

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Reports and financial statements for the financial year ended 30 June 2016

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Reports and financial statements for the financial year ended 30 June 2016

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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 2016

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 2016.

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

	The Group RM'000	The Bank RM'000
Net profit for the financial year	<u>55,726</u>	<u>55,747</u>

Dividends

The dividends paid by the Bank since 30 June 2015 were as follows:-

In respect of financial year ended 30 June 2015:

	RM'000
A final single-tier dividend of 25.212 sen per share on the Bank's issued and paid-up ordinary shares of RM165,000,000 comprising of 165,000,000 shares, paid on 9 November 2015	<u>41,600</u>

The Directors of the Bank recommend the payment of a final single-tier dividend of 31.6969 sen per share on the Bank's issued and paid-up ordinary share capital of RM165,000,000 comprising 165,000,000 shares, amounting to RM52,299,885 for the financial year ended 30 June 2016.

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.

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Directors' report

for the financial year ended 30 June 2016 (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 and notes to 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)
YBhg Dato' Mohzani bin Abdul Wahab	(Independent Non-Executive Director)
Mr Martin Giles Manen	(Independent Non-Executive Director)
Mr Yong Yoong Fa	(Independent Non-Executive Director) (Appointed on 15.07.2015)
YBhg Tan Sri A. Razak bin Ramli	(Independent Non-Executive Director) (Resigned on 06.05.2016)

Statements of Directors' Responsibility

In preparing the financial statements, the Directors have ensured that these financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia with reasonable and prudent judgements and estimates.

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 2016 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.

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Directors' report

for the financial year ended 30 June 2016 (continued)

Statements of Directors' Responsibility (continued)

The Directors also have 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 133.

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 2016, 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 whose interests is disclosed in the Directors' Report of the immediate holding company as provided for under Section 134 of the Companies Act, 1965.

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 Company during the financial year.

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Directors' report

for the financial year ended 30 June 2016 (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 five (5) directors, four (4) of whom are non-executive. Of the non-executive directors, three (3) are independent.

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

The 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.

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Directors' report

for the financial year ended 30 June 2016 (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 2016 with timely notices of issues to be discussed. Details of attendance of each director are as follow:

Director	Attendance
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	7/7
Ms Lee Jim Leng	7/7
YBhg Tan Sri A. Razak bin Ramli	7/7
YBhg Dato' Mohzani bin Abdul Wahab	7/7
Mr Martin Giles Manen	7/7
Mr Yong Yoong Fa	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.

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Directors' report

for the financial year ended 30 June 2016 (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:

Mr Martin Giles Manen	(Chairman, Independent Non-Executive Director appointed as BARMC Chairman on 06.05.2016)
YBhg Dato' Mohzani bin Abdul Wahab	(Independent Non-Executive Director appointed as BARMC member on 20.10.2015)
Mr Yong Yoong Fa	(Independent Non-Executive Director appointed as BARMC member on 06.05.2016)
YBhg Tan Sri A. Razak bin Ramli (Resigned on 06.05.2016)	(Chairman, 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.

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Directors' report

for the financial year ended 30 June 2016 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

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

Terms of Reference (continued)

Audit (continued)

- (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.
- (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 oversight the control of the ICAAP within the Bank.

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Directors' report

for the financial year ended 30 June 2016 (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)

- (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.
- (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 2016 (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 2016, 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 (appointed on 20.10.2015)	3/3
YBhg Tan Sri A. Razak bin Ramli (Resigned on 06.05.2016)	4/4

Mr Yong Yoong Fa was appointed as BARMC member on 6 May 2016 after the final BARMC meeting for financial year ended 30 June 2016 held on 21 April 2016 and as such he did not attend any of the BARMC meetings held during the financial year ended 30 June 2016.

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Directors' report

for the financial year ended 30 June 2016 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

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

Activities (continued)

- (c) The BARMC reviewed the quarterly reports and annual financial statements of the Bank. The BARMC met with the external auditors and discussed the nature and scope of the audit, considered significant changes in accounting and auditing issues, reviewed the management letter and management's response, examined pertinent issues which had significant impact on the results of the Bank and discussed applicable accounting and auditing standards. The BARMC also reviewed the internal auditors' audit findings and recommendations as well as Bank Negara Malaysia's Examination Reports on the Bank.
- (d) In addition, the BARMC reviewed the adequacy and integrity of internal control systems, including risk management and relevant management information system. It also reviewed the process put in place to identify, evaluate and manage the significant risks encountered by the Bank.
- (e) The BARMC reviewed various related party transactions carried out by the Bank.

VI Nominating and Remuneration Committee ("NRC")

Composition

The NRC shall have a minimum of five (5) members ("the Members") who shall be appointed by the Board of Directors ("Board") out of their own number and all Members must be non-executive Directors. The NRC should be chaired by an independent director. The NRC comprises:

YBhg Dato' Mohzani bin Abdul Wahab (Chairman, Independent Non-Executive Director)

(Appointed as NRC Chairman on 06.05.2016)

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

(Appointed as NRC Member on 17.05.2016)

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

(Resigned on 06.05.2016)

Secretary

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

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Directors' report

for the financial year ended 30 June 2016 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

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

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.
- (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.

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Directors' report

for the financial year ended 30 June 2016 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

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

Terms of Reference (continued)

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.
- (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 2016, three (3) NRC meeting were held and the attendance of the members was as follows:-

Member	Attendance
YBhg Dato' Mohzani bin Abdul Wahab (Appointed as NRC Chairman on 06.05.2016)	3/3
YBhg Tan Sri A. Razak bin Ramli (Chairman) (Resigned on 06.05.2016)	3/3
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	3/3
Mr Martin Giles Manen	3/3

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.

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Directors' report

for the financial year ended 30 June 2016 (continued)

Corporate Governance (continued)

A Board of Directors (continued)

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

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

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

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

Re-election

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

B Accountability and Audit

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

I Financial Reporting

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

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.

Hong Leong Investment Bank Berhad

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Directors' report

for the financial year ended 30 June 2016 (continued)

Corporate Governance (continued)

B Accountability and Audit (continued)

III Relationship with Auditors

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

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

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

C Risk Management

I Overview

The risk management functions of the Bank are undertaken by its immediate holding company, 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.

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Directors' report

for the financial year ended 30 June 2016 (continued)

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.

(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 2016 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

**Company no: 10209-W
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**Directors' report
for the financial year ended 30 June 2016 (continued)**

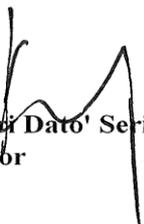
Holding and ultimate holding companies

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.

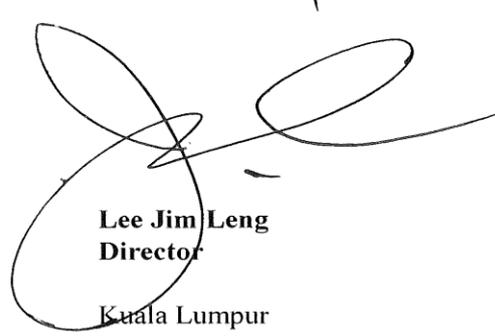
Auditors

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 15 September 2016.



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



**Lee Jim Leng
Director**

Kuala Lumpur
15 September 2016

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Statements of Financial Position as at 30 June 2016

	Note	The Group		The Bank	
		30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
Assets					
Cash and short-term funds	4	230,436	440,318	228,694	438,100
Clients' and brokers' balances	5	192,239	188,838	192,239	188,838
Deposits and placements with banks and other financial institutions	6	40,359	200,243	40,359	200,059
Financial assets at fair value through profit or loss	7	1,416,719	921,047	1,416,719	921,047
Financial investments available-for-sale	8	865,113	799,436	864,761	799,196
Financial investments held-to-maturity	9	528,100	380,255	528,100	380,255
Loans and advances	10	372,162	325,983	372,162	325,983
Other assets	11	45,679	24,391	45,674	24,385
Derivative financial assets	22	42,694	43,059	42,694	43,059
Statutory deposits with Bank Negara Malaysia	12	32,400	56,180	32,400	56,180
Deferred tax assets	13	91,882	95,002	91,882	95,002
Investment in subsidiary companies	14	-	-	361	384
Property and equipment	16	5,551	4,508	5,551	4,508
Intangible assets	17	5,393	3,549	5,393	3,549
Goodwill	18	28,986	28,986	28,986	28,986
Total assets		3,897,713	3,511,795	3,895,975	3,509,531
Liabilities					
Clients' and brokers' balances		241,167	165,143	241,167	165,143
Deposits from customers	19	1,031,929	841,747	1,031,929	841,747
Deposits and placements of banks and other financial institutions	20	1,904,770	1,847,391	1,904,770	1,847,391
Other liabilities	21	93,264	72,226	91,803	70,260
Derivative financial liabilities	22	80,685	57,428	80,685	57,428
Subordinated obligations	23	50,247	50,194	50,247	50,194
Total liabilities		3,402,062	3,034,129	3,400,601	3,032,163
Equity					
Share capital	24	165,000	165,000	165,000	165,000
Reserves	26	330,651	312,666	330,374	312,368
Total equity		495,651	477,666	495,374	477,368
Total equity and liabilities		3,897,713	3,511,795	3,895,975	3,509,531
Commitments and contingencies	37	8,731,501	7,412,838	8,731,501	7,412,838

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Income Statements

for the financial year ended 30 June 2016

	Note	The Group		The Bank	
		30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
Interest income	27	126,930	130,893	126,930	130,893
Interest expense	28	(85,109)	(88,983)	(85,109)	(88,983)
Net interest income		41,821	41,910	41,821	41,910
Non-interest income	29	103,214	116,470	103,029	116,315
		145,035	158,380	144,850	158,225
Overhead expenses	30	(87,473)	(85,703)	(87,270)	(85,509)
Operating profit before allowances		57,562	72,677	57,580	72,716
Write-back of allowance for impairment losses on advances and other losses	31	68	715	68	715
Profit before taxation		57,630	73,392	57,648	73,431
Taxation	33	(1,904)	(7,882)	(1,901)	(7,878)
Net profit for the financial year		55,726	65,510	55,747	65,553
Earnings per share (sen)					
- Basic	34	33.8	39.7	33.8	39.7
- Diluted	34	33.8	39.7	33.8	39.7

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Statements of Comprehensive Income for the financial year ended 30 June 2016

	Note	The Group		The Bank	
		30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
Net profit for the financial year		55,726	65,510	55,747	65,553
Other comprehensive income/(expense):					
Items that will be reclassified subsequently to profit or loss:					
Net fair value changes on financial investments available-for-sale		5,078	3,259	5,078	3,259
Income tax relating to net fair value changes on financial investments available-for-sale	13	(1,219)	(791)	(1,219)	(791)
Other comprehensive income for the year, net of tax		3,859	2,468	3,859	2,468
Total comprehensive income for the financial year, net of tax		59,585	67,978	59,606	68,021

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Statements of changes in equity for the financial year ended 30 June 2016

	Note	Attributable to owner of the parent						Total RM'000
		Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Fair value reserve RM'000	Retained profits RM'000	
The Group								
At 1 July 2015		165,000	87,950	196,867	3,031	1,778	23,040	477,666
Net profit for the financial year		-	-	-	-	-	55,726	55,726
Other comprehensive income, net of tax		-	-	-	-	3,859	-	3,859
Total comprehensive income for the financial year		-	-	-	-	3,859	55,726	59,585
Transfer to regulatory reserve	26	-	-	-	532	-	(532)	-
Dividend paid	36	-	-	-	-	-	(41,600)	(41,600)
At 30 June 2016		165,000	87,950	196,867	3,563	5,637	36,634	495,651

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Statements of changes in equity for the financial year ended 30 June 2016 (continued)

	Note	Attributable to owner of the parent						Retained profits RM'000	Total RM'000
		Share capital RM'000	Share premium RM'000	Redeemable preference shares RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Fair value reserve RM'000		
The Group									
At 1 July 2014		165,000	87,950	1,631	180,479	-	(690)	39,244	473,614
Net profit for the financial year		-	-	-	-	-	-	65,510	65,510
Other comprehensive income, net of tax		-	-	-	-	-	2,468	-	2,468
Total comprehensive income for the financial year		-	-	-	-	-	2,468	65,510	67,978
Redemption of Redeemable Preference Shares	25	-	-	(1,631)	-	-	-	-	(1,631)
Transfer to statutory reserve	26	-	-	-	16,388	-	-	(16,388)	-
Transfer to regulatory reserve	26	-	-	-	-	3,031	-	(3,031)	-
Dividend paid	36	-	-	-	-	-	-	(62,295)	(62,295)
At 30 June 2015		165,000	87,950	-	196,867	3,031	1,778	23,040	477,666

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Statements of changes in equity for the financial year ended 30 June 2016 (continued)

	Note	Non-distributable				Distributable		Total RM'000
		Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Fair value reserve RM'000	Retained profits RM'000	
The Bank								
At 1 July 2015		165,000	87,950	196,867	3,031	1,778	22,742	477,368
Net profit for the financial year		-	-	-	-	-	55,747	55,747
Other comprehensive income, net of tax		-	-	-	-	3,859	-	3,859
Total comprehensive income for the financial year		-	-	-	-	3,859	55,747	59,606
Transfer to regulatory reserve	26	-	-	-	532	-	(532)	-
Dividend paid	36	-	-	-	-	-	(41,600)	(41,600)
At 30 June 2016		165,000	87,950	196,867	3,563	5,637	36,357	495,374

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Statements of changes in equity for the financial year ended 30 June 2016 (continued)

	Note	Non-distributable					Distributable		Total RM'000
		Share capital RM'000	Share premium RM'000	Redeemable preference shares RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Fair value reserve RM'000	Retained profits RM'000	
The Bank									
At 1 July 2014		165,000	87,950	1,631	180,479	-	(690)	38,903	473,273
Net profit for the financial year		-	-	-	-	-	-	65,553	65,553
Other comprehensive income, net of tax		-	-	-	-	-	2,468	-	2,468
Total comprehensive income for the financial year		-	-	-	-	-	2,468	65,553	68,021
Redemption of Redeemable Preference Shares	25	-	-	(1,631)	-	-	-	-	(1,631)
Transfer to statutory reserve	26	-	-	-	16,388	-	-	(16,388)	-
Transfer to regulatory reserve	26	-	-	-	-	3,031	-	(3,031)	-
Dividend paid	36	-	-	-	-	-	-	(62,295)	(62,295)
At 30 June 2015		165,000	87,950	-	196,867	3,031	1,778	22,742	477,368

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Statements of cash flows for the financial year ended 30 June 2016

	The Group		The Bank	
	30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
Cash flows from operating activities				
Profit before taxation	57,630	73,392	57,648	73,431
Adjustments for:				
Depreciation of property and equipment	1,647	1,729	1,647	1,729
Amortisation of intangible assets	1,454	847	1,454	847
Write-back of option charge arising from ESOS	-	(1,089)	-	(1,089)
Gain on liquidation of subsidiaries	(589)	(2)	(579)	(8)
Gain on disposal of property and equipment	(4)	(4)	(4)	(4)
Property and equipment written off	360	11	360	11
Allowance for/(write-back of) impairment losses on loans and advances	22	(498)	22	(498)
Write-back of allowance for impairment losses on clients' and brokers' balances	(85)	(1)	(85)	(1)
Write-back of allowance for losses on fee income receivables	-	(106)	-	(106)
Net unrealised loss/(gain) on revaluation of financial assets at fair value through profit or loss	2,770	(1,857)	2,770	(1,857)
Net unrealised gain on revaluation of derivative financial instruments	24,272	12,812	24,272	12,812
Interest income:				
- financial assets at fair value through profit or loss	(38,079)	(39,396)	(38,079)	(39,396)
- financial investments available-for-sale	(34,744)	(28,042)	(34,744)	(28,042)
- financial investments held-to-maturity	(14,233)	(11,225)	(14,233)	(11,225)
- derivative financial instruments	(5,836)	(4,276)	(5,836)	(4,276)
Interest expense:				
- derivative financial instruments	11,408	8,937	11,408	8,937
- subordinated obligations	2,710	1,698	2,710	1,698
Dividends from financial assets at fair value through profit or loss and financial investments available-for-sale	(2,019)	(845)	(2,019)	(845)
	(50,946)	(61,307)	(50,936)	(61,313)
Operating profit before working capital changes	6,684	12,085	6,712	12,118
(Increase)/decrease in operating assets				
Clients' and brokers' balances	(3,316)	95,541	(3,316)	95,541
Reverse repurchase agreements	-	280,176	-	280,176
Deposits and placements with banks and other financial institutions	159,884	130,916	159,700	130,814
Financial assets at fair value through profit or loss	(492,697)	(50,936)	(492,697)	(50,936)
Loans and advances	(46,201)	105,929	(46,201)	105,929
Other assets	(21,301)	21,774	(21,289)	21,777
Derivative financial assets	(45)	17,016	(45)	17,016
Statutory deposits with Bank Negara Malaysia	23,780	(25,430)	23,780	(25,430)

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Statements of cash flows for the financial year ended 30 June 2016 (continued)

	The Group		The Bank	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
Note	RM'000	RM'000	RM'000	RM'000
Increase/(decrease) in operating liabilities				
Clients' and brokers' balances	76,024	(85,294)	76,024	(85,294)
Deposits from customers	190,182	210,181	190,182	210,181
Deposits and placements of banks and other financial institutions	57,379	(207,569)	57,379	(207,569)
Repurchased agreements	-	(179,087)	-	(179,087)
Other liabilities	21,038	(434,499)	21,543	(436,483)
Cash used in operating activities	(28,589)	(109,197)	(28,228)	(111,247)
Income tax paid	(3)	(7)	-	-
Net cash used in operating activities	(28,592)	(109,204)	(28,228)	(111,247)
Cash flows from investing activities				
Proceeds from liquidation of subsidiaries	602	7	602	7
Net purchase of:				
- financial investments available-for-sale	(59,995)	(158,376)	(59,883)	(158,136)
- financial investments held-to-maturity	(146,697)	(22,865)	(146,697)	(22,865)
Interest received from financial assets at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity	85,203	82,586	85,203	82,586
Interest expense paid for derivative financial instruments	(11,821)	(8,049)	(11,821)	(8,049)
Dividends from financial assets at fair value through profit or loss and financial investments available-for-sale	2,019	845	2,019	845
Proceeds from disposal of property and equipment	5	7	5	7
Purchase of intangible assets	(3,958)	(3,404)	(3,958)	(3,404)
Purchase of property and equipment	(2,391)	(764)	(2,391)	(764)
Net cash used in investing activities	(137,033)	(110,013)	(136,921)	(109,773)
Cash flows from financing activities				
Redemption of Redeemable Preference Shares	-	(1,631)	-	(1,631)
Interest paid on subordinated obligations	(2,657)	(1,314)	(2,657)	(1,314)
Proceeds from subordinated obligations	-	49,810	-	49,810
Dividend paid	(41,600)	(62,295)	(41,600)	(62,295)
Net cash used in financing activities	(44,257)	(15,430)	(44,257)	(15,430)
Net decrease in cash and cash equivalents	(209,882)	(234,647)	(209,406)	(236,450)
Cash and cash equivalents at beginning of financial year	440,318	674,965	438,100	674,550
Cash and cash equivalents at end of financial year	230,436	440,318	228,694	438,100
Cash and cash equivalents comprise:				
Cash and short-term funds	4	230,436	440,318	228,694
				438,100

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Summary of Significant Accounting Policies for the financial year ended 30 June 2016

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 in Malaysia.

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/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

There are no new accounting standards, amendments to published standards and interpretations that are effective for the first time for the financial year beginning on 1 July 2015.

(b) 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 financial year beginning after 1 July 2015. None of these is expected to have a significant effect on the financial statements of the Group and the Bank, except the following:

- Amendments to MFRS 116 "Property, plant and equipment" and MFRS 138 "Intangible assets" (effective from 1 January 2016) clarify that the use of revenue-based methods to calculate the depreciation of an item of property, plant and equipment is not appropriate. This is because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

1 Basis of preparation of the financial statements (continued)

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 July 2015. None of these is expected to have a significant effect on the financial statements of the Group and the Bank, except the following: (continued)

The amendments to MFRS 138 also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption can be overcome only in the limited circumstances where the intangible asset is expressed as a measure of revenue or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

- Amendments to MFRS 107 "Statement of Cash Flows – Disclosure Initiative" (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.
- Amendments to MFRS 112 "Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses" (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

- MFRS 9 "Financial Instruments" (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). 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 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

1 Basis of preparation of the financial statements (continued)

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 July 2015. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following: (continued)

- MFRS 15 "Revenue from contracts with customers" (effective from 1 January 2018) replaces MFRS 118 "Revenue" and MFRS 111 "Construction contracts" and related interpretations. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

- MFRS 16 "Leases" (effective from 1 January 2019) supersedes MFRS 117 "Leases" and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 "Property, Plant and Equipment" and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The Group will apply these standards when effective. The adoption of the above standards, amendments to published standards and interpretations to existing standards are not expected to have any significant impact on the financial statements of the Group except for MFRS 9. The financial effect of adoption of MFRS 9 is still being assessed by the Group.

Hong Leong Investment Bank Berhad

Company no: 10209-W

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

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 to direct the relevant activities of 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.

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 and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, 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 and adjusted to conform with the accounting policies adopted by 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 acquired entity's results, assets and liabilities are consolidated 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 for the period 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 carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date, any gains or losses arising from such re-measurement are 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 2016 (continued)

2 Summary of significant accounting policies (continued)

A Consolidation (continued)

(i) Subsidiaries (continued)

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 in profit or loss. 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 on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(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 transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Group.

(iii) Disposal of subsidiaries

When the Group ceases to consolidate because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes 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.

Gains or losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the subsidiaries sold.

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

A Consolidation (continued)

(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.

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.

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

2 Summary of significant accounting policies (continued)

C Recognition of fees and other income (continued)

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 in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

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

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

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

(ii) Loans and receivables

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

(iii) Financial investments held-to-maturity

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

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

2 Summary of significant accounting policies (continued)

D Financial assets (continued)

(a) Classification (continued)

(iv) Financial investments available-for-sale

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

(b) Recognition and initial measurement

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 that are directly attributable to the acquisition of the financial asset for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in 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.

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.

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

2 Summary of significant accounting policies (continued)

E Financial liabilities

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

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

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

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

(b) Financial liabilities at amortised cost

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

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.

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

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

2 Summary of significant accounting policies (continued)

F Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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.

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (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 in subsequent periods.

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.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (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 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.

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

2 Summary of significant accounting policies (continued)

J Property and equipment and depreciation (continued)

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.

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 from a business combination and represents the excess of the aggregate of fair value of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired and liabilities assumed on the acquisition date. If the fair value of consideration transferred, the amount of non-controlling interest and the fair value of previously held interest in the acquiree are less than the fair value of the net identifiable assets of the acquiree, the resulting gain is recognised in profit or loss.

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 stated at cost less accumulated impairment loss and 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 of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

2 Summary of significant accounting policies (continued)

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.

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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an 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

Tax expense for the period comprises current and deferred tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. 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.

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

2 Summary of significant accounting policies (continued)

N Income taxes (continued)

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 tax is provided in full, 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 tax liabilities are not recognised if they arise from initial recognition of goodwill. Deferred 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 end of the reporting period 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 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 is controlled by the parent and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the deductible temporary difference can be utilised.

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.

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.

Hong Leong Investment Bank Berhad

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

2 Summary of significant accounting policies (continued)

O Currency translations (continued)

(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 or valuations where items are remeasured. 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 securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. 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.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. 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 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 at the end of each reporting period. 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.

As at reporting date, the Group and the Bank have not designated any derivatives as hedging instruments.

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

2 Summary of significant accounting policies (continued)

Q Employee benefits

Short-term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

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.

Defined contribution plan

A defined contribution plan is a pension plan under which the Group and the Bank pay fixed contributions into a separate entity (fund) on mandatory, contractual or voluntary basis 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.

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

2 Summary of significant accounting policies (continued)

R Provision

Provisions are recognised when the Group and the Bank have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

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

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

Provisions are measured at the present values of management's best estimate 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.

Hong Leong Investment Bank Berhad

Company no: 10209-W

(Incorporated in Malaysia)

Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

2 Summary of significant accounting policies (continued)

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.

(b) Share issue costs

Incremental external costs directly attributable to the issue of new shares or options are deducted against share premium account.

(c) Dividends

Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

Distributions to holders of an equity instrument is recognised directly in equity.

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 other than those arising from business combination, 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.

Hong Leong Investment Bank Berhad

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Summary of Significant Accounting Policies for the financial year ended 30 June 2016 (continued)

2 Summary of significant accounting policies (continued)

X Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between initial recognised amount and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss within interest expense.

Where the terms of a financial liability are renegotiated and the Bank issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Y 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.

Z Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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Notes to the financial statements for the financial year ended 30 June 2016

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

	The Group		The Bank	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances with banks and other financial institutions	66,994	118,981	65,252	116,763
Money at call and deposit placements maturing within one month	163,442	321,337	163,442	321,337
	230,436	440,318	228,694	438,100

Inclusive in cash and short-term funds of the Group are accounts in trust for dealer's representative amounting to RM12,998,000 (30.06.2015: RM13,544,000).

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.

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Performing accounts	191,148	187,690
Impaired accounts	1,390	1,532
	192,538	189,222
Less: Allowance for bad and doubtful debts		
- individual assessment allowance	(282)	(361)
- collective assessment allowance	(17)	(23)
	192,239	188,838

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Notes to the financial statements

for the financial year ended 30 June 2016 (continued)

5 Clients' and brokers' balances (continued)

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Movements of impaired accounts are as follows:		
At 1 July	1,532	956
Impaired during the financial year	581	928
Amount written-back during the financial year	(723)	(352)
At 30 June	<u>1,390</u>	<u>1,532</u>

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

Individual assessment allowance

At 1 July	361	370
Allowance made during the financial year	150	97
Allowance written-back during the financial year	(229)	(106)
At 30 June	<u>282</u>	<u>361</u>

Collective assessment allowance

At 1 July	23	15
Allowance (written-back)/made during the financial year	(6)	8
At 30 June	<u>17</u>	<u>23</u>

6 Deposits and placements with banks and other financial institutions

	The Group		The Bank	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
	RM'000	RM'000	RM'000	RM'000
Licensed banks	40,359	49,246	40,359	49,062
Licensed investment banks	-	150,997	-	150,997
	<u>40,359</u>	<u>200,243</u>	<u>40,359</u>	<u>200,059</u>

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Notes to the financial statements

for the financial year ended 30 June 2016 (continued)

7 Financial assets at fair value through profit or loss

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Financial assets held-for-trading		
Money market instruments		
Malaysian Government Securities	-	30,772
Negotiable instruments of deposits	763,252	-
Bankers' acceptance	-	426,775
	763,252	457,547
Quoted securities		
In Malaysia:		
Shares	14,450	21,597
Unquoted securities		
Foreign currency bonds	21,057	62,718
Corporate bond and/or sukuk	617,820	379,023
	638,877	441,741
	1,416,579	920,885
Financial assets designated at fair value through profit or loss		
Quoted securities		
In Malaysia:		
Shares	140	162
	1,416,719	921,047

8 Financial investments available-for-sale

	The Group		The Bank	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
	RM'000	RM'000	RM'000	RM'000
Money market instruments				
Malaysian Government Securities	30,606	102,399	30,606	102,399
Malaysian Government Investment Issues	30,889	80,368	30,889	80,368
Cagamas bonds	15,094	15,051	15,094	15,051
	76,589	197,818	76,589	197,818
Quoted securities				
Unit trust investment	352	240	-	-
Unquoted securities				
Shares	245	245	245	245
Foreign currency bonds	168,754	199,674	168,754	199,674
Corporate bond and/or sukuk	619,173	401,459	619,173	401,459
	788,172	601,378	788,172	601,378
	865,113	799,436	864,761	799,196

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Notes to the financial statements

for the financial year ended 30 June 2016 (continued)

9 Financial investments held-to-maturity

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Money market instruments		
Malaysian Government Securities	81,194	51,097
Malaysian Government Investment Issues	266,161	20,397
	<u>347,355</u>	<u>71,494</u>
Unquoted securities		
Foreign currency bonds	125,456	248,387
Corporate bond and/or sukuk	55,289	60,374
	<u>180,745</u>	<u>308,761</u>
	<u>528,100</u>	<u>380,255</u>

10 Loans and advances

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Term loan financing	84,527	143,066
Share margin financing	288,004	183,183
Staff loans	71	78
Other loans	574	659
Gross loans and advances	<u>373,176</u>	<u>326,986</u>
Less:		
Allowance for losses on loans and advances:		
- individual assessment allowance	(100)	(111)
- collective assessment allowance	(914)	(892)
Total net loans and advances	<u>372,162</u>	<u>325,983</u>

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

Maturing within one year	308,648	276,377
One year to three years	64,457	30,703
Three years to five years	-	19,829
Over five years	71	77
Gross loans and advances	<u>373,176</u>	<u>326,986</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 2016 (continued)

10 Loans and advances

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
(ii) The loans and advances are disbursed to the following type of customers:		
Domestic business enterprises		
- small and medium enterprises	20,273	45,111
- others	216,899	158,948
Individuals	127,909	122,927
Foreign entities	8,095	-
Gross loans and advances	373,176	326,986
(iii) Loans and advances analysed by interest rate sensitivity are as follows:		
Variable rate	372,531	326,249
Fixed rate		
- staff housing loans	71	78
- other fixed rate loans	574	659
Gross loans and advances	373,176	326,986
(iv) Loans and advances analysed by their economic purposes are as follows:		
Purchase of securities	338,562	222,890
Purchase of transport vehicles	100	112
Purchase of landed properties	545	625
Working capital	33,969	103,359
Gross loans and advances	373,176	326,986
(v) Loans and advances analysed by geographical distribution are as follows:		
Malaysia	373,176	326,986
(vi) Movement in the impaired loans and advances are as follows:		
At 1 July	623	853
Impaired during the financial year	-	3
Amount written-back during the financial year	(38)	(233)
Amount written off during the financial year/period	(11)	-
At 30 June	574	623
% of impaired loans to total loans and advances net of individual assessment allowance	0.2%	0.2%

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Notes to the financial statements

for the financial year ended 30 June 2016 (continued)

10 Loans and advances (continued)

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
(vii) Movement in the allowance for losses on loans and advances are as follows:		
Individual assessment allowance		
At 1 July	111	194
Allowance written-back during the financial year	-	(83)
Allowance written-off during the financial year	(11)	-
At 30 June	<u>100</u>	<u>111</u>
Collective assessment allowance		
At 1 July	892	1,307
Allowance made/(written-back) during the financial year	22	(415)
At 30 June	<u>914</u>	<u>892</u>
(viii) Impaired loans and advances analysed by their economic purposes are as follows:		
Purchase of transport vehicles	100	111
Purchase of landed properties	474	512
	<u>574</u>	<u>623</u>
(ix) Impaired loans and advances analysed by geographical distribution are as follows:		
Malaysia	<u>574</u>	<u>623</u>

11 Other assets

	The Group		The Bank	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
	RM'000	RM'000	RM'000	RM'000
Tax recoverable	6	6	-	-
Amounts due from related companies	331	192	331	192
Deposits	4,873	3,675	4,873	3,675
Prepayments	2,362	1,185	2,362	1,185
Fee income receivables net of allowance for impairment losses of RM28,000 (30.06.2015: RM28,000) (a)	7,743	7,123	7,743	7,123
Collaterals pledged for derivative transactions	27,271	8,965	27,271	8,965
Other receivables	3,093	3,245	3,094	3,245
	<u>45,679</u>	<u>24,391</u>	<u>45,674</u>	<u>24,385</u>

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Company no: 10209-W

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Notes to the financial statements

for the financial year ended 30 June 2016 (continued)

11 Other assets (continued)

(a) Movements of allowance for impairment losses on fee income receivables is as follows:

	The Group		The Bank	
	30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
Individual assessment allowance				
At 1 July	28	375	28	375
Allowance written-back during the financial year	-	(106)	-	(106)
Allowance written-off during the financial year	-	(241)	-	(241)
At 30 June	28	28	28	28

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:

	The Group and the Bank	
	30.06.2016 RM'000	30.06.2015 RM'000
Deferred tax assets	91,882	95,002
At 1 July	95,002	103,671
Charged to income statements (Note 33)	(1,901)	(7,878)
Charged to equity	(1,219)	(791)
At 30 June	91,882	95,002
Deferred tax assets		
- settled more than 12 months	71,706	69,861
- settled within 12 months	23,627	26,812
Deferred tax liabilities		
- settled more than 12 months	(2,630)	(1,149)
- settled within 12 months	(821)	(522)
	91,882	95,002

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Notes to the financial statements

for the financial year ended 30 June 2016 (continued)

13 Deferred tax assets/(liabilities) (continued)

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

The Group and the Bank	Property and equipment	Financial investments available-for-sale	Unutilised tax credits	Provisions	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2015	(1,110)	(561)	89,297	7,376	95,002
(Charged)/credited to income statements	(561)	-	395	(1,735)	(1,901)
Charged to equity	-	(1,219)	-	-	(1,219)
At 30 June 2016	<u>(1,671)</u>	<u>(1,780)</u>	<u>89,692</u>	<u>5,641</u>	<u>91,882</u>
At 1 July 2014	(692)	230	94,925	9,208	103,671
Charged to income statements	(418)	-	(5,628)	(1,832)	(7,878)
Charged to equity	-	(791)	-	-	(791)
At 30 June 2015	<u>(1,110)</u>	<u>(561)</u>	<u>89,297</u>	<u>7,376</u>	<u>95,002</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 unused tax credits can be utilised:

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Unused tax credits carried forward	<u>121,830</u>	<u>133,921</u>

14 Investment in subsidiary companies

	The Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Subsidiary companies: Unquoted shares, at cost	<u>361</u>	<u>384</u>

The subsidiary companies of the Bank are as follows:

Name of company	Country of incorporation	Effective equity interest		Principal activities
		30.06.2016	30.06.2015	
		%	%	
ECS Jaya (1969) Sdn Bhd ¹	Malaysia	-	100	Dissolved
HLIB Nominees (Tempatan) Sdn Bhd	Malaysia	100	100	Nominee and custodian services for Malaysia clients

Hong Leong Investment Bank Berhad

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Notes to the financial statements

for the financial year ended 30 June 2016 (continued)

14 Investment in subsidiary companies (continued)

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

Name of company	Country of incorporation	Effective equity interest		Principal activities
		30.06.2016	30.06.2015	
		%	%	
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
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 Research Sdn Bhd ²	Malaysia	-	100	Dissolved
Unincorporated trust for ESOS	Malaysia	-	-	Special purpose vehicle for ESOS purpose

¹ The subsidiary was dissolved on 29 January 2016.

² The subsidiary was dissolved on 8 March 2016.

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.

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Notes to the financial statements

for the financial year ended 30 June 2016 (continued)

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.

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:

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
<u>Assets</u>		
Loans and advances	-	39,854
Derivative financial assets	1,271	3,097
<u>Liabilities</u>		
Other liabilities	1,274	7,233
Derivative financial liabilities	3,363	10,968

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

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
<u>Interest income</u>		
- Loans and advances	1,015	2,344
<u>Non-interest income</u>		
- Arranger fees	4,717	1,500
- Other fee income	3,158	4,990
- Realised (loss)/gain on interest rate swaps	(4,150)	3,150
- Unrealised (loss)/gain on revaluation of derivative financial assets and derivative financial liabilities - call options	(1,826)	(754)
- interest rate swaps	7,113	593

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Notes to the financial statements

for the financial year ended 30 June 2016 (continued)

15 Structured entities (continued)

Unconsolidated structured entities in which the Group has an interest (continued)

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

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
<u>Interest expense</u>		
- Interest rate swaps	2,585	2,952

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

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
<u>Commitments and contingencies</u>		
Interest rate related contracts:		
- Interest rate swaps	108,500	194,500
Equity related contracts:		
- Call options	7,000	8,500

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 2016 (continued)

16 Property and equipment

The Group and the Bank	Freehold	Leasehold	Leasehold	Office and	Furniture	Office	Motor	Total
	land	land	building	computer	and fittings	renovations	vehicles	
	RM'000	more than 50 years RM'000	RM'000	equipment RM'000	RM'000	RM'000	RM'000	RM'000
Cost								
At 1 July 2015	350	780	804	3,652	1,019	5,228	209	12,042
Additions	-	-	-	708	90	1,593	-	2,391
Disposals	-	-	-	-	(3)	-	-	(3)
Write-offs	-	-	-	(23)	(80)	(3,380)	-	(3,483)
Reclassification	-	-	-	733	-	-	-	733
At 30 June 2016	350	780	804	5,070	1,026	3,441	209	11,680
Accumulated depreciation								
At 1 July 2015	-	22	44	2,538	685	4,081	164	7,534
Charge for the financial year	-	8	16	780	143	672	28	1,647
Disposals	-	-	-	-	(2)	-	-	(2)
Write-offs	-	-	-	(23)	(60)	(3,040)	-	(3,123)
Reclassification	-	-	-	73	-	-	-	73
At 30 June 2016	-	30	60	3,368	766	1,713	192	6,129
Net book value								
At 30 June 2016	350	750	744	1,702	260	1,728	17	5,551

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Notes to the financial statements

for the financial year ended 30 June 2016 (continued)

16 Property and equipment (continued)

The Group and the Bank	Freehold	Leasehold	Leasehold	Office and	Furniture	Office	Motor	Total
	land	land	building	computer	and fittings	renovations	vehicles	
	RM'000	more than 50 years RM'000	RM'000	equipment RM'000	RM'000	RM'000	RM'000	RM'000
Cost								
At 1 July 2014	350	780	804	3,481	1,114	5,827	209	12,565
Additions	-	-	-	549	42	173	-	764
Disposals	-	-	-	(119)	-	-	-	(119)
Write-offs	-	-	-	(259)	(137)	(772)	-	(1,168)
At 30 June 2015	350	780	804	3,652	1,019	5,228	209	12,042
Accumulated depreciation								
At 1 July 2014	-	14	28	2,180	563	4,181	112	7,078
Charge for the financial year	-	8	16	730	255	668	52	1,729
Disposals	-	-	-	(116)	-	-	-	(116)
Write-offs	-	-	-	(256)	(133)	(768)	-	(1,157)
At 30 June 2015	-	22	44	2,538	685	4,081	164	7,534
Net book value								
At 30 June 2015	350	758	760	1,114	334	1,147	45	4,508

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17 Intangible assets

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Computer software		
Cost		
At 1 July	5,322	1,980
Additions	3,958	3,404
Write-offs	-	(62)
Reclassification	(733)	-
At 30 June	<u>8,547</u>	<u>5,322</u>
Amortisation		
At 1 July	1,773	988
Charge for the financial year	1,454	847
Write-offs	-	(62)
Reclassification	(73)	-
At 30 June	<u>3,154</u>	<u>1,773</u>
Net book value	<u>5,393</u>	<u>3,549</u>

18 Goodwill

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Cost		
At 1 July/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"):

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
CGU		
Investment banking and stockbroking	<u>28,986</u>	<u>28,986</u>

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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 3.8% (30.06.2015: 4.0%), based on historical Gross Domestic Product ("GDP") growth rate of Malaysia on a perpetual basis 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:

	The Group and the Bank	
	30.06.2016	30.06.2015
Investment banking and stockbroking	10.5%	11.7%

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 the carrying amount.

19 Deposits from customers

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Fixed deposits	1,031,929	841,747
(i) The maturity structure of fixed deposits is as follows:		
Due within:		
- six months	1,030,876	841,747
- six months to one year	1,053	-
	1,031,929	841,747
(ii) The deposits are sourced from the following customers:		
Government and statutory bodies	873,906	561,996
Business enterprises	144,774	265,602
Individuals	13,249	14,149
	1,031,929	841,747

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20 Deposits and placements of banks and other financial institutions

	The Group and the Bank	
	30.06.2016 RM'000	30.06.2015 RM'000
Licensed banks	641,635	459,790
Licensed investment banks	-	34,384
Other financial institutions	1,263,135	1,353,217
	1,904,770	1,847,391

21 Other liabilities

	The Group		The Bank	
	30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
Amount due to holding company (a)	1,283	317	1,283	317
Amounts due to subsidiary companies (a)	-	-	1	-
Remisiers' trust deposits	12,998	13,544	12,998	13,544
Other payables and accrued liabilities	78,786	58,221	77,324	56,255
Post employment benefits obligation: - defined contribution plan	197	144	197	144
	93,264	72,226	91,803	70,260

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

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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
30.06.2016			
Interest rate related contracts:			
- interest rate swaps	5,413,500	19,664	(36,729)
- futures	139,893	-	(1,567)
- cross currency swaps	120,945	3,412	(11,085)
Foreign exchange related contracts:			
- foreign currency swaps	2,308,659	18,347	(30,597)
- foreign currency forwards	45,938	-	(696)
Equity related contracts:			
- futures	5,032	-	(11)
- call options	7,000	1,271	-
	8,040,967	42,694	(80,685)
30.06.2015			
Interest rate related contracts:			
- interest rate swaps	4,169,500	6,968	(18,976)
- futures	301,872	625	(265)
- cross currency swaps	226,395	2,999	(6,016)
Foreign exchange related contracts:			
- foreign currency swaps	1,908,226	28,910	(32,165)
- foreign currency forwards	61,802	457	(6)
- foreign currency spots	1,166	3	-
Equity related contracts:			
- call options	8,500	3,097	-
	6,677,461	43,059	(57,428)

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23 Subordinated obligations

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
RM50.0 million Tier 2 subordinated notes, at par	50,000	50,000
Add: Interest payable	407	407
	50,407	50,407
Less: Unamortised discounts	(160)	(213)
	50,247	50,194

On 6 November 2014, the Bank had completed the first issuance of RM50 million nominal value of Tier 2 Subordinated Notes (“Sub-Notes”) out of its RM1.0 billion Multi-Currency Sub-Notes Programme. The RM50 million Sub-Notes will mature in 2024 and is callable on any coupon payment date falling on or after the 5th anniversary of the issue date. The Sub-Notes which bears interest rate of 5.30% per annum is payable semi-annually in arrears. The exercise of the call option on the Sub-Notes shall be subject to the approval of BNM.

The Sub-Notes constitute unsecured liabilities of the Bank, and is subordinated in right of payment to the deposit liabilities and all other liabilities of the Bank in accordance with the terms and conditions of the issue, except to those liabilities, which by their terms, rank equally in right of payment with or are subordinated to the Sub-Notes. The Sub-Notes qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Bank.

24 Share capital

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Authorised:		
At 1 July/30 June	600,000	600,000
Issued and fully paid capital:		
At 1 July/30 June	165,000	165,000

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25 Redeemable preference shares ("RPS")

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Authorised:		
Non-cumulative redeemable preference shares of RM0.01 each		
At 1 July/30 June	20,000	20,000
Issued and fully paid capital:		
At 1 July/30 June	-	-

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.

On 28 May 2015, the Bank redeemed 163,076,524 RPS of RM0.01 each, representing 100% of its issued RPS capital held by HLG Securities Sdn Bhd.

26 Reserves

	The Group		The Bank	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
	RM'000	RM'000	RM'000	RM'000
Share premium	87,950	87,950	87,950	87,950
Statutory reserve (a)	196,867	196,867	196,867	196,867
Regulatory reserve (b)	3,563	3,031	3,563	3,031
Fair value reserve (c)	5,637	1,778	5,637	1,778
Retained profits (d)	36,634	23,040	36,357	22,742
	330,651	312,666	330,374	312,368

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

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26 Reserves (continued)

- (b) The Bank is required to maintain in aggregate collective impairment allowances and regulatory reserve of no less than 1.2% of total outstanding loans and advances, net of individual impairment allowances.
- (c) 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.
- (d) The Bank can distribute dividends out of its entire retained earnings under the single-tier system.

27 Interest income

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Loans and advances	20,508	24,739
Money at call and deposit placements with financial institutions	3,713	14,733
Financial assets at fair value through profit or loss	38,079	39,396
Financial investments available-for-sale	34,744	28,042
Financial investments held-to-maturity	14,233	11,225
Derivative financial instruments	5,836	4,276
Others	9,817	8,482
	126,930	130,893

28 Interest expense

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	23,053	16,784
Deposits from customers	47,668	61,045
Derivative financial instruments	11,408	8,937
Subordinated obligations	2,710	1,698
Others	270	519
	85,109	88,983

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29 Non-interest income

	The Group		The Bank	
	30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
Fee income				
Fee on loans and advances	320	1,242	320	1,242
Arranger fees	15,428	8,849	15,428	8,849
Guarantee fees	52	249	52	249
Placement fees	9,001	8,544	9,001	8,544
Corporate advisory fees	6,204	11,811	6,204	11,811
Underwriting commissions	1,206	886	1,206	886
Brokerage income	52,535	58,165	52,535	58,165
Commissions from future contracts	472	852	472	852
Other fee income	8,583	14,066	8,408	13,905
	93,801	104,664	93,626	104,503
Net income from securities				
Net realised gain/(loss) arising from sale of:				
- Financial assets at fair value through profit or loss	15,090	6,710	15,090	6,710
- Financial investments available-for-sale	1,003	3,160	1,003	3,160
- Derivative financial instruments	(13,414)	(3,391)	(13,414)	(3,391)
Net (loss)/gain on revaluation of:				
- Financial assets at fair value through profit or loss	(2,770)	1,857	(2,770)	1,857
- Derivative financial instruments	(24,272)	(12,812)	(24,272)	(12,812)
Dividend income from:				
- Financial assets at fair value through profit or loss	1,946	772	1,946	772
- Financial investments available-for-sale	73	73	73	73
	(22,344)	(3,631)	(22,344)	(3,631)
Other income				
Gain on liquidation of subsidiaries	589	2	579	8
Gain on disposal of property and equipment	4	4	4	4
Foreign exchange gain	30,914	15,311	30,914	15,311
Other non-operating income	250	120	250	120
	31,757	15,437	31,747	15,443
Total non-interest income	103,214	116,470	103,029	116,315

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30 Overhead expenses

	The Group		The Bank	
	30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
Personnel costs				
Salaries, allowances and bonuses	45,353	46,132	45,235	46,024
Write-back of option charge arising from ESOS	-	(1,089)	-	(1,089)
Others	9,011	8,038	8,990	8,019
	54,364	53,081	54,225	52,954
Establishment costs				
Depreciation of property and equipment	1,647	1,729	1,647	1,729
Amortisation of intangible assets	1,454	847	1,454	847
Rental expenses	5,633	5,422	5,599	5,390
Information technology expenses	4,133	4,394	4,133	4,394
Others	2,757	2,666	2,743	2,652
	15,624	15,058	15,576	15,012
Marketing expenses				
Advertisement and publicity	40	46	40	46
Entertainment and business improvement	1,762	2,486	1,762	2,486
Others	329	115	329	115
	2,131	2,647	2,131	2,647
Administration and general expenses				
Management fees	2,566	3,139	2,566	3,139
Teletransmission expenses	4,474	4,097	4,474	4,097
Auditors' remuneration				
- Statutory audit fees	261	275	254	268
- Regulatory related fees	23	23	23	23
- Tax compliance fee	14	13	14	13
- Other fees	17	133	17	133
Legal and professional fees	3,161	3,391	3,161	3,391
Property and equipment written off	360	11	360	11
Others	4,478	3,835	4,469	3,821
	15,354	14,917	15,338	14,896
Total overhead expenses	87,473	85,703	87,270	85,509

Included in the overhead expenses of the Group and the Bank are Directors' remuneration totalling RM5,308,000 (2015: RM5,992,000).

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31 Write-back of/(allowance for) impairment losses on loans and advances and other losses

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
(Allowance for)/write-back of losses on impaired loans and advances:		
(a) Individual assessment allowance		
- written-back during the financial year	-	83
(b) Collective assessment allowance		
- (made)/written-back during the financial year	(22)	415
	(22)	498
Bad debts on loans and advances		
- recovered	5	-
Write-back of/(allowance for) losses on clients' and brokers' balances:		
(a) Individual assessment allowance		
- made during the financial year	(150)	(97)
- written-back during the financial year	229	106
(b) Collective assessment allowance		
- written-back/(made) during the financial year	6	(8)
	85	1
Bad debts on clients' and brokers' balances		
- recovered	-	110
Write-back of allowance for losses on fee income receivables:		
(a) Individual assessment allowance		
- written-back during the financial year	-	106
	68	715

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32 Directors' remuneration

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

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Group Managing Director/Chief Executive Officer:		
Ms Lee Jim Leng		
- salary and other remunerations	4,797	5,527
- benefits-in-kind	-	-
	4,797	5,527
Non-Executive Directors - Fees:		
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	95	95
YBhg Dato' Wee Hoe Soon @ Gooi Hoe Soon (Resigned on 23.01.2015)	-	45
YBhg Tan Sri A. Razak bin Ramli (Resigned on 06.05.2016)	106	125
YBhg Dato' Mohzani bin Abdul Wahab	115	85
Mr Martin Giles Manen	117	115
Mr Yong Yoong Fa (Appointed on 15.07.2015)	78	-
Mr Choong Yee How (Resigned on 21.09.2015)	-	-
	511	465
	5,308	5,992

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.

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33 Taxation

	Note	The Group		The Bank	
		30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
Malaysian income tax:					
- current financial year's charge		3	4	-	-
		3	4	-	-
Deferred taxation					
- relating to origination and reversal of temporary differences	13	1,901	7,878	1,901	7,878
		1,901	7,878	1,901	7,878
		1,904	7,882	1,901	7,878

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	
	30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
Profit before taxation	57,630	73,392	57,648	73,431
Tax calculated at a rate of 24% (2015: 25%)	13,831	18,348	13,836	18,358
Tax effects of:				
- Income not subject to tax	(656)	(474)	(625)	(447)
- Expenses not deductible for tax purposes	831	1,694	792	1,653
- Effect of change in tax rate	-	261	-	261
- Origination of temporary differences previously not recognised	(12,102)	(11,947)	(12,102)	(11,947)
Tax income for the financial year	1,904	7,882	1,901	7,878

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34 Earnings per share

	The Group		The Bank	
	30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
(a) Basic earnings per share				
Weighted average number of number of ordinary shares in issue	165,000	165,000	165,000	165,000
Net profit attributable to equity holder of the Bank	55,726	65,510	55,747	65,553
Basic earnings per share (sen)	33.8	39.7	33.8	39.7
(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 2016 and 30 June 2015.

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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

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35 Significant related party transaction (continued)

(b) Related parties transactions

Transactions with related parties are as follows:

The Group 30.06.2016	Holding and ultimate holding companies RM'000	Other related companies RM'000	Key management personnel RM'000
Income			
Interest income	-	30,107	-
Brokerage income	-	4,703	74
Corporate advisory fee	220	380	-
Arranger fee	-	4,810	-
Other fee	146	3,677	-
Loss on securities and derivatives	-	3,531	-
	366	47,208	74
Expenditure			
Interest expense	-	37,830	499
Rental	-	3,580	-
Management fees	2,535	-	-
Other miscellaneous	4	3,730	-
	2,539	45,140	499
Amounts due from:			
Cash and short-term funds	-	11,165	-
Financial assets at fair value through profit or loss	140	287,231	-
Derivative financial assets	-	3,868	-
Clients' and brokers' balances	-	11,030	-
Other assets	-	1,186	-
	140	314,480	-
Amounts due to:			
Deposits from customers	-	1,264	13,249
Deposits and placements of banks and other financial institutions	-	697,568	-
Derivative financial liabilities	-	4,879	-
Clients' and brokers' balances	-	696	-
Other liabilities	1,283	1,274	-
	1,283	705,681	13,249

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35 Significant related party transaction (continued)

(b) Related parties transactions (continued)

Transactions with related parties are as follows: (continued)

	Holding and ultimate holding companies RM'000	Other related companies RM'000	Key management personnel RM'000
The Group 30.06.2016			
Commitments and contingencies			
Derivative financial instruments	-	115,500	-
The Group 30.06.2015			
Income			
Interest income	-	21,855	-
Brokerage income	-	5,345	175
Corporate advisory fee	380	840	-
Arranger fee	-	1,620	-
Placement fee	-	2,801	-
Other fee	45	3,575	-
(Loss)/gain on securities and derivatives	-	(15,904)	7
	425	20,132	182
Expenditure			
Interest expense	-	22,902	187
Rental	-	3,607	-
Management fees	3,139	-	-
Other miscellaneous	-	3,502	-
	3,139	30,011	187
Amounts due from:			
Cash and short-term funds	-	16,312	-
Deposits and placements with banks and other financial institutions	-	184	-
Financial assets at fair value through profit or loss	162	144,458	-
Financial investments held-to-maturity	-	57,389	-
Derivative financial assets	-	3,230	-
Loans and advances	-	39,854	-
Clients' and brokers' balances	2,695	16,730	-
Other assets	-	1,209	-
	2,857	279,366	-

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35 Significant related party transaction (continued)

(b) Related parties transactions (continued)

Transactions with related parties are as follows: (continued)

The Group 30.06.2015	Holding and ultimate holding companies RM'000	Other related companies RM'000	Key management personnel RM'000
Amounts due to:			
Deposits from customers	-	165,430	14,149
Derivative financial liabilities	-	14,117	-
Clients' and brokers' balances	-	2,018	-
Other assets	317	1,761	-
	<u>317</u>	<u>183,326</u>	<u>14,149</u>
Commitments and contingencies			
Derivative financial instruments	-	203,000	-

The Bank 30.06.2016	Holding and ultimate holding companies RM'000	Subsidiaries RM'000	Other related companies RM'000	Key management personnel RM'000
Income				
Interest income	-	-	30,107	-
Brokerage income	-	-	4,703	74
Corporate advisory fee	220	-	380	-
Arranger fee	-	-	4,810	-
Other fee	146	-	3,666	-
Gain on securities and derivatives	-	-	3,531	-
	<u>366</u>	<u>-</u>	<u>47,197</u>	<u>74</u>
Expenditure				
Interest expense	-	-	37,830	499
Rental	-	-	3,508	-
Management fees	2,535	-	-	-
Other miscellaneous	4	-	3,722	-
	<u>2,539</u>	<u>-</u>	<u>45,060</u>	<u>499</u>

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35 Significant related party transaction (continued)

(b) Related parties transactions (continued)

Transactions with related parties are as follows: (continued)

The Bank	Holding and ultimate holding companies	Subsidiaries	Other related companies	Key management personnel
30.06.2016	RM'000	RM'000	RM'000	RM'000
Amounts due from:				
Cash and short-term funds	-	-	9,619	-
Financial assets at fair value through profit or loss	140	-	287,231	-
Derivative financial assets	-	-	3,868	-
Clients' and brokers' balances	-	-	11,030	-
Investment in subsidiaries	-	361	-	-
Other assets	-	-	1,186	-
	140	361	312,934	-
Amounts due to:				
Deposits from customers	-	-	1,264	13,249
Deposits and placements of banks and other financial institutions	-	-	697,568	-
Derivative financial liabilities	-	-	4,879	-
Clients' and brokers' balances	-	-	696	-
Other liabilities	1,283	1	1,274	-
	1,283	1	705,681	13,249
Commitments and contingencies				
Derivative financial instruments	-	-	115,500	-
The Bank				
30.06.2015				
Income				
Interest income	-	-	21,855	-
Brokerage income	-	-	5,345	175
Corporate advisory fee	380	-	840	-
Arranger fee	-	-	1,620	-
Placement fee	-	-	2,801	-
Other fee	45	-	3,575	-
(Loss)/gain on securities and derivatives	-	-	(15,904)	7
	425	-	20,132	182

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35 Significant related party transaction (continued)

Transactions with related parties are as follows: (continued)

The Bank 30.06.2015	Holding and ultimate holding companies RM'000	Subsidiaries RM'000	Other related companies RM'000	Key management personnel RM'000
Expenditure				
Interest expense	-	-	22,902	187
Rental	-	-	3,575	-
Management fees	3,139	-	-	-
Other miscellaneous	-	-	3,489	-
	<u>3,139</u>	<u>-</u>	<u>29,966</u>	<u>187</u>
Amounts due from:				
Cash and short-term funds	-	-	14,094	-
Financial assets at fair value through profit or loss	162	-	144,458	-
Financial investments held-to-maturity	-	-	57,389	-
Derivative financial assets	-	-	3,230	-
Loans and advances	-	-	39,854	-
Clients' and brokers' balances	2,695	-	16,730	-
Investment in subsidiaries	-	384	-	-
Other assets	-	-	1,209	-
	<u>2,857</u>	<u>384</u>	<u>276,964</u>	<u>-</u>
Amounts due to:				
Deposits from customers	-	-	165,430	14,149
Derivative financial liabilities	-	-	14,117	-
Clients' and brokers' balances	-	-	2,018	-
Other liabilities	317	-	1,761	-
	<u>317</u>	<u>-</u>	<u>183,326</u>	<u>14,149</u>
Commitments and contingencies				
Derivative financial instruments	-	-	203,000	-

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Notes to the financial statements for the financial year ended 30 June 2016 (continued)

35 Significant related party transaction (continued)

(c) Key management personnel

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Salaries and other short-term employee benefits	4,135	4,765
Fees	511	465
Defined contribution plan	662	762
Option charge arising from ESOS	-	44
	5,308	6,036

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:

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Outstanding credit exposures with connected parties	13,972	62,933
Percentage of outstanding credit exposures with connected parties as a proportion of total credit exposures	0.55%	2.94%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	0.00%	0.00%

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for the financial year ended 30 June 2016 (continued)

36 Dividends

Dividends declared and proposed as follows:-

	The Group and the Bank			
	30.06.2016		30.06.2015	
	Single-tier dividend per share Sen	Amount of dividend RM'000	Single-tier dividend per share Sen	Amount of dividend RM'000
Ordinary shares	31.70	52,300	25.21	41,600

At the forthcoming Annual General Meeting, the Directors of the Bank recommend the payment of a final single-tier dividend of 31.6969 sen per share on the Bank's issued and paid-up ordinary shares of RM165,000,000 comprising 165,000,000 of ordinary shares amounting to RM52,299,885 for the financial year ended 30 June 2016.

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

	The Group and the Bank			
	30.06.2016		30.06.2015	
	Single-tier dividend per share Sen	Amount of dividend RM'000	Single-tier dividend per share Sen	Amount of dividend RM'000
Ordinary shares	25.21	41,600	-	-
Redeemable Preference Shares	-	-	38.20	62,295

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for the financial year ended 30 June 2016 (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.

	30.06.2016	30.06.2015
	Principal	Principal
	amount	amount
The Group and the Bank	RM'000	RM'000
Commitments and contingencies		
Direct credit substitutes	1,000	8,000
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice		
- maturity less than one year	686,780	722,877
Other commitments, such as formal standby facilities and credit lines		
- maturity one year or less	2,165	1,781
- maturity over one year	589	2,719
	690,534	735,377
Derivative financial instruments		
Interest rate related contracts:		
- One year or less	1,388,708	1,555,070
- Over one year to five years	3,630,630	2,617,697
- Over five years	655,000	525,000
Foreign exchange related contracts:		
- One year or less	2,354,597	1,971,194
Equity related contracts:		
- One year or less	5,032	-
- Over one year to five years	7,000	8,500
	8,040,967	6,677,461
	8,731,501	7,412,838

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38 Capital commitments

	The Group and the Bank	
	30.06.2016	30.06.2015
	RM'000	RM'000
Property and equipment		
- approved and contracted but not provided for	4,472	4,948
- approved but not contracted for	1,238	2,655
	<u>5,710</u>	<u>7,603</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	
	30.06.2016	30.06.2015
	RM'000	RM'000
Less than one year	3,789	3,113
More than one year	1,757	256
More than five years	1	-
	<u>5,547</u>	<u>3,369</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 2016, the capital adequacy ratios of the Group and the Bank are computed in accordance with BNM's Capital Adequacy Framework issued on 13 October 2015. 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. The minimum capital adequacy requirement for common equity Tier I (CET I) capital ratio and Tier I capital ratio are 4.5% and 6.0% respectively. The minimum regulatory capital adequacy requirement remains at 8.0%.

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for the financial year ended 30 June 2016 (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	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
Before deducting proposed dividends:				
Common equity tier 1 ("CET1") capital ratio	29.225%	23.695%	29.202%	23.683%
Tier I capital ratio	29.225%	23.695%	29.202%	23.683%
Total capital ratio	33.608%	27.380%	33.576%	27.355%
After deducting proposed dividends: ⁽¹⁾				
CET I capital ratio	25.011%	20.847%	24.986%	20.832%
Tier I capital ratio	25.011%	20.847%	24.986%	20.832%
Total capital ratio	29.394%	24.532%	29.360%	24.504%

Note:

(1) Proposed dividends of RM52,300,000 (2015: RM41,600,000).

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

	The Group		The Bank	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
	RM'000	RM'000	RM'000	RM'000
CET1 capital				
Paid-up ordinary share capital	165,000	165,000	165,000	165,000
Share premium	87,950	87,950	87,950	87,950
Retained profits	36,634	23,040	36,357	22,742
Other reserves	202,504	198,645	202,504	198,645
Less: goodwill and intangibles	(34,379)	(32,535)	(34,379)	(32,535)
Less: deferred tax assets	(91,882)	(95,002)	(91,882)	(95,002)
Less: investment in subsidiary companies	-	-	(217)	(154)
Less: 55% of cumulative gains of financial instruments available-for-sale	(3,100)	(978)	(3,100)	(978)
Total CET1 capital	362,727	346,120	362,233	345,668
Tier 1 capital	362,727	346,120	362,233	345,668

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for the financial year ended 30 June 2016 (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)

	The Group		The Bank	
	30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
Tier 2 capital				
Collective assessment allowance ⁽²⁾ and regulatory reserve ⁽³⁾	4,394	3,825	4,394	3,825
Subordinated obligations	50,000	50,000	50,000	50,000
Regulatory adjustments:				
- investment in subsidiary companies	-	-	(144)	(230)
Total Tier 2 capital	<u>54,394</u>	<u>53,825</u>	<u>54,250</u>	<u>53,595</u>
Total capital	<u>417,121</u>	<u>399,945</u>	<u>416,483</u>	<u>399,263</u>

Note:

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

(3) Includes the qualifying regulatory reserve for non-impaired loans and advances of RM3,563,000 (2015: RM3,031,000).

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

	The Group		The Bank	
	30.06.2016 RM'000	30.06.2015 RM'000	30.06.2016 RM'000	30.06.2015 RM'000
Credit risk	520,793	678,755	520,091	678,033
Market risk	416,042	483,713	416,042	483,713
Operational risk	304,312	298,237	304,287	297,840
	<u>1,241,147</u>	<u>1,460,705</u>	<u>1,240,420</u>	<u>1,459,586</u>

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for the financial year ended 30 June 2016 (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.

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.

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for the financial year ended 30 June 2016 (continued)

42 Financial instruments (continued)

(a) Risk management objectives and policies (continued)

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.

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for the financial year ended 30 June 2016 (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
30.06.2016				
+100 bps	1,916	(19,665)	1,916	(19,665)
-100 bps	(1,916)	19,665	(1,916)	19,665
30.06.2015				
+100 bps	12,800	(15,017)	12,800	(15,017)
-100 bps	(12,800)	15,017	(12,800)	15,017

(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

	30.06.2016		30.06.2015	
	+1% RM'000	-1% RM'000	+1% RM'000	-1% RM'000
The Group and the Bank				
USD	(19)	19	(27)	27
SGD	(1)	1	2	(2)
Others	(10)	10	(5)	5
	(30)	30	(30)	30

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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 financial assets and financial 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 30.06.2016	← 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			
Assets								
Cash and short-term funds	163,345	-	-	-	-	67,091	-	230,436
Clients' and brokers' balances	-	-	-	-	-	192,239	-	192,239
Deposits and placements with banks and other financial institutions	-	40,315	-	-	-	44	-	40,359
Financial assets at fair value through profit or loss	-	-	-	-	-	-	1,416,719	1,416,719
Financial investments available-for-sale	-	-	210,792	490,655	155,392	8,274	-	865,113
Financial investments held-to-maturity	-	-	28,509	291,404	201,883	6,304	-	528,100
Loans and advances	288,578	20,000	-	64,336	71	(823)	-	372,162
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	32,400	-	32,400
Derivative financial assets	-	-	-	-	-	-	42,694	42,694
Other assets	-	-	-	-	-	43,311	-	43,311
Total assets	451,923	60,315	239,301	846,395	357,346	348,840	1,459,413	3,763,533

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42 Financial instruments (continued)

(b) Market risk (continued)

Interest rate risk (continued)

The Group 30.06.2016	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			
Liabilities								
Clients' and brokers' balances	-	-	-	-	-	241,167	-	241,167
Deposits from customers	969,039	11,880	50,018	-	-	992	-	1,031,929
Deposits and placements of banks and other financial institutions	1,633,229	226,325	43,702	-	-	1,514	-	1,904,770
Derivative financial liabilities	-	-	-	-	-	-	80,685	80,685
Other liabilities	-	-	-	-	-	93,264	-	93,264
Subordinated obligations	-	-	-	-	49,840	407	-	50,247
Total liabilities	2,602,268	238,205	93,720	-	49,840	337,344	80,685	3,402,062
Net interest sensitivity gap	(2,150,345)	(177,890)	145,581	846,395	307,506			
Direct credit substitutes	-	-	-	-	-	1,000		
Credit related commitments and contingencies	-	-	-	-	-	689,534		
Net interest sensitivity gap	-	-	-	-	-	690,534		

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42 Financial instruments (continued)

(b) Market risk (continued)

Interest rate risk (continued)

The Group 30.06.2015	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			
Assets								
Cash and short-term funds	321,199	-	-	-	-	119,119	-	440,318
Clients' and brokers' balances	-	-	-	-	-	188,838	-	188,838
Deposits and placements with banks and other financial institutions	-	151,114	49,052	-	-	77	-	200,243
Financial assets at fair value through profit or loss	-	-	-	-	-	-	921,047	921,047
Financial investments available-for-sale	26	-	58,117	521,936	211,912	7,445	-	799,436
Financial investments held-to-maturity	54,738	-	114,620	207,240	-	3,657	-	380,255
Loans and advances	183,841	10,258	67,662	64,264	77	(119)	-	325,983
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	56,180	-	56,180
Derivative financial assets	-	-	-	-	-	-	43,059	43,059
Other assets	-	-	-	-	-	23,200	-	23,200
Total assets	559,804	161,372	289,451	793,440	211,989	398,397	964,106	3,378,559

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for the financial year ended 30 June 2016 (continued)

42 Financial instruments (continued)

(b) Market risk (continued)

Interest rate risk (continued)

The Group 30.06.2015	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			
Liabilities								
Clients' and brokers' balances	-	-	-	-	-	165,143	-	165,143
Deposits from customers	820,385	19,891	1,009	-	-	462	-	841,747
Deposits and placements of banks and other financial institutions	1,710,724	123,219	11,398	-	-	2,050	-	1,847,391
Derivative financial liabilities	-	-	-	-	-	-	57,428	57,428
Other liabilities	-	-	-	-	-	72,226	-	72,226
Subordinated obligations	-	-	-	-	49,787	407	-	50,194
Total liabilities	2,531,109	143,110	12,407	-	49,787	240,288	57,428	3,034,129
Net interest sensitivity gap	(1,971,305)	18,262	277,044	793,440	162,202			
Direct credit substitutes	-	-	-	-	-	8,000		
Credit related commitments and contingencies	-	-	-	-	-	727,377		
Net interest sensitivity gap	-	-	-	-	-	735,377		

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for the financial year ended 30 June 2016 (continued)

42 Financial instruments (continued)

(b) Market risk (continued)

Interest rate risk (continued)

	← 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			
The Bank 30.06.2016								
Assets								
Cash and short-term funds	163,345	-	-	-	-	65,349	-	228,694
Clients' and brokers' balances	-	-	-	-	-	192,239	-	192,239
Deposits and placements with banks and other financial institutions	-	40,315	-	-	-	44	-	40,359
Financial assets at fair value through profit or loss	-	-	-	-	-	-	1,416,719	1,416,719
Financial investments available-for-sale	-	-	210,792	490,655	155,392	7,922	-	864,761
Financial investments held-to-maturity	-	-	28,509	291,404	201,883	6,304	-	528,100
Loans and advances	288,578	20,000	-	64,336	71	(823)	-	372,162
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	32,400	-	32,400
Derivative financial assets	-	-	-	-	-	-	42,694	42,694
Other assets	-	-	-	-	-	43,312	-	43,312
Total assets	451,923	60,315	239,301	846,395	357,346	346,747	1,459,413	3,761,440

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42 Financial instruments (continued)

(b) Market risk (continued)

Interest rate risk (continued)

The Bank 30.06.2016	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			
Liabilities								
Clients' and brokers' balances	-	-	-	-	-	241,167	-	241,167
Deposits from customers	969,039	11,880	50,018	-	-	992	-	1,031,929
Deposits and placements of banks and other financial institutions	1,633,229	226,325	43,702	-	-	1,514	-	1,904,770
Derivative financial liabilities	-	-	-	-	-	-	80,685	80,685
Other liabilities	-	-	-	-	-	91,803	-	91,803
Subordinated obligations	-	-	-	-	49,840	407	-	50,247
Total liabilities	2,602,268	238,205	93,720	-	49,840	335,883	80,685	3,400,601
Net interest sensitivity gap	(2,150,345)	(177,890)	145,581	846,395	307,506			
Direct credit substitutes	-	-	-	-	-	1,000		
Credit related commitments and contingencies	-	-	-	-	-	689,534		
Net interest sensitivity gap	-	-	-	-	-	690,534		

Hong Leong Investment Bank Berhad

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for the financial year ended 30 June 2016 (continued)

42 Financial instruments (continued)

(b) Market risk (continued)

Interest rate risk (continued)

	← Non-trading book →					Non-interest rate sensitive	Trading book	Total
	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			
The Bank								
30.06.2015								
Assets								
Cash and short-term funds	321,199	-	-	-	-	116,901	-	438,100
Clients' and brokers' balances	-	-	-	-	-	188,838	-	188,838
Deposits and placements with banks and other financial institutions	-	150,930	49,052	-	-	77	-	200,059
Financial assets at fair value through profit or loss	-	-	-	-	-	-	921,047	921,047
Financial investments available-for-sale	26	-	58,117	521,936	211,912	7,205	-	799,196
Financial investments held-to-maturity	54,738	-	114,620	207,240	-	3,657	-	380,255
Loans and advances	183,841	10,258	67,662	64,264	77	(119)	-	325,983
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	56,180	-	56,180
Derivative financial assets	-	-	-	-	-	-	43,059	43,059
Other assets	-	-	-	-	-	23,200	-	23,200
Total assets	559,804	161,188	289,451	793,440	211,989	395,939	964,106	3,375,917

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for the financial year ended 30 June 2016 (continued)

42 Financial instruments (continued)

(b) Market risk (continued)

Interest rate risk (continued)

The Bank 30.06.2015	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			
Liabilities								
Clients' and brokers' balances	-	-	-	-	-	165,143	-	165,143
Deposits from customers	820,385	19,891	1,009	-	-	462	-	841,747
Deposits and placements of banks and other financial institutions	1,710,723	123,219	11,398	-	-	2,051	-	1,847,391
Derivative financial liabilities	-	-	-	-	-	-	57,428	57,428
Other liabilities	-	-	-	-	-	70,260	-	70,260
Subordinated obligations	-	-	-	-	49,787	407	-	50,194
Total liabilities	2,531,108	143,110	12,407	-	49,787	238,323	57,428	3,032,163
Net interest sensitivity gap	(1,971,304)	18,078	277,044	793,440	162,202			
Direct credit substitutes	-	-	-	-	-	8,000		
Credit related commitments and contingencies	-	-	-	-	-	727,377		
Net interest sensitivity gap	-	-	-	-	-	735,377		

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for the financial year ended 30 June 2016 (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:

The Group 30.06.2016	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash and short-term funds	190,121	40,315	-	-	-	-	-	230,436
Clients' and brokers' balances	192,239	-	-	-	-	-	-	192,239
Deposits and placements with banks and other financial institutions	-	-	40,359	-	-	-	-	40,359
Financial assets at fair value through profit or loss	50,550	511,833	200,906	-	-	638,840	14,590	1,416,719
Financial investments available-for-sale	-	-	-	30,240	182,432	651,844	597	865,113
Financial investments held-to-maturity	-	-	-	-	28,636	499,464	-	528,100
Loans and advances	287,755	-	20,000	-	-	64,407	-	372,162
Derivative financial assets	706	5,679	12,277	2,942	569	20,521	-	42,694
Other assets *	331	-	-	-	45,081	-	164,479	209,891
Total assets	721,702	557,827	273,542	33,182	256,718	1,875,076	179,666	3,897,713

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

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for the financial year ended 30 June 2016 (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 Group	Up to	1 week to	1 to 3	3 to 6	6 to 12	Over 1	No specific	Total
30.06.2016	1 week	1 month	months	months	months	year	maturity	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Liabilities								
Clients' and brokers' balances	241,167	-	-	-	-	-	-	241,167
Deposits from customers	122,253	847,587	11,926	49,110	1,053	-	-	1,031,929
Deposits and placements of banks and other financial institutions	965,367	668,883	226,744	41,754	2,022	-	-	1,904,770
Other liabilities	14,282	-	-	-	78,785	197	-	93,264
Derivative financial liabilities	4,546	9,526	6,147	10,520	2,517	47,429	-	80,685
Subordinated obligations	-	-	-	-	-	50,247	-	50,247
Total liabilities	1,347,615	1,525,996	244,817	101,384	84,377	97,873	-	3,402,062
Total equity	-	-	-	-	-	-	495,651	495,651
Total liabilities and equity	1,347,615	1,525,996	244,817	101,384	84,377	97,873	495,651	3,897,713

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for the financial year ended 30 June 2016 (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 Group 30.06.2015	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash and short-term funds	396,491	43,827	-	-	-	-	-	440,318
Clients' and brokers' balances	188,838	-	-	-	-	-	-	188,838
Deposits and placements with banks and other financial institutions	-	-	151,180	49,063	-	-	-	200,243
Financial assets at fair value through profit or loss	142,254	163,402	141,112	-	-	452,520	21,759	921,047
Financial investments available-for-sale	26	-	-	28,455	30,515	739,955	485	799,436
Financial investments held-to-maturity	-	55,761	-	58,238	57,389	208,867	-	380,255
Loans and advances	212,790	-	44,877	-	37,612	30,704	-	325,983
Derivative financial assets	19,735	3,251	3,555	3,544	2,397	10,577	-	43,059
Other assets *	192	-	-	-	24,193	-	188,231	212,616
Total assets	960,326	266,241	340,724	139,300	152,106	1,442,623	210,475	3,511,795

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

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for the financial year ended 30 June 2016 (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 Group	Up to	1 week to	1 to 3	3 to 6	6 to 12	Over 1	No specific	Total
30.06.2015	1 week	1 month	months	months	months	year	maturity	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Liabilities								
Clients' and brokers' balances	165,143	-	-	-	-	-	-	165,143
Deposits from customers	81,761	739,048	19,918	1,020	-	-	-	841,747
Deposits and placements of banks and other financial institutions	1,442,488	269,610	123,887	10,400	1,006	-	-	1,847,391
Other liabilities *	13,860	144	-	2,665	55,557	-	-	72,226
Derivative financial liabilities	12,740	10,806	2,277	2,966	4,485	24,154	-	57,428
Subordinated obligations	-	-	-	-	-	50,194	-	50,194
Total liabilities	1,715,992	1,019,608	146,082	17,051	61,048	74,348	-	3,034,129
Total equity	-	-	-	-	-	-	477,666	477,666
Total liabilities and equity	1,715,992	1,019,608	146,082	17,051	61,048	74,348	477,666	3,511,795

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for the financial year ended 30 June 2016 (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	Up to	1 week to	1 to 3	3 to 6	6 to 12	Over 1	No specific	Total
30.06.2016	1 week	1 month	months	months	months	year	maturity	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets								
Cash and short-term funds	188,379	40,315	-	-	-	-	-	228,694
Clients' and brokers' balances	192,239	-	-	-	-	-	-	192,239
Deposits and placements with banks and other financial institutions	-	-	40,359	-	-	-	-	40,359
Financial assets at fair value through profit or loss	50,550	511,833	200,906	-	-	638,840	14,590	1,416,719
Financial investments available-for-sale	-	-	-	30,240	182,432	651,844	245	864,761
Financial investments held-to-maturity	-	-	-	-	28,636	499,464	-	528,100
Loans and advances	287,755	-	20,000	-	-	64,407	-	372,162
Derivative financial assets	706	5,679	12,277	2,942	569	20,521	-	42,694
Other assets *	331	-	-	-	45,076	-	164,840	210,247
Total assets	719,960	557,827	273,542	33,182	256,713	1,875,076	179,675	3,895,975

* 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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for the financial year ended 30 June 2016 (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 30.06.2016	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Clients' and brokers' balances	241,167	-	-	-	-	-	-	241,167
Deposits from customers	122,253	847,587	11,926	49,110	1,053	-	-	1,031,929
Deposits and placements of banks and other financial institutions	965,367	668,883	226,744	41,754	2,022	-	-	1,904,770
Other liabilities	14,282	-	-	-	77,324	197	-	91,803
Derivative financial liabilities	4,546	9,526	6,147	10,520	2,517	47,429	-	80,685
Subordinated obligations	-	-	-	-	-	50,247	-	50,247
Total liabilities	1,347,615	1,525,996	244,817	101,384	82,916	97,873	-	3,400,601
Total equity	-	-	-	-	-	-	495,374	495,374
Total liabilities and equity	1,347,615	1,525,996	244,817	101,384	82,916	97,873	495,374	3,895,975

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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 30.06.2015	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash and short-term funds	394,273	43,827	-	-	-	-	-	438,100
Clients' and brokers' balances	188,838	-	-	-	-	-	-	188,838
Deposits and placements with banks and other financial institutions	-	-	150,996	49,063	-	-	-	200,059
Financial assets at fair value through profit or loss	142,254	163,402	141,112	-	-	452,520	21,759	921,047
Financial investments available-for-sale	26	-	-	28,455	30,515	739,955	245	799,196
Financial investments held-to-maturity	-	55,761	-	58,238	57,389	208,867	-	380,255
Loans and advances	212,790	-	44,877	-	37,612	30,704	-	325,983
Derivative financial assets	19,735	3,251	3,555	3,544	2,397	10,577	-	43,059
Other assets *	192	-	-	-	24,193	-	188,609	212,994
Total assets	958,108	266,241	340,540	139,300	152,106	1,442,623	210,613	3,509,531

* 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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for the financial year ended 30 June 2016 (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 30.06.2015	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Clients' and brokers' balances	165,143	-	-	-	-	-	-	165,143
Deposits from customers	81,761	739,048	19,918	1,020	-	-	-	841,747
Deposits and placements of banks and other financial institutions	1,442,488	269,610	123,887	10,400	1,006	-	-	1,847,391
Other liabilities	13,860	144	-	2,665	53,591	-	-	70,260
Derivative financial liabilities	12,740	10,806	2,277	2,966	4,485	24,154	-	57,428
Subordinated obligations	-	-	-	-	-	50,194	-	50,194
Total liabilities	1,715,992	1,019,608	146,082	17,051	59,082	74,348	-	3,032,163
Total equity	-	-	-	-	-	-	477,368	477,368
Total liabilities and equity	1,715,992	1,019,608	146,082	17,051	59,082	74,348	477,368	3,509,531

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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.

The Group 30.06.2016	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities							
Clients' and brokers' balances	241,167	-	-	-	-	-	241,167
Deposits from customers	970,871	61,288	1,074	-	-	-	1,033,233
Deposits and placements of banks and other financial institutions	1,635,266	270,215	2,048	-	-	-	1,907,529
Other liabilities	14,281	-	78,786	-	-	197	93,264
Derivative financial liabilities							
- gross settled derivatives							
- inflow	(1,522,694)	(764,461)	(80,508)	-	-	-	(2,367,663)
- outflow	1,530,500	769,155	81,060	-	-	-	2,380,715
- net settled derivatives	(201)	1,732	899	6,732	3,002	(555)	11,609
Subordinated obligations	-	1,350	1,315	5,300	5,307	59,286	72,558
Total financial liabilities	2,869,190	339,279	84,674	12,032	8,309	58,928	3,372,412

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for the financial year ended 30 June 2016 (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)

The Group 30.06.2015	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities							
Clients' and brokers' balances	165,143	-	-	-	-	-	165,143
Deposits from customers	821,616	21,044	-	-	-	-	842,660
Deposits and placements of banks and other financial institutions	1,712,912	135,040	1,040	-	-	-	1,848,992
Other liabilities	15,840	2,665	53,591	-	130	-	72,226
Derivative financial liabilities							
- gross settled derivatives							
- inflow	(849,210)	(946,545)	(150,543)	-	-	-	(1,946,298)
- outflow	846,895	949,102	150,168	-	-	-	1,946,165
- net settled derivatives	(65)	5,544	2,647	4,591	879	(6,234)	7,362
Subordinated obligations	-	1,343	1,321	5,300	5,307	61,943	75,214
Total financial liabilities	2,713,131	168,193	58,224	9,891	6,316	55,709	3,011,464

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for the financial year ended 30 June 2016 (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)

The Bank 30.06.2016	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities							
Clients' and brokers' balances	241,167	-	-	-	-	-	241,167
Deposits from customers	970,871	61,288	1,074	-	-	-	1,033,233
Deposits and placements of banks and other financial institutions	1,635,266	270,215	2,048	-	-	-	1,907,529
Other liabilities	14,281	-	77,325	-	-	197	91,803
Derivative financial liabilities							
- gross settled derivatives							
- inflow	(1,522,694)	(764,461)	(80,508)	-	-	-	(2,367,663)
- outflow	1,530,500	769,155	81,060	-	-	-	2,380,715
- net settled derivatives	(201)	1,732	899	6,732	3,002	(555)	11,609
Subordinated obligations	-	1,350	1,315	5,300	5,307	59,286	72,558
Total financial liabilities	2,869,190	339,279	83,213	12,032	8,309	58,928	3,370,951

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for the financial year ended 30 June 2016 (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)

The Bank 30.06.2015	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities							
Clients' and brokers' balances	165,143	-	-	-	-	-	165,143
Deposits from customers	821,616	21,044	-	-	-	-	842,660
Deposits and placements of banks and other financial institutions	1,712,912	135,040	1,040	-	-	-	1,848,992
Repurchased agreements	-	-	-	-	-	-	-
Other liabilities	13,874	2,665	53,591	-	130	-	70,260
Derivative financial liabilities							
- gross settled derivatives							
- inflow	(849,210)	(946,545)	(150,543)	-	-	-	(1,946,298)
- outflow	846,895	949,102	150,168	-	-	-	1,946,165
- net settled derivatives	(65)	5,544	2,647	4,591	879	(6,234)	7,362
Subordinated obligations	-	1,343	1,321	5,300	5,307	61,943	75,214
Total financial liabilities	2,711,165	168,193	58,224	9,891	6,316	55,709	3,009,498

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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:

The Group and Bank

30.06.2016

Direct credit substitutes

Other commitments, such as formal standby facilities and credit lines, with an original maturity of less than one year

Any commitment that are unconditionally cancelled at anytime by the bank without prior notice

30.06.2015

Direct credit substitutes

Other commitments, such as formal standby facilities and credit lines, with an original maturity of more than one year

Any commitment that are unconditionally cancelled at anytime by the bank without prior notice

	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Direct credit substitutes	1,000	-	1,000
Other commitments, such as formal standby facilities and credit lines, with an original maturity of less than one year	2,165	589	2,754
Any commitment that are unconditionally cancelled at anytime by the bank without prior notice	686,780	-	686,780
	689,945	589	690,534
Direct credit substitutes	1,000	7,000	8,000
Other commitments, such as formal standby facilities and credit lines, with an original maturity of more than one year	1,781	2,719	4,500
Any commitment that are unconditionally cancelled at anytime by the bank without prior notice	722,877	-	722,877
	725,658	9,719	735,377

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for the financial year ended 30 June 2016 (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	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
	RM'000	RM'000	RM'000	RM'000
Credit risk exposure relating to on-balance sheet assets:				
Short-term funds (exclude cash in hand)	230,424	440,306	228,682	438,088
Clients' and brokers' balances	192,239	188,838	192,239	188,838
Deposits and placements with banks and other financial institutions	40,359	200,243	40,359	200,059
Financial assets and investments portfolios (exclude shares and unit trust investment)				
- financial assets at fair value through profit or loss	1,402,129	899,288	1,402,129	899,288
- financial investments available-for-sale	864,516	798,951	864,516	798,951
- financial investments held-to-maturity	528,100	380,255	528,100	380,255
Loans and advances	372,162	325,983	372,162	325,983
Other assets	43,311	23,200	43,312	23,200
Derivative financial assets	42,694	43,059	42,694	43,059
	3,715,934	3,300,123	3,714,193	3,297,721
Credit risk exposure relating to off-balance sheet assets:				
Commitments and contingencies	690,534	735,377	690,534	735,377
Total maximum credit risk exposure	4,406,468	4,035,500	4,404,727	4,033,098

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.

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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 2016 for the Group and the Bank is 86.0% (30 June 2015: 87.5%). 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:

The Group and the Bank	30.06.2016	30.06.2015
	RM'000	RM'000
Neither past due nor impaired	372,602	326,363
Past due but not impaired	-	-
Individually impaired	574	623
Gross loans and advances	373,176	326,986
Less: allowance for impaired loans, advances and financing		
- individual assessment allowance	(100)	(111)
- collective assessment allowance	(914)	(892)
Total net loans and advances	372,162	325,983

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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:

The Group and the Bank	30.06.2016	30.06.2015
	RM'000	RM'000
Grading classification		
- Good	38,178	92,533
- Satisfactory	46,349	50,533
- Un-graded	288,075	183,297
Total neither past due nor impaired	<u>372,602</u>	<u>326,363</u>

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

Good:

Refers to internal credit grading from 'Favourable' to 'Prime Quality', indicating strong ability to repay principal and interest.

Satisfactory:

Refers to internal credit grading of 'Satisfactory', indicating adequate ability and no difficulty to repay principal and interest.

Loans and advances classified as un-graded mainly comprise of share margin financing and staff loans.

(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.

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for the financial year ended 30 June 2016 (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:

The Group and the Bank	30.06.2016	30.06.2015
	RM'000	RM'000
Gross amount of individually impaired loans	574	623
Less: Individual assessment allowance	(100)	(111)
Total net amount individually impaired loans	474	512

(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

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for the financial year ended 30 June 2016 (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	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
30.06.2016							
Neither past due nor impaired	270,783	191,148	1,402,129	864,516	528,100	43,311	42,694
Individually impaired	-	1,390	-	-	-	28	-
Less: Impairment losses	-	(299)	-	-	-	(28)	-
	270,783	192,239	1,402,129	864,516	528,100	43,311	42,694
30.06.2015							
Neither past due nor impaired	640,549	187,690	899,288	798,951	380,255	23,200	43,059
Individually impaired	-	1,532	-	-	-	28	-
Less: Impairment losses	-	(384)	-	-	-	(28)	-
	640,549	188,838	899,288	798,951	380,255	23,200	43,059

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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	Clients' and brokers' balances	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
30.06.2016							
Neither past due nor impaired	269,041	191,148	1,402,129	864,516	528,100	43,312	42,694
Individually impaired	-	1,390	-	-	-	28	-
Less: Impairment losses	-	(299)	-	-	-	(28)	-
	269,041	192,239	1,402,129	864,516	528,100	43,312	42,694
30.06.2015							
Neither past due nor impaired	638,147	187,690	899,288	798,951	380,255	23,200	43,059
Individually impaired	-	1,532	-	-	-	28	-
Less: Impairment losses	-	(384)	-	-	-	(28)	-
	638,147	188,838	899,288	798,951	380,255	23,200	43,059

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for the financial year ended 30 June 2016 (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	Clients' and brokers' balances	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
30.06.2016							
AAA to AA3	-	-	813,817	541,895	10,096	-	40,690
A1 to A3	-	-	180,910	95,891	63,902	-	733
Baa1 to Baa3	-	-	21,058	72,863	61,553	-	-
B1	-	-	-	-	-	-	-
P1 to P3	270,765	-	-	-	-	22,680	-
Non-rated, of which:							
- Bank Negara Malaysia	18	-	-	-	-	-	-
- Malaysia Government Investment Issues	-	-	-	30,889	266,162	-	-
- Malaysian Government Securities	-	-	-	30,606	81,194	-	-
- Government guaranteed corporate bond and/or sukuk	-	-	386,309	33,775	45,193	-	-
- Others	-	192,239	35	58,597	-	20,631	1,271
	18	192,239	386,344	153,867	392,549	20,631	1,271
	270,783	192,239	1,402,129	864,516	528,100	43,311	42,694

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for the financial year ended 30 June 2016 (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	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
30.06.2015							
AAA to AA3	-	-	261,687	394,016	15,150	-	31,842
A1 to A3	-	-	62,746	79,884	49,059	-	2,858
Baa1 to Baa3	-	-	-	99,410	199,328	-	-
B1	-	-	-	20,370	-	-	-
P1 to P3	370,361	-	426,775	-	-	4,374	-
Non-rated, of which:							
- Bank Negara Malaysia	270,188	-	-	-	-	-	-
- Malaysia Government Investment Issues	-	-	-	80,368	20,397	-	-
- Malaysian Government Securities	-	-	30,772	102,399	51,097	-	-
- Government guaranteed corporate bond and/or sukuk	-	-	66,025	18,203	45,224	-	-
- Others	-	188,838	51,283	4,301	-	18,826	8,359
	270,188	188,838	148,080	205,271	116,718	18,826	8,359
	640,549	188,838	899,288	798,951	380,255	23,200	43,059

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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	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
30.06.2016							
AAA to AA3	-	-	813,817	541,895	10,096	-	40,690
A1 to A3	-	-	180,910	95,891	63,902	-	733
Baa1 to Baa3	-	-	21,058	72,863	61,553	-	-
B1	-	-	-	-	-	-	-
P1 to P3	269,023	-	-	-	-	22,680	-
Non-rated, of which:							
- Bank Negara Malaysia	18	-	-	-	-	-	-
- Malaysia Government Investment Issues	-	-	-	30,889	266,162	-	-
- Malaysian Government Securities	-	-	-	30,606	81,194	-	-
- Government guaranteed corporate bond and/or sukuk	-	-	386,309	33,775	45,193	-	-
- Others	-	192,239	35	58,597	-	20,632	1,271
	18	192,239	386,344	153,867	392,549	20,632	1,271
	269,041	192,239	1,402,129	864,516	528,100	43,312	42,694

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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	Clients' and brokers' balances	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
30.06.2015							
AAA to AA3	-	-	261,687	394,016	15,150	-	31,842
A1 to A3	-	-	62,746	79,884	49,059	-	2,858
Baa1 to Baa3	-	-	-	99,410	199,328	-	-
B1	-	-	-	20,370	-	-	-
P1 to P3	367,959	-	426,775	-	-	4,374	-
Non-rated, of which:							
- Bank Negara Malaysia	270,188	-	-	-	-	-	-
- Malaysia Government Investment Issues	-	-	-	80,368	20,397	-	-
- Malaysian Government Securities	-	-	30,768	102,399	51,097	-	-
- Government guaranteed corporate bond and/or sukuk	-	-	66,029	18,203	45,224	-	-
- Others	-	188,838	51,283	4,301	-	18,826	8,359
	270,188	188,838	148,080	205,271	116,718	18,826	8,359
	638,147	188,838	899,288	798,951	380,255	23,200	43,059

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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.

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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 30.06.2016	Short-term funds and deposits and placements with financial institutions RM'000	Clients' and brokers' balances 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
Manufacturing	-	-	-	-	-	18,068	604	-	18,672	-
Electricity, gas and water	-	-	35,652	72,301	-	-	32	-	107,985	-
Construction	-	-	77,485	142,228	-	-	4,296	-	224,009	1,000
Wholesale and retail	-	-	-	83,758	-	-	555	-	84,313	-
Transport, storage and communications	-	-	206,218	15,109	-	-	-	-	221,327	-
Finance, insurance, real estate and business services	270,765	-	1,082,774	408,186	172,585	52,021	2,082	42,694	2,031,107	2,754
Government and government agencies	18	-	-	61,495	347,356	-	-	-	408,869	-
Education, health and services	-	-	-	-	-	-	35	-	35	-
Purchase of securities	-	192,239	-	-	-	287,888	-	-	480,127	686,780
Others	-	-	-	81,439	8,159	14,185	35,707	-	139,490	-
	270,783	192,239	1,402,129	864,516	528,100	372,162	43,311	42,694	3,715,934	690,534

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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 30.06.2015	Short-term funds and deposits and placements with financial institutions RM'000	Clients' and brokers' balances 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
Manufacturing	-	-	-	-	-	-	216	-	216	700
Electricity, gas and water	-	-	-	40,141	-	-	1,352	-	41,493	-
Construction	-	-	87,611	-	-	25,284	3,292	-	116,187	8,701
Wholesale and retail	-	-	-	5,048	-	-	744	-	5,792	-
Transport, storage and communications	-	-	-	-	-	-	233	-	233	-
Finance, insurance, real estate and business services	370,361	-	811,677	753,762	380,255	165,468	1,125	43,059	2,525,707	30,325
Government and government agencies	270,188	-	-	-	-	-	-	-	270,188	-
Education, health and services	-	-	-	-	-	134,048	160	-	134,208	680,675
Purchase of securities	-	188,838	-	-	-	-	-	-	188,838	-
Others	-	-	-	-	-	1,183	16,078	-	17,261	14,976
	640,549	188,838	899,288	798,951	380,255	325,983	23,200	43,059	3,300,123	735,377

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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 30.06.2016	Short-term funds and deposits and placements with financial institutions RM'000	Clients' and brokers' balances 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
Manufacturing	-	-	-	-	-	18,068	604	-	18,672	-
Electricity, gas and water	-	-	35,652	72,301	-	-	32	-	107,985	-
Construction	-	-	77,485	142,228	-	-	4,296	-	224,009	1,000
Wholesale and retail	-	-	-	83,758	-	-	555	-	84,313	-
Transport, storage and communications	-	-	206,218	15,109	-	-	-	-	221,327	-
Finance, insurance, real estate and business services	269,023	-	1,082,774	408,186	172,585	52,021	2,082	42,694	2,029,365	2,754
Government and government agencies	18	-	-	61,495	347,356	-	-	-	408,869	-
Education, health and services	-	-	-	-	-	-	35	-	35	-
Purchase of securities	-	192,239	-	-	-	287,888	-	-	480,127	686,780
Others	-	-	-	81,439	8,159	14,185	35,708	-	139,491	-
	269,041	192,239	1,402,129	864,516	528,100	372,162	43,312	42,694	3,714,193	690,534

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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 30.06.2015	Short-term funds and deposits and placements with financial institutions RM'000	Clients' and brokers' balances 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
Manufacturing	-	-	-	-	-	-	216	-	216	700
Electricity, gas and water	-	-	-	40,141	-	-	1,352	-	41,493	-
Construction	-	-	87,611	-	-	25,284	3,292	-	116,187	8,701
Wholesale and retail	-	-	-	5,048	-	-	744	-	5,792	-
Transport, storage and communications	-	-	-	-	-	-	233	-	233	-
Finance, insurance, real estate and business services	367,959	-	811,677	753,762	380,255	165,468	1,125	43,059	2,523,305	30,325
Government and government agencies	270,188	-	-	-	-	-	-	-	270,188	-
Education, health and services	-	-	-	-	-	134,048	160	-	134,208	680,675
Purchase of securities	-	188,838	-	-	-	-	-	-	188,838	-
Others	-	-	-	-	-	1,183	16,078	-	17,261	14,976
	638,147	188,838	899,288	798,951	380,255	325,983	23,200	43,059	3,297,721	735,377

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for the financial year ended 30 June 2016 (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 2015 - Nil).

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 2016 (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.

The Group 30.06.2016	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets at fair value through profit or loss	14,450	1,402,269	-	1,416,719
- money market instruments	-	763,252	-	763,252
- quoted securities	14,450	140	-	14,590
- unquoted securities	-	638,877	-	638,877
Financial investments available-for-sale	352	864,516	245	865,113
- money market instruments	-	76,589	-	76,589
- quoted securities	352	-	-	352
- unquoted securities	-	787,927	245	788,172
Derivative financial assets	-	42,694	-	42,694
	14,802	2,309,479	245	2,324,526
Financial liability				
Derivative financial liabilities	-	80,685	-	80,685
30.06.2015				
Financial assets				
Financial assets at fair value through profit or loss	21,597	899,450	-	921,047
- money market instruments	-	457,547	-	457,547
- quoted securities	21,597	162	-	21,759
- unquoted securities	-	441,741	-	441,741
Financial investments available-for-sale	240	798,951	245	799,436
- money market instruments	-	197,818	-	197,818
- quoted securities	240	-	-	240
- unquoted securities	-	601,133	245	601,378
Derivative financial assets	-	43,059	-	43,059
	21,837	1,741,460	245	1,763,542
Financial liability				
Derivative financial liabilities	-	57,428	-	57,428

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Notes to the financial statements

for the financial year ended 30 June 2016 (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. (continued)

The Bank 30.06.2016	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets at fair value through profit or loss	14,450	1,402,269	-	1,416,719
- money market instruments	-	763,252	-	763,252
- quoted securities	14,450	140	-	14,590
- unquoted securities	-	638,877	-	638,877
Financial investments available-for-sale	-	864,516	245	864,761
- money market instruments	-	76,589	-	76,589
- unquoted securities	-	787,927	245	788,172
Derivative financial assets	-	42,694	-	42,694
	<u>14,450</u>	<u>2,309,479</u>	<u>245</u>	<u>2,324,174</u>
Financial liability				
Derivative financial liabilities	-	80,685	-	80,685
30.06.2015				
Financial assets				
Financial assets at fair value through profit or loss	21,597	899,450	-	921,047
- money market instruments	-	457,547	-	457,547
- quoted securities	21,597	162	-	21,759
- unquoted securities	-	441,741	-	441,741
Financial investments available-for-sale	-	798,951	245	799,196
- money market instruments	-	197,818	-	197,818
- unquoted securities	-	601,133	245	601,378
Derivative financial assets	-	43,059	-	43,059
	<u>21,597</u>	<u>1,741,460</u>	<u>245</u>	<u>1,763,302</u>
Financial liability				
Derivative financial liabilities	-	57,428	-	57,428

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

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Notes to the financial statements

for the financial year ended 30 June 2016 (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

	30.06.2016 RM'000	30.06.2015 RM'000
Financial investments available-for-sale As at 1 July/30 June	<u>245</u>	<u>245</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 30.06.2016	Carrying amount RM'000	Fair value			Total RM'000
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
Financial assets					
Financial investments					
held-to-maturity					
- money market instruments	347,355	-	351,388	-	351,388
- unquoted securities	180,745	-	182,079	-	182,079
	<u>528,100</u>	<u>-</u>	<u>533,467</u>	<u>-</u>	<u>533,467</u>
Financial liabilities					
Deposits from customers	1,031,929	-	1,031,931	-	1,031,931
Deposits and placements of banks and other financial institutions	1,904,770	-	1,904,778	-	1,904,778
Subordinated obligations	50,247	-	50,754	-	50,754
	<u>2,986,946</u>	<u>-</u>	<u>2,987,463</u>	<u>-</u>	<u>2,987,463</u>
30.06.2015					
Financial assets					
Financial investments					
held-to-maturity					
- money market instruments	71,494	-	71,932	-	71,932
- unquoted securities	308,761	-	309,728	-	309,728
	<u>380,255</u>	<u>-</u>	<u>381,660</u>	<u>-</u>	<u>381,660</u>
Financial liabilities					
Deposits and placements of banks and other financial institutions	1,847,391	-	1,847,393	-	1,847,393
Subordinated obligations	50,194	-	50,201	-	50,201
	<u>1,897,585</u>	<u>-</u>	<u>1,897,594</u>	<u>-</u>	<u>1,897,594</u>

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Notes to the financial statements

for the financial year ended 30 June 2016 (continued)

42 Financial instruments (continued)

(e) Fair value measurement (continued)

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.

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.

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Notes to the financial statements for the financial year ended 30 June 2016 (continued)

42 Financial instruments (continued)

(e) Fair value measurement (continued)

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

Clients' and brokers' balances

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

Other assets and liabilities

The carrying value less any estimated allowance for financial assets and liabilities included in 'other assets and liabilities' are assumed to approximate their fair values as these items are 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.

Subordinated obligations

The fair value of subordinated obligations are based on quoted market prices where available.

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.

Hong Leong Investment Bank Berhad

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Notes to the financial statements

for the financial year ended 30 June 2016 (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
30.06.2016						
Financial assets						
Clients' and brokers' balances	435,412	(243,173)	192,239	-	-	192,239
Derivative financial assets	42,694	-	42,694	(18,942)	(640)	23,112
Total assets	478,106	(243,173)	234,933	(18,942)	(640)	215,351
Financial liabilities						
Clients' and brokers' balances	484,340	(243,173)	241,167	-	-	241,167
Derivative financial liabilities	80,685	-	80,685	(18,942)	(22,680)	39,063
Total liabilities	565,025	(243,173)	321,852	(18,942)	(22,680)	280,230
30.06.2015						
Financial assets						
Clients' and brokers' balances	392,251	(203,413)	188,838	-	-	188,838
Derivative financial assets	43,059	-	43,059	(6,797)	-	36,262
Total assets	435,310	(203,413)	231,897	(6,797)	-	225,100
Financial liabilities						
Clients' and brokers' balances	368,556	(203,413)	165,143	-	-	165,143
Derivative financial liabilities	57,428	-	57,428	(6,797)	(4,374)	46,257
Total liabilities	425,984	(203,413)	222,571	(6,797)	(4,374)	211,400

Hong Leong Investment Bank Berhad

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Notes to the financial statements

for the financial year ended 30 June 2016 (continued)

43 Offsetting financial assets and financial liabilities (continued)

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.

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 had been in force for a period of ten (10) years. The ESOS had expired on 23 January 2016.

There were no options outstanding as at reporting date.

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

	The Group and The Bank			
	30.06.2016		30.06.2015	
	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	105	140	105	140

Hong Leong Investment Bank Berhad

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Notes to the financial statements

for the financial year ended 30 June 2016 (continued)

45 Significant events during the financial year

Member's voluntary winding-up

- (i) ECS Jaya (1969) Sdn Bhd, a wholly-owned subsidiary of HLIB was dissolved on 29 January 2016.
- (ii) RC Research Sdn Bhd, a wholly-owned subsidiary of HLIB was dissolved on 8 March 2016.

46 Significant events subsequent to the financial year

- (i) On 15 July 2016, the liquidator of HLG Nominee (Asing) Sdn Bhd ("HLGNA"), a wholly-owned subsidiary of HLIB, had convened the final meeting for HLGNA to conclude the member's voluntary winding-up of HLGNA.

The Return by Liquidator Relating to Final Meeting of HLGNA was lodged on 15 July 2016 with the Companies Commission of Malaysia and the Official Receiver, and on the expiration of 3 months after the said lodgement date, HLGNA will be dissolved.

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

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

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 15 September 2016.

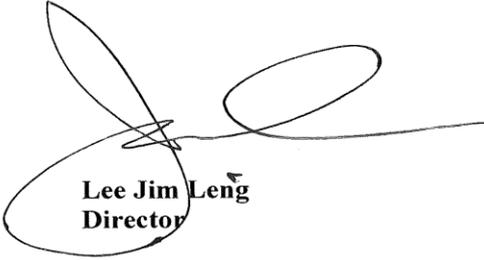
Hong Leong Investment Bank Berhad
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**Statement by Directors pursuant to
Section 169(15) of the Companies Act, 1965**

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 17 to 131 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 2016 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 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 15 September 2016.


Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman
Director


Lee Jim Leng
Director

Kuala Lumpur
15 September 2016

**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 17 to 131 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
15 September 2016

Before me,

Commissioner for Oaths





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

REPORT ON FINANCIAL STATEMENTS

We have audited the financial statements of Hong Leong Investment Bank Berhad on pages 17 to 131 which comprise the statements of financial position as at 30 June 2016 of the Group and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of 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



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

REPORT ON FINANCIAL STATEMENTS (CONTINUED)

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 2016 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (c) Our 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 member 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

NG YEE LING
(No. 3032/01/17 (J))
Chartered Accountant

Kuala Lumpur
15 September 2016