

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017

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 Board also reviewed the manner in which the Bank Negara Malaysia ("BNM") policy document on Corporate Governance ("BNM CG") is applied in the Group, where applicable, as set out below.

A Board of Directors ("Board")

I Roles and Responsibilities of the Board

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

In discharging its responsibilities, the Board established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which is reviewed periodically by the Board. The key roles and responsibilities of the Board broadly covers 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 those 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 that are required of them by BNM as specified in guidelines and circulars issued by BNM from time to time.

The day-to-day business of the Bank is managed by the Group Managing Director/Chief Executive Officer ("GMD/CEO") who is assisted by the management team. The GMD/CEO and his management team are accountable to the Board for the performance of the Bank. In addition, the Board has established Board Committees which operate within clearly defined TOR primarily to support the Board in the execution of its duties and responsibilities.

To discharge its oversight roles and responsibilities more effectively, the Board has delegated the independent oversight over, inter alia, internal and external audit function, internal controls; and risk management to the Board Audit and Risk Management Committee ("BARMC"). The Nomination and Remuneration Committee ("NRC") is delegated the authority to, inter alia, assess and review Board, Board Committees and GMD/CEO appointments and re-appointments and oversee management succession planning. Although the Board has granted such authority to Board Committees, the ultimate responsibility and the final decision rest with the Board. The chairmen of Board Committees report to the Board on matters dealt with at their respective Board Committee meetings. Minutes of Board Committee meetings are also tabled at Board meetings.

There is a clear division of responsibilities between the Chairman of the Board and the GMD/CEO. This division of responsibilities between the Chairman and the GMD/CEO ensures an appropriate balance of roles, responsibilities and accountability.

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

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

I Roles and Responsibilities of the Board (continued)

The GMD/CEO is responsible for formulating the vision and recommending policies and the strategic direction of the Bank for approval by the Board, implementing the decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing shareholder wealth, providing management of the day-to-day operations of the Bank and tracking compliance and business progress.

Independent Non-Executive Directors (“INEDs”) are responsible for providing insights, unbiased and independent views, advice and judgment to the Board and bring impartiality to Board deliberations and decision-making. They also ensure effective checks and balances on the Board. There are no relationships or circumstances that could interfere with or are likely to affect the exercise of the INEDs independent judgment or their ability to act in the best interest of the Bank and its shareholders.

The Board observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia (“CCM”) which is available at CCM’s website at ‘www.ssm.com.my’. In addition, the Bank also has a Code of Conduct and Ethics that sets out sound principles and standards of good practice which are to be observed by the employees. A Whistleblowing Policy has also been established by the Bank and it provides a structured channel for all employees of the Bank and any other persons providing services to, or having a business relationship with the Bank, to report any concerns about any improper conducts, wrongful acts or malpractice committed within the Bank.

II Board Composition

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

The Bank is guided by BNM CG in determining its board composition. The Board shall determine the appropriate size of the Board to enable an efficient and effective conduct of Board deliberation. The Board shall have a balance of skills and experience commensurate with the complexity, size, scope and operations of the Bank. Board members should have the ability to commit time and effort to carry out their duties and responsibilities effectively.

The Board recognises the merits of Board diversity in adding value to collective skills, perspectives and strengths to the Board. The Board will consider appropriate targets in Board diversity including gender balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate.

Based on the review of the board composition in July 2017, the Board is of the view that the current size and composition of the Board are appropriate and effective for the control and direction of the Group’s strategy and business. The composition of the Board also fairly reflects the investment of shareholders in the Bank.

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

III Board Meetings

The Board met eight (8) times during the financial year ended 30 June 2017 with timely notices of issues to be discussed. Details of attendance of each director are as follow:

Director	Attendance
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	8/8
Mr Tan Kong Khoon (Appointed on 01.01.2017)	4/4
YBhg Dato' Mohzani bin Abdul Wahab	8/8
Mr Martin Giles Manen	8/8
Mr Yong Yoong Fa	8/8
Ms Lee Jim Leng (Resigned on 01.01.2017)	3/4

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. The Bank has moved towards electronic Board reports. Board reports are circulated prior to Board and Board Committee meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, updates on the 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.

V Directors' Profile

YBHG TAN SRI DATO' SERI KHALID AHMAD BIN SULAIMAN

Chairman/Non-Independent Non-Executive Director

Age 81, Male, Malaysian

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman was educated in England and was called to the English Bar at Middle Temple in 1964. He was admitted to the Malaysian Bar in 1965 and Singapore Bar in 1970. He was a founding partner of K Ahmad & Yong, a legal firm in Penang in 1970 and was a Senior Partner till June 2008. He was a Consultant with K Ahmad & Yong from 2008 to June 2016. He was the Chairman of the Advocates and Solicitors Disciplinary Board Malaysia from 2005 to 2013. He was the Penang State Executive Councillor from 1974 to 1982 and was the acting Penang Chief Minister in 1979 and has also served on various statutory boards.

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

V Directors' Profile (continued)

YBHG TAN SRI DATO' SERI KHALID AHMAD BIN SULAIMAN (continued)

YBhg Tan Sri Khalid was appointed to the Board of Directors of Hong Leong Investment Bank Berhad ("HLIB") on 29 September 2012. He is currently the Chairman of HLIB and a member of the Nomination and Remuneration Committee ("NRC") of HLIB.

YBhg Tan Sri Khalid is also a Director of Hong Leong Financial Group Berhad ("HLFG") and Hong Leong Capital Berhad ("HLCB"), both companies listed on the Main Market of Bursa Malaysia Securities Berhad.

MR TAN KONG KHOON

Executive Director/Non-Independent

Age 60, Male, Singaporean

Mr Tan Kong Khoon holds a Bachelor of Business Administration degree from Bishop's University, Canada and is an alumnus of the Harvard Business School Advance Management Program.

Mr Tan was appointed to the Board of Directors of HLIB on 1 January 2017.

Mr Tan is the President & Chief Executive Officer of HLFG. He was the Group Managing Director/Chief Executive Officer of Hong Leong Bank Berhad ("HLB") from 1 July 2013 to 4 February 2016. Prior to joining HLB, Mr Tan was the Group Executive, Consumer Banking Group of DBS Bank Ltd ("DBS") from 1 December 2010 to 15 April 2013 where he led and managed strategy formulation and execution for consumer banking globally across the DBS Group.

Mr Tan began his banking career with DBS in 1981. Since then, he has successfully built consumer banking franchises across multiple markets in Asia for Citibank, Standard Chartered Bank and ANZ Bank.

From March 2007 to December 2009, Mr Tan was the President and Chief Executive Officer of Bank of Ayudhya, the fifth largest bank in Thailand listed on the Thailand Stock Exchange.

Mr Tan is a Director of HLFG, HLB and HLCB, companies listed on the Main Market of Bursa Malaysia Securities Berhad. He is also a Director of Hong Leong Assurance Berhad, a public company.

MR MARTIN GILES MANEN

Non-Executive Director/Independent

Age 61, Male, Malaysian

Mr Martin Giles Manen is a Chartered Accountant and a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

V Directors' Profile (continued)

MR MARTIN GILES MANEN (continued)

Mr Manen was appointed to the Board of Directors of HLIB on 29 September 2012. He is the Chairman of the Board Audit and Risk Management Committee ("BARMC") and a member of the NRC of HLIB.

Mr Manen was the Chief Executive Officer of Perception Management Sdn Bhd ("PMSB"), a public relations and communications consultancy firm for the period up to May 2009. Prior to joining PMSB in January 2008, he served more than 21 years with Sime Darby Group, holding various senior positions including Group Tax Controller, Group Company Secretary, Group Finance Director and Divisional Director of the Allied Products & Services Division. He started his career at KPMG with whom he served 11 years in Malaysia and United Kingdom undertaking audit, tax and business advisory assignments.

Mr Manen had served as a member of the Malaysian Accounting Standard Board, the Executive Committee of the International Fiscal Association (Malaysian Branch), the Task Force on the formation of an Audit Oversight Board chaired by the Securities Commission and the Accounting Technical Panel of the SC.

Mr Manen is also an Independent Non-Executive Director of Heineken Malaysia Berhad and Unisem (M) Berhad, both companies listed on the Main Market of Bursa Malaysia Securities Berhad.

YBHG DATO' MOHZANI ABDUL WAHAB

Non-Executive Director/Independent

Age 63, Male, Malaysian

YBhg Dato' Mohzani bin Abdul Wahab graduated in Economics from the University of Malaya.

YBhg Dato' Mohzani was appointed to the Board of Directors of HLIB on 29 September 2012. He is the Chairman of the NRC and a member of BARMC of HLIB.

YBhg Dato' Mohzani joined the Shell Group in 1976. In his 33 years of service, he has held various senior positions in supply, distribution, brand & communication, marketing economics, sales and operations, marketing and retail management in Shell's Downstream Oil Products sector. Internationally, he had been responsible for the Shell retail business in Singapore, Brunei, Hong Kong and Oman and served as a member of the leadership team for the East Region.

He had served as the Managing Director of Shell Malaysia Trading Sdn Bhd and Shell Timur Sdn Bhd from 2001 and 2005 respectively, until his retirement at the end of 2009. Previously, he was a Non-Independent Non-Executive Director of Shell Refining Company (FOM) Berhad for 8 years until his resignation from the Board at the end of 2009 including as a Board member of Brunei Shell Marketing. His Board experiences include serving on Shell Oman Marketing plc and the JV companies with Petronas and Exxon/Mobil and other Shell downstream subsidiaries. He also served as a Director of the largest multi-party loyalty programme in Asia, Bonus Loyalty Sdn Bhd. In addition, he has sat as Director of the Petroleum Industry of Malaysia Mutual Aid Group (PIMAG).

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

V Directors' Profile (continued)

YBHG DATO' MOHZANI ABDUL WAHAB (continued)

Since his retirement, he had served on the Board of Ramunia Holdings Bhd as a Non-Independent and Non-Executive Director and Chairman of TH-Alam Holdings, a JV company between Lembaga Tabung Haji and Alam Maritim (M) Sdn Bhd and as Chairman of TH Marine Sdn Bhd. He was also an Independent Director of EON Bank Bhd and EONCAP Islamic Bank Berhad. In July 2011, he was appointed as an Independent Director of Pavilion REIT Management Sdn Bhd. He was also appointed as an Independent Director of Celcom Axiata Berhad in March 2012 and Boustead Plantations Berhad in October 2013.

He is currently a member of the Investment Panel of Lembaga Tabung Haji, a role he assumed in October 2007.

MR YONG YOONG FA

Non-Executive Director/Independent

Age 60, Male, Malaysian

Mr Yong Yoong Fa is an Accountant by profession. He is a member of the Malaysian Institute of Certified Public Accountants ("CPA") and Malaysian Institute of Accountants.

Mr Yong was appointed to the Board of Directors of HLIB on 15 July 2015 and is a member of the BARMC of HLIB.

Mr Yong was the Chief Operating Officer ("COO") of TAHPS Group Berhad, a plantation and property development company listed on the Main Market of Bursa Malaysia Securities Berhad from 2004 until his retirement in 2014.

Prior to joining TAHPS Group Berhad, he was in the investment banking and stockbroking industry for more than 20 years in merchant banks and securities firms namely Public Merchant Bank Berhad, PB Securities Sdn Bhd, Kuala Lumpur City Securities Sdn Bhd, Arab-Malaysia Securities Sdn Bhd and Arab-Malaysian Merchant Bank Berhad where he held key positions including inter alia Chief Executive Officer, COO and Executive Director (Dealing).

Before embarking on his career in the investment banking field, he was with the Nestle Group of Companies, in the trading and manufacturing industry. He obtained his CPA and served his articleship in Price Waterhouse where he garnered his experience in professional public accounting.

VI Directors' Training

The Bank recognises the importance of continuous professional development and training for its Directors.

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

VI Directors' Training (continued)

The Bank is guided by a Directors' Training Policy, which covers an Induction Programme and Continuing Professional Development ("CPD") for Directors of the Bank. The Induction Programme is organised for newly appointed Directors to assist them to familiarise and to get acquainted with the Bank's business, governance process, roles and responsibilities as director of the Bank. The CPD encompasses areas related to the industry or business of the Bank, governance, risk management and regulations through a combination of courses and conferences. A training budget is allocated for Directors' training programmes.

The Bank regularly organises in-house programmes, briefings and updates by its in-house professionals. The Directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge. Directors are kept informed of available training programmes on a regular basis.

The Bank has prepared for the use of its directors, a Director Manual which highlights, amongst others, the major duties and responsibilities of a director vis-a-vis various laws, regulations and guidelines governing the same.

In assessing the training needs of directors, the Board has determined that appropriate training programmes covering matters on corporate governance, finance, legal, risk management, information technology, internal control and/or statutory/regulatory compliance, be recommended and arranged for the directors to enhance their contributions to the Board.

During the financial year ended 2017, the directors received regular briefings and updates on the Bank's businesses, operations, risk management, internal controls, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Bank also organised an in-house programme for its Directors and senior management.

The Directors of the Bank have also attended various programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties as Directors.

During the financial year ended 2017, the Directors of the Bank, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- Unisem Worldwide Sales Meeting: New products and technology update
- Securities Commission Malaysia – Capital Market Director Programme
- Clarification of Audit Rating Methodology
- Corporate Governance Statement Workshop: The interplay between CG, Non-Financial Information (NFI) and Investment Decisions
- International Bureau of Fiscal Documentation: International Tax Today
- The Institute of Internal Auditors Malaysia (IIAM) & Malaysian Institute of Corporate Governance (MICG) – The Evolving Role of Audit Committee in Governance, Risk & Control Forum
- Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 : The Law & Compliance
- The New Companies Act – What changes for PLCs and Directors of PLCs

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

VI Directors' Training (continued)

- Security and Terrorism in Malaysia – A Very Real Threat?
- The Power of Social Media and How it Impacts our Business
- CG Breakfast Series: The Cybersecurity Threat and How Boards should mitigate the Risks
- CG Breakfast Series: How to Leverage on AGMs for Better Engagement with Shareholders Launch of AGM Guide
- Briefing Session on Shariah Compliance Trading Window
- International Fiscal Association: Substance over Form, Anti Avoidance & Treaty Abuse, The Future of Transfer Pricing and Base Erosion and Profit Shifting
- Unisem Worldwide Sales Meeting: New products and technology update, Industry Update and Companies Bill, New Listing Requirements and Sustainability Reporting
- Sustainability Forum 2017: The Velocity of Global Change & Sustainability - The New Business Model
- Asian Outlook and RMB Forum: Asian economic outlook, global foreign exchange, the economy of China and the RMB
- Global Business Insights Series - Embracing Paradoxes
- Breakfast Talk with Asian Corporate Governance Association (ACGA) : CG Watch 2016 - Ecosystems Matter
- Companies Act 2016 Update
- Companies Act 2016: Changes and Implications To Company Directors
- An Overview of Latest Development of Shariah Standards issued by Bank Negara Malaysia - Investment Account & Investment Account Platform
- Market Integrity Symposium: Building and Maintaining Confidence
- BNM Compliance Conference 2017
- 4th Industrial Revolution: Impact and Opportunities for Manufacturing and Financial Services

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 is chaired by an independent director and comprises:

Mr Martin Giles Manen	(Chairman, Independent Non-Executive Director)
YBhg Dato' Mohzani bin Abdul Wahab	(Independent Non-Executive Director)
Mr Yong Yoong Fa	(Independent Non-Executive Director)

Secretary

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

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

V Board Audit and Risk Management Committee (“BARMC”) (continued)

Terms of Reference

External Audit

- (a) To make recommendations to the Board on the appointment, removal and remuneration of the external auditor.
- (b) To review the terms of engagement and the audit plan prior to engaging the external auditors and/or re-appointment of the external auditor.
- (c) To monitor and assess the independence of the external auditor, including the approval of non-audit services by the external auditor.
- (d) To review the assistance given by the officers of the Bank to the external auditor.
- (e) To maintain regular, timely, open and honest communication with the external auditor, and requiring the external auditor to report to the BARMC on significant matters.
- (f) To review the report of the external auditor, including any significant matters in a timely manner, and to ensure that management has taken the necessary corrective actions to address the external audit findings and recommendations.
- (g) To review third-party opinions on the design and effectiveness of the Bank’s internal control framework.

Financial Reporting

- (a) To review the accuracy and adequacy of the chairman’s statement (if any) in the directors’ report, corporate governance disclosures, interim financial reports and annual financial statements.

Related Party/Connected Party Transactions

- (a) To review and update the Board on any related party transactions that may arise within the Bank.
- (b) To review and recommend for Board approval, any credit transactions and exposure with connected parties.
- (c) To monitor compliance with the Board’s conflict of interest policy.

Internal Audit

- (a) To review and approve the adequacy of the internal audit scope, procedures, plan, and assess the performance and effectiveness of the internal audit function.
- (b) To review the adequacy and effectiveness of internal controls and risk management processes.
- (c) To review reports and significant findings by Internal Audit Division, including any findings of internal investigations, and to ensure that management has taken the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit and other control functions.

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

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

Terms of Reference (continued)

Internal Audit (continued)

- (d) To review reports and findings issued by regulatory authorities, and to ensure that management has taken the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the regulatory authorities.
- (e) Support the Board in meeting the expectations on Internal Audit management as set out in Bank Negara Malaysia ("BNM") policy document on Guidelines on Internal Audit Function of Licensed Institutions issued on 1 July 2010.
- (f) To decide on the appointment, remuneration, appraisal, transfer and dismissal of the Head of Investment Bank Audit, and to provide oversight on the adequacy of resources and remuneration of the internal auditors. This includes regular review to determine whether the internal audit function has appropriate standing within the Bank to undertake its activities independently and objectively.
- (g) To engage privately with the Head of Investment Bank Audit on a regular basis (and in any case at least twice annually) to provide the opportunity for the Head of Investment Bank Audit to discuss issues faced by the internal audit function.
- (h) To review the Audit Charter and recommend for Board approval.
- (i) Other audit functions as may be agreed to by the BARMC and the Board.

Risk Management

- (a) To review management's activities in managing principal risks such as credit, market, liquidity, operational, compliance and IT risks and the risk management process.
- (b) To review management's reporting to the Board on 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 management's major risk management strategies, policies and risk tolerance for Board's approval.
- (d) To review management's overall framework on Internal Capital Adequacy Assessment Process ("ICAAP"), annual risk appetite and Capital Management Plan for Board's approval.
- (e) To review management's development and effective implementation of the ICAAP.
- (f) To review management's stress testing governance including the evaluation on the capital stress test scenarios, parameters, key assumptions and results.
- (g) To review management's periodic reports on risk appetite, risk exposure, risk portfolio composition, stress testing and risk management activities.
- (h) To review the adequacy and effectiveness of management's internal controls and risk management process.
- (i) To review the adequacy of risk management policies and frameworks in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

V Board Audit and Risk Management Committee (“BARMC”) (continued)

Risk Management (continued)

- (j) To review risk management function's infrastructure, resources and systems and that the staff responsible are in place for risk management functions and to ensure that the staff responsible for implementing risk management systems perform those duties independently of the Group's risk taking activities.
- (k) To receive reports from pertinent management committee.
- (l) To review management's implementation of risk management as set out in BNM policy document on Risk Governance, Approaches to Regulating and Supervising Financial Group and Corporate Governance.
- (m) To review and advise on the appointment, remuneration, removal and redeployment of the Chief Risk Officer (“CRO”).
- (n) To engage privately with the CRO on a regular basis (and in any case at least twice annually) to provide the opportunity for the CRO to discuss issues faced by the risk management function.
- (o) To review management's implementation of the remuneration system on whether incentives provided by the remuneration system take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the Board Remuneration Committee.
- (p) Other risk management functions as may be agreed to by the BARMC and the Board.

Compliance

- (a) To assist the Board in the oversight of the management of compliance risk by:
 - (i) reviewing compliance policies and overseeing management's implementation of the same.
 - (ii) reviewing the establishment of the compliance function and the position of the Chief Compliance Officer/Head of Compliance (“CCO”) to ensure the compliance function and CCO are provided with appropriate standing, authority and independence.
 - (iii) discussing and deliberating compliance issues regularly and ensuring such issues are resolved effectively and expeditiously.
 - (iv) reviewing annually the effectiveness of the Bank's overall management of compliance risk, having regard to the assessments of senior management and internal audit and interactions with the CCO.
 - (v) updating the Board on significant compliance matters, including providing its views on (a) to (d) above.
- (b) In relation to the role of the CCO, support the Board in meeting the expectations on compliance management as set out in BNM's policy document on Compliance by:-
 - (i) Reviewing and advising on the appointment, remuneration, removal and redeployment of the CCO.
 - (ii) Ensuring that CCO has sufficient stature to allow for effective engagement with the Chief Executive Officer (“CEO”) and other members of senior management.
 - (iii) Engaging privately with the CCO on a regular basis (and in any case at least twice annually) to provide the opportunity for the CCO to discuss issues faced by the compliance function.
 - (iv) Ensuring that the CCO is supported with sufficient resources to perform his duties effectively.
 - (v) Where CCO also carries out responsibilities in respect of other control functions, the BARMC shall be satisfied that a sound overall control environment will not be compromised by the combination of responsibilities performed by the CCO.

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

V Board Audit and Risk Management Committee (“BARMC”) (continued)

Compliance (continued)

(c) Other compliance functions as may be agreed to by the BARMC and the Board.

Authority

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 and all employees are directed to co-operate with any request made by the BARMC.

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

Meetings

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.

The Group Managing Director, Chief Executive Officer, Chief Risk Officer, Chief Compliance Officer, Head of Investment Bank Audit, Chief Financial Officer, other senior management and external auditors may be invited to attend the BARMC meetings, whenever required.

At least twice a year, the BARMC will have separate sessions with the external auditors without the presence of Senior Management.

Issues raised, discussions, deliberations, decisions and conclusions made at the BARMC meetings are recorded in the minutes of the BARMC meetings. Where the BARMC is considering a matter in which a BARMC member has an interest, such member shall abstain from reviewing and deliberating on the subject matter.

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

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.

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

V Board Audit and Risk Management Committee (“BARMC”) (continued)

Activities

The BARMC carried out its duties in accordance with its terms of reference.

During the financial year ended 30 June 2017, four (4) BARMC meetings were held and the attendance of the Members was as follows:-

Member	Attendance
Mr Martin Giles Manen	4/4
YBhg Dato' Mohzani bin Abdul Wahab	4/4
Mr Yong Yoong Fa	4/4

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.

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.

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

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

VI Nomination and Remuneration Committee (“NRC”)

Composition

The NRC is chaired by an independent director and comprises:

YBhg Dato' Mohzani bin Abdul Wahab	(Chairman, Independent Non-Executive Director)
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	(Non-Independent Non-Executive Director)
Mr Martin Giles Manen	(Independent Non-Executive Director)
Mr Yong Yoong Fa	(Independent Non-Executive Director) <i>(Resigned as NRC Member on 01.01.2017)</i>

Secretary

The Secretaries of the Bank or such other person as nominated by the Board will be the secretary of the NRC.

Responsibilities

The nomination responsibilities of NRC are as follows:

- (a) Support the Board in carrying out its functions in the following matters concerning the board, senior management and company secretary:
 - (i) appointments and removals;
 - (ii) composition;
 - (iii) performance evaluation and development; and
 - (iv) fit and proper assessments.
- (b) Recommend to the Board the minimum criteria and skill sets for appointments to the Board, Board committees and for the position of Chief Executive Officer.
- (c) Review and recommend to the Board all Board appointments, re-appointments and removals including of the Chief Executive Officer.
- (d) Review annually the overall composition of the Board in terms of the appropriate size and skills, and the balance between executive directors, non-executive directors and independent directors, and mix of skills and other core competencies required.
- (e) Assess annually the performance and effectiveness of the Board, Board Committees and each individual director. Such performance criteria should be approved by the full Board.
- (f) Review annually the term of office and performance of the Board Audit and Risk Management Committee (“BARMC”) and each of its members to determine whether the BARMC and its members have carried out their duties in accordance with the Terms of Reference of the BARMC.

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

VI Nomination and Remuneration Committee (“NRC”) (continued)

Responsibilities (continued)

The nomination responsibilities of NRC are as follows: (continued)

- (g) Oversee the appointment, management of succession planning and performance evaluation of key senior management officers and recommend if they are found ineffective, errant and negligent in discharging their responsibilities.
- (h) Ensure that the Board receives an appropriate continuous training programme.

The remuneration responsibilities of NRC are as follows:

- (a) Recommend to the Board the framework and policies governing the remuneration of the:
 - Directors;
 - Chief Executive Officer;
 - Senior management officers; and
 - Other material risk takers
- (b) Review and recommend to the Board for approval the specific remuneration packages of executive directors and the Chief Executive Officer.
- (c) Review and recommend to the Board for approval the remuneration of senior management officers and other material risk takers.

During the financial year ended 30 June 2017, two (2) NRC meetings were held and the attendance of the members was as follows:-

Member	Attendance
YBhg Dato' Mohzani bin Abdul Wahab (Chairman)	2/2
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	2/2
Mr Martin Giles Manen	2/2
Mr Yong Yoong Fa	2/2
<i>(Resigned as NRC member on 01.01.2017)</i>	

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

VI Nomination and Remuneration Committee (“NRC”) (continued)

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

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

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

The fees of Directors are recommended and endorsed by the Board for approval by the shareholder of the Bank at its AGM.

Remuneration

Hong Leong Investment Bank adopts Hong Leong Group's total compensation philosophy which promotes high performing culture, alignment of corporate values and vertical and horizontal equity. The key principles are to achieve sustainability, partnership for success and reward for contributions.

The strategies are to:

- 1) recognise, attract and retain talents;
- 2) embrace group's values and progressive culture; and
- 3) promote prudent risk-taking and long-term stability.

Under the total compensation framework, HLIB is constantly focusing on balanced and right pay mix to achieve the desired long term business performance. The total compensation framework includes base pay, fixed allowance, performance based variable pay, sales incentive, long term incentives, benefits and employee development.

The rewards framework ensures that employees are paid competitively against the industry and talent market the Bank is operating in; delivered via a combination of cash and non-cash elements such as ESOS.

The Bank also adopts a rigorous and robust process for setting key performance indicators that incorporates compliance management as part of the Key Result Areas (KRAs) for all critical departments.

Another critical part of remuneration delivery process is the review and approving structure. Each year, variable remuneration pool is reviewed and approved by Hong Leong Financial Group's Management. Guided by HLIB CEO, the pool will be allocated to the business units and functions corresponding to their respective performance.

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

VI Nomination and Remuneration Committee (“NRC”) (continued)

Remuneration (continued)

Remuneration of each individual is then formulated based on the bank’s performance, the department’s performance and individual contribution. Senior Officers and other material risk takers’ remuneration will be tabled to the Hong Leong Investment Bank’s NRC for consideration and recommendation to the Board for approval.

BARMC is tasked to review Management’s implementation of the remuneration system on whether remuneration provided by the remuneration system take into consideration risks, compliance, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the Board Remuneration Committee.

The remuneration of GMD/CEO, Senior Management and other Material Risk Takers for FYE 2017 is shown in the table below:

Total value of remuneration awards for FYE 2017	GMD/CEO		Senior Management and other Material Risk Takers	
	Unrestricted (RM)	Deferred (RM)	Unrestricted (RM)	Deferred (RM)
Fixed Remuneration				
• Cash-based	1,638,000	-	6,859,920	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-
Variable Remuneration				
• Cash-based	1,360,610	340,149	3,891,362	234,734
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

VII Directors' remuneration

Details of Directors' remuneration are set out in Note 33 to the financial statements.

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

Company no: 10209-W

(Incorporated in Malaysia)

Directors' report

for the financial year ended 30 June 2017 (continued)

Corporate Governance (continued)

B Accountability and Audit (continued)

C Risk Management

I Overview

The risk management functions of the Bank are undertaken by its immediate holding company, Hong Leong Capital Berhad (“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 43 for further details.