The Group		The Bank	
	30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
<b>(a) Basic earnings per share</b>				
Weighted average number of number of ordinary shares in issue	<b>165,000</b>	143,055	<b>165,000</b>	143,055
Net profit attributable to equity holder of the Bank	<b>109,501</b>	89,592	<b>109,526</b>	89,441
Basic earnings per share (sen)	<b>66.4</b>	62.6	<b>66.4</b>	62.5

### (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 2014 and 30 June 2013.

# Hong Leong Investment Bank Berhad

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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 35 Significant related party transaction

#### (a) Related parties and relationships

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

<u>Related parties</u>	<u>Relationship</u>
Hong Leong Company (Malaysia) Berhad ("HLCM")	Ultimate holding company
Hong Leong Financial Group Berhad ("HLFG")	Penultimate holding company
Hong Leong Capital Berhad ("HLCB")	Immediate holding company
Subsidiary companies of the Bank as disclosed in Note14	Subsidiaries
Subsidiary companies of HLCM	Subsidiaries of ultimate holding company
Subsidiary companies of HLFG	Subsidiaries of penultimate holding company
Subsidiary companies of HLCB	Subsidiaries of immediate holding company
Key management personnel	The key management personnel of the Bank consists of: - 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  (ii) Entities that are controlled, jointly controlled or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

# Hong Leong Investment Bank Berhad

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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 35 Significant related party transaction (continued)

#### (b) Related parties transactions

Transactions with related parties are as follows:

<b>The Group 30.06.2014</b>	<b>Parent company RM'000</b>	<b>Other related companies RM'000</b>	<b>Key management personnel RM'000</b>
<b>Income</b>			
Interest income	-	23,305	10
Non interest income	-	8,025	-
Brokerage income	-	4,263	725
Corporate advisory fee	40	1,530	-
Arranger fee	-	1,830	-
Placement fee	-	750	-
Other fee	45	829	-
	<b>85</b>	<b>40,532</b>	<b>735</b>
<b>Expenditure</b>			
Interest expense	-	25,611	-
Rental	-	3,777	-
Management fees	505	2,358	-
Option charge arising from ESOS	-	-	17,961
Other miscellaneous	-	3,888	-
	<b>505</b>	<b>35,634</b>	<b>17,961</b>
<b>Amounts due from:</b>			
Cash and short-term funds	-	383,615	-
Financial assets at fair value through profit or loss	-	259,133	-
Financial investments held-to-maturity	-	49,047	-
Loans and advances	-	40,652	-
Derivative financial assets	17,410	2,664	-
Clients' and brokers' balances	-	-	44
Other assets	-	283	-
	<b>17,410</b>	<b>735,394</b>	<b>44</b>
<b>Amounts due to:</b>			
Deposits from customers	-	20,535	1,010
Deposits and placements of banks and other financial institutions	-	498,109	-
Derivative financial liabilities	-	11,969	-
Clients' and brokers' balances	-	4,243	1,724
Other liabilities	267	-	-
	<b>267</b>	<b>534,856</b>	<b>2,734</b>
<b>Commitments and contingencies</b>			
Monies held in trust for stockbroking client	-	-	57,924



# Hong Leong Investment Bank Berhad

Company no: 10209-W  
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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 35 Significant related party transaction (continued)

#### (b) Related parties transactions (continued)

Transactions with related parties are as follows: (continued)

<b>The Group 30.06.2013</b>	<b>Parent company RM'000</b>	<b>Other related companies RM'000</b>	<b>Key management personnel RM'000</b>
<b>Income</b>			
Interest income	166	9,763	-
Non interest income	-	(1,979)	-
Brokerage income	-	2,203	228
Corporate advisory fee	30	90	-
Arranger fee	-	1,000	-
Placement fee	-	525	-
Other fee	57	125	-
	<u>253</u>	<u>11,727</u>	<u>228</u>
<b>Expenditure</b>			
Interest expense	-	11,874	-
Rental	-	2,398	-
Management fees	414	1,608	-
Option charge arising from ESOS	-	-	3,644
Other miscellaneous	-	4,193	-
	<u>414</u>	<u>20,073</u>	<u>3,644</u>
<b>Amounts due from:</b>			
Cash and short-term funds	-	127,527	-
Deposits and placements with banks and other financial institutions	-	270	-
Financial assets at fair value through profit or loss	-	59,652	-
Financial investments held-to-maturity	-	48,471	-
Derivative financial assets	12,156	1,535	-
Clients' and brokers' balances	-	535	193
Other assets	792	181	-
	<u>12,948</u>	<u>238,171</u>	<u>193</u>
<b>Amounts due to:</b>			
Deposits and placements of banks and other financial institutions	-	258,717	-
Derivative financial liabilities	-	912	-
	<u>-</u>	<u>259,629</u>	<u>-</u>
<b>Commitments and contingencies</b>			
Monies held in trust for stockbroking client	-	10	70,939

# Hong Leong Investment Bank Berhad

Company no: 10209-W  
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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 35 Significant related party transaction (continued)

#### (b) Related parties transactions (continued)

Transactions with related parties are as follows: (continued)

<b>The Bank 30.06.2014</b>	<b>Parent company RM'000</b>	<b>Subsidiaries RM'000</b>	<b>Other related companies RM'000</b>	<b>Key management personnel RM'000</b>
<b>Income</b>				
Interest income	-	-	23,297	10
Non interest income	-	-	8,025	-
Brokerage income	-	-	4,263	725
Corporate advisory fee	40	-	1,530	-
Arranger fee	-	-	1,830	-
Placement fee	-	-	750	-
Other fee	45	-	829	-
	<b>85</b>	<b>-</b>	<b>40,524</b>	<b>735</b>
<b>Expenditure</b>				
Interest expense	-	-	25,611	-
Rental	-	-	3,745	-
Management fees	503	-	2,358	-
Option charge arising from ESOS	-	-	-	17,961
Other miscellaneous	-	-	3,865	-
	<b>503</b>	<b>-</b>	<b>35,579</b>	<b>17,961</b>
<b>Amounts due from:</b>				
Cash and short-term funds	-	-	383,261	-
Financial assets at fair value through profit or loss	-	-	259,133	-
Financial investments held-to-maturity	-	-	49,047	-
Loans and advances	-	-	40,652	-
Derivative financial assets	17,410	-	2,664	-
Clients' and brokers' balances	-	-	-	44
Investment in subsidiaries	-	383	-	-
Other assets	-	-	283	-
	<b>17,410</b>	<b>383</b>	<b>735,040</b>	<b>44</b>
<b>Amounts due to:</b>				
Deposits from customers	-	-	20,535	1,010
Deposits and placements of banks and other financial institutions	-	-	498,109	-
Derivative financial liabilities	-	-	11,969	-
Clients' and brokers' balances	-	-	4,243	1,724
Other liabilities	266	-	-	-
	<b>266</b>	<b>-</b>	<b>534,856</b>	<b>2,734</b>
<b>Commitments and contingencies</b>				
Monies held in trust for stockbroking client	-	-	-	57,924

# Hong Leong Investment Bank Berhad

Company no: 10209-W  
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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 35 Significant related party transaction (continued)

#### (b) Related parties transactions (continued)

Transactions with related parties are as follows: (continued)

<b>The Bank 30.06.2013</b>	<b>Parent company RM'000</b>	<b>Subsidiaries RM'000</b>	<b>Other related companies RM'000</b>	<b>Key management personnel RM'000</b>
<b>Income</b>				
Interest income	166	-	9,763	-
Non interest income	-	-	(1,979)	-
Brokerage income	-	-	2,203	228
Corporate advisory fee	30	-	90	-
Arranger fee	-	-	1,000	-
Placement fee	-	-	525	-
Other fee	57	-	125	-
	<u>253</u>	<u>-</u>	<u>11,727</u>	<u>228</u>
<b>Expenditure</b>				
Interest expense	-	-	11,874	-
Rental	-	-	2,398	-
Management fees	414	-	1,608	-
Option charge arising from ESOS	-	-	-	3,644
Other miscellaneous	-	-	4,170	-
	<u>414</u>	<u>-</u>	<u>20,050</u>	<u>3,644</u>
<b>Amounts due from:</b>				
Cash and short-term funds	-	-	126,553	-
Financial assets at fair value through profit or loss	-	-	59,652	-
Financial investments held-to-maturity	-	-	48,471	-
Derivative financial assets	12,156	-	1,535	-
Clients' and brokers' balances	-	-	535	193
Investment in subsidiaries	-	1,454	-	-
Other assets	792	3	181	-
	<u>12,948</u>	<u>1,457</u>	<u>236,927</u>	<u>193</u>
<b>Amounts due to:</b>				
Deposits and placements of banks and other financial institutions	-	-	258,717	-
Derivative financial liabilities	-	-	912	-
Other liabilities	-	195	-	-
	<u>-</u>	<u>195</u>	<u>259,629</u>	<u>-</u>
<b>Commitments and contingencies</b>				
Monies held in trust for stockbroking client	-	-	10	70,939

# Hong Leong Investment Bank Berhad

Company no: 10209-W  
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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 35 Significant related party transaction (continued)

#### (c) Key management personnel

	<b>The Group and the Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Salaries and other short-term employee benefits	<b>5,140</b>	3,877
Fees	<b>400</b>	384
Defined contribution plan	<b>821</b>	620
Option charge arising from ESOS	<b>17,961</b>	3,644
	<b>24,322</b>	<b>8,525</b>

Included in the above is the Directors' remuneration which is disclosed in Note 32.

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

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

	<b>The Group and the Bank</b>	
	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Outstanding credit exposures with connected parties	<b>59,167</b>	52,563
Percentage of outstanding credit exposures with connected parties as a proportion of total credit exposures	<b>3.90%</b>	5.24%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	<b>0.00%</b>	0.00%

# Hong Leong Investment Bank Berhad

Company no: 10209-W  
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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 36 Dividends

Dividends declared and proposed as follows:-

	<b>The Group and the Bank</b>			
	<b>30.06.2014</b>		<b>30.06.2013</b>	
	<b>Single-tier dividend per share Sen</b>	<b>Amount of dividend RM'000</b>	<b>Single-tier dividend per share Sen</b>	<b>Amount of dividend RM'000</b>
Redeemable Preference Shares	<b>38.20</b>	<b>62,295</b>	17.17	28,000

At the forthcoming Annual General Meeting, the Directors of the Bank recommend the payment of a single-tier final dividend of 38.20 sen per share on the Bank's issued and paid-up Redeemable Preference Shares comprising 163,076,524 of Redeemable Preference Shares amounting to RM62,295,232 for the financial year ended 30 June 2014.

Dividends recognised as distribution to ordinary equity holders of the Bank.

	<b>The Group and the Bank</b>			
	<b>30.06.2014</b>		<b>30.06.2013</b>	
	<b>Single-tier dividend per share Sen</b>	<b>Amount of dividend RM'000</b>	<b>Single-tier dividend per share Sen</b>	<b>Amount of dividend RM'000</b>
Redeemable Preference Shares	<b>17.17</b>	<b>28,000</b>	-	-

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 37 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 transactions. These commitments and contingencies are also not secured over the assets of the Group.

	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>Principal</b>	<b>Principal</b>
	<b>amount</b>	<b>amount</b>
<b>The Group and the Bank</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Commitments and contingencies</b>		
Direct credit substitutes	20,625	50,750
Obligations under underwriting agreement	299,154	-
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice		
- maturity less than one year	627,233	507,022
Other commitments, such as formal standby facilities and credit lines		
- maturity one year or less	23	-
- maturity over one year	-	69
Others		
- monies held in trust for stockbroking clients	648,976	636,606
	<b>1,596,011</b>	<b>1,194,447</b>
<b>Derivative financial instruments</b>		
Interest rate related contracts:		
- One year or less	724,036	716,412
- Over one year to five years	2,246,000	2,161,706
Foreign exchange related contracts:		
- One year or less	1,537,569	2,096,122
Equity related contracts:		
- One year or less	1,429	1,429
- Over one year to five years	11,500	11,429
	<b>4,520,534</b>	<b>4,987,098</b>
	<b>6,116,545</b>	<b>6,181,545</b>

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 38 Capital commitments

	The Group and the Bank	
	30.06.2014	30.06.2013
	RM'000	RM'000
Property and equipment		
- approved and contracted but not provided for	7,299	771
- approved but not contracted for	-	3,583
	<u>7,299</u>	<u>4,354</u>

### 39 Lease commitments

The Group and the Bank have lease commitments in respect of rented premises and hired equipments, 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	
	30.06.2014	30.06.2013
	RM'000	RM'000
Less than one year	5,822	5,532
More than one year	3,446	8,151
More than five years	-	5
	<u>9,268</u>	<u>13,688</u>

### 40 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.

### 41 Capital adequacy

The Group's and the Bank's regulatory capital is governed by BNM Capital Adequacy Framework guidelines. With effect from 1 January 2013, the capital adequacy ratios of the Group and the Bank are computed in accordance with BNM's Capital Adequacy Framework issued on 28 November 2012. The Framework sets out the approach for computing the regulatory capital adequacy ratios, as well as the levels of the ratios at which banking institutions are required to operate. The Framework is to strengthen capital adequacy standards, in line with the requirements set forth under Basel III. In line with the transitional arrangements under the BNM's Capital Adequacy Framework (Capital Components), the minimum capital adequacy requirement for common equity Tier I (CET I) capital ratio and Tier I capital ratio are 4.0% and 5.5% respectively for year 2014. The minimum regulatory capital adequacy requirement remains at 8.0% (2013: 8.0%) for total capital ratio.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 41 Capital adequacy (continued)

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

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

	The Group		The Bank	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
<b>Before deducting proposed dividends:</b>				
Common equity tier 1 ("CET1") capital ratio	20.128%	33.084%	20.108%	33.077%
Tier I capital ratio	20.128%	33.084%	20.108%	33.077%
Total capital ratio	20.296%	33.339%	20.259%	33.172%
<b>After deducting proposed dividends:</b>				
CET I capital ratio	16.422%	29.991%	16.401%	29.982%
Tier I capital ratio	16.422%	29.991%	16.401%	29.982%
Total capital ratio	16.590%	30.246%	16.552%	30.076%

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

	The Group		The Bank	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
	RM'000	RM'000	RM'000	RM'000
<b>CET1 capital</b>				
Paid-up ordinary share capital	165,000	165,000	165,000	165,000
Share premium	87,950	87,950	87,950	87,950
Other reserves	219,033	139,176	218,692	138,810
	471,983	392,126	471,642	391,760
Regulatory adjustments:				
- goodwill and intangibles	(29,978)	(30,040)	(29,978)	(30,040)
- deferred tax assets	(103,671)	(61,978)	(103,671)	(61,978)
- other regulatory adjustments	-	(525)	(77)	(525)
Total CET1 capital	338,334	299,583	337,916	299,217
<b>Tier 1 capital</b>				
	338,334	299,583	337,916	299,217
<b>Tier 2 capital</b>				
Redeemable preference shares ("RPS")	1,631	1,631	1,631	1,631
Collective assessment allowance for losses on loans and advances <sup>(1)</sup>	1,204	678	1,204	678
Regulatory adjustments:				
- investment in subsidiaries	-	-	(306)	(1,455)
Total Tier 2 capital	2,835	2,309	2,529	854
<b>Total capital</b>				
	341,169	301,892	340,445	300,071



# Hong Leong Investment Bank Berhad

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 41 Capital adequacy (continued)

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

Note:

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

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

	<b>The Group</b>		<b>The Bank</b>	
	<b>30.06.2014</b>	30.06.2013	<b>30.06.2014</b>	30.06.2013
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Credit risk	<b>896,229</b>	465,326	<b>896,087</b>	464,961
Market risk	<b>571,557</b>	321,448	<b>571,557</b>	321,448
Operational risk	<b>213,166</b>	118,761	<b>212,853</b>	118,189
	<b><u>1,680,952</u></b>	<u>905,535</u>	<b><u>1,680,497</u></b>	<u>904,598</u>

# **Hong Leong Investment Bank Berhad**

**Company no: 10209-W**

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## **Notes to the financial statements**

**for the financial year ended 30 June 2014 (continued)**

### **42 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. The Management Credit and Underwriting Committee ("MCUC") shall oversee all credit related matters of the Bank, 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.

##### **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.

The Bank has in place a set of policies, guidelines for the management of 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.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (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 the reporting date.

The scenarios used are simplified whereby it is assumed that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business unit and risk management to mitigate the effect of this movement in key variables. In reality, the Group and the Bank proactively seek to ensure that the interest rate risk profile is managed to minimise losses and optimise net revenues.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 42 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 +/-100 basis points ('bps') parallel shift in the interest rate.

	The Group		The Bank	
	Impact on profit after tax RM'000	Impact on equity RM'000	Impact on profit after tax RM'000	Impact on equity RM'000
<b>30.06.2014</b>				
+100 bps	<b>10,983</b>	<b>(13,878)</b>	<b>10,983</b>	<b>(13,878)</b>
-100 bps	<b>(10,983)</b>	<b>13,878</b>	<b>(10,983)</b>	<b>13,878</b>
<b>30.06.2013</b>				
+100 bps	<b>(16,544)</b>	<b>(8,220)</b>	<b>(16,544)</b>	<b>(8,220)</b>
-100 bps	<b>16,544</b>	<b>8,220</b>	<b>16,544</b>	<b>8,220</b>

##### (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.

#### Impact on profit after tax

	30.06.2014		30.06.2013	
	+1% RM'000	-1% RM'000	+1% RM'000	-1% RM'000
<b>The Group and the Bank</b>				
USD	<b>141</b>	<b>(141)</b>	(128)	128
SGD	<b>(160)</b>	<b>160</b>	(1)	1
Others	<b>14</b>	<b>(14)</b>	8	(8)
	<b>(5)</b>	<b>5</b>	(121)	121

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 42 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 statements 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.

The Group 30.06.2014	Non-trading book						Trading book RM'000	Total RM'000
	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		
<b>Assets</b>								
Cash and short-term funds	565,425	-	-	-	-	109,540	-	674,965
Clients' and brokers' balances	-	-	-	-	-	284,378	-	284,378
Reverse repurchase agreements	280,176	-	-	-	-	-	-	280,176
Deposits and placements with banks and other financial institutions	-	161,147	170,012	-	-	-	-	331,159
Financial assets at fair value through profit or loss	-	-	-	-	-	-	868,264	868,264
Financial investments available-for-sale	-	93,643	147,064	385,497	10,136	245	-	636,585
Financial investments held-to-maturity	5,084	66,761	57,458	229,110	-	-	-	358,413
Loans and advances	319,747	30,562	15,042	67,481	83	(1,501)	-	431,414
Derivative financial assets	-	-	-	-	-	-	40,951	40,951
Other assets *	-	-	-	-	-	215,950	-	215,950
<b>Total assets</b>	<b>1,170,432</b>	<b>352,113</b>	<b>389,576</b>	<b>682,088</b>	<b>10,219</b>	<b>608,612</b>	<b>909,215</b>	<b>4,122,255</b>

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

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (b) Market risk (continued)

##### Interest rate risk (continued)

The Group 30.06.2014	Non-trading book					Non-interest rate sensitive RM'000	Trading book RM'000	Total RM'000
	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			
<b>Liabilities</b>								
Clients' and brokers' balances	-	-	-	-	-	250,437	-	250,437
Deposits from customers	627,766	3,165	635	-	-	-	-	631,566
Deposits and placements of banks and other financial institutions	1,624,568	333,191	97,201	-	-	-	-	2,054,960
Repurchased agreements	50,231	128,856	-	-	-	-	-	179,087
Derivative financial liabilities	-	-	-	-	-	-	24,773	24,773
Other liabilities*	-	-	-	-	-	507,818	-	507,818
<b>Total liabilities</b>	<b>2,302,565</b>	<b>465,212</b>	<b>97,836</b>	<b>-</b>	<b>-</b>	<b>758,255</b>	<b>24,773</b>	<b>3,648,641</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>473,614</b>	<b>-</b>	<b>473,614</b>
<b>Total liabilities and equity</b>	<b>2,302,565</b>	<b>465,212</b>	<b>97,836</b>	<b>-</b>	<b>-</b>	<b>1,231,869</b>	<b>24,773</b>	<b>4,122,255</b>
<b>Net interest sensitivity gap</b>	<b>(1,132,133)</b>	<b>(113,099)</b>	<b>291,740</b>	<b>682,088</b>	<b>10,219</b>			
Direct credit substitutes	-	-	-	-	-	20,625		
Credit related commitments and contingencies	-	-	-	-	-	1,575,386		
<b>Net interest sensitivity gap</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,596,011</b>		

\* Includes provision for tax.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (b) Market risk (continued)

##### Interest rate risk (continued)

The Group 30.06.2013	← Non-trading book →					Non-interest rate sensitive RM'000	Trading book RM'000	Total RM'000
	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			
<b>Assets</b>								
Cash and short-term funds	487,545	-	-	-	-	68,724	-	556,269
Clients' and brokers' balances	-	-	-	-	-	147,539	-	147,539
Reverse repurchase agreements	80,271	194,117	-	-	-	-	-	274,388
Deposits and placements with banks and other financial institutions	-	261,658	63,543	-	-	-	-	325,201
Financial assets at fair value through profit or loss	-	-	-	-	-	-	662,973	662,973
Financial investments available-for-sale	-	5,102	5,071	173,904	79,875	686	-	264,638
Financial investments held-to-maturity	-	-	15,225	238,686	-	-	-	253,911
Loans and advances	172,644	-	12	269	2,249	(990)	-	174,184
Derivative financial assets	-	-	-	-	-	-	40,941	40,941
Other assets *	-	-	-	-	-	136,255	-	136,255
<b>Total assets</b>	<b>740,460</b>	<b>460,877</b>	<b>83,851</b>	<b>412,859</b>	<b>82,124</b>	<b>352,214</b>	<b>703,914</b>	<b>2,836,299</b>

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

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (b) Market risk (continued)

##### Interest rate risk (continued)

The Group 30.06.2013	Non-trading book					Non-interest rate sensitive RM'000	Trading book RM'000	Total RM'000
	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			
<b>Liabilities</b>								
Clients' and brokers' balances	-	-	-	-	-	127,327	-	127,327
Deposits from customers	470,169	-	-	-	-	-	-	470,169
Deposits and placements of banks and other financial institutions	1,149,591	350,803	42,581	-	-	-	-	1,542,975
Repurchased agreements	-	129,625	47,408	-	-	-	-	177,033
Derivative financial liabilities	-	-	-	-	-	-	32,773	32,773
Other liabilities	-	-	-	-	-	92,265	-	92,265
<b>Total liabilities</b>	<b>1,619,760</b>	<b>480,428</b>	<b>89,989</b>	<b>-</b>	<b>-</b>	<b>219,592</b>	<b>32,773</b>	<b>2,442,542</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>393,757</b>	<b>-</b>	<b>393,757</b>
<b>Total liabilities and equity</b>	<b>1,619,760</b>	<b>480,428</b>	<b>89,989</b>	<b>-</b>	<b>-</b>	<b>613,349</b>	<b>32,773</b>	<b>2,836,299</b>
Net interest sensitivity gap	(879,300)	(19,551)	(6,138)	412,859	82,124			
Direct credit substitutes	-	-	-	-	-	50,750		
Credit related commitments and contingencies	-	-	-	-	-	1,143,697		
Net interest sensitivity gap	-	-	-	-	-	1,194,447		



# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (b) Market risk (continued)

##### Interest rate risk (continued)

The Bank 30.06.2014	Non-trading book						Trading book RM'000	Total RM'000
	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		
<b>Assets</b>								
Cash and short-term funds	565,426	-	-	-	-	109,124	-	674,550
Clients' and brokers' balances	-	-	-	-	-	284,378	-	284,378
Reverse repurchase agreements	280,176	-	-	-	-	-	-	280,176
Deposits and placements with banks and other financial institutions	-	160,861	170,012	-	-	-	-	330,873
Financial assets at fair value through profit or loss	-	-	-	-	-	-	868,264	868,264
Financial investments available-for-sale	-	93,643	147,064	385,497	10,136	245	-	636,585
Financial investments held-to-maturity	5,084	66,761	57,458	229,110	-	-	-	358,413
Loans and advances	319,747	30,562	15,042	67,481	83	(1,501)	-	431,414
Derivative financial assets	-	-	-	-	-	-	40,951	40,951
Other assets *	-	-	-	-	-	216,324	-	216,324
<b>Total assets</b>	<b>1,170,433</b>	<b>351,827</b>	<b>389,576</b>	<b>682,088</b>	<b>10,219</b>	<b>608,570</b>	<b>909,215</b>	<b>4,121,928</b>

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

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Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (b) Market risk (continued)

##### Interest rate risk (continued)

The Bank 30.06.2014	← Non-trading book →					Non-interest rate sensitive RM'000	Trading book RM'000	Total RM'000
	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			
<b>Liabilities</b>								
Clients' and brokers' balances	-	-	-	-	-	250,437	-	250,437
Deposits from customers	627,766	3,165	635	-	-	-	-	631,566
Deposits and placements of banks and other financial institutions	1,624,568	333,191	97,201	-	-	-	-	2,054,960
Repurchased agreements	50,231	128,856	-	-	-	-	-	179,087
Derivative financial liabilities	-	-	-	-	-	-	24,773	24,773
Other liabilities	-	-	-	-	-	507,832	-	507,832
<b>Total liabilities</b>	<b>2,302,565</b>	<b>465,212</b>	<b>97,836</b>	<b>-</b>	<b>-</b>	<b>758,269</b>	<b>24,773</b>	<b>3,648,655</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>473,273</b>	<b>-</b>	<b>473,273</b>
<b>Total liabilities and equity</b>	<b>2,302,565</b>	<b>465,212</b>	<b>97,836</b>	<b>-</b>	<b>-</b>	<b>1,231,542</b>	<b>24,773</b>	<b>4,121,928</b>
<b>Net interest sensitivity gap</b>	<b>(1,132,132)</b>	<b>(113,385)</b>	<b>291,740</b>	<b>682,088</b>	<b>10,219</b>			
Direct credit substitutes	-	-	-	-	-	20,625		
Credit related commitments and contingencies	-	-	-	-	-	1,575,386		
<b>Net interest sensitivity gap</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,596,011</b>		

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (b) Market risk (continued)

##### Interest rate risk (continued)

The Bank 30.06.2013	← Non-trading book →					Non-interest rate sensitive RM'000	Trading book RM'000	Total RM'000
	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			
<b>Assets</b>								
Cash and short-term funds	487,545	-	-	-	-	67,157	-	554,702
Clients' and brokers' balances	-	-	-	-	-	147,539	-	147,539
Reverse repurchase agreements	80,271	194,117	-	-	-	-	-	274,388
Deposits and placements with banks and other financial institutions	-	261,387	63,543	-	-	-	-	324,930
Financial assets at fair value through profit or loss	-	-	-	-	-	-	662,973	662,973
Financial investments available-for-sale	-	5,102	5,071	173,904	79,875	686	-	264,638
Financial investments held-to-maturity	-	-	15,225	238,686	-	-	-	253,911
Loans and advances	172,643	-	12	269	2,250	(990)	-	174,184
Derivative financial assets	-	-	-	-	-	-	40,941	40,941
Other assets *	-	-	-	-	-	137,707	-	137,707
<b>Total assets</b>	<b>740,459</b>	<b>460,606</b>	<b>83,851</b>	<b>412,859</b>	<b>82,125</b>	<b>352,099</b>	<b>703,914</b>	<b>2,835,913</b>

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

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (b) Market risk (continued)

##### Interest rate risk (continued)

The Bank 30.06.2013	← Non-trading book →					Non-interest rate sensitive RM'000	Trading book RM'000	Total RM'000
	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			
<b>Liabilities</b>								
Clients' and brokers' balances	-	-	-	-	-	127,327	-	127,327
Deposits from customers	470,169	-	-	-	-	-	-	470,169
Deposits and placements of banks and other financial institutions	1,149,591	350,803	42,581	-	-	-	-	1,542,975
Repurchased agreements	-	129,625	47,408	-	-	-	-	177,033
Derivative financial liabilities	-	-	-	-	-	-	32,773	32,773
Other liabilities	-	-	-	-	-	92,245	-	92,245
<b>Total liabilities</b>	<b>1,619,760</b>	<b>480,428</b>	<b>89,989</b>	<b>-</b>	<b>-</b>	<b>219,572</b>	<b>32,773</b>	<b>2,442,522</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>393,391</b>	<b>-</b>	<b>393,391</b>
<b>Total liabilities and equity</b>	<b>1,619,760</b>	<b>480,428</b>	<b>89,989</b>	<b>-</b>	<b>-</b>	<b>612,963</b>	<b>32,773</b>	<b>2,835,913</b>
Net interest sensitivity gap	(879,301)	(19,822)	(6,138)	412,859	82,125			
Direct credit substitutes	-	-	-	-	-	50,750		
Credit related commitments and contingencies	-	-	-	-	-	1,143,697		
Net interest sensitivity gap	-	-	-	-	-	1,194,447		

# Hong Leong Investment Bank Berhad

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (c) Liquidity risk

Liquidity risk is defined as the current and prospective risk arising from the inability of the Group and the Bank to meet its contractual or regulatory obligations when they fall 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 liabilities (include non-financial instruments) as at reporting date based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM Guideline:

<b>The Group 30.06.2014</b>	<b>Up to 1 week RM'000</b>	<b>1 week to 1 month RM'000</b>	<b>1 to 3 months RM'000</b>	<b>3 to 6 months RM'000</b>	<b>6 to 12 months RM'000</b>	<b>Over 1 year RM'000</b>	<b>No specific maturity RM'000</b>	<b>Total RM'000</b>
<b>Assets</b>								
Cash and short-term funds	559,092	115,873	-	-	-	-	-	674,965
Clients' and brokers' balances	284,378	-	-	-	-	-	-	284,378
Reverse repurchased agreements	-	280,176	-	-	-	-	-	280,176
Deposits and placements with banks and other financial institutions	-	-	161,147	170,012	-	-	-	331,159
Financial assets at fair value through profit or loss	109,500	475,845	134,722	-	-	139,837	8,360	868,264
Financial investments available-for-sale	-	-	93,643	-	147,064	395,633	245	636,585
Financial investments held-to-maturity	-	5,084	66,761	-	57,458	229,110	-	358,413
Loans and advances	318,697	-	30,422	-	14,985	67,310	-	431,414
Derivative financial assets	822	286	2,948	2,056	20,996	13,843	-	40,951
Other assets *	283	-	-	-	45,772	-	169,895	215,950
<b>Total assets</b>	<b>1,272,772</b>	<b>877,264</b>	<b>489,643</b>	<b>172,068</b>	<b>286,275</b>	<b>845,733</b>	<b>178,500</b>	<b>4,122,255</b>

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

## Hong Leong Investment Bank Berhad

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#### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) as at reporting date based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM Guideline: (continued)

<b>The Group</b>	<b>Up to</b>	<b>1 week to</b>	<b>1 to 3</b>	<b>3 to 6</b>	<b>6 to 12</b>	<b>Over 1</b>	<b>No specific</b>	
<b>30.06.2014</b>	<b>1 week</b>	<b>1 month</b>	<b>months</b>	<b>months</b>	<b>months</b>	<b>year</b>	<b>maturity</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Liabilities</b>								
Clients' and brokers' balances	250,437	-	-	-	-	-	-	250,437
Deposits from customers	215,869	411,897	3,165	635	-	-	-	631,566
Deposits and placements of banks and other financial institutions	1,253,823	370,745	333,191	97,201	-	-	-	2,054,960
Repurchased agreements	-	50,231	128,856	-	-	-	-	179,087
Other liabilities *	14,392	301	-	2,665	484,901	5,559	-	507,818
Derivative financial liabilities	68	236	1,544	3,154	1,244	18,527	-	24,773
<b>Total liabilities</b>	<b>1,734,589</b>	<b>833,410</b>	<b>466,756</b>	<b>103,655</b>	<b>486,145</b>	<b>24,086</b>	<b>-</b>	<b>3,648,641</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>473,614</b>	<b>473,614</b>
<b>Total liabilities and equity</b>	<b>1,734,589</b>	<b>833,410</b>	<b>466,756</b>	<b>103,655</b>	<b>486,145</b>	<b>24,086</b>	<b>473,614</b>	<b>4,122,255</b>

\* Includes provision for tax.

## Hong Leong Investment Bank Berhad

Company no: 10209-W

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#### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) as at reporting date based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM Guideline: (continued)

<b>The Group 30.06.2013</b>	<b>Up to 1 week RM'000</b>	<b>1 week to 1 month RM'000</b>	<b>1 to 3 months RM'000</b>	<b>3 to 6 months RM'000</b>	<b>6 to 12 months RM'000</b>	<b>Over 1 year RM'000</b>	<b>No specific maturity RM'000</b>	<b>Total RM'000</b>
<b>Assets</b>								
Cash and short-term funds	288,908	267,361	-	-	-	-	-	556,269
Clients' and brokers' balances	147,539	-	-	-	-	-	-	147,539
Reverse repurchased agreements	-	80,271	194,117	-	-	-	-	274,388
Deposits and placements with banks and other financial institutions	-	-	261,658	15,935	47,608	-	-	325,201
Financial assets at fair value through profit or loss	27,845	171,193	170,802	-	-	277,788	15,345	662,973
Financial investments available-for-sale	-	-	5,102	-	5,071	253,779	686	264,638
Financial investments held-to-maturity	-	-	-	-	15,225	238,686	-	253,911
Loans and advances	138,374	-	-	33,593	12	2,205	-	174,184
Derivative financial assets	648	2,760	3,625	6,819	9,393	17,696	-	40,941
Other assets *	1,148	-	-	-	11,919	-	123,188	136,255
<b>Total assets</b>	<b>604,462</b>	<b>521,585</b>	<b>635,304</b>	<b>56,347</b>	<b>89,228</b>	<b>790,154</b>	<b>139,219</b>	<b>2,836,299</b>

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

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) as at reporting date based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM Guideline: (continued)

<b>The Group</b>	<b>Up to</b>	<b>1 week to</b>	<b>1 to 3</b>	<b>3 to 6</b>	<b>6 to 12</b>	<b>Over 1</b>	<b>No specific</b>	
<b>30.06.2013</b>	<b>1 week</b>	<b>1 month</b>	<b>months</b>	<b>months</b>	<b>months</b>	<b>year</b>	<b>maturity</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Liabilities</b>								
Clients' and brokers' balances	127,327	-	-	-	-	-	-	127,327
Deposits from customers	236,013	234,156	-	-	-	-	-	470,169
Deposits and placements of banks and other financial institutions	915,545	234,046	350,803	42,581	-	-	-	1,542,975
Repurchased agreements	-	-	129,625	47,408	-	-	-	177,033
Other liabilities	195	15,778	-	2,665	54,208	19,419	-	92,265
Derivative financial liabilities	1,382	5,966	6,549	3,401	2,886	12,589	-	32,773
<b>Total liabilities</b>	<b>1,280,462</b>	<b>489,946</b>	<b>486,977</b>	<b>96,055</b>	<b>57,094</b>	<b>32,008</b>	<b>-</b>	<b>2,442,542</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>393,757</b>	<b>393,757</b>
<b>Total liabilities and equity</b>	<b>1,280,462</b>	<b>489,946</b>	<b>486,977</b>	<b>96,055</b>	<b>57,094</b>	<b>32,008</b>	<b>393,757</b>	<b>2,836,299</b>



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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) as at reporting date based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM Guideline: (continued)

<b>The Bank</b>	<b>Up to</b>	<b>1 week to</b>	<b>1 to 3</b>	<b>3 to 6</b>	<b>6 to 12</b>	<b>Over 1</b>	<b>No specific</b>	
<b>30.06.2014</b>	<b>1 week</b>	<b>1 month</b>	<b>months</b>	<b>months</b>	<b>months</b>	<b>year</b>	<b>maturity</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>								
Cash and short-term funds	558,677	115,873	-	-	-	-	-	674,550
Clients' and brokers' balances	284,378	-	-	-	-	-	-	284,378
Reverse repurchased agreements	-	280,176	-	-	-	-	-	280,176
Deposits and placements with banks and other financial institutions	-	-	160,861	170,012	-	-	-	330,873
Financial assets at fair value through profit or loss	109,500	475,845	134,722	-	-	139,837	8,360	868,264
Financial investments available-for-sale	-	-	93,643	-	147,064	395,633	245	636,585
Financial investments held-to-maturity	-	5,084	66,761	-	57,458	229,110	-	358,413
Loans and advances	318,697	-	30,422	-	14,985	67,310	-	431,414
Derivative financial assets	822	286	2,948	2,056	20,996	13,843	-	40,951
Other assets *	283	-	-	-	45,772	-	170,269	216,324
<b>Total assets</b>	<b>1,272,357</b>	<b>877,264</b>	<b>489,357</b>	<b>172,068</b>	<b>286,275</b>	<b>845,733</b>	<b>178,874</b>	<b>4,121,928</b>

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

## Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

### Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) as at reporting date based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM Guideline: (continued)

The Bank 30.06.2014	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
<b>Liabilities</b>								
Clients' and brokers' balances	250,437	-	-	-	-	-	-	250,437
Deposits from customers	215,869	411,897	3,165	635	-	-	-	631,566
Deposits and placements of banks and other financial institutions	1,253,823	370,745	333,191	97,201	-	-	-	2,054,960
Repurchased agreements	-	50,231	128,856	-	-	-	-	179,087
Other liabilities	14,392	301	-	2,665	484,915	5,559	-	507,832
Derivative financial liabilities	68	236	1,544	3,154	1,244	18,527	-	24,773
<b>Total liabilities</b>	<b>1,734,589</b>	<b>833,410</b>	<b>466,756</b>	<b>103,655</b>	<b>486,159</b>	<b>24,086</b>	<b>-</b>	<b>3,648,655</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>473,273</b>	<b>473,273</b>
<b>Total liabilities and equity</b>	<b>1,734,589</b>	<b>833,410</b>	<b>466,756</b>	<b>103,655</b>	<b>486,159</b>	<b>24,086</b>	<b>473,273</b>	<b>4,121,928</b>

## Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

### Notes to the financial statements

#### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) as at reporting date based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM Guideline: (continued)

<b>The Bank</b>	<b>Up to</b>	<b>1 week to</b>	<b>1 to 3</b>	<b>3 to 6</b>	<b>6 to 12</b>	<b>Over 1</b>	<b>No specific</b>	<b>Total</b>
<b>30.06.2013</b>	<b>1 week</b>	<b>1 month</b>	<b>months</b>	<b>months</b>	<b>months</b>	<b>year</b>	<b>maturity</b>	<b>RM'000</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>								
Cash and short-term funds	287,341	267,361	-	-	-	-	-	554,702
Clients' and brokers' balances	147,539	-	-	-	-	-	-	147,539
Reverse repurchased agreements	-	80,271	194,117	-	-	-	-	274,388
Deposits and placements with banks and other financial institutions	-	-	261,387	15,935	47,608	-	-	324,930
Financial assets at fair value through profit or loss	27,846	171,193	170,802	-	-	277,787	15,345	662,973
Financial investments available-for-sale	-	-	5,103	-	5,071	253,778	686	264,638
Financial investments held-to-maturity	-	-	-	-	15,225	238,686	-	253,911
Loans and advances	138,374	-	-	33,593	12	2,205	-	174,184
Derivative financial assets	648	2,760	3,625	6,819	9,393	17,696	-	40,941
Other assets *	1,148	-	-	-	11,919	-	124,640	137,707
<b>Total assets</b>	<b>602,896</b>	<b>521,585</b>	<b>635,034</b>	<b>56,347</b>	<b>89,228</b>	<b>790,152</b>	<b>140,671</b>	<b>2,835,913</b>

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

## Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

### Notes to the financial statements

#### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) as at reporting date based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM Guideline: (continued)

<b>The Bank</b>	<b>Up to</b>	<b>1 week to</b>	<b>1 to 3</b>	<b>3 to 6</b>	<b>6 to 12</b>	<b>Over 1</b>	<b>No specific</b>	<b>Total</b>
<b>30.06.2013</b>	<b>1 week</b>	<b>1 month</b>	<b>months</b>	<b>months</b>	<b>months</b>	<b>year</b>	<b>maturity</b>	<b>RM'000</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Liabilities</b>								
Clients' and brokers' balances	127,327	-	-	-	-	-	-	127,327
Deposits from customers	236,013	234,156	-	-	-	-	-	470,169
Deposits and placements of banks and other financial institutions	915,545	234,046	350,803	42,581	-	-	-	1,542,975
Repurchased agreements	-	-	129,625	47,408	-	-	-	177,033
Other liabilities	195	15,778	-	2,665	54,208	19,399	-	92,245
Derivative financial liabilities	1,382	5,966	6,549	3,401	2,886	12,589	-	32,773
<b>Total liabilities</b>	<b>1,280,462</b>	<b>489,946</b>	<b>486,977</b>	<b>96,055</b>	<b>57,094</b>	<b>31,988</b>	<b>-</b>	<b>2,442,522</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>393,391</b>	<b>393,391</b>
<b>Total liabilities and equity</b>	<b>1,280,462</b>	<b>489,946</b>	<b>486,977</b>	<b>96,055</b>	<b>57,094</b>	<b>31,988</b>	<b>393,391</b>	<b>2,835,913</b>

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (c) 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 statements 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.

<b>The Group</b>	<b>Up to</b>	<b>1 to 6</b>	<b>6 to 12</b>	<b>1 to 3</b>	<b>3 to 5</b>	<b>Over 5</b>	<b>Total</b>
<b>30.06.2014</b>	<b>1 month</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>years</b>	<b>RM'000</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Liabilities</b>							
Clients' and brokers' balances	250,437	-	-	-	-	-	250,437
Deposits from customers	628,437	3,830	-	-	-	-	632,267
Deposits and placements of banks and other financial institutions	1,625,244	432,364	-	-	-	-	2,057,608
Repurchased agreements	50,243	128,972	-	-	-	-	179,215
Other liabilities	14,694	2,665	484,915	5,559	-	-	507,833
Derivative financial liabilities							
- gross settled derivatives							
- inflow	(496,450)	(839,458)	(215,395)	-	-	-	(1,551,303)
- outflow	495,766	840,975	210,785	-	-	-	1,547,526
- net settled derivatives	33	2,566	2,864	9,994	1,957	-	17,414
<b>Total financial liabilities</b>	<b>2,568,404</b>	<b>571,914</b>	<b>483,169</b>	<b>15,553</b>	<b>1,957</b>	<b>-</b>	<b>3,640,997</b>

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (c) 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 statements 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. (continued)

<b>The Group</b>	<b>Up to</b>	<b>1 to 6</b>	<b>6 to 12</b>	<b>1 to 3</b>	<b>3 to 5</b>	<b>Over 5</b>	<b>Total</b>
<b>30.06.2013</b>	<b>1 month</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>years</b>	<b>RM'000</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Liabilities</b>							
Clients' and brokers' balances	127,327	-	-	-	-	-	127,327
Deposits from customers	470,515	-	-	-	-	-	470,515
Deposits and placements of banks and other financial institutions	1,149,865	394,150	-	-	-	-	1,544,015
Repurchased agreements	-	177,139	-	-	-	-	177,139
Other liabilities	15,993	2,665	54,208	19,399	-	-	92,265
Derivative financial liabilities							
- gross settled derivatives							
- inflow	(637,390)	(1,115,505)	(364,159)	(62,381)	-	-	(2,179,435)
- outflow	640,950	1,116,145	364,101	63,587	-	-	2,184,783
- net settled derivatives	85	1,524	1,881	6,534	1,344	-	11,368
<b>Total financial liabilities</b>	<b>1,767,345</b>	<b>576,118</b>	<b>56,031</b>	<b>27,139</b>	<b>1,344</b>	<b>-</b>	<b>2,427,977</b>

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (c) 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 statements 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. (continued)

<b>The Bank</b>	<b>Up to</b>	<b>1 to 6</b>	<b>6 to 12</b>	<b>1 to 3</b>	<b>3 to 5</b>	<b>Over 5</b>	<b>Total</b>
<b>30.06.2014</b>	<b>1 month</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>years</b>	<b>RM'000</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Liabilities</b>							
Clients' and brokers' balances	250,437	-	-	-	-	-	250,437
Deposits from customers	628,437	3,830	-	-	-	-	632,267
Deposits and placements of banks and other financial institutions	1,625,244	432,364	-	-	-	-	2,057,608
Repurchased agreements	50,243	128,972	-	-	-	-	179,215
Other liabilities**	14,694	2,665	484,915	5,559	-	-	507,833
Derivative financial liabilities							
- gross settled derivatives							
- inflow	(496,450)	(839,458)	(215,395)	-	-	-	(1,551,303)
- outflow	495,766	840,975	210,785	-	-	-	1,547,526
- net settled derivatives	33	2,566	2,864	9,994	1,957	-	17,414
<b>Total financial liabilities</b>	<b>2,568,404</b>	<b>571,914</b>	<b>483,169</b>	<b>15,553</b>	<b>1,957</b>	<b>-</b>	<b>3,640,997</b>

\*\* Includes provision for tax.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (c) 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 statements 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. (continued)

<b>The Bank</b>	<b>Up to</b>	<b>1 to 6</b>	<b>6 to 12</b>	<b>1 to 3</b>	<b>3 to 5</b>	<b>Over 5</b>	<b>Total</b>
<b>30.06.2013</b>	<b>1 month</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>years</b>	<b>RM'000</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Liabilities</b>							
Clients' and brokers' balances	127,327	-	-	-	-	-	127,327
Deposits from customers	470,515	-	-	-	-	-	470,515
Deposits and placements of banks and other financial institutions	1,149,865	394,150	-	-	-	-	1,544,015
Repurchased agreements	-	177,139	-	-	-	-	177,139
Other liabilities**	15,973	2,665	54,208	19,399	-	-	92,245
Derivative financial liabilities							
- gross settled derivatives							
- inflow	(637,390)	(1,115,505)	(364,159)	(62,381)	-	-	(2,179,435)
- outflow	640,950	1,116,145	364,101	63,587	-	-	2,184,783
- net settled derivatives	85	1,524	1,881	6,534	1,344	-	11,368
<b>Total financial liabilities</b>	<b>1,767,325</b>	<b>576,118</b>	<b>56,031</b>	<b>27,139</b>	<b>1,344</b>	<b>-</b>	<b>2,427,957</b>

\*\* Includes provision for tax.



# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (c) Liquidity risk (continued)

The following table presents the contractual expiry by maturity of the Group's and the Bank's commitments and contingencies:

<b>The Group and Bank</b>	<b>Less than 1 year RM'000</b>	<b>Over 1 year RM'000</b>	<b>Total RM'000</b>
<b>30.06.2014</b>			
Direct credit substitutes	-	20,625	20,625
Obligations under underwriting agreement	299,154	-	299,154
Other commitments, such as formal standby facilities and credit lines, with an original maturity of less than one year	23	-	23
Any commitment that are unconditionally cancelled at anytime by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	627,233	-	627,233
Others			
- monies held in trust for stockbroking clients	648,976	-	648,976
	<b>1,575,386</b>	<b>20,625</b>	<b>1,596,011</b>
<b>30.06.2013</b>			
Direct credit substitutes	-	50,750	50,750
Obligations under underwriting agreement	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of more than one year	-	69	69
Any commitment that are unconditionally cancelled at anytime by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	507,022	-	507,022
Others			
- monies held in trust for stockbroking clients	636,606	-	636,606
	<b>1,143,628</b>	<b>50,819</b>	<b>1,194,447</b>

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (d) Credit risk

##### (i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statements of financial position is the amounts on the statements 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:

	The Group		The Bank	
	30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
Credit risk exposure relating to on-balance sheet assets:				
Short-term funds (exclude cash in hand)	<b>674,953</b>	556,254	<b>674,538</b>	554,687
Clients' and brokers' balances	<b>284,378</b>	147,539	<b>284,378</b>	147,539
Reverse repurchased agreements	<b>280,176</b>	274,388	<b>280,176</b>	274,388
Deposits and placements with banks and other financial institutions	<b>331,159</b>	325,201	<b>330,873</b>	324,930
Financial assets and investments portfolios (exclude shares)				
- financial assets at fair value through profit or loss	<b>859,904</b>	647,628	<b>859,904</b>	647,628
- financial investments available-for-sale	<b>636,340</b>	263,952	<b>636,340</b>	263,952
- financial investments held-to-maturity	<b>358,413</b>	253,911	<b>358,413</b>	253,911
Loans and advances	<b>431,414</b>	174,184	<b>431,414</b>	174,184
Other assets	<b>45,308</b>	12,499	<b>45,306</b>	12,496
Derivative financial assets	<b>40,951</b>	40,941	<b>40,951</b>	40,941
	<b>3,942,996</b>	2,696,497	<b>3,942,293</b>	2,694,656
Credit risk exposure relating to off-balance sheet assets:				
Commitments and contingencies	<b>1,596,011</b>	1,194,447	<b>1,596,011</b>	1,194,447
Total maximum credit risk exposure	<b>5,539,007</b>	3,890,944	<b>5,538,304</b>	3,889,103

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.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (d) Credit risk (continued)

##### (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

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.

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for loans and advances as at 30 June 2014 for the Group and the Bank is 91.7% (30 June 2013: 99.0%). The financial effect of collateral held for the other financial assets is not significant.

##### (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:

	<b>30.06.2014</b>	30.06.2013
<b>The Group and the Bank</b>	<b>RM'000</b>	RM'000
Neither past due nor impaired	<b>432,062</b>	174,051
Past due but not impaired	-	-
Individually impaired	<b>853</b>	1,123
Gross loans and advances	<b>432,915</b>	175,174
Less: allowance for impaired loans, advances and financing		
- individual assessment allowance	<b>(194)</b>	(252)
- collective assessment allowance	<b>(1,307)</b>	(738)
Total net loans and advances	<b>431,414</b>	174,184

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 42 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:

<b>The Group and the Bank</b>	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Grading classification		
- Good	<b>432,062</b>	174,051
- Fair	-	-
Total neither past due nor impaired	<b><u>432,062</u></b>	<b><u>174,051</u></b>

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.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 42 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 reporting date are as follows:

<b>The Group and the Bank</b>	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Gross amount of individually impaired loans	<b>853</b>	1,123
Less: Individual assessment allowance	<b>(194)</b>	(252)
Total net amount individually impaired loans	<b>659</b>	871

(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

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (d) Credit risk (continued)

##### (iii) Credit quality (continued)

- (b) Short-term funds and 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:-

The Group	Short-term funds and deposits and placements with banks and other financial institutions	Clients' and brokers' balances	Reverse repurchase agreements	Financial assets at fair value through profit or loss	Financial investments available-for-sale	Financial investments held-to-maturity	Other assets	Derivative financial assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>30.06.2014</b>								
Neither past due nor impaired	1,006,112	283,807	280,176	859,904	636,340	358,413	45,308	40,951
Individually impaired	-	956	-	-	-	-	375	-
Less: Impairment losses	-	(385)	-	-	-	-	(375)	-
	<b>1,006,112</b>	<b>284,378</b>	<b>280,176</b>	<b>859,904</b>	<b>636,340</b>	<b>358,413</b>	<b>45,308</b>	<b>40,951</b>
<b>30.06.2013</b>								
Neither past due nor impaired	881,455	147,145	274,388	647,628	263,952	253,911	12,499	40,941
Individually impaired	-	805	-	-	-	-	443	-
Less: Impairment losses	-	(411)	-	-	-	-	(443)	-
	<b>881,455</b>	<b>147,539</b>	<b>274,388</b>	<b>647,628</b>	<b>263,952</b>	<b>253,911</b>	<b>12,499</b>	<b>40,941</b>

## Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

### Notes to the financial statements

#### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

#### (d) Credit risk (continued)

#### (iii) Credit quality (continued)

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

The Bank	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Clients' and brokers' balances RM'000	Reverse repurchase agreements RM'000	Financial assets at fair value through profit or loss RM'000	Financial investments available-for- sale RM'000	Financial investments held-to- maturity RM'000	Other assets RM'000	Derivative financial assets RM'000
<b>30.06.2014</b>								
Neither past due nor impaired	1,005,411	283,807	280,176	859,904	636,340	358,413	45,306	40,951
Individually impaired	-	956	-	-	-	-	375	-
Less: Impairment losses	-	(385)	-	-	-	-	(375)	-
	<b>1,005,411</b>	<b>284,378</b>	<b>280,176</b>	<b>859,904</b>	<b>636,340</b>	<b>358,413</b>	<b>45,306</b>	<b>40,951</b>
<b>30.06.2013</b>								
Neither past due nor impaired	879,617	147,145	274,388	647,628	263,952	253,911	12,496	40,941
Individually impaired	-	805	-	-	-	-	443	-
Less: Impairment losses	-	(411)	-	-	-	-	(443)	-
	<b>879,617</b>	<b>147,539</b>	<b>274,388</b>	<b>647,628</b>	<b>263,952</b>	<b>253,911</b>	<b>12,496</b>	<b>40,941</b>

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (d) Credit risk (continued)

##### (iii) Credit quality (continued)

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

Analysis of short-term funds and 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 reporting date are as follows:

The Group	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Clients' and brokers' balances RM'000	Reverse repurchase agreements RM'000	Financial assets at fair value through profit or loss RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other assets RM'000	Derivative financial assets RM'000
<b>30.06.2014</b>								
AAA to AA3	-	-	-	459,579	337,990	20,316	-	17,225
A1 to A3	-	-	-	64,265	44,006	103,895	-	1,963
Baa1 to Baa3	-	-	-	19,420	28,613	142,272	-	-
P1 to P3	924,516	-	-	316,639	-	-	1,068	-
Non-rated, of which:								
- Bank Negara Malaysia	43	-	280,176	-	-	-	-	-
- Malaysia Government Investment Issues	-	-	-	-	139,398	25,517	-	-
- Government Guaranteed Private Debt Securities	-	-	-	-	86,333	66,413	-	-
- Others	81,553	284,378	-	1	-	-	44,240	21,763
	81,596	284,378	280,176	1	225,731	91,930	44,240	21,763
	1,006,112	284,378	280,176	859,904	636,340	358,413	45,308	40,951



# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

### for the financial year ended 30 June 2014 (continued)

#### 42 Financial instruments (continued)

##### (d) Credit risk (continued)

###### (iii) Credit quality (continued)

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

Analysis of short-term funds and 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 reporting date are as follows: (continued)

The Group	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Clients' and brokers' balances RM'000	Reverse repurchase agreements RM'000	Financial assets at fair value through profit or loss RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other assets RM'000	Derivative financial assets RM'000
<b>30.06.2013</b>								
AAA to AA3	-	-	-	294,761	87,380	35,702	-	19,429
A1 to A3	-	-	-	84,291	46,297	52,205	1,280	2,256
Baa1 to Baa3	-	-	-	28,988	40,179	140,707	-	-
P1 to P3	610,810	-	-	219,476	-	-	171	-
Non-rated, of which:								
- Bank Negara Malaysia	220,632	-	274,388	-	-	-	-	-
- Malaysia Government Investment Issues	-	-	-	-	59,669	5,107	-	-
- Government Guaranteed Private Debt Securities	-	-	-	20,107	30,427	20,190	-	-
- Others	50,013	147,539	-	5	-	-	11,048	19,256
	270,645	147,539	274,388	20,112	90,096	25,297	11,048	19,256
	881,455	147,539	274,388	647,628	263,952	253,911	12,499	40,941

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (d) Credit risk (continued)

##### (iii) Credit quality (continued)

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

Analysis of short-term funds and 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 reporting date are as follows: (continued)

The Bank	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Clients' and brokers' balances RM'000	Reverse repurchase agreements RM'000	Financial assets at fair value through profit or loss RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other assets RM'000	Derivative financial assets RM'000
<b>30.06.2014</b>								
AAA to AA3	-	-	-	459,579	337,990	20,316	-	17,225
A1 to A3	-	-	-	64,265	44,006	103,895	-	1,963
Baa1 to Baa3	-	-	-	19,420	28,613	142,272	-	-
P1 to P3	923,815	-	-	316,639	-	-	1,068	-
Non-rated, of which:								
- Bank Negara Malaysia	43	-	280,176	-	-	-	-	-
- Malaysia Government Investment Issues	-	-	-	-	139,398	25,517	-	-
- Government Guaranteed Private Debt Securities	-	-	-	-	86,333	66,413	-	-
- Others	81,553	284,378	-	1	-	-	44,238	21,763
	<b>81,596</b>	<b>284,378</b>	<b>280,176</b>	<b>1</b>	<b>225,731</b>	<b>91,930</b>	<b>44,238</b>	<b>21,763</b>
	<b>1,005,411</b>	<b>284,378</b>	<b>280,176</b>	<b>859,904</b>	<b>636,340</b>	<b>358,413</b>	<b>45,306</b>	<b>40,951</b>

# Hong Leong Investment Bank Berhad

Company no: 10209-W

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## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (d) Credit risk (continued)

##### (iii) Credit quality (continued)

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

Analysis of short-term funds and 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 reporting date are as follows: (continued)

The Bank	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Clients' and brokers' balances RM'000	Reverse repurchase agreements RM'000	Financial assets at fair value through profit or loss RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other assets RM'000	Derivative financial assets RM'000
<b>30.06.2013</b>								
AAA to AA3	-	-	-	294,761	87,380	35,702	-	19,429
A1 to A3	-	-	-	84,291	46,297	52,205	1,280	2,256
Baa1 to Baa3	-	-	-	28,988	40,179	140,707	-	-
P1 to P3	608,972	-	-	219,476	-	-	171	-
Non-rated, of which:								
- Bank Negara Malaysia	220,632	-	274,388	-	-	-	-	-
- Malaysia Government Investment Issues	-	-	-	-	59,669	5,107	-	-
- Government Guaranteed Private Debt Securities	-	-	-	20,107	30,427	20,190	-	-
- Others	50,013	147,539	-	5	-	-	11,045	19,256
	270,645	147,539	274,388	20,112	90,096	25,297	11,045	19,256
	879,617	147,539	274,388	647,628	263,952	253,911	12,496	40,941

# **Hong Leong Investment Bank Berhad**

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## **Notes to the financial statements**

**for the financial year ended 30 June 2014 (continued)**

### **42 Financial instruments (continued)**

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

##### **(iv) Collateral and other credit enhancements obtained**

###### **(a) 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.

## Hong Leong Investment Bank Berhad

Company no: 10209-W

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### Notes to the financial statements for the financial year ended 30 June 2014 (continued)

#### 42 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 30.06.2014	Short-term funds and deposits and placements with financial institutions RM'000	Clients' and brokers' balances RM'000	Reverse repurchase agreements RM'000	Financial assets at fair value through profit or loss RM'000	Financial investments available-for- sale RM'000	Financial investments held-to- maturity RM'000	Loans and advances 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	-	-	-	-	24,871	10,035	-	-	-	34,906	-
Manufacturing	-	-	-	-	-	5,055	30,005	635	-	35,695	700
Electricity, gas and water	-	-	-	-	-	-	27,480	26,015	-	53,495	140,000
Construction	-	-	-	35,218	15,128	-	17,082	4,814	-	72,242	68,321
Wholesale and retail	-	-	-	19,419	29,938	15,261	-	-	-	64,618	-
Transport, storage and communications	-	-	-	-	12,394	-	-	-	-	12,394	-
Finance, insurance, real estate and business services	1,006,069	-	-	779,861	384,098	251,229	120,515	10,761	40,951	2,593,484	781,096
Government and government agencies	43	-	280,176	-	169,911	76,833	-	-	-	526,963	-
Education, health and services	-	-	-	-	-	-	232,775	44	-	232,819	591,635
Purchase of securities	-	284,378	-	-	-	-	-	-	-	284,378	-
Others	-	-	-	25,406	-	-	3,557	3,039	-	32,002	14,259
	<b>1,006,112</b>	<b>284,378</b>	<b>280,176</b>	<b>859,904</b>	<b>636,340</b>	<b>358,413</b>	<b>431,414</b>	<b>45,308</b>	<b>40,951</b>	<b>3,942,996</b>	<b>1,596,011</b>

## Hong Leong Investment Bank Berhad

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### Notes to the financial statements

#### for the financial year ended 30 June 2014 (continued)

#### 42 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 Group 30.06.2013	Short-term funds and deposits and placements with financial RM'000	Clients' and brokers' balances RM'000	Reverse repurchase agreements RM'000	Financial assets at fair value through profit or loss RM'000	Financial investments available-for- sale RM'000	Financial investments held-to- maturity RM'000	Loans and advances 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	-	-	-	16,227	-	10,040	-	-	-	26,267	-
Manufacturing	-	-	-	30,499	-	10,158	661	207	-	41,525	96
Electricity, gas and water	-	-	-	5,788	-	-	33,332	2,010	-	41,130	-
Construction	-	-	-	15,143	-	-	481	379	4,862	20,865	53,267
Wholesale and retail	-	-	-	45,106	15,414	15,383	-	-	-	75,903	-
Transport, storage and communications	-	-	-	6,797	19,971	5,065	-	140	-	31,973	-
Finance, insurance, real estate and business services	660,824	-	-	482,239	148,693	208,158	41,020	4,006	36,079	1,581,019	669,746
Government and government agencies	220,631	-	274,388	20,108	79,874	5,107	-	2,724	-	602,832	-
Education, health and services	-	-	-	-	-	-	92,839	-	-	92,839	458,226
Purchase of securities	-	147,539	-	-	-	-	-	-	-	147,539	-
Others	-	-	-	25,721	-	-	5,851	3,033	-	34,605	13,112
	881,455	147,539	274,388	647,628	263,952	253,911	174,184	12,499	40,941	2,696,497	1,194,447

## Hong Leong Investment Bank Berhad

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### Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

#### 42 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 30.06.2014	Short-term funds and deposits and placements with financial RM'000	Clients' and brokers' balances RM'000	Reverse repurchase agreements RM'000	Financial assets at fair value through profit or loss RM'000	Financial investments available-for- sale RM'000	Financial investments held-to- maturity RM'000	Loans and advances 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	-	-	-	-	24,871	10,035	-	-	-	34,906	-
Manufacturing	-	-	-	-	-	5,055	30,005	635	-	35,695	700
Electricity, gas and water	-	-	-	-	-	-	27,480	26,015	-	53,495	140,000
Construction	-	-	-	35,218	15,128	-	17,082	4,814	-	72,242	68,321
Wholesale and retail	-	-	-	19,419	29,938	15,261	-	-	-	64,618	-
Transport, storage and communications	-	-	-	-	12,394	-	-	-	-	12,394	-
Finance, insurance, real estate and business services	1,005,368	-	-	779,861	384,098	251,229	120,515	10,761	40,951	2,592,783	781,096
Government and government agencies	43	-	280,176	-	169,911	76,833	-	-	-	526,963	-
Education, health and services	-	-	-	-	-	-	232,775	44	-	232,819	591,635
Purchase of securities	-	284,378	-	-	-	-	-	-	-	284,378	-
Others	-	-	-	25,406	-	-	3,557	3,037	-	32,000	14,259
	<b>1,005,411</b>	<b>284,378</b>	<b>280,176</b>	<b>859,904</b>	<b>636,340</b>	<b>358,413</b>	<b>431,414</b>	<b>45,306</b>	<b>40,951</b>	<b>3,942,293</b>	<b>1,596,011</b>

## Hong Leong Investment Bank Berhad

Company no: 10209-W

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### Notes to the financial statements for the financial year ended 30 June 2014 (continued)

#### 42 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 30.06.2013	Short-term funds and deposits and placements with financial institutions RM'000	Clients' and brokers' balances RM'000	Reverse repurchase agreements RM'000	Financial assets at fair value through profit or loss RM'000	Financial investments available-for- sale RM'000	Financial investments held-to- maturity RM'000	Loans and advances 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	-	-	-	16,227	-	10,040	-	-	-	26,267	-
Manufacturing	-	-	-	30,499	-	10,158	661	207	-	41,525	96
Electricity, gas and water	-	-	-	5,788	-	-	33,332	2,010	-	41,130	-
Construction	-	-	-	15,143	-	-	481	379	4,862	20,865	53,267
Wholesale and retail	-	-	-	45,106	15,414	15,383	-	-	-	75,903	-
Transport, storage and communications	-	-	-	6,797	19,971	5,065	-	140	-	31,973	-
Finance, insurance, real estate and business services	658,985	-	-	482,239	148,693	208,158	41,020	4,006	36,079	1,579,180	669,746
Government and government agencies	220,632	-	274,388	20,108	79,874	5,107	-	2,724	-	602,833	-
Education, health and services	-	-	-	-	-	-	92,839	-	-	92,839	458,228
Purchase of securities	-	147,539	-	-	-	-	-	-	-	147,539	-
Others	-	-	-	25,721	-	-	5,851	3,030	-	34,602	13,110
	879,617	147,539	274,388	647,628	263,952	253,911	174,184	12,496	40,941	2,694,656	1,194,447



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## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (e) Fair value measurement

The Group and the Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active market where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2.

In cases where quoted prices are generally not available, the Group then determine fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). This category includes unquoted shares held for socio economic reasons. Fair values for shares held for socio economic reasons are based on the net tangible assets of the affected companies. The Group's and the Bank's exposure to financial instruments classified as Level 3 comprised a small number of financial instruments which constitute an insignificant component of the Group's and the Bank's portfolio of financial instruments. Hence, changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in Level 3 of the fair value hierarchy.

The Group and the Bank recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. Transfers between fair value hierarchy primarily due to change in the level of trading activity, change in observable market activity related to an input, reassessment of available pricing information and change in the significance of the unobservable input. There were no transfers between Level 1, 2 and 3 of the fair value hierarchy during the financial year (30 June 2013 - Nil).

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (e) Fair value measurement (continued)

- (i) The table below summarises the fair value hierarchy of the Group's and the Bank's financial assets and liabilities measured at fair values.

<b>The Group and the Bank 30.06.2014</b>	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>	<b>Level 3 RM'000</b>	<b>Total RM'000</b>
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	<b>8,360</b>	<b>859,904</b>	-	<b>868,264</b>
- money market instruments	-	<b>720,067</b>	-	<b>720,067</b>
- quoted securities	<b>8,360</b>	-	-	<b>8,360</b>
- unquoted securities	-	<b>139,837</b>	-	<b>139,837</b>
Financial investments available-for-sale	-	<b>636,340</b>	<b>245</b>	<b>636,585</b>
- money market instruments	-	<b>184,973</b>	-	<b>184,973</b>
- unquoted securities	-	<b>451,367</b>	<b>245</b>	<b>451,612</b>
Derivative financial assets	-	<b>40,951</b>	-	<b>40,951</b>
	<b>8,360</b>	<b>1,537,195</b>	<b>245</b>	<b>1,545,800</b>
<b>Financial liability</b>				
Derivative financial liabilities	-	<b>24,773</b>	-	<b>24,773</b>
<b>30.06.2013</b>				
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	15,345	647,628	-	662,973
- money market instruments	-	389,955	-	389,955
- quoted securities	15,345	-	-	15,345
- unquoted securities	-	257,673	-	257,673
Financial investments available-for-sale	-	263,952	686	264,638
- money market instruments	-	84,996	-	84,996
- unquoted securities	-	178,956	686	179,642
Derivative financial assets	-	40,941	-	40,941
	15,345	952,521	686	968,552
<b>Financial liability</b>				
Derivative financial liabilities	-	32,773	-	32,773

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

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (e) Fair value measurement (continued)

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

The Group and the Bank	Financial investments available-for-sale	
	30.06.2014 RM'000	30.06.2013 RM'000
As at 1 July	686	-
Vested from Promilia	-	2,445
Redeemed during the year	(441)	-
Impairment made during the financial year	-	(1,759)
As at 30 June	<u>245</u>	<u>686</u>

- (ii) The table below summarises the carrying amount and analyses the fair value within the fair value hierarchy of the Group's and the Bank's assets and liabilities not measured at fair value at reporting date but for which fair value is disclosed:

The Group and the Bank 30.06.2014	Carrying amount RM'000	Fair value			Total RM'000
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
<b>Financial assets</b>					
Financial investments held-to-maturity					
- money market instruments	128,332	-	128,204	-	128,204
- unquoted securities	230,081	-	234,087	-	234,087
	<u>358,413</u>	<u>-</u>	<u>362,291</u>	<u>-</u>	<u>362,291</u>
<b>30.06.2013</b>					
<b>Financial assets</b>					
Financial investments held-to-maturity					
- money market instruments	15,268	-	15,315	-	15,315
- unquoted securities	238,643	-	243,131	-	243,131
	<u>253,911</u>	<u>-</u>	<u>258,446</u>	<u>-</u>	<u>258,446</u>

Other than as disclosed above, the total fair value of each financial assets and liabilities presented on the statements of financial position as at reporting date of the Group and the Bank approximates the total carrying amount.

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

#### Short-term funds and placements with banks and 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.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 42 Financial instruments (continued)

#### (e) Fair value measurement (continued)

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

##### **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 Company will establish the fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flows analysis and other valuation techniques commonly used by market participants.

##### **Loans and advances**

The value of fixed rate loans with remaining maturity of less than one year and floating rate loans are estimated to approximate their carrying amounts. For fixed rate loans with remaining maturity of more than one year, 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 values of impaired floating and fixed rate loans are represented by their carrying value, net of individual assessment allowance, being the expected recoverable amount.

##### **Deposits and placements of other financial institutions and repurchased agreements**

The estimated fair values of deposits and placements of other financial institutions and repurchased agreements 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.

##### **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 short term in nature.

##### **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.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements

for the financial year ended 30 June 2014 (continued)

### 43 Offsetting financial assets and financial liabilities

In accordance with MFRS 132 "Financial Instrument: Presentation", the Group reports financial assets and financial liabilities on a net basis on the statements of financial position only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following table shows the impact of netting arrangement on:

- All financial assets and liabilities that are reported net on statements of financial position; and
- All derivative financial instruments and reverse repurchase and repurchased agreements and other similar secured lending and borrowing agreements that are subject to enforceable master netting arrangements or similar agreements, but do not qualify for statements of financial position netting.

The table identifies the amounts that have been offset in the statements of financial position and also those amounts that are covered by enforceable netting arrangements (offsetting arrangements and financial collateral) but do not qualify for netting under the requirements of MFRS 132 described above.

The "Net amounts" presented below are not intended to represent the Group's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

	Effects of offsetting on the statements of financial position			Related amounts not offset		
	Gross Amount RM'000	Amounts Offset RM'000	Net amount reported on statements of financial position RM'000	Financial instruments RM'000	Financial collateral RM'000	Net Amount RM'000
<b>The Group and the Bank</b>						
<b>30.06.2014</b>						
<b>Financial assets</b>						
Clients' and brokers' balances	550,994	(266,616)	284,378	-	-	284,378
Derivative financial assets	40,951	-	40,951	(6,132)	(2,592)	32,227
Reverse repurchase agreement	280,176	-	280,176	(284,423)	-	(4,247)
<b>Total assets</b>	<b>872,121</b>	<b>(266,616)</b>	<b>605,505</b>	<b>(290,555)</b>	<b>(2,592)</b>	<b>312,358</b>
<b>Financial liabilities</b>						
Clients' and brokers' balances	517,053	(266,616)	250,437	-	-	250,437
Derivative financial liabilities	24,773	-	24,773	(6,132)	-	18,641
Repurchased agreement	179,087	-	179,087	(184,815)	(1,068)	(6,796)
<b>Total liabilities</b>	<b>720,913</b>	<b>(266,616)</b>	<b>454,297</b>	<b>(190,947)</b>	<b>(1,068)</b>	<b>262,282</b>

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 43 Offsetting financial assets and financial liabilities (continued)

The Group and the Bank	Effects of offsetting on the statements of financial position			Related amounts not offset		
	Gross Amount RM'000	Amounts Offset RM'000	Net amount reported on statements of financial position RM'000	Financial instruments RM'000	Financial collateral RM'000	Net Amount RM'000
<b>30.06.2013</b>						
<b>Financial assets</b>						
Clients' and brokers' balances	369,143	(221,604)	147,539	-	-	147,539
Derivative financial assets	40,941	-	40,941	(3,929)	(2,026)	34,986
Reverse repurchase agreement	274,388	-	274,388	(264,121)	-	10,267
<b>Total assets</b>	<b>684,472</b>	<b>(221,604)</b>	<b>462,868</b>	<b>(268,050)</b>	<b>(2,026)</b>	<b>192,792</b>
<b>Financial liabilities</b>						
Clients' and brokers' balances	348,931	(221,604)	127,327	-	-	127,327
Derivative financial liabilities	32,773	-	32,773	(3,929)	-	28,844
Repurchased agreement	177,033	-	177,033	(179,118)	(1,280)	(3,365)
<b>Total liabilities</b>	<b>558,737</b>	<b>(221,604)</b>	<b>337,133</b>	<b>(183,047)</b>	<b>(1,280)</b>	<b>152,806</b>

#### Related amounts not offset

##### Derivative financial assets and liabilities

The 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as the ISDA Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transaction covered by the agreements if an event of default or other predetermined events occur.

Financial collateral refers to cash and non-cash collateral obtained, typically daily or weekly, to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 43 Offsetting financial assets and financial liabilities (continued)

**Related amounts not offset** (continued)

#### **Repurchase and reverse repurchased agreements**

The 'financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as global master repurchase agreements and global master securities lending agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transaction covered by the agreements if an event of default or other predetermined events occur.

Financial collateral typically comprises cash, highly liquid securities or other financial instruments which are legally transferred and can be liquidated in the event of counterparty default.

### 44 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.

On 18 January 2006, HLCB announced that Bursa Malaysia Securities Berhad has 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 HLCB and its subsidiaries ("HLCB Group") to participate in the equity of HLCB.

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

1. Eligible executives are persons as defined under the ESOS Bye-Laws.
2. The maximum allowable allotments for the full time Executive Directors had been approved by the shareholders of HLCB in a general meeting. The Board, as defined under the ESOS Bye-Laws, may from time to time at its discretion select and identify suitable eligible executives to be offered options.
3. 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.
4. The ESOS shall be in force for a period of ten (10) years from 23 January 2006.
5. 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, as defined under the ESOS Bye-Laws and shall in no event be less than the par value of the shares of HLCB.

# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 44 Equity compensation benefit (continued)

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

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

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

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 the Bank upon such terms and conditions as the Bank 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 the Bank.

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

- (a) 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.

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

Grant date	Vesting date	Expiry date	As at 01.07.2013	Exercised	As at 30.06.2014
19 January 2011	19 January 2014	18 April 2014 ^	1,330,000	(1,330,000)	-
19 January 2011	19 January 2015	18 April 2015 ^	1,330,000	-	1,330,000
			<u>2,660,000</u>	<u>(1,330,000)</u>	<u>1,330,000</u>

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

The estimated fair value of each share option granted is RM12.76 (2013: RM4.05 to RM4.10 per option). This was calculated using the Black-Scholes model. The model inputs were the share price at reporting date of RM14.14 (2013: RM5.50), exercise price of RM1.42 (2013: RM1.42), weighted average expected volatility of 33.9% (2013: 46.1%), expected yield of 0% (2013: 0%) and a weighted average risk free interest rate of 4.0% (2013: 3.3%).

The options outstanding at reporting date had an exercise price of RM1.42 (2013: RM1.42) and weighted average remaining contractual life (from grant date to the end of exercise period) of 0.8 year (2013: 1 year).



# Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

## Notes to the financial statements for the financial year ended 30 June 2014 (continued)

### 44 Equity compensation benefit (continued)

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

- (b) On 16 January 2013, the Bank granted 2,300,000 conditional incentive share options of the HLCB's shares AAB Options to eligible executives of the Bank pursuant to ESOS at exercise price of RM1.20.

Grant date	Vesting date	Expiry date	As at 01.07.2013	Exercised	As at 30.06.2014
16 January 2013	16 January 2013	20 January 2016	1,050,000	(1,050,000)	-

There were no options outstanding at reporting date.

The number and market values of the ordinary shares held by the Trustee are as follows:

	The Group and The Bank			
	30.06.2014		30.06.2013	
	Number of trust shares held '000	Market value RM'000	Number of trust shares held '000	Market value RM'000
As at end of the financial year	-	-	1,050	5,775

### 45 Significant events during the financial year

#### (a) Member's voluntary winding-up

- (i) SSSB Nominees (Tempatan) Sdn Bhd and SSSB Nominees (Asing) Sdn Bhd, both wholly-owned subsidiaries of SSSB Jaya (1987) Sdn Bhd which in turn a wholly-owned subsidiary of Hong Leong Investment Bank Berhad ("HLIB"), were dissolved on 12 December 2013.
- (ii) On 1 April 2014, the liquidator of RC Nominees (Tempatan) Sdn Bhd ("RC Nominees"), a wholly-owned subsidiary of HLIB, had convened the final meeting for RC Nominees to conclude the member's voluntary winding-up of RC Nominees. The Return by Liquidator Relating to Final Meeting of RC Nominees was lodged on 1 April 2014 with the Companies Commission of Malaysia and the Official Receiver, and on the expiration of 3 months after the said lodgement date, RC Nominees will be dissolved.
- (iii) HLIB placed the following wholly-owned subsidiaries under member's voluntary winding-up pursuant to Section 254(1)(b) of the Companies Act, 1965 on the dates as set out below:
- (a) HLG Nominee (Tempatan) Sdn Bhd and HLG Nominee (Asing) Sdn Bhd on 23 April 2014; and
- (b) ECS Jaya (1969) Sdn Bhd on 12 June 2014.

# **Hong Leong Investment Bank Berhad**

Company no: 10209-W

(Incorporated in Malaysia)

## **Notes to the financial statements for the financial year ended 30 June 2014 (continued)**

### **45 Significant events during the financial year**

#### **(a) Member's voluntary winding-up (continued)**

(iv) MIMB Nominees (Tempatan) Sendirian Berhad and MIMB Nominees (Asing) Sendirian Berhad, wholly-owned subsidiaries of HLIB, were dissolved on 19 May 2014.

### **46 Significant events subsequent to the financial year**

RC Nominees (Tempatan) Sdn Bhd, a wholly-owned subsidiary of HLIB was dissolved on 1 July 2014.

### **47 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 22 July 2014.

## Hong Leong Investment Bank Berhad

Company no: 10209-W

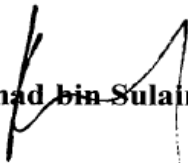
(Incorporated in Malaysia)

### 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, being 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 18 to 128 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2014 and of the results and the cash flows of the Group and the Bank for the financial year then ended on that date, in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 22 July 2014.

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



**Lee Jim Leng**  
Director



Kuala Lumpur  
18 September 2014



### 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 18 to 128 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  
18 September 2014

Before me,

Commissioner for Oaths



84, Tingkat Bawah, Jalan Tute,  
Off Jalan Kampung Attap,  
50460 Kuala Lumpur

**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF HONG LEONG INVESTMENT BANK BERHAD  
(Incorporated in Malaysia)  
Company no: 10209-W**

Report on the Financial Statements

We have audited the financial statements of Hong Leong Investment Bank Berhad on pages 18 to 128 which comprise the statements of financial position as at 30 June 2014 of the Group and of the Bank, and the statements of income, comprehensive income, changes in equity and cash flows 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 Notes 1 to 47.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, 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 entity's preparation of 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 entity'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 give a true and fair view of the financial position of the Group and of the Bank as of 30 June 2014 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF HONG LEONG INVESTMENT BANK BERHAD  
(Incorporated in Malaysia)  
Company no: 10209-W**

Report on Other Legal and Regulatory Requirements

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

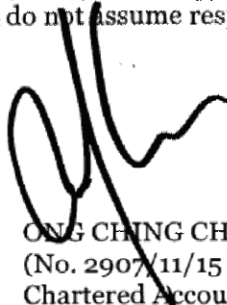
- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the financial statements of the 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.



PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants



ONG CHING CHUAN  
(No. 2907/11/15 (J))  
Chartered Accountant

Kuala Lumpur  
18 September 2014