



ANNUAL REPORT **2017**

KENANGA INVESTMENT BANK BERHAD (15678-H)

ABOUT THE COVER



The cover image, as above, represents the commitment of Kenanga Investment Bank Berhad (KIBB or the Company) towards driving innovation and digitalisation.

KIBB's 2017 Annual Report (the Report) details our financial and non-financial performance and communicates our strategies, actions and outcomes. We have endeavoured to ensure that this Report presents a balanced and accessible overview of our performance, governance and prospects.

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OVERVIEW OF KENANGA INVESTMENT BANK BERHAD

Established for more than forty (40) years in Malaysia, Kenanga Investment Bank Berhad and its Group of Companies (Kenanga Group or the Group) has experience in equity broking, investment banking, listed derivatives, treasury, corporate advisory, Islamic banking, wealth management and investment management.



Our Brand Values

Agility

We are nimble and quick to respond with creative, customised solutions to meet our clients' needs.

Collaboration

We are supported by an integrated network of colleagues and business partners. We believe in consolidating our knowledge and working together for the best solutions.

Trustworthiness

Professionalism, integrity and transparency are values we hold dear. We are fully committed to ethical practices and strive to always maintain credibility in all that we do.

STRATEGIC OBJECTIVES

01

To deliver long-term profitability and sustainable growth

02

To continue redefining clients' experience through innovation and technology

03

To promote good business ethics and corporate governance

04

To build a high performance culture

OVERVIEW OF KENANGA INVESTMENT BANK BERHAD

Key Business Segments

Equity Broking	<ul style="list-style-type: none"> • Broking Services (Institutional and Retail) • Research • Margin Financing • Equity Derivatives • Custodial Services
Investment Banking	<ul style="list-style-type: none"> • Corporate and Institutional Coverage • Corporate Finance • Debt Capital Markets • Corporate Banking • Equity Capital Markets • Islamic Markets
Treasury	<ul style="list-style-type: none"> • Primary Sales and Syndication for Sukuk/Bonds • Money Market Instruments: Term Deposits, Negotiable Instrument of Deposits and Repurchase Agreement • Structured Yield-enhancement Products • Foreign Exchange products for Spot and Forward Transactions
Investment Management	<ul style="list-style-type: none"> • Unit Trust Funds • Cash Management Solutions • Non-Discretionary Mandates • Wholesale Funds • Institutional Advisory Services • Unit Trusts • Private Retirement Schemes • Shares Trading • Treasury Solutions • Private Retirement Schemes • Wills and Trust
Listed Derivatives	<ul style="list-style-type: none"> • Financial Derivatives • Commodity Derivatives
Structured Lending	<ul style="list-style-type: none"> • Corporate Banking • Share Margin Financing • Structured Finance • Islamic Finance

KEY FINANCIAL HIGHLIGHTS

Group Total Assets
6,493
(RM'mil)

Group Capital Adequacy Ratio
30.10%

Group Revenue
697.63
(RM'mil)

Group Profit Before Tax (PBT)
40.62
(RM'mil)

Group Profit After Tax (PAT)
24.17
(RM'mil)

KEY BUSINESS SEGMENTS

Equity Broking		Investment Banking and Treasury	
Revenue	Profit Before Tax	Revenue	Profit Before Tax
313.29 (RM'mil)	37.62 (RM'mil)	269.54 (RM'mil)	19.70 (RM'mil)
Investment Management		Listed Derivatives	
Revenue	Profit Before Tax	Revenue	Profit Before Tax
84.79 (RM'mil)	(1.93) (RM'mil)	14.54 (RM'mil)	(1.10) (RM'mil)
Structured Lending			
Revenue		Profit Before Tax	
7.76 (RM'mil)		0.45 (RM'mil)	



National Record



This is To Certify That

Y.M. TAN SRI DATO' PADUKA TENGKU NOOR ZAKIAH BINTI TENGKU ISMAIL

is listed in
THE MALAYSIA BOOK OF RECORDS

for being the
FIRST FEMALE ENTREPRENEUR TO START UP A STOCK BROKING COMPANY

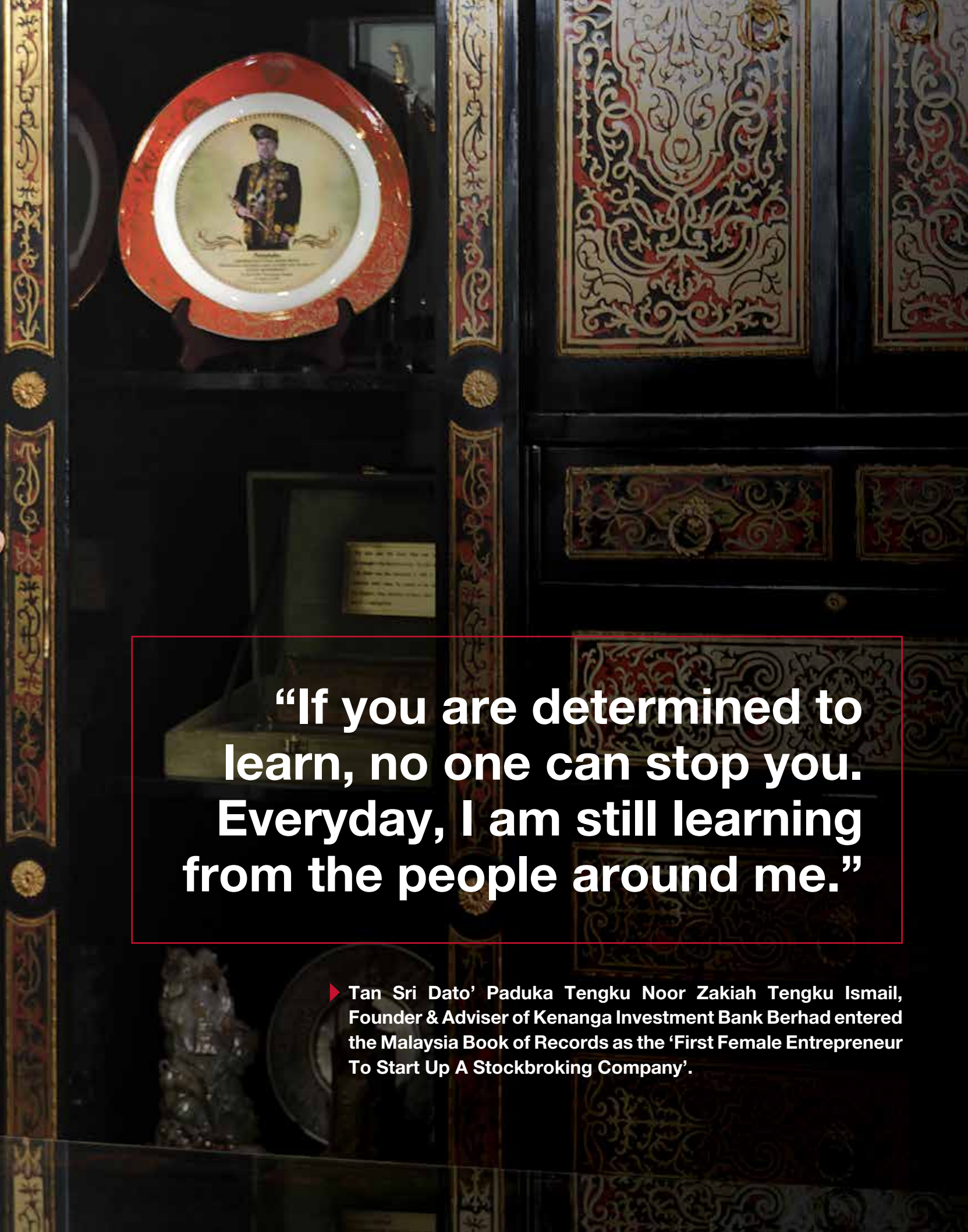
Date: September 25, 2017

Venue: Kepong Tower, Jalan Tun Razak, Kuala Lumpur

Y.M. DATO' PADUKA TENGKU NOOR ZAKIAH BINTI TENGKU ISMAIL



[Signature]
DATO' MUHAMMAD ISMAIL
Chief Executive Officer



“If you are determined to learn, no one can stop you. Everyday, I am still learning from the people around me.”

► Tan Sri Dato' Paduka Tengku Noor Zakiah Tengku Ismail, Founder & Adviser of Kenanga Investment Bank Berhad entered the Malaysia Book of Records as the 'First Female Entrepreneur To Start Up A Stockbroking Company'.

MESSAGE FROM OUR CHAIRMAN



“I am delighted to report not just positive financial results but also a multitude of significant milestones that have brought to life our growth agenda centred on innovation and collaboration.”

Izlan Izhah

MESSAGE FROM OUR CHAIRMAN

Dear Shareholders,

It is my pleasure to present to you the Annual Report of Kenanga Investment Bank Berhad (KIBB or the Company) for the financial year ended 31 December 2017.

KEY HIGHLIGHTS

The 2017 Malaysian economy generally picked up momentum from the previous year with Bursa Malaysia's trading volume peaking to a ten (10)-year high, whilst fundraising in the capital market reached an all-time high of RM146.6 billion, well above the five (5)-year average of RM116 billion. Benefitting from the buoyant capital market, Kenanga Investment Bank Berhad and its Group of Companies (Kenanga Group or the Group) registered a Profit Before Tax of RM40.62 million – an increase of 25% from the previous year, while Profit After Tax stood at RM24.17 million, a growth of 20% from the previous corresponding period.

I am delighted to report not just positive financial results but also a multitude of significant milestones that have brought to life our growth agenda centred on innovation and collaboration. A step in this direction was the Memorandum of Understanding signing in March 2017 with MIMOS Berhad, Malaysia's Research and Development Centre in Information and Communications Technology, to promote and advance FinTech in Malaysia. This year, the Group will be the first (1st) investment bank in Malaysia to adopt MIMOS' multi-factor authentication software to provide greater online protection to our online traders. Strategic collaborations like this accelerates knowledge sharing and allows for the partnership to mutually leverage creativity, experience and resources.

To this end, 2017 also saw the launch of Rakuten Trade Sdn Bhd (Rakuten Trade), a joint venture with the highly successful Japan-based Rakuten Securities, Inc.. The momentous event was widely celebrated as it not only signalled a significant milestone for the Group but also, the start of a new way of trading for investors in Malaysia. Offering a novel fully online trading platform, Rakuten Trade aims to cater to the millennials and technologically savvy segment. It has been very exciting to witness the fruition of this joint venture.

We continue to be humbled by the industry recognition and accolades that were awarded to us throughout the year. We are heartened by the encouragement and validation it renders to our businesses who work tirelessly to deliver excellence.

For the 2017 Bursa Excellence Awards, the Group bagged six (6) awards that recognised brokers and market intermediaries who were stellar performers in the capital market. The six (6) awards included Most Innovative Participating Organisation (Special Award), Best Remisier (Champion), Best Trading Participant Equity & Financial Derivatives (Champion), Best Overall Derivatives Trading Participant (First (1st) Runner Up), Best Retail Equities Participating Organisation (First (1st) Runner Up) and Best Institutional Derivatives Trading Participant (Second (2nd) Runner Up). The full list of awards and recognition are set out on pages 10 to 11 of this annual report.

Although I have had the privilege of previously serving on the Board of K & N Kenanga Holdings Berhad, this past year as Chairman of KIBB has given me the opportunity to work closely with the management team and I must say, the immense dedication and diligence exemplified by them have made a tremendous impression on me. I believe it is this commitment and focus under the leadership of Group Managing Director Datuk Chay Wai Leong that has charted the continued growth and progress of the Group and I am confident that this year will be no different.

BOARD MOVEMENTS

There have been a few Board Member movements in 2017. In May 2017, Datuk Kevin How Kow, stepped down as a Non-Independent Non-Executive Director of KIBB, having been a member of the Board since 15 April 2005. On behalf of the Board, we would like to thank him for his substantial contribution over the course of his tenure.

In July 2017, Luigi Fortunato Ghirardello who has been a Board member since 29 July 2008 was redesignated from Independent Non-Executive Director to Non-Independent Non-Executive Director.

During the same year, we welcomed on board Jeremy Nasrulhaq, Norazian Ahmad Tajuddin and Kanagaraj Lorenz as Independent Non-Executive Directors. Their diverse backgrounds and vast experiences in banking and financial services will put us in good stead.

APPRECIATION

Tan Sri Dato' Paduka Tengku Noor Zakiah Tengku Ismail, Founder and Adviser continues to play an integral role in steering the organisation forward. Her immense knowledge, experience and fortitude is nothing short of extraordinary. An icon in the industry and well-known for her enterprising spirit, Tan Sri Dato' Paduka Tengku Noor Zakiah was awarded entry to the Malaysia Book of Records in September 2017 as the 'First Female Entrepreneur To Start Up A Stockbroking Company'. We were honoured to witness and celebrate that momentous occasion with her as she continues to inspire us all. My utmost gratitude to Tan Sri Dato' Paduka Tengku Noor Zakiah for her insights and wisdom, which continue to help lead the Group forward.

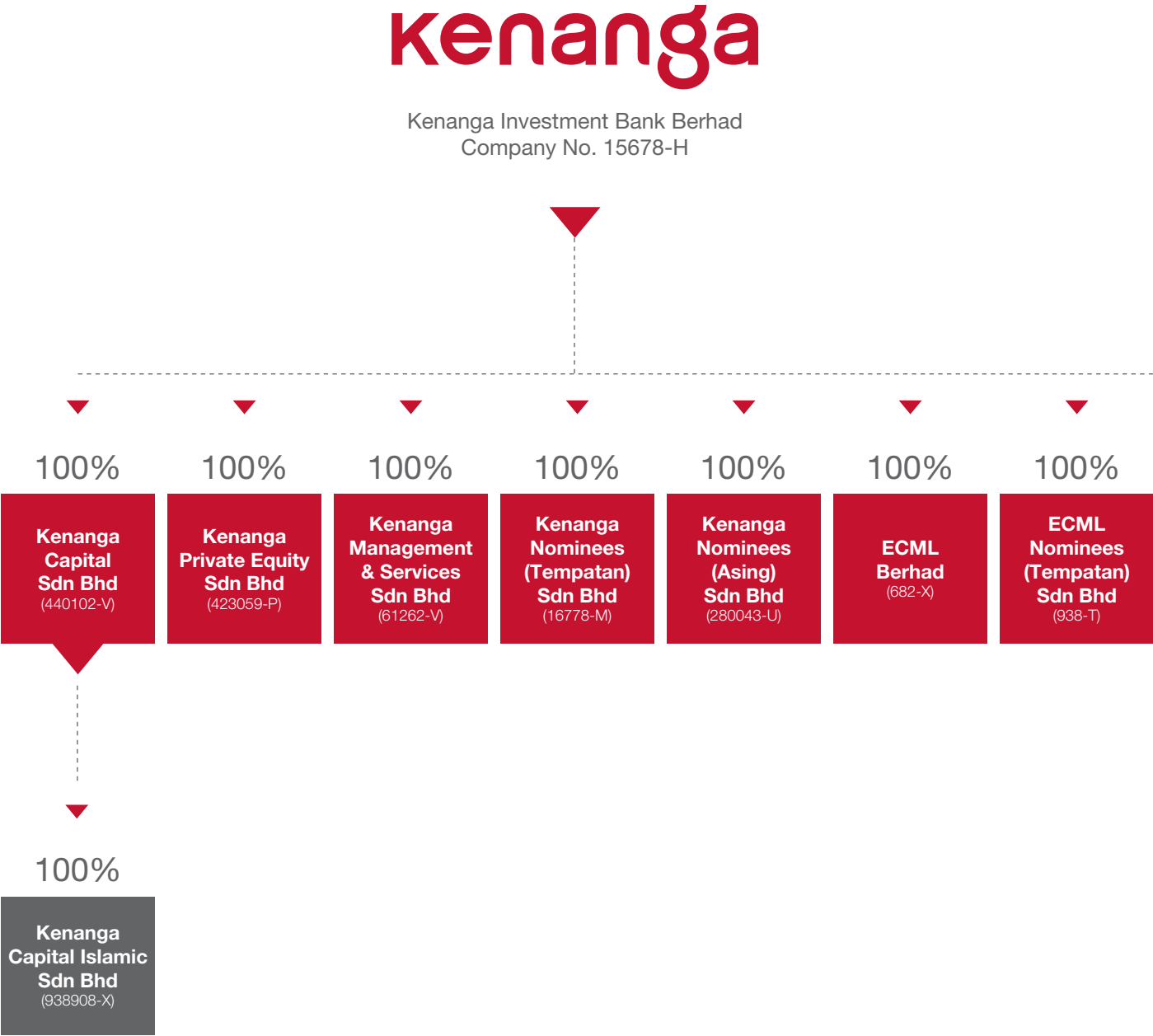
As I conclude, I take this opportunity to offer my heartfelt appreciation to my colleagues on the Board for their support and guidance. My deepest appreciation also goes out to our valued customers, business partners, suppliers and shareholders for their unwavering support, collaboration and continued confidence in the Group.

To our most valued asset – the dedicated employees and management team, I offer my profound appreciation for your selfless commitment, professionalism and passion in carrying out your duties that have enabled us to achieve our objectives.

On behalf of the Board of Directors, management and employees, I extend our gratitude to Bank Negara Malaysia, Securities Commission Malaysia and Bursa Malaysia for their invaluable assistance, guidance and support rendered throughout the year.

Izlan Izhab
Chairman

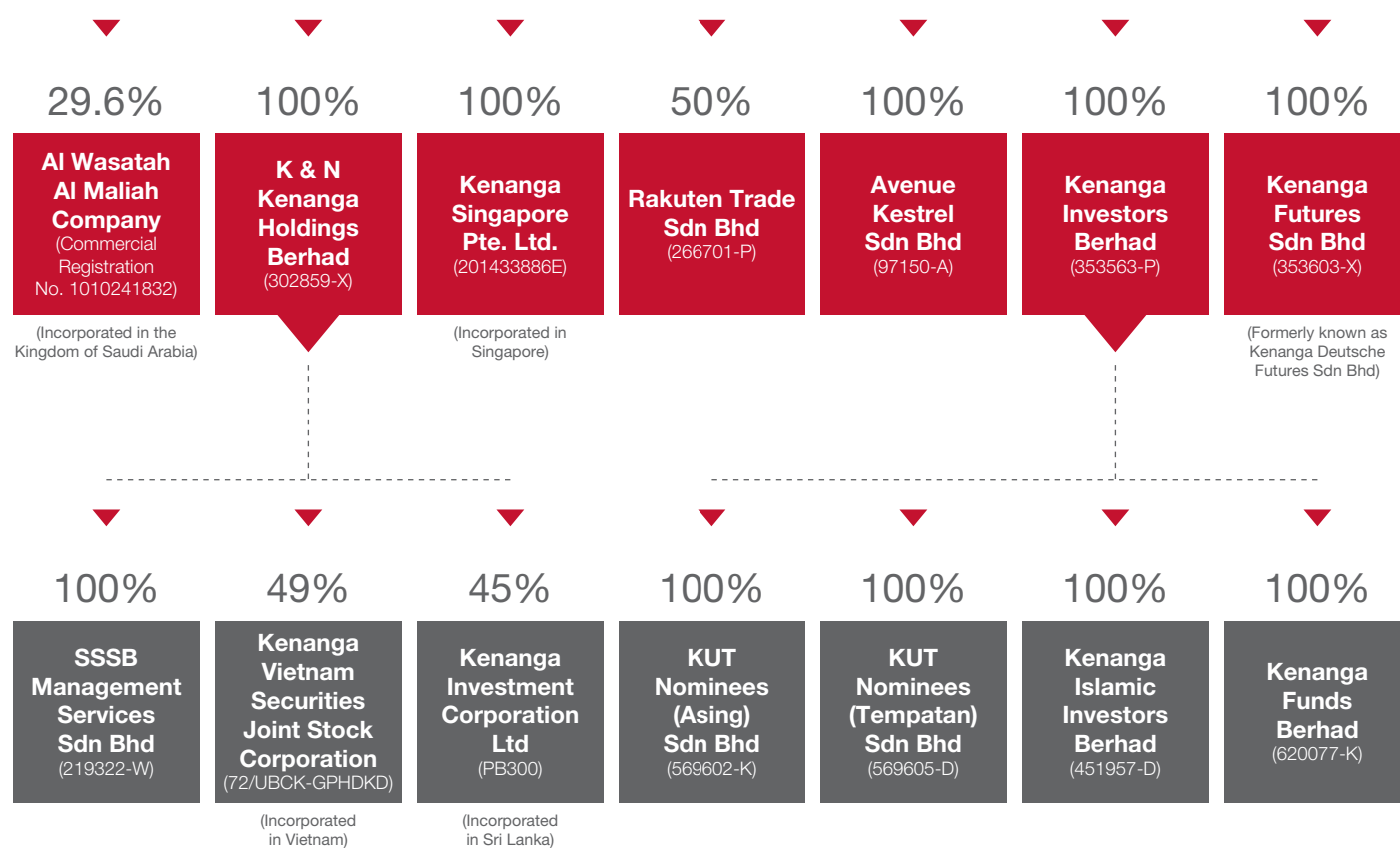
CORPORATE STRUCTURE



Note:

All the above companies are incorporated in Malaysia except for Kenanga Investment Corporation Ltd, Kenanga Vietnam Securities Joint Stock Corporation, Al Wasatah Al Maliah Company and Kenanga Singapore Pte Ltd

CORPORATE STRUCTURE



AWARDS AND RECOGNITION

- 1 Bursa Excellence Awards 2017**
Most Innovative Participating Organisation (Special Award)
- 2 Bursa Excellence Awards 2017**
Best Trading Participant Equity & Financial Derivatives (Champion)
- 3 Bursa Excellence Awards 2017**
Best Remisier (Champion)
- 4 Bursa Excellence Awards 2017**
Best Overall Derivatives Trading Participant (First (1st) Runner Up)
- 5 Bursa Excellence Awards 2017**
Best Retail Equities Participating Organisation (First (1st) Runner Up)
- 6 Bursa Excellence Awards 2017**
Best Institutional Derivatives Trading Participant (Second (2nd) Runner Up)
- 7 InvestSmart Fest 2017 by Securities Commission Malaysia**
Creativity in Digitalising Its Investor Outreach Initiatives
- 8 Asia Asset Management's 2018 Best of the Best Awards**
Malaysia Best Pension Fund Manager
- 9 Asia Asset Management's 2018 Best of the Best Awards**
Malaysia CEO of the Year (Ismitz Matthew De Alwis, Kenanga Investors Berhad)
- 10 Asia Asset Management's 2018 Best of the Best Awards**
Malaysia CIO of the Year (Lee Sook Yee, Kenanga Investors Berhad)
- 11 The Edge-Thomson Reuters Lipper Fund Awards 2018**
Best Equity Group (Islamic)



AWARDS AND RECOGNITION

- 12 The Edge-Thomson Reuters Lipper Fund Awards 2018**
Best Equity Malaysia (Islamic), ten (10) years (Kenanga Syariah Growth Fund)
- 13 The Edge-Thomson Reuters Lipper Fund Awards 2018**
Best Equity Malaysia (Provident), three (3) years (Kenanga Malaysia Inc Fund)
- 14 Fundsupermart.com's Recommended Unit Trusts Awards 2017/2018**
Fund House of the Year 2017 (Investors' Choice)
- 15 Fundsupermart.com's Recommended Unit Trusts Awards 2017/2018**
Core Equity category – Kenanga Growth Fund
- 16 Fundsupermart.com's Recommended Unit Trusts Awards 2017/2018**
Growth category – Kenanga OnePRS Growth Fund under the Private Retirement Scheme
- 17 Fundsupermart.com's Recommended Unit Trusts Awards 2017/2018**
Conservative category – Kenanga OnePRS Conservative Fund under the Private Retirement Scheme
- 18 External Fund Manager Awards by KWAP**
Best Domestic Conventional Equity 2017
- 19 The Marketing Events Awards 2017**
Best Internal Event (Bronze)



GROUP MANAGING DIRECTOR'S OVERVIEW

Dear Shareholders,

As the Malaysian economy shifted into full gear in 2017, fuelled by the Government's pro-growth policies and stronger domestic demand, Kenanga Investment Bank Berhad and its Group of Companies (Kenanga Group or the Group) registered an equally positive year driven by our focus on delivering profitability.

For the financial year ended 31 December 2017, Kenanga Group recorded a Profit Before Tax (PBT) of RM40.62 million, a 25% increase from the same period last year, while Profit After Tax (PAT) increased by 20% to RM24.17 million.

The Group registered revenue of RM697.63 million, an increase of almost 20% from the year before. Our higher revenue and profits were largely attributed to higher brokerage income and investment banking fee income.

DIVIDEND

The Board of Directors is recommending a final dividend of 3.0 sen per share, amounting to a total of RM21.68 million, for shareholders' approval at the forthcoming Annual General Meeting.

This will be the highest dividend pay-out the Group has awarded over the last five (5) years.

STRATEGIC OBJECTIVES

It is encouraging to note the Group's year-on-year achievements and progress generated through the consistent execution of our growth agenda. Premised on delivering sustainable profitability and shareholder value, our growth agenda has kept us on track. It is underpinned by the strategic objectives listed below:

1. To deliver long-term profitability and sustainable growth
2. To continue redefining clients' experience through innovation and technology
3. To promote good business ethics and corporate governance
4. To build a high performance culture

CORPORATE HIGHLIGHTS

New Corporate Office

The relocation to the new corporate office, Kenanga Tower at 237, Jalan Tun Razak, Kuala Lumpur was completed in January 2017. Consolidating three (3) of the Company's offices within Klang Valley into a singular premise has yielded considerable savings. We have benefitted not just from lower overheads and savings of approximately RM7 million a year, but also from the potential capital appreciation of the property in the future.

Employee Share Ownership

To further align employee interests with those of our shareholders, we rolled-out an Employee Share Scheme (ESS) of up to 10% of the Company's total share capital.

Through this ESS which aims to reward and retain our employees, we are promoting a shared purpose and responsibility to build the Company, and to allow employees to participate in the equity of the Group.

The Employee Share Option Scheme was offered to over seven hundred (700) eligible employees, on 2 January 2018.

GROUP MANAGING DIRECTOR'S OVERVIEW

**“It is encouraging to
note the Group’s
year-on-year
achievements and
progress generated
through the consistent
execution of our
growth agenda.”**

Datuk Chay Wai Leong



GROUP MANAGING DIRECTOR'S OVERVIEW

Innovation and Technology

The financial services industry is undergoing an extremely exciting time, led by the disruption from financial technology. We are cognisant of this changing landscape and are constantly challenging ourselves to capitalise on technology to stay ahead of the curve, deliver better customer solutions and facilitate more efficient operational excellence.

In May 2017, we saw the launch of Rakuten Trade Sdn Bhd (Rakuten Trade), KIBB's joint venture company with Rakuten Securities, Inc., a subsidiary of Japan-based Rakuten, Inc., one of the largest e-commerce and FinTech companies in the world.

The introduction of Rakuten Trade, the first (1st) fully online trading platform in Malaysia, has met with remarkable success. Since it started operations in May 2017, it has attracted over ten thousand (10,000) new account registrations within its first (1st) ten (10) months in operations. It was recently awarded the FinTech Company of the Year, a recognition endorsed by the Malaysian Communications and Multimedia Commission.

Within the Group, we continue to promote Invesk, a mobile application designed to provide our clients with helpful market trading ideas and insights, investing tools, research reports and market indices. In 2017, an upgrade was launched boasting new features such as 'Pairing and Portfolio'. Users can now link their Kenanga trading account with this application, streamlining their experience by allowing for real-time execution of trades within the application.

Leveraging technology, the annual KenTrade Trading Challenge, a virtual trading competition aimed at providing novice traders an avenue to sharpen their trading skills, was augmented to the next level. Shortlisted participants were given the opportunity to trade with real cash, extending their virtual trading experience to a live one, and allowing them to become more adept at trading online. More details on the Challenge are set out on page 15 of this annual report. As one of the leading stockbrokers in the country, we will continue to find new, innovative means to reach out to and educate, the next generation traders.

As mentioned by our Chairman, we are humbled by the number of industry accolades received every year. This year, we were awarded the coveted Most Innovative Participating Organisation (Special Award) by Bursa Malaysia, recognising our efforts in bringing new ideas and innovation to the marketplace. We aspire to continue seeking out new perspectives and opportunities to help shape the future of capital markets in Malaysia.



Promoting Ethics and Corporate Governance

We subscribe to a philosophy of integrating strong ethics and a compliance culture in the day-to-day management of our business. Continual assessments are conducted on the Group's policies, procedures and control measures to ensure high standards of ethics, compliance and business conduct.

During the year, we invested above and beyond the routine compliance education and awareness programmes to include a highly interactive six (6)-week campaign which was designed to engage our employees in the appreciation of good business conduct. Coinciding with the International Fraud Awareness Week, the programme which was brought to life through games, quizzes and contests, served to embed the values of good corporate governance throughout the Group, reinforcing our commitment to fraud prevention.

A dedicated internal workshop for our Heads of Branches, Heads of Departments and Directors was conducted to keep them abreast of the latest regulatory developments and trends. Attended by over one hundred (100) senior staff, the workshop, *Embracing the Regulatory Landscape*, was accredited by the Securities Industry Development Corporation, entitling attendees to Continuing Professional Education (CPE) points.

More information on Compliance and Governance are set out on pages 36 to 55 of this annual report.

GROUP MANAGING DIRECTOR'S OVERVIEW

Well-Managed Liquidity and Capital Ratios

In terms of our capital adequacy, we have remained steady with a total capital ratio of 30.10% and 28.39% at the Group and Company levels respectively, which are significantly higher than Bank Negara Malaysia's (BNM) minimum capital adequacy ratio and buffer requirement of 9.25%.

To further manage our capital, we have launched a RM250 million Tier Two (2) Subordinated Debt programme in March last year. The programme allows the Group to raise capital without having to issue new shares, allowing us to optimise our capital structure. To date, we have issued RM15 million Subordinated Notes for the purpose of business expansion.

Our Liquidity Coverage Ratio which stood at 129.39% sits comfortably above BNM's minimum of 80% as at 31 December 2017. Our Treasury department will continue to manage the ratios dynamically ensuring that we are in compliance with the regulatory ratios and at the same time, manage our costs of funding.

External Credit Rating

As suggested by our shareholders last year, we have managed to secure better credit rating for Kenanga Investment Bank Berhad (KIBB or the Company). On the back of improved financial performance and financial position, we have obtained a credit rating of A+ from Malaysian Rating Corporation Berhad (MARC), which is two (2) notches higher than our previous rating. We will continue to strive for higher ratings by continuing to improve our financial performance.

SEGMENTAL REVIEW: EQUITY BROKING

2017 was a pivotal year for the Equity Broking (EB) division as EB recorded a PBT of RM37.62 million, a significant increase of 133% from 2016's PBT of RM16.17 million. Revenue increased to RM313.29 million from RM250.85 million in 2016. This was on the back of the strong increase in volume in Bursa Malaysia where EB increased its traded volume by 35% from 2016, that outperformed the industry's growth of 27%. This was further reflected in its market share which increased from 8.2% to 8.7%.

EB's joint venture with Rakuten Securities, Inc. also broke new grounds. Through its ease in usage, Rakuten Trade has garnered strong sign ups from the young and first (1st) time investors. This positive development is crucial in strengthening the Group's market share amongst online users.

Investing in financial literacy continues to be a priority. In addition to seminars, workshops and roadshows, many of which were in collaboration with regulators, the annual KenTrade Trading Challenge was conducted. Originally a simulated online-trading Challenge, it was given a fresh twist allowing its top ten (10) participants to trade with real cash amounting to RM1 million. This exciting new element, presented participants the opportunity to experience live trading and attracted an overwhelming twenty thousand (20,000) registrants. The novel approach, gained the Challenge entry to the Malaysia Book of Records as 'The First Live Stock Trading Challenge'.

Lastly, 2017 was also a remarkable year for the Equity Derivatives unit. This unit saw great strides in growth, recording higher revenue by issuing 23% more structured warrants, putting the Group as one of the top three (3) issuers of structured warrants in Bursa Malaysia. Apart from Structured Warrants, the unit continued to derive income from its Over-the-Counter derivatives, providing unique solutions to its growing client base.

As a testament to its business growth, the division continued to garner several more awards reflecting its strong market position. Recognised at the 2017 Bursa Excellence Awards, the division was awarded with Best Retail Equities Participating Organisation (First (1st) Runner Up) and Best Remisier (Champion).

► Outlook

While some volatility is expected in the market due to the fact that 2018 is an election year, EB remains optimistic on its performance due to positive changes in the industry. With the recent announcement of stamp duty waiver on small-cap, mid-cap stocks and structured warrants, as well as, the liberalisation of margin financing rules, EB expects a boost to its margin business and trading income.

The anticipated growth in these two (2) businesses will help offset some of the increase in cost arising from its technological investments that aims to further enhance client experience and further solidify its position in the marketplace. This, coupled with EB's strong presence in the retail sector as well as, the derivatives market will serve to propel EB to new heights in the coming years.

GROUP MANAGING DIRECTOR'S OVERVIEW

SEGMENTAL REVIEW: INVESTMENT BANKING AND TREASURY

The Investment Banking (IB) and Treasury divisions as a whole registered PBT of RM19.70 million relative to RM34.69 million from the year before. The decline was mainly attributable to the performance of the Treasury department which was impacted by the subdued condition of the bond market and a decline in bond values, driven by rate hikes from the United States (U.S.), the slow economic recovery within the European region and the geo-political tensions caused by North Korea.

Investment Banking

The IB division maintained its momentum, recording a PBT of RM18.35 million, a marginal increase from the year before. The IB division completed several significant deals which underscored its strong performance for the year.

The IB division kick-started the year with a private equity transaction involving one of the leading education groups in Malaysia. This is the second (2nd) private equity deal that IB was involved in following its assistance in the maiden investment made by Kenanga Private Equity Sdn Bhd in a logistics company.

The division completed several notable rated and unrated bonds and Sukuk issuances for Cahya Mata Sarawak Berhad, Sunway Berhad and Titijaya Berhad during the year. It also acted as the joint lead adviser and joint lead manager for several government guaranteed Sukuk issuances, such as Prasarana Malaysia Berhad and GovCo and acted as the principal adviser to the Ministry of Finance of Malaysia on the sale of Bakun Hidro to the Sarawak state government.

Capitalising on the improving market environment in 2017, the IB division focused on merger and acquisition advisory and funding, particularly in the take-over exercises of Halex Holdings Berhad, KUB Malaysia Berhad and Dataprep Holdings Berhad, as well as the injection of Widad Builders Sdn Bhd into Ideal Jacobs (Malaysia) Corporation Berhad.

The division was also the Principal Adviser for Binast Communications Berhad's Initial Public Offering (IPO), the first (1st) IPO listing in 2018. Listed on the ACE market, the IPO was oversubscribed by thirty-four (34) times and closed almost 30% higher on the first (1st) day of listing. With more traction in the equity capital market in 2017, it also acted as placement agent for Vizione Holdings Berhad, Dayang Enterprise Holdings Berhad, Uzma Berhad and Gabungan AQRS Berhad. It participated in the underwriting of Serba Dinamik Holdings Berhad's IPO and the rights issue undertaken by MKH Berhad and Hektar REIT.

For the Islamic capital market, the Skim Perbankan Islam recorded an unprecedented PBT and Zakat of RM8.16 million. During the year under review, it launched two (2) Islamic margin financing products with the objective of providing Shariah compliant avenues for clients to maximise trading capacity and the need for roll-over facility.

► Outlook

The IB division is cautiously optimistic of the market environment in 2018. The IB division will continue to explore innovative and unconventional fund raising solutions for its clients, strive for higher value fee-based income deals, and take on more corporate and project financing opportunities.

Treasury

The Treasury division recorded a PBT of RM1.35 million, a significant dip relative to the PBT of the year before at RM15.64 million. The volatile and challenging market environment gravely impacted the overall performance of the division despite steps taken to minimise some of the fundamental risks relating to currency exchange, the U.S. Federal rate hikes and global politics.

The challenging bond market environment led to a marked decrease in fixed income trading revenue, partly offset by Foreign Exchange (FX) gains.

For the year under review, liquidity management improved significantly as a result of the Treasury division's persistent sourcing of funds from an array of retail and wholesale depositors. This enabled a reduction in the overall cost of borrowing and at the same time, achieved an average Liquidity Coverage Ratio of above 120% – well beyond the minimum BNM requirement of 80% for 2017.

A notable initiative for the year included the roll-out of its Retail Negotiable Instrument of Deposit (RNID) which was well-received by retail depositors, with total amounting to RM35 million at the end of the year. Additionally, the division also focused on expanding its FX client base via cross-selling within the Group, as well as, promotional efforts to enhance its market presence.

► Outlook

The Treasury division will continue with its proven funding strategy to minimise cost of borrowing through partnerships with other business units within the Group to expand the source of deposits. It will maintain its dedicated support to the business lines in respect of products with the shared goal of raising business volumes and profitability for the Group. Structured products and Islamic Treasury will be areas of expansion in the coming year.



SEGMENTAL REVIEW: INVESTMENT MANAGEMENT

In 2017, following a business strategy realignment, we streamlined our Asset Management and Wealth Management businesses. The combined efforts from Kenanga Investors Group (KIG) and Wealth Management (WM) have resulted in an increase revenue of RM84.79 million from RM49.75 million the year before. Losses before tax for the combined business units narrowed to RM1.93 million from losses of RM8.14 million in 2016.

During the course of the year, the division has expanded their distribution arms and client segments. In addition to mass retail market and institutional clients, a new unit, Private Wealth was started to serve the Ultra High Net Worth (UNHW) segment.

Asset Under Management (AUM) of KIG grew from RM7.48 billion in 2016 to RM8.68 billion as of end 2017 and management fee revenue had also grown by over 18% for the year resulting in the company being less dependent on performance fee income. Its third-party funds also grew to RM0.51 billion in 2017. As a whole, it has achieved a more balanced segmentation of its AUM, with institutional and retail making up 40% each, and the remaining 20% in the wholesale money market space. The WM division also grew its Asset Under Administration (AUA) to above RM1.64 billion and reduced its losses significantly.

KIG continued to receive industry accolades for its growth and performance. The highlight of the year was being named Investors' Choice – Fund House of the Year at the Fundsupermart.com's Recommended Unit Trusts Awards 2017/2018. The Kenanga Growth Fund was recognised under the Core Equity – Malaysia category

for the eighth (8th) consecutive year. Simultaneously, the Kenanga OnePRS Growth Fund and the Kenanga OnePRS Conservative Fund were recognised under the Private Retirement Scheme – Growth and Private Retirement Scheme – Conservative categories respectively. KIG also won The Edge Thomson Reuters Lipper Malaysia Fund Awards 2018 for Best Equity Group (Islamic) and for its funds, Kenanga Syariah Growth Fund won Best Equity Malaysia (Islamic) under the ten (10) years category and Kenanga Malaysian Inc Fund won Best Equity Malaysia (Provident) under the three (3) years category.

KIG has gained international recognition from Asia Asset Management's 2018 Best of the Best Awards by being named the Malaysia Best Pension Fund Manager for the first (1st) time. Its Chief Executive Officer (CEO), Ismitz Matthew De Alwis was named 2018 Malaysia CEO of the Year for the second (2nd) year running while its Chief Investment Officer, Lee Sook Yee, was named 2018 Malaysia CIO of the Year for the third (3rd) consecutive year.

► Outlook

2017 marks the end of KIG's three (3)-year Med-Term Plan (MTP) and over this period, it has focused on delivering a strong investment performance, boosting its investment management brand, providing superior client service with relevant product offerings and enhancing its distribution reach.

GROUP MANAGING DIRECTOR'S OVERVIEW



SEGMENTAL REVIEW: LISTED DERIVATIVES

During the year under review, KIBB acquired the remaining stake in Kenanga Deutsche Futures from Deutsche Asia Pacific Holdings (DAPH), changing the joint venture into a wholly-owned subsidiary of KIBB, now named Kenanga Futures Sdn Bhd (KF).

KF's performance was adversely affected by the sluggish market conditions and lower client activities. It recorded a loss before tax of RM1.06 million in 2017 compared to PBT of RM2.61 million in 2016.

During the year, KF completed the replacement of its Order Management System (OMS) for KDF TradeActive™, its online trading platform. The new OMS has brought about numerous benefits to KF's operations as it enhances user-friendliness, facilitates mobile trading as well as, risk oversight and is scalable so as to cater to both in-bound and out-bound business expansion.

2017 also marked KF's inaugural participation as an exhibitor at the Futures Industry Association's Futures and Options Expo 2017 in Chicago, USA. The expo – a hub for the global-listed derivatives and cleared swaps community – witnessed the attendance of more than five thousand (5,000) industry experts from over forty (40) countries.

In 2017, KF was also recognised as the Champion for Best Trading Participant Equity and Financial Derivatives, First (1st) Runner Up for Best Overall Derivatives Trading Participant and Second (2nd) Runner Up for Best Institutional Derivatives Trading Participant by Bursa Malaysia.

► Outlook

The challenging market conditions faced by KF are expected to persist in 2018. However, on-going geo-political tensions in the global landscape and recovery in commodity prices may attract interest back into the market. In Malaysia, market participants will look forward to the much anticipated fourteenth (14th) General Election while in the U.S., expectations of further U.S. interest rate hikes and balance sheet normalisation plans will be factors to watch in 2018. To reduce its reliance on foreign institutional clients, KF will step up efforts to increase its domestic client base.

In 2018, KF will be expanding its product offerings by providing access for its clients to access the U.S. CME Group markets. At the same time, KF will profile KDF TradeActive™ more aggressively as it allows clients to trade on both markets in one (1) single platform on both desktop and mobile devices on-the-go.

GROUP MANAGING DIRECTOR'S OVERVIEW

SEGMENTAL REVIEW: STRUCTURED LENDING AND TRADE FINANCING

Kenanga Capital Group (KCG) is the structured lending and trade division of the Group which consists of Kenanga Capital Sdn Bhd (KC) and Kenanga Capital Islamic Sdn Bhd (KCI). PBT decreased from RM633,000 in 2016 to RM448,000 in 2017. For the year under review, KCG continued its focus on developing Islamic trade financing products offered through KCI. Its Islamic factoring business had performed well despite a small capital base, registering a PBT of RM1.72 million compared to RM300,000 in 2016.

► Outlook

In 2018, we expect to see improvements in our Structured Lending and Trade Financing division. We will maintain focus on factoring low risk government contracts and seeking opportunities in structured lending to grow our business volume.

RISK MANAGEMENT

The inherent risks of the Group include interest rate risk and equity market risk, primarily arising from our trading and investment activities. Interest rate and equity risks are mitigated by our established risk limits on portfolio size, value-at-risk and loss triggers.

The other key inherent risk is in the form of credit risk arising from our lending position in terms of share margin financing. We have put in place systematic procedures to manage credit risks in a timely manner so as to ensure effective remedial actions that can be undertaken to prevent or minimise any potential financial losses. With continual diligent management, our non-performing loan (NPL) ratio is at 0.02%, one of the lowest in the market.

In managing operational risks, we have put in place risk management tools such as Loss Incident Reporting, Risk Control Self-Assessment and Key Risk Indicator to ensure risks are identified, assessed, monitored, mitigated and reported within a structured framework that includes appropriate governance oversight.

2018 OUTLOOK

We are cautiously optimistic that the Group will improve its performance in 2018. Given the strong fundamentals of the Malaysian capital markets, we believe that our core businesses of Equity Broking and Investment Banking will continue to grow in 2018. We are also confident that as one of the largest retail brokers, we will benefit from the recent positive announcements by our government to promote retail trading in the stock market. Our Investment and Wealth Management businesses which had shown lower losses in 2017 is expected to turn around in 2018, riding on the momentum of its AUM growth. We expect AUM to increase further to RM11 billion by the end of 2018.

The challenging market conditions faced by our Listed Derivatives business are expected to persist in 2018. To reduce reliance on foreign institutional clients, we will focus on diversifying our revenue stream in Futures by providing foreign listed derivatives products to local retail clients, leveraging our ready client base in Stockbroking, Wealth Management and Asset Management to generate new avenues of revenue. We aim to commence the offering of CME Group products to the local market in 2018.

We also expect to continue seeing an improvement in our Structured Lending and Trade Financing division as we continue our emphasis on factoring low-risk government contracts and opportunities in structured lending.

APPRECIATION

I would like to take this opportunity to extend my appreciation to our Founder and Adviser, Tan Sri Dato' Paduka Tengku Noor Zakiah Tengku Ismail; Chairman, Encik Izlan Izzah and the Board of Directors for their guidance and stewardship of Kenanga Group. I also would like to thank our employees for their continued dedication. My gratitude goes out to our business partners, clients, suppliers and stakeholders for their continued support.

On behalf of the Group, I would also like to extend our appreciation to Bank Negara Malaysia, Securities Commission Malaysia and Bursa Malaysia Berhad for their guidance in helping us navigate the regulatory landscape.

Finally as always, we wish to record our heartfelt thanks to our valued shareholders for their continued trust and support towards the Group.

DATUK CHAY WAI LEONG

Group Managing Director

FOUNDER AND ADVISER'S PROFILE



TAN SRI DATO' PADUKA TENGKU NOOR ZAKIAH TENGKU ISMAIL

Malaysian / Female / Aged 90

Tan Sri Dato' Paduka Tengku Noor Zakiah Tengku Ismail (Tan Sri Dato' Paduka Tengku Noor Zakiah) co-founded Kenanga Investment Bank Berhad (KIBB) in 1973 under the name K & N Kenanga Sdn Bhd and served as the Executive Chairman of the company until January 2007.

In January 2010, she was re-designated as Non-Executive Chairman of KIBB. Prior to this, she was a partner in a stockbroking firm, Hallam & Co., from 1964 to 1971.

She was the first (1st) lady member of the Kuala Lumpur Stock Exchange, now known as Bursa Malaysia Securities Berhad (Bursa Securities) in 1964 and has over forty-nine (49) years of experience in the securities industry. She was one of the founders of the Association of Stockbroking Companies Malaysia (ASCM) and was appointed as President of the Association, a post she held until 1994 when she became its Chairman. She was made a Life Adviser to the Association when she retired as Chairman in 1997.

Tan Sri Dato' Paduka Tengku Noor Zakiah was conferred the "Lady Extraordinaire Award 2014" by the Ministry of Women, Family and Community Development Malaysia in recognition of her remarkable and exceptional contributions and achievements in the field of stockbroking. She also received the "Ikon Peniagawati 2015" award from the Association of Bumiputera Women in Business and Profession, Malaysia (PENIAGAWATI) in recognition of her entrepreneurship, and for being the first (1st) Bumiputera lady in the field of stockbroking in Malaysia, where she has served for more than five (5) decades, since 1964. For being a pioneer in the industry, she was recently awarded an entry to the Malaysia Book of Records as 'The First Female Entrepreneur to Start Up A Stockbroking Company'.

Due to the mandatory regulatory requirement for the Board to comprise a majority of Independent Directors, Tan Sri Dato' Paduka Tengku Noor Zakiah relinquished her position as Chairman and Non-Independent Non-Executive Director of KIBB on 28 January 2017. Following thereto, Tan Sri Dato' Paduka Tengku Noor Zakiah was appointed as Adviser of Kenanga Group.

DIRECTORS' PROFILES

01



Izlan Izhab

Malaysian / Male / Aged 72

Position

- Chairman of the Board
- Independent Non-Executive Director
- Member of Audit Committee
- Member of Group Nomination and Remuneration Committee
(Until 2 April 2018)

Izlan Izhab (Izlan)'s relationship with Kenanga Investment Bank Berhad (KIBB) and its Group of Companies (Kenanga Group or the Group) started with his appointment as an Independent Non-Executive Director of K & N Kenanga Holdings Berhad on 20 October 2008.

As part of the internal reorganisation of Kenanga Group in 2016, Izlan was appointed as an Independent Non-Executive Director of KIBB on 8 September 2016. He was subsequently appointed as the Chairman of the Board of KIBB on 7 February 2017.

Izlan holds a Bachelor of Laws degree from the University of London, United Kingdom and attended the Advanced Management Program at the University of Hawaii, United States of America.

During his career, he served as the Assistant Legal Officer for Majlis Amanah Rakyat from 1973 to 1975, Company Secretary for Komplek Kewangan Malaysia Berhad from 1975 to 1978, Company Secretary for Permodalan Nasional Berhad from 1978 to 1984 and Executive Vice President, Corporate and Legal Affairs at the Kuala Lumpur Stock Exchange (now known as Bursa Malaysia Securities Berhad (Bursa Securities)) from 1985 until his retirement in 2000.

Izlan is also a Director of Sun Life Malaysia Takaful Berhad, Reach Energy Berhad and Federation Of Public Listed Companies Bhd. He is also an Independent Non-Executive Director of KIBB's subsidiary, Kenanga Futures Sdn Bhd (Formerly Known As Kenanga Deutsche Futures Sdn Bhd).

He has no family relationship with any Director and/ or major shareholder of KIBB. He also has no conflict of interest with KIBB and has never been convicted of any offences within the past five (5) years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2017.

02



Datuk Syed Ahmad
Alwee Alsree

Singaporean / Permanent Resident of
Malaysia / Male / Aged 52

Position

- Deputy Chairman of the Board
- Non-Independent Non-Executive Director
- Member of Group Nomination and Remuneration Committee

Datuk Syed Ahmad Alwee Alsree (Datuk Syed Ahmad) was appointed to the Board of KIBB as a Non-Independent Non-Executive Director on 21 April 2010. He was subsequently re-designated as Deputy Chairman of the Board on 25 October 2011.

Datuk Syed Ahmad graduated with a Bachelor of Laws (LL.B.) degree from the National University of Singapore and practised law in Singapore for over ten (10) years prior to joining Cahya Mata Sarawak Berhad (CMS), a conglomerate listed on the Main Market of Bursa Securities with cement, construction materials, infrastructure and property development as its core businesses. In February 2004, Datuk Syed Ahmad was appointed as Group General Manager – Human Resources of CMS and was subsequently appointed as its Deputy Group Managing Director in September 2006, prior to being re-designated as Group Executive Director in August 2008. In 2012, Datuk Syed Ahmad attended and completed the Advanced Management Program at Harvard Business School.

At present, Datuk Syed Ahmad is also the Chairman/ Director of Kenanga Investors Berhad and a Director of Kenanga Islamic Investors Berhad, KKB Engineering Berhad, SIG Gases Berhad and several private limited companies.

He has no family relationship with any Director and/ or major shareholder of KIBB. He also has no conflict of interest with KIBB and has never been convicted of any offences within the past five (5) years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2017.

DIRECTORS' PROFILES

03



Luigi Fortunato Ghirardello

Australian / Male / Aged 54

Position

- Non-Independent Non-Executive Director
- Member of Group Nomination and Remuneration Committee
- Member of Group Board Risk Committee
- Member of Audit Committee
(Until 2 April 2018)

Luigi Fortunato Ghirardello (Luigi) was appointed to the Board of KIBB as a Non-Independent Non-Executive Director on 29 July 2008. He was subsequently re-designated as an Independent Non-Executive Director on 26 April 2011. On 29 July 2017, he had been re-designated as a Non-Independent Non-Executive Director.

He holds a Bachelor of Arts and a Bachelor of Laws from the University of Sydney, Australia and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia.

Luigi was the Managing Director, Head of Global Finance – Asia Pacific for Deutsche Bank AG – Singapore Branch from May 2004 to March 2008. His role encompassed the management of Short-Term Interest Rate Trading in Asia, an integrated short-term trading unit combining foreign exchange and money market products. In addition, he was responsible for interest rate trading in money markets/ Repurchase Agreements and cash products, as well as liquidity management platform in the Asia Pacific.

Prior to that, he was the Deputy Chairman of the Global Market Risk Committee, a member of the Banking Asset/ Liability Committee, as well as the Global Head of Money Markets Securities and Trading in London.

Before joining Deutsche Bank in 1995, he was an Associate Director and Trading Manager with Schroders Australia Ltd and held various senior positions at the National Australia Bank.

Luigi is also the Chairman of Kenanga Futures Sdn Bhd (Formerly Known As Kenanga Deutsche Futures Sdn Bhd), a subsidiary of KIBB.

He has no family relationship with any Director and/ or major shareholder of KIBB. He also has no conflict of interest with KIBB and has never been convicted of any offences within the past five (5) years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2017.

04



Luk Wai Hong, William

Hong Kong / Male / Aged 54

Position

- Independent Non-Executive Director
- Chairman of Group Nomination and Remuneration Committee
- Chairman of Group Board Risk Committee
- Member of Audit Committee

Luk Wai Hong, William (Luk) was appointed to the Board of KIBB as an Independent Non-Executive Director on 1 November 2013.

He holds a Bachelor of Arts (Honours) from Concordia University, Montreal, Canada, a Masters of Urban Planning from the University of Michigan, USA and an Executive Fellowship awarded by the State of Washington.

Luk is currently the Director of Investment of Cotton Tree Capital Ltd, of which he is the co-owner, with offices in Hong Kong and Singapore. He has more than twenty (20) years of experience in various capacities in the financial services industry, out of which eleven (11) years were spent in Deutsche Bank AG, Hong Kong and Singapore.

He began his career in 1989 as an Executive Fellow and Transportation Finance Specialist in the Office of Financial Management at the State of Washington. He later joined Lehman Brothers, Hong Kong as a Fixed Income and Credit Trader in 1993. After three (3) years, he joined HSBC Markets, Hong Kong for a year, before joining Deutsche Bank AG in 1997 as a Senior Associate Director and Senior Credit and Derivatives Trader. He then became Deutsche Bank AG's Director and Head of Structured Credit Trading and Principal Finance Asia, a post he held until 2004.

In 2004 and 2008, Luk was appointed as Deutsche Bank AG's Managing Director and Co-Head of Global Credit Trading and Principal Finance Asia, as well as Managing Director and Co-Head of Saba Proprietary Trading Group Asia, respectively. In 2008, he joined Pacific Advantage Capital, Hong Kong and Singapore, as its Principal and Portfolio Manager focusing on credits and special situations, before taking up the position of Director of Investment of Cotton Tree Capital Ltd in 2011.

He has no family relationship with any Director and/ or major shareholder of KIBB. He also has no conflict of interest with KIBB and has never been convicted of any offences within the past five (5) years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2017.

DIRECTORS' PROFILES

05



Dato' Richard Alexander John Curtis

British / Permanent Resident of Malaysia / Male / Aged 66

Position

- Non-Independent Non-Executive Director
- Member of Group Board Risk Committee
(Appointed on 2 April 2018)

Dato' Richard Alexander John Curtis (Dato' Richard Curtis) was appointed to the Board of KIBB as a Non-Independent Non-Executive Director on 26 September 2007.

He holds a Bachelor of Laws (LL.B.) (Honours) from the University of Bristol, UK and is admitted as a solicitor in England, Wales and Hong Kong. He is also a Sloan Fellow of London Business School, UK.

Dato' Richard Curtis is presently a Non-Independent Non-Executive Director of Cahya Mata Sarawak Berhad (CMS), a conglomerate listed on the Main Market of Bursa Securities with cement, construction materials, infrastructure and property development as its core businesses. He retired as the Group Managing Director of CMS on 31 December 2017 after over eleven (11) years of stewardship in transforming and implementing the long term strategic plan of CMS to expand and diversify its business portfolios, but remains as a Non-Independent Non-Executive Director of CMS and of several subsidiaries.

He is also a Director of several private limited companies, as well as a Trustee of Yayasan Raja Muda Selangor.

He has no family relationship with any Director and/ or major shareholder of KIBB. He also has no conflict of interest with KIBB and has never been convicted of any offences within the past five (5) years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2017.

06



Ismail Harith Merican

Malaysian / Male / Aged 67

Position

- Non-Independent Non-Executive Director
- Member of Audit Committee
- Member of Group Board Risk Committee
(Until 7 September 2017)

Ismail Harith Merican (Ismail Harith) was appointed to the Board of KIBB as a Non-Independent Non-Executive Director on 26 August 2010.

Upon obtaining his Bachelor of Arts in History in 1973, he proceeded to complete the Institute of Chartered Accountants in England and Wales articleship from 1973 to 1978 at Peat, Marwick, Mitchell & Co. in London, UK. Subsequently, from 1978 to 1980, Ismail Harith joined The Economist Newspaper Ltd as an assistant accountant and in 1980, he commenced his involvement in the investment industry when he trained and worked with Strauss Turnbull & Co., a firm of stockbrokers in London. He was with the firm until 1983.

Ismail Harith was employed by KIBB from 1983 to 1990 and the last position he held was as a Dealer's Representative (Institutions & International). He subsequently joined Straits Securities Sdn Bhd in 1990 as a shareholder, Managing Director and a Dealer's Representative. He also represented Rashid Hussain Berhad, the holding company of Straits Securities Sdn Bhd, as a corporate representative until he left the company in 1997. From 1998 to date, he has been an investor in quoted securities and properties.

He is currently the Managing Director of Zubaimas Realty Sdn Bhd, a property holding company; and the Chairman of Matrix Capital Sdn Bhd, a company involved in the energy efficiency industry.

He is the son of YM Tan Sri Dato' Paduka Tengku Noor Zakiah Tengku Ismail, a major shareholder of KIBB. He also has no conflict of interest with KIBB and has never been convicted of any offences within the past five (5) years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2017.

DIRECTORS' PROFILES

07



Jeremy Nasrulhaq

Malaysia / Male / Aged 65

Position

- Independent Non-Executive Director
- Chairman of Audit Committee
(Appointed on 8 September 2017)
- Member of Group Nomination and Remuneration Committee
(Appointed on 8 September 2017)
- Member of Group Board Risk Committee
(From 8 September 2017 until 2 April 2018)

Jeremy Nasrulhaq (Jeremy) was appointed to the Board of KIBB as an Independent Non-Executive Director on 1 June 2017.

He is a Fellow Member of the Chartered Institute of Management Accountants (CIMA), United Kingdom and a registered Chartered Accountant of the Malaysian Institute of Accountants (MIA), as well as the Chartered Audit Committee Director of the Institute of Internal Auditors Malaysia (IIAM). He also holds a Bachelor of Science Degree (with Distinction) in Agribusiness Science from Universiti Putra Malaysia (UPM).

Over the span of three (3) decades, Jeremy had held several senior financial and supply chain positions in Unilever (M) Holdings Sdn Bhd, P.T. Unilever Indonesia and Unilever Asia (S) Pte Ltd. He was the Regional Finance Manager for Unilever Foods (Asia), then Commercial Director for Unilever (M) Holdings Sdn Bhd. Subsequently, he was the Supply Chain Director for Unilever Malaysia and Singapore. During his tenure with Unilever, he had also led several regional and global procurement teams and served in Malaysia, Indonesia and Singapore.

Besides Unilever, he served as Committee Member on a few national organisations such as the Malaysian International Chamber of Commerce and Industry (MICCI) and the Federation of Malaysian Manufacturers.

Jeremy also served as an Independent Non-Executive Director of Malaysia Airports Holdings Berhad (MAHB) from 15 August 2007 to 1 November 2016. During his tenure in MAHB, he was appointed as the Senior Independent Non-Executive Director, Chairman of Board Nomination & Remuneration Committee, as well as a member of the Board Audit Committee and the Board Finance & Investment Committee. He was also the Chairman of Malaysia Airports (Niaga) Sdn Bhd, Urusan Teknologi Wawasan Sdn Bhd and the Whistleblowing Independent Committee.

He also served on the councils of the MIA for a term of two (2) years and as the Deputy President of CIMA, Malaysia Division for several years. Currently, he is the Chairman of MIA's Professional Accountants in Business Committee and sits on the MIA's SSM (Suruhanjaya Syarikat Malaysia) Task Force and the MIA-Malaysian Qualifications Agency (MQA) Joint Technical Committee. He also served on the MIA Roundtable for CFO Competency Framework.

He has no family relationship with any Director and/ or major shareholder of KIBB. He also has no conflict of interest with KIBB and has never been convicted of any offences within the past five (5) years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2017.

08



Norazian Ahmad Tajuddin

Malaysian / Female / Aged 57

Position

- Independent Non-Executive Director
- Member of Group Nomination and Remuneration Committee
(Appointed on 2 April 2018)
- Member of Group Board Risk Committee
(Appointed on 2 April 2018)

Norazian Ahmad Tajuddin (Norazian) was appointed to the Board of KIBB as an Independent Non-Executive Director on 15 December 2017.

She holds a Bachelor of Science (Honours) in Mathematics from the University of Leeds, United Kingdom and a Master of Business Administration (Finance) from the Edith Cowan University, Australia.

Norazian has more than twenty-five (25) years of experience in banking, the last fifteen (15) years being in senior management, encompassing areas in Treasury operations, business and banking operations, risk management and support services. She has strong and varied experience in dealing with foreign exchange, international banking, investments, sales, customer and corporate relations, information technology, as well as asset and liability management.

She joined Bank Simpanan Nasional Berhad (BSN) in 2005 as Director in CEO's Office and was promoted to Deputy Chief Executive Officer (DCEO) during its re-organisation and continued to serve as its DCEO until she retired in 2010. During her tenure in BSN, she played a leading role in the transformation of BSN into a sustainable and profitable development bank.

From June 2008 to March 2010, she served as a Non-Independent Non-Executive Director of Prudential BSN Takaful Bhd and was appointed as a member of its Risk Management Committee and Nomination & Remuneration Committee.

Presently, she is an Independent Non-Executive Director of Pacific & Orient Insurance Co. Berhad, which is a subsidiary of Pacific & Orient Berhad, a company listed on the Main Market of Bursa Securities. She is also the Chairman of its Nomination & Remuneration Committee, as well as a member of its Audit Committee and Risk Management Committee.

She has no family relationship with any Director and/ or major shareholder of KIBB. She also has no conflict of interest with KIBB and has never been convicted of any offences within the past five (5) years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2017.

DIRECTORS' PROFILES

09



Kanagaraj Lorenz

Malaysian / Male / Aged 60

Position

- Independent Non-Executive Director
- Member of Audit Committee
(Appointed on 2 April 2018)
- Member of Group Board Risk Committee
(Appointed on 2 April 2018)

Kanagaraj Lorenz (Raj) was appointed to the Board of KIBB as an Independent Non-Executive Director on 26 December 2017.

He is a graduate from the Sunderland University, United Kingdom, and a member of the Malaysian Institute of Certified Public Accountants and a fellow of the Institute of Chartered Accountants in England and Wales.

Raj is a payment specialist who has over thirty (30) years' experience in the finance industry. He held the position of Group Chief Executive Officer of GHL Systems Berhad (GHL) since his appointment in September 2011 till the end of 2016. He retired from GHL as an Executive Director in May 2017. Currently, he is actively involved with the FinTech Association of Malaysia and various FinTech companies.

Prior to GHL, Raj worked for Citibank for fourteen (14) years in Malaysia and Australia in various positions in Investment and Corporate Banking covering; treasury risk management, Chief Financial Officer (CFO), and finally, as Head of Marketing of a Corporate Bank unit.

Raj left Citibank in 2000 to create an internet payment start-up for DBS Bank Ltd. in Singapore. It was the first real-time Direct Debit gateway of its kind in ASEAN. This company was eventually purchased two (2) years later by NETS Pte Ltd (NETS), a large payments company in Singapore, which is owned by the Singapore banks and rebranded as "eNETS". He built "eNETS", the internet payment arm of NETS from inception into a leading online payment gateway in Singapore.

He also spearheaded NETS' investment into China with a joint venture partner and interconnected China UnionPay (CUP) with NETS such that CUP cards could be accepted in Singapore for the very first time outside of China, Hong Kong and Macau.

He has no family relationship with any Director and/ or major shareholder of KIBB. He also has no conflict of interest with KIBB and has never been convicted of any offences within the past five (5) years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2017.

GROUP MANAGING DIRECTOR'S PROFILE



DATUK CHAY WAI LEONG

Group Managing Director

Singaporean (Permanent Residence of Malaysia) / Male / Aged 55

Appointed: 17 May 2011

Qualification

- Bachelor of Business Administration (1987) (Major in Finance) from National University of Singapore

Directorship

- Director, Bursa Malaysia Berhad
- Director, Bursa Malaysia Derivatives Berhad
- Director, Bursa Malaysia Derivatives Clearing Berhad
- Director, Securities Industry Development Corporation
- Director, K & N Kenanga Holdings Berhad

Relevant Experience

- 2006 – May 2011: Managing Director in RHB Investment Bank Berhad and Director of Corporate and Investment Banking in RHB Banking Group
- 2002 – 2006: Country Head, Malaysia and Head of Regional Origination for Southeast Asia in Standard Bank Group
- 2000 – 2002: Director, Head of Investment Banking Malaysia in JPMorgan Chase Bank
- 1990 – 2000: Director, Investment Banking in Jardine Fleming, Hong Kong
- 1987 – 1990: Senior Investment Analyst in Bankers Trust, Singapore

Datuk Chay Wai Leong has no family relationship with any Director and/ or major shareholder of KIBB. He also has no conflict of interest with KIBB and has never been convicted of any offences within the past five (5) years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2017

Datuk Chay Wai Leong is currently holding 2,500,000 shares in KIBB.

SENIOR MANAGEMENT TEAM'S PROFILES



DATUK ROSLAN HJ TIK

Executive Director,
Head of Group Investment Banking and Islamic Banking
Malaysian / Male / Aged 49
Appointed: 16 May 2011

Qualification

- Bachelor of Science in Combined Studies (Accounting with Law) (1992) from De Montfort University, Leicester, United Kingdom
- Advanced Certificate in Management, Massachusetts Institute of Technology, Boston, USA

Directorship

- Director, K & N Kenanga Holdings Berhad

Relevant Experience

- July 2004 – March 2011: Division Head/Senior Vice President, Corporate and IB Services in RHB Investment Bank Berhad
- December 2001 – June 2004: General Manager, Debt Capital Markets in KAF Discounts Berhad
- August 1996 – November 2001: Vice President in Malaysian Rating Corporation Berhad
- January 1994 – August 1996: Analyst in Rating Agency Malaysia Berhad



LEE KOK KHEE

Executive Director,
Head of Group Equity Broking Business
Malaysian / Male / Aged 50
Appointed: 16 June 2009

Qualification

- Certified Public Accountant (1993) from the Malaysian Institute of Certified Public Accountants

Directorship

- Director, ECML Berhad

Relevant Experience

- January 2001 – September 2003: Director of Corporate Finance in AKN Capital Sdn Bhd
- January 1999 – December 2000: Vice President, Merger and Acquisition in Tokyo Mitsubishi International (Singapore) Ltd
- August 1992 – December 1998: Senior Manager, Corporate Finance in Arab-Malaysian Merchant Bank Berhad
- April 1989 – July 1992: Audit Senior in Messrs. Ernst & Young

SENIOR MANAGEMENT TEAM'S PROFILES



MAHESWARI KANNIAH

Group Chief Regulatory and Compliance Officer
Malaysian / Female / Aged 57
Appointed: 1 June 2011

Qualification

- Certified Fraud Examiner (CFE)
- Fellow of the Institute of Chartered Secretaries and Administrators, United Kingdom (FCIS)
- Fellow of the Malaysian Association of the Institute of Chartered Secretaries & Administrations (ICSA)
- Specialist Diploma in Company Secretarial Practice

Directorship

- Nil

Relevant Experience

- 2007 – 2011: Senior Vice President/Head, Compliance in RHB Investment Bank Berhad
- January 2007 – May 2007: Vice President/Head of Group Compliance in Maybank
- June 2002 – May 2007: Vice President/Head of Compliance Supervision in Maybank Investment Bank Berhad
- Before June 2002: Company Secretary, Corporate Service Department in Maybank



ISMITZ MATTHEW DE ALWIS

Chief Executive Officer, Kenanga Investors Berhad
Malaysian / Male / Aged 43
Appointed: 10 February 2015

Qualification

- Master of Business Administration (MBA) with Distinction (1999) from Southern Cross University, Australia
- Bachelor of Business (Economics and Finance) (1996) from Royal Melbourne Institute of Technology
- Graduate Diploma in Marketing (UK) (1995) from Chartered Institute of Marketing, United Kingdom
- Advanced Business Management Program (2013) from SIDC/International Institute of Management Development (IMD) from Lausanne, Switzerland
- Capital Market Services Representative's Licence (2005) from Securities Commission Malaysia
- Certified Financial Planner (CFP) (2002) from Certified Financial Planner, USA
- Cambridge Executive Education from University of Cambridge

Directorship

- Director, Kenanga Investors Berhad
- Director, Kenanga Funds Berhad
- Director, Kenanga Islamic Investors Berhad

Relevant Experience

- August 2012 – June 2013: Executive Director/Country Head in ING Funds Berhad
- November 2009 – July 2012: Senior Vice President – Head, Business Development in ING Funds Berhad
- April 2008 – October 2009: Vice President – Head, Retail Distribution in ING Funds Berhad
- April 2006 – March 2008: Assistant Vice President – Head, Agency Channel in ING Funds Berhad
- October 2003 – March 2006: Senior Manager – Business Development in ING Insurance Berhad

SENIOR MANAGEMENT TEAM'S PROFILES



CHEONG BOON KAK

Group Chief Financial and Operations Officer
Malaysian / Male / Aged 47
Appointed: 10 June 2011

Qualification

- Malaysia Institute of Accountants (MIA)
- Certified Practising Accountant (CPA Australia)

Directorship

- Director, Kenanga Funds Berhad
- Director, K & N Kenanga Holdings Berhad

Relevant Experience

- April 2008 – 2011: Head of Corporate Strategy in RHB Investment Bank Berhad
- July 2007 – March 2008: General Manager, Group Accounts in Sapura Crest Petroleum Berhad
- April 2003 – June 2007: General Manager, Finance in RHB Securities Sdn Bhd
- December 1999 – March 2003: Assistant General Manager, Finance in RHB Management Company
- November 1997 – December 1999: Finance Manager in Dijaya Enterprise Berhad



AZILA ABDUL AZIZ

Chief Executive Officer and Head of Listed Derivatives
Kenanga Futures Sdn Bhd (Formerly known as
Kenanga Deutsche Futures Sdn Bhd)
Malaysian / Female / Aged 49
Appointed: 1 December 2012

Qualification

- Bachelor Degree (Hons) in Finance from MARA University of Technology (UiTM)
- Diploma in Investment Analysis from MARA University of Technology (UiTM)

Directorship

- Nil

Relevant Experience

- November 1996 – 2000: Sales and Dealing, Equities and Derivatives in Rashid Hussain Securities Sdn Bhd
- June 1995 – August 1996: Trainee Dealer Representatives (KLSE) in SBB Securities Sdn Bhd
- June 1992 – July 1992: Practical Training in SBB Securities Sdn Bhd
- August 1989 – December 1989: Accounts Trainee (Finance Dept) in Perlis Plantations Berhad

SENIOR MANAGEMENT TEAM'S PROFILES



MEGAT MIZAN NICHOLAS DENNEY

Executive Director,
Head, Group Business Development
Malaysian / Male / Aged 57
Appointed: 1 January 2006

Qualification

- Master of Science, Engineering Management (2001) from Warwick University
- Bachelor of Science (Hons) in Production Engineering and Management (1985) from Loughborough University of Technology, United Kingdom
- Diploma in Marketing (1986) from The Chartered Institute of Marketing, United Kingdom
- Certified Diploma in Accounting and Finance (1993) from The Association of Chartered Certified Accountants (ACCA)

Directorship

- Alternate Director, Kenanga Islamic Investors Berhad
- Alternate Director, Federation of Public Listed Companies Berhad

Relevant Experience

- 1986 – 1989: Engineer in OTIS Engineering Corporation
- 1982 – 1983: Trainee Engineer in Dunlop Industries



CYNTHIA WOON CHENG YEE

Head, Group Treasury
Malaysian / Female / Aged 52
Appointed: 25 May 2017

Qualification

- Bachelor of Economics (1989) from University of Western Australia

Directorship

- Nil

Relevant Experience

- April 2009 – December 2012: Head of Treasury in ECM Libra Investment Bank Berhad
- December 1991 – December 2008: Manager, Treasury in Public Investment Bank Berhad
- June 1990 – November 1991: Money Broker in KAF Astley & Pearce Sdn Bhd
- August 1989 – May 1990: Management Executive in Malaysian Tobacco Company Berhad

SENIOR MANAGEMENT TEAM'S PROFILES



LUM CHEE WAH

Head, Group Operations
Malaysian / Male / Aged 53
Appointed: 15 March 2012

Qualification

- Associate, The Chartered Institute of Management Accountants (CIMA), United Kingdom (1995)
- Chartered Accountant, Malaysian Institute of Accountants (MIA) (2001)
- Certified Information Systems Auditor (CISA), Information Systems Audit and Control Association (ISACA), USA (1999)
- Chartered Member, The Institute of Internal Auditors Malaysia (IIAM) (2006)

Directorship

- Director, ECML Berhad

Relevant Experience

- October 1998 – March 2012: Head, Intermediaries Supervision, Regulation in Bursa Malaysia Berhad
- February 1997 – September 1998: Head, Finance and Technology in Reapfield Properties Sdn Bhd
- February 1995 – January 1995: Manager, Information Systems Audit in Affin Bank Berhad (Formerly known as Perwira Affin Bank Berhad)
- January 1990 – January 1995: IT Controls Officer, Information Systems in OCBC Bank (Malaysia) Berhad
- April 1985 – December 1989: General Clerk, Credit Control Central in OCBC Bank (Malaysia) Berhad



NIK HASNIZA NIK IBRAHIM

Head, Group Human Resource
Malaysian / Female / Aged 52
Appointed: 1 July 2014

Qualification

- Bachelor of Science in Computer Science (1987) from Indiana University, Indiana, USA

Directorship

- Nil

Relevant Experience

- April 2012 – June 2014: Head, Human Capital in Kuwait Finance House Malaysia Berhad
- November 2009 – April 2012: Senior Vice President, Group Human Resource in Inti Education Group
- July 2009 – November 2009: Senior Advisor, Human Capital Group (HCG) in Watson Wyatt (Malaysia) Sdn Bhd
- February 2008 – July 2009: Head, Group Human Resource in RHB Banking Group
- October 2006 – February 2008: Senior Consultant, Human Capital Group (HCG) in Watson Wyatt (Malaysia) Sdn Bhd

SENIOR MANAGEMENT TEAM'S PROFILES



WOO KING HUAT

Chief Credit Officer

Malaysian / Male / Aged 47

Appointed: 1 July 2015

Qualification

- Bachelor of Commerce (Economics) (1991) from The Flinders University of South Australia

Directorship

- Nil

Relevant Experience

- January 2011 – November 2011: Vice President, Corporate and Investment Banking Services in RHB Investment Bank Berhad
- August 2007 – December 2010: Associate Director, Debt Capital Markets in AmlInvestment Bank Berhad
- September 2000 – July 2007: Assistant Vice President and Head, Investment Banking in OCBC Bank (M) Berhad
- September 1997 – September 2000: Assistant Manager in Oversea-Chinese Banking Corp. Ltd
- January 1996 – September 1997: Senior Officer, Corporate Banking/Capital Markets in BSN Merchant Bank Berhad



SHAHARIAH SHAHARUDIN

Chief Executive Officer, Kenanga Islamic Investors Berhad

Malaysian / Female / Aged 58

Appointed: 20 March 2014

Qualification

- Master of Arts, Economics (1983) from University of Illinois, Springfield, Illinois, USA
- Bachelor of Arts Business Administration and Economics (1981) from Knox College, Illinois, USA

Directorship

- Director, Kenanga Islamic Investors Berhad

Relevant Experience

- May 2006 – March 2011: Head of Wholesale, Strategic Business and Market Development in RHB Investment Management Sdn Bhd
- June 1998 – April 2006: Head of Dealing in RHB Securities Sdn Bhd
- March 1993 – May 1998: Remisier in SJ Securities Sdn Bhd
- April 1991 – February 1993: Deputy Branch Manager in Kwong Yik Bank Berhad
- March 1990 – March 1991: Assistant Manager, Corporate Banking in Kwong Yik Bank Berhad

SENIOR MANAGEMENT TEAM'S PROFILES



AZLAN ABU RAIS @ A RAIS AL NOAH

Chief Executive Officer, Kenanga Capital Sdn Bhd and Kenanga Capital Islamic Sdn Bhd

Malaysian / Male / Aged 55

Appointed: 1 September 2004 as CEO, Kenanga Capital Sdn Bhd and 1 January 2017 as CEO, Kenanga Capital Islamic Sdn Bhd

Qualification

- Master of Business Administration (1995) from University of Bath, United Kingdom
- Bachelor of Science in Industrial Engineering (1987) from Louisiana State University, USA

Directorship

- Director, Actinium Network Berhad

Relevant Experience

- 1996 – 2000: General Manager (Head of Corporate Planning, Sales and Marketing and Business Development) in Woo Hing Brothers (M) Berhad
- 1996: Business Consultant in GBE International Group (PLC), United Kingdom
- 1992 – 1995: Project Manager in MMC Engineering Services Sdn Bhd
- 1987 – 1992: Production Engineering in Matsushita Industrial Corp. Sdn Bhd



CHUAH SZE PHING

Head, Group Marketing and Communications

Malaysian / Female / Aged 41

Appointed: 1 September 2012

Qualification

- Bachelor of Commerce (Marketing) (1999) from University of Melbourne, Australia

Directorship

- Nil

Relevant Experience

- 2010 – 2012: General Manager, Corporate Affairs and PR in Hong Leong Financial Group
- 2007 – 2010: Senior Manager, Corporate Brand and Publications in British American Tobacco PLC, London
- 2004 – 2007: Senior Manager, Corporate Communications in British American Tobacco Malaysia
- 2002 – 2004: Senior Consultant, Corporate and Financial Practice in Weber Shandwick Worldwide
- 2000 – 2002: Change Management Analyst in Accenture Sdn Bhd

SENIOR MANAGEMENT TEAM'S PROFILES



TERENCE TAN KIAN MENG

Group Chief Internal Auditor
Malaysian / Male / Aged 49
Appointed: 17 January 2011

Qualification

- Bachelor of Commerce (Accounting) with Merit (1993) from University of New South Wales
- Certified Internal Auditor (CIA, US)
- Certified Practising Accountant (CPA Australia)
- Chartered Accountant (Malaysian Institute of Accountants)

Directorship

- Nil

Relevant Experience

- July 2009 – December 2010: Chief Internal Auditor in MCIS Zurich Insurance Berhad
- August 2006 – June 2009: Head, Financial and Operational Assurance in DIGI Telecommunications Sdn Bhd
- July 2004 – July 2006: Senior Manager, Financial and Operational Assurance in Astro All Asia Network PLC
- August 2003 – July 2004: Head of Compliance in Bank Simpanan Nasional
- June 1995 – April 2003: Assistant Vice President, Compliance and Control in Citibank Berhad



NORLIZA ABD SAMAD

Group Company Secretary
Malaysian / Female / Aged 52
Appointed: 19 November 2012

Qualification

- Institute of Chartered Secretaries and Administrators (UK) (1992) from MARA University of Technology
- Associate Member of Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) (1997)

Directorship

- Nil

Relevant Experience

- October 2008 – May 2011: Assistance Vice President, Head, Compliance Strategy and Governance Supervision, Investment Banking Compliance in RHB Investment Bank Berhad
- June 2003 – September 2008: Vice President, Corporate Services Dept in Affin Investment Bank Berhad
- September 1994 – May 2003: Senior Executive, Corporate Services Dept in Malayan Banking Berhad
- August 1993 – August 1994: Admin Executive in Intellect Asia (Malaysia) Sdn Bhd
- April 1993 – July 1993: Company Secretarial Assistant in Syarikat Leong Siew Mun Sdn Bhd

SENIOR MANAGEMENT TEAM'S PROFILES



TAI YAN FEE

Group Chief Risk Officer
Malaysian / Male / Aged 46
Appointed: 1 August 2017

Qualification

- Bachelor of Business Administration (1995) from Universiti Kebangsaan Malaysia
- Persatuan Pasaran Kewangan Malaysia (PPKM) (1997)

Directorship

- Nil

Relevant Experience

- January 2011 – July 2015: Country Market Risk Manager, FX, Rates and Liquidity in Citibank Berhad
- January 2005 – December 2010: Trader, Treasury Structured Product/Interest Rate Derivatives in Citibank Berhad
- January 2001 – December 2004: Trader, Treasury Structured Product/Interest Rate Derivatives in AmMerchant Bank Berhad
- January 1997 – December 2009: Corporate Sales, Treasury in AmMerchant Bank Berhad

Unless otherwise stated:

- With the exception of Megat Mizan Nicholas Denney, who is the son of Tan Sri Dato' Paduka Tengku Noor Zakiah Tengku Ismail and brother of Ismail Harith Merican, a major shareholder and a Director of KIBB, respectively, all members of the Senior Management Team do not have any family relationships with any Director and/or major shareholder of KIBB.
- None of the Senior Management Team have any conflict of Interests with KIBB.
- None of the Senior Management Team have been convicted of any offence within the past five (5) years and have been imposed any penalty by the relevant regulatory bodies during the financial year.
- Directorship indicated herein reflects the directorship in public companies and listed issuers.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (“Board”) regards corporate governance as vital to the success of Kenanga Investment Bank Berhad’s (“KIBB” or “the Company”) business and is unreservedly committed to applying the principles necessary to ensure that the principles of good governance are practised in all of its business dealings.

The Board understands that the responsibility for good corporate governance rests with them. Therefore, the Board strives to adopt the principles and best practices of corporate governance and ensures that KIBB complies with the various guidelines issued by Bank Negara Malaysia (“**BNM**”), Bursa Malaysia Securities Berhad (“**Bursa Securities**”) and the Securities Commission Malaysia (“**SC**”).

The Board is also committed to continuously undertake the appropriate actions to embed the said principles and recommendations of the Malaysian Code on Corporate Governance (“**MCCG**”) into the Company’s existing policies and procedures.

BOARD LEADERSHIP AND EFFECTIVENESS

The Board is charged with leading and guiding KIBB in an effective and responsible manner. Each Director has a legal duty to act in the best interest of KIBB. The Directors, collectively and individually, are aware of their responsibilities to shareholders and stakeholders for the manner in which the affairs of KIBB are managed. The Board sets the Company’s values and standards and ensures that its obligations to its shareholders and other stakeholders which include the regulators, business partners, clients, employees, suppliers and vendors, are clearly understood and met.

The Board reserves full decision-making powers notwithstanding any delegation of authority to the Management or to Committees on matters relating to amongst others, strategies, business plans and budget; significant policies; conflict of interest issues relating to substantial shareholder and/or a Director; material acquisitions or disposals of assets not in the ordinary course of business; investment in capital projects; authority levels; risk management policies; as well as, key human resource issues. The Board reserved matters are also reflected in the Board Charter.

The roles and responsibility of the Board are clearly defined in the Board Charter which is available on KIBB’s website at https://www.kenanga.com.my/KIBB_BOD.pdf

The Board’s key activities during the financial year include amongst others, reviewing, deliberating and recommending, where appropriate, the following matters:

Strategy

- Budget and Business Plan for the Group for the financial year ending 31 December 2018;
- Monthly Management Accounts; and
- Quarterly Results.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Risk, Compliance and Oversight

- Monthly Regulatory Reports;
- Regulators' Examination Reports;
- Compliance Risk Assessment;
- Monthly Risk Management Reports;
- Enterprise Risk Management Framework;
- Internal Capital Adequacy Assessment Process for 2016;
- Establishment of new policies and review of existing policies;
- Reports by Board Committees on matters discussed at the respective Board Committee meetings; and
- Information Technology matters.

Governance

- Annual Board Performance Evaluation for the financial year ended 31 December 2016;
- Directors' Training Calendar for 2017;
- Composition of the Board of KIBB and its subsidiaries;
- Directors' Remuneration;
- Implementation Status of MFRS 9;
- Establishment of the Employees' Share Scheme Committee;
- Directors and Officers' Liability Insurance; and
- Key Human Resource matters.

Board Composition

The Board of KIBB currently comprises nine (9) Directors, with five (5) Independent Non-Executive Directors ("**INED**") and four (4) Non-Independent Non-Executive Directors ("**NINED**") as listed below.

1. **Izlan Izhab**
Chairman, INED
2. **Datuk Syed Ahmad Alwee Alsree**
Deputy Chairman, NINED

3. **Luigi Fortunato Ghirardello**
NINED
4. **Dato' Richard Alexander John Curtis**
NINED
5. **Ismail Harith Merican**
NINED
6. **Luk Wai Hong, William**
INED
7. **Jeremy Nasrulhaq**
INED
8. **Norazian Ahmad Tajuddin**
INED
9. **Kanagaraj Lorenz**
INED

The Board composition complies with the minimum one-third requirement of independent directors as stipulated in the Main Market Listing Requirements ("**MMLR**") of Bursa Securities and the majority Independent Directors requirement stipulated in BNM's Policy Document on Corporate Governance.

The profile of each Director is available in this annual report.

Board and Board Committee Meetings

The Board is scheduled to meet ten (10) times a year with special Board meetings convened as and when necessary to consider urgent proposals or matters that require the Board's expeditious review and consideration. All Directors attended more than 75% of Board meetings held during the financial year ended 31 December 2017.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Directors' attendance at Board and Board Committee meetings held during the financial year ended 31 December 2017 are as follows:

BOARD	26 January 2017	28 February 2017	29 March 2017	12 April 2017	27 April 2017	24 May 2017	21 June 2017	27 July 2017	7 September 2017	31 October 2017	7 December 2017	Attendance	%
Izlan Izzahab	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11 out of 11	100
Datuk Syed Ahmad Alwee Alsree	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11 out of 11	100
Luigi Fortunato Ghirardello	✓	✓	✓	✗	✓	✓	✓	✓	✓	✓	✓	10 out of 11	91
Dato' Richard Alexander John Curtis	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11 out of 11	100
Ismail Harith Merican	✓	✗	✓	✓	✓	✓	✓	✗	✓	✓	✓	9 out of 11	82
Luk Wai Hong, William	✗	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓	9 out of 11	82
Jeremy Nasrulhaq ⁽¹⁾	N/A	N/A	N/A	N/A	N/A	N/A	✓	✓	✓	✓	✓	5 out of 5	100
Tan Sri Dato' Paduka Tengku Noor Zakiah Tengku Ismail ⁽²⁾	✓	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1 out of 1	100
Datuk Chay Wai Leong ⁽³⁾	✓	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1 out of 1	100
Datuk Kevin How Kow ⁽⁴⁾	✓	✓	✓	✓	✓	✓	N/A	N/A	N/A	N/A	N/A	6 out of 6	100

Notes:

⁽¹⁾ Appointed as INED on 1 June 2017

⁽²⁾ Ceased as Chairman and NINED on 28 January 2017

⁽³⁾ Resigned as Board member on 28 January 2017 but remains as the Group Managing Director of KIBB

⁽⁴⁾ Resigned as NINED on 31 May 2017

Norazian Ahmad Tajuddin was appointed on 15 December 2017 and Kanagaraj Lorenz was appointed on 26 December 2017. Since the last Board meeting of KIBB for 2017 was on 7 December 2017, both new Directors did not attend any Board meetings in 2017.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

AUDIT COMMITTEE ("AC")	25 January 2017	27 February 2017	28 March 2017	20 April 2017	23 May 2017	20 July 2017	25 October 2017	Number of Meetings Attended	%
Datuk Kevin How Kow ⁽¹⁾	✓	✓	✓	✓	✓	NA	NA	5 out of 5	100
Luk Wai Hong, William	✓	✓	✓	✓	✓	✓	✓	7 out of 7	100
Ismail Harith Merican	✓	✗	✓	✓	✓	✓	✓	6 out of 7	86
Izlan Izhab ⁽²⁾	NA	✓	✓	✓	✓	✓	✓	6 out of 6	100
Luigi Fortunato Ghirardello ⁽³⁾	NA	✓	✓	✓	✓	✓	✓	6 out of 6	100
Jeremy Nasrulhaq ⁽⁴⁾	NA	NA	NA	NA	NA	✓	✓	2 out of 2	100

Notes:

⁽¹⁾ Ceased as AC Member on 31 May 2017

⁽²⁾ Appointed as AC Member on 7 February 2017

⁽³⁾ Appointed as AC Member on 7 February 2017

⁽⁴⁾ Appointed as AC Member on 1 June 2017 and subsequently re-designated as AC Chairman on 8 September 2017

GROUP NOMINATION AND REMUNERATION COMMITTEE ("NRC")	11 January 2017	19 January 2017	25 January 2017	28 February 2017	29 March 2017	19 April 2017	27 July 2017	30 October 2017	16 November 2017	7 December 2017	Attendance	%
Izlan Izhab	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10 out of 10	100
Datuk Syed Ahmad Alwee Alsree	✓	✗	✓	✓	✓	✓	✓	✓	✗	✓	8 out of 10	80
Dato' Richard Alexander John Curtis ⁽¹⁾	✓	✓	✓	NA	NA	NA	NA	NA	NA	NA	3 out of 3	100
Datuk Kevin How Kow ⁽²⁾	✓	✗	✓	NA	NA	NA	NA	NA	NA	NA	2 out of 3	67
Luigi Fortunato Ghirardello	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10 out of 10	100
Luk Wai Hong, William ⁽³⁾	NA	NA	NA	NA	NA	NA	NA	✓	✓	✓	3 out of 3	100
Jeremy Nasrulhaq ⁽⁴⁾	NA	NA	NA	NA	NA	NA	NA	✓	✓	✓	3 out of 3	100

Notes:

⁽¹⁾ Resigned as NRC member on 7 February 2017

⁽²⁾ Resigned as NRC member on 7 February 2017

⁽³⁾ Appointed as NRC Chairman on 8 September 2017

⁽⁴⁾ Appointed as NRC member on 8 September 2017

CORPORATE GOVERNANCE OVERVIEW STATEMENT

GROUP BOARD RISK COMMITTEE ("GBRC")	19 January 2107	28 March 2017	23 May 2107	25 July 2017	27 September 2017	25 October 2017	Attendance	%
Luk Wai Hong, William ⁽¹⁾	✓	✓	✓	✓	✓	✓	6 out of 6	100
Luigi Fortunato Ghirardello	✓	✓	✓	✓	✓	✓	6 out of 6	100
Ismail Harith Merican ⁽²⁾	✓	✓	✓	X	NA	NA	3 out of 4	75
Jeremy Nasrulhaq ⁽³⁾	NA	NA	NA	NA	✓	✓	2 out of 2	100

Notes:

⁽¹⁾ Appointed as GBRC Chairman on 8 September 2017

⁽²⁾ Ceased as GBRC member on 8 September 2017

⁽³⁾ Appointed as GBRC member on 8 September 2017

Group Nomination and Remuneration Committee

The NRC of KIBB comprises a majority of INEDs and is chaired by an INED who is not the Chairman of the Board.

Details on the NRC's composition, as well as its members' attendance at the NRC meetings during the financial year ended 31 December 2017 are provided in Section B of the Corporate Governance Report ("**CG Report**").

The functions and responsibilities of the NRC are set out in the Terms of Reference of the NRC which is available on KIBB's website at https://www.kenanga.com.my/NRC_TOR.pdf

During the financial year ended 31 December 2017, the NRC had concluded, amongst others, the following key activities:

- Reviewed the overall size and composition of the Board and the Board Committees in line with the relevant regulatory requirements;
- Reviewed potential candidates background, experience and skills for appointments as new INEDs;
- Interviewed potential candidates shortlisted for the position of INEDs;
- Deliberated on the proposed appointments, re-appointments and re-elections of Directors within the Group;
- Reviewed the re-appointment of members of Shariah Committee of KIBB and deliberated on their remuneration;
- Deliberated on the renewal of contract of appointment of Senior Management personnel;
- Reviewed the results of the assessment on the fitness and propriety of Directors and Senior Management;
- Reviewed the results of Board performance evaluation for the financial year ended 31 December 2016;
- Reviewed the training requirements for the Directors;
- Reviewed the Directors' remuneration;
- Reviewed, deliberated and recommended the Performance Bonus for 2016 and Annual Salary Increment for 2017 for the Group;
- Reviewed, deliberated and recommended the Employees' Share Scheme;
- Reviewed and recommended the annual Key Performance Indicators Setting and Performance Appraisals for Group Managing Director ("**GMD**") and Senior Management, as well as for the Direct Reports of the Board and Board Committees; and
- Reviewed and recommended the proposed enhancement to staff benefits.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Board Appointment Framework

The Board, via the NRC, has put in place a formal and transparent framework governing the appointments of new Directors wherein the NRC will recommend the appointment of suitable candidate as Director of the Company and its subsidiaries to the Board for approval.

With regard to skills and experience, processes had been put in place whereby the NRC would undertake a rigorous assessment of potential candidates, prior to any recommendations to the Board for appointment of a new Director.

In recognition of the benefits of a diverse Board in terms of the ability to tap into the many talents which Board members from their different ages, cultural backgrounds, perspectives, views and abilities bring to the Company, as well as, their abilities to respond to business opportunities more rapidly and creatively, the Company has endeavoured and will continue to endeavour to achieve an appropriate mix of members.

Induction Programme for Newly Appointed Director

KIBB has developed an induction programme for newly appointed Directors, to familiarise them with the industry and KIBB's business and operations, within three (3) months of their appointments.

This induction programme, which is facilitated by the Group Company Secretary's Office, will be by way of a briefing and discussion amongst the Senior Management with the newly appointed Directors, on the Company's vision and mission, its philosophy and nature of business, current issues, the corporate strategy of the KIBB Group, responsibilities and duties of the Board as a whole, an overview of the risks of the businesses, risk management strategy of KIBB, legal requirements, compliance and regulations, as well as financial overview of the Group and the expectations of KIBB with regard to contributions from the Directors towards the Company's achievement of its goals.

Independent Directors appointed to the Boards of subsidiaries within the Group shall also be provided a similar induction programme tailored to reflect the scope of their appointments at the respective entities.

Directors' Continuous Education and Development

The Company, via the Group Company Secretary's Office facilitates the registration and attendance of Directors at appropriate external and in-house training programmes to ensure the Directors are kept abreast with new developments pertaining to the laws and regulations and changing commercial risks, which may affect the Board and/or the Company, as well as to ensure that they are fully equipped with the necessary knowledge to assist them in fulfilling their responsibilities as Directors of the Company.

In addition to the Mandatory Accredited Programme as required by Bursa Securities, the Financial Institutions Directors' Education ("FIDE") Core Programme as required by BNM, as well as the Capital Market Director Programme ("CMDP") as required by the SC for newly appointed Directors, Board members are also encouraged to attend training programmes conducted by highly competent professional which are relevant to the Company's operations and business.

In order to facilitate this process, the Annual Directors' Training Calendar encompassing external training programmes available in the market and/or recommended by the Board members and/or organised in-house, is developed and tabled at the NRC and the Board for approval in the first quarter of each year to create awareness amongst the Directors of training programmes available for the year. Thereafter, the NRC and the Board will be updated on the status of Directors' participation in these training programmes on a quarterly basis.

In developing the Annual Directors' Training Calendar, feedback received from Directors during the Board evaluation process in terms of specific training needs required to increase the Board's effectiveness, was also taken into consideration.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The training programmes attended by the Directors during the financial year 2017 are as follows:

Title of Training	Attended By
1. Sustainability Engagement Series for Directors/Chief Executive Officer (Bursa Malaysia Berhad (" Bursa ") and INSEAD (Business School for the World))	Izlan Izhah (" II ")
2. Second (2 nd) Annual Regulatory Seminar: Embracing the Evolving Regulatory Landscape (KIBB: In-House)	II
3. International ICT Infrastructure and Digital Economy Conference Sarawak 2017 (Sarawak State Government)	Datuk Syed Ahmad Alwee Alsree (" DSA ")
4. The New Malaysian Code On Corporate Governance 2017 (Malaysian Institute of Corporate Governance (" MICG "))	DSA
5. Compliance Conference 2017 (BNM)	Luigi Fortunato Ghirardello (" LFG ") and Luk Wai Hong, William (" LWH ")
6. Second (2 nd) Distinguished Board Leadership Series: Risk and Reward: What Must Boards Know About a Sustainable FI Remuneration System for Senior Management and Material Risk Takers? (FIDE Forum)	LFG
7. CMDP – Module 1: Directors as Gatekeepers of Market Participants (Securities Industry Development Corporation (" SIDC "))	Jeremy Nasrulhaq (" JN ")
8. CMDP – Module 2A: Business Challenges and Regulatory Expectations – What Directors Need to Know (Equities and Futures Broking) (SIDC)	JN
9. CMDP – Module 3: Risk Oversight and Compliance – Action Plan for Board of Directors (SIDC)	JN
10. CMDP – Module 4: Current and Emerging Regulatory Issues in the Capital Market (SIDC)	JN
11. Riding the Wave of Regulatory Changes (Federation of Public Listed Companies)	II
12. Industry Seminar on Recovery and Resolution Planning in Malaysia (BNM/Perbadanan Insurans Deposit Malaysia)	JN
13. Bursa CG Breakfast Series – "Board Excellence: How to Engage and Enthuse Beyond Compliance with Sustainability" (Bursa/Malaysian Institute of Directors (" MINDA "))	II and JN
14. Capital Market Conference 2017: Global Capital Markets: Entering a New Era (MIA)	JN
15. Breakfast Talk: Digital Disruption and How CFO Can Stay on Top of Change (MIA)	JN
16. Governance Culture in Your Organisation (MICG)	II and JN
17. Cybersecurity Essentials for Board of Directors of Capital Market Intermediaries (Bursa/MINDA)	JN
18. Mandatory Accreditation Programme (ICLIF)	JN
19. FIDE Elective Programme: Current Issues in Corporate Governance (ICLIF)	II, LWH and JN
20. Risk Management Programme: I Am Ready To Manage Risks (Bursa/Messrs. PricewaterhouseCoopers)	LFG

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Title of Training	Attended By
21. MFRS 9 Financial Instruments (In-House: KIBB/Deloitte)	II, LFG, Ismail Harith Merican ("IHM") and JN
22. MENA Industrial Gas Conference (Gasworld)	DSA
23. Breakfast Talk: Strategic Sourcing and Modern Procurement in the Digital Economy (Oracle Malaysia)	JN
24. Advocacy Session on Corporate Disclosure for Directors and Principle Officers of Listed Issuers (Bursa)	JN
25. 2017 Institute of Internal Auditors Malaysia National Conference: Internal Audit: Poised For The Future (Institute of Internal Auditors Malaysia)	JN
26. CG Breakfast Series: Leading a Volatile, Uncertain, Complex, Ambiguous (VUCA) World (Bursa/ ICLIF)	IHM and JN
27. Vision & Reality of Business and Political Ethics Luncheon (Business Ethics Institute of Malaysia)	II
28. Cyber Security: Latest Threats and Defence Technology (KIBB: In-House)	II, Dato' Richard Alexander John Curtis ("DRC"), LFG, IHM and LWH
29. SC x SC Digital Finance 2017: Democratising Investments (Securities Commission Malaysia ("SC"))	JN
30. CG Breakfast Series: Integrating an Innovation Mindset with Effective Governance (Bursa)	II and JN
31. ASEAN Capital Market Conference (SC)	JN
32. ICLIF Leadership Energy Summit Asia (ICLIF)	DRC
33. Second (2 nd) SC – FIDE Forum Dialogue (FIDE Forum)	II
34. Asia Strategy & Leadership Institute/Pacific Alliance Business Talk and Investment Forum	II
35. Workshop on Malaysian Code of Corporate Governance (MIA and SC)	JN
36. World Islamic Economic Forum (World Islamic Economic Foundation)	DSA and DRC
37. The Changing Roles of Management Accountants in Malaysian Organisations (MIA)	JN
38. CG Breakfast Series: Leading Change @ The Brain (Bursa)	II
39. The New Companies Act 2016 – The Key Issues and Potential Pitfalls (In-House: KIBB/Messrs SKRINE)	II, LFG, IHM, LWH and JN

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Succession Plan

1. Board and Board Committee

The Board had in October 2015 formalised the Board Succession Planning Framework which entails the guiding principles for effective succession planning, as well as the detailed procedure in ensuring a smooth transition in the Board's process and functioning as existing Directors leave and new ones come on board.

2. Senior Management

In July 2015, the Board had, upon the NRC's recommendation, approved the Talent and Succession Management Framework and Methodology for Kenanga Group, which aims at ensuring ready successors for leadership positions capable of driving business growth and achievement of Kenanga Group's strategic business plan, ensuring a pool of qualified and competent staff prepared and ready to fill up critical positions within the Group as required; and to ensure effective development, engagement and retention of high potential employees.

Non-Executive Directors Remuneration Framework

1. The Company aims to set remuneration levels which are sufficient to attract and retain the Directors needed to operate the Company successfully, taking into consideration all relevant factors including the function, workload and responsibilities involved, but without excessively over-paying to achieve its goal. The level of remuneration of the GMD and Senior Management personnel is determined by the NRC after giving due consideration to compensation levels of comparable positions amongst other similar companies in Malaysia.
2. The NRC carries out the annual review of the overall remuneration policy for Directors, the GMD and Senior Management whereupon recommendations are submitted to the Board for approval.
3. The NRC also reviews annually the performance of the GMD, Chief Executive Officers of the subsidiaries of the Company, as well as Senior Management and submits recommendations to the Board for approval accordingly.
4. For the financial year ended 31 December 2017, the Directors are paid the following annual fee and meeting allowance of RM1,000.00 for each Board or Board Committee meeting that they have attended:

FEES

Chairman of the Board	RM440,000.00
Deputy Chairman of the Board	RM390,000.00
Director	RM270,000.00
Chairman of AC/NRC/GBRC	RM40,000.00
Member of AC/NRC/GBRC	RM30,000.00

MEETING ALLOWANCE

Board Meetings	RM1,000.00
AC/NRC/GBRC Meetings	RM1,000.00

The payment of Directors' fees will be made after obtaining the shareholders' approval at the Annual General Meeting ("AGM").

CORPORATE GOVERNANCE OVERVIEW STATEMENT

5. The remuneration breakdown of individual Directors which includes fees, other emoluments and benefits-in-kind for the financial year ended 31 December 2017 is set out below.

Group Level	Fees [#] RM	Salaries RM	Other Emoluments RM	Bonus RM	Benefits-in- Kind RM	Total RM
Executive Director						
Datuk Chay Wai Leong ⁽¹⁾	–	111,846.57	–	93,205.48	6,662.93	211,714.98
TOTAL	–	111,846.57	–	93,205.48	6,662.93	211,714.98
Non-Executive Directors						
Izlan Izhah	520,739.71	–	36,000.00	–	72,360.00 ⁽⁷⁾	629,099.71
Datuk Syed Ahmad Alwee Alsree	510,000.00	–	33,000.00	–	31,335.07 ⁽⁸⁾	574,335.07
Dato' Richard Alexander John Curtis	273,041.10	–	24,000.00	–	–	297,041.10
Luigi Fortunato Ghirardello	419,643.83	–	41,000.00	–	–	460,643.83
Ismail Harith Merican	320,547.95	–	31,000.00	–	–	351,547.95
Luk Wai Hong, William	351,589.05	–	29,000.00	–	–	380,589.05
Jeremy Nasrulhaq ⁽²⁾	197,945.20	–	14,000.00	–	–	211,945.20
Norazian Ahmad Tajuddin ⁽³⁾	12,575.34	–	–	–	–	12,575.34
Kanagaraj Lorenz ⁽⁴⁾	4,438.36	–	–	–	–	4,438.36
Tan Sri Dato' Paduka Tengku Noor Zakiah Tengku Ismail ⁽⁵⁾	36,794.53	–	2,000.00	–	2,603.83	41,398.36
Datuk Kevin How Kow ⁽⁶⁾	127,342.46	–	16,000.00	–	–	143,342.46
TOTAL	2,774,657.53	–	226,000.00	–	106,298.90	3,106,956.43
GRAND TOTAL	2,774,657.53	111,846.57	226,000.00	93,205.48	112,961.83	3,318,671.41

Notes:

Subject to shareholders' approval at the forthcoming Annual General Meeting.

⁽¹⁾ Resigned as Board member on 28 January 2017 but remains as the GMD of KIBB. Datuk Chay Wai Leong's remuneration provided above is prorated accordingly

⁽²⁾ Appointed as INED on 1 June 2017

⁽³⁾ Appointed as INED on 15 December 2017

⁽⁴⁾ Appointed as INED on 26 December 2017

⁽⁵⁾ Ceased as Chairman and NINED on 28 January 2017

⁽⁶⁾ Resigned as NINED on 31 May 2017

⁽⁷⁾ Benefits-in-kind for the Chairman include golf club membership, leave passage, driver, car and other claimable benefits

⁽⁸⁾ Benefits-in-kind for the Deputy Chairman include golf club membership, car and other claimable benefits

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Company Level	Fees [#] RM	Salaries RM	Other Emoluments RM	Bonus RM	Benefits-in- Kind RM	Total RM
Executive Director						
Datuk Chay Wai Leong ⁽¹⁾	–	111,846.57	–	93,205.48	6,662.93	211,714.98
TOTAL	–	111,846.57	–	93,205.48	6,662.93	211,714.98
Non-Executive Directors						
Izlan Izzahab	480,739.71	–	31,000.00	–	72,360.00 ⁽⁷⁾	584,099.71
Datuk Syed Ahmad Alwee Alsree	420,000.00	–	22,000.00	–	31,335.07 ⁽⁸⁾	473,335.07
Dato' Richard Alexander John Curtis	273,041.10	–	24,000.00	–	–	297,041.10
Luigi Fortunato Ghirardello	369,643.83	–	36,000.00	–	–	405,643.83
Ismail Harith Merican	320,547.95	–	31,000.00	–	–	351,547.95
Luk Wai Hong, William	351,589.05	–	29,000.00	–	–	380,589.05
Jeremy Nasrulhaq ⁽²⁾	197,945.20	–	14,000.00	–	–	211,945.20
Norazian Ahmad Tajuddin ⁽³⁾	12,575.34	–	–	–	–	12,575.34
Kanagaraj Lorenz ⁽⁴⁾	4,438.36	–	–	–	–	4,438.36
Tan Sri Dato' Paduka Tengku Noor Zakiah Tengku Ismail ⁽⁵⁾	32,547.95	–	1,000.00	–	2,603.83	36,151.78
Datuk Kevin How Kow ⁽⁶⁾	127,342.46	–	16,000.00	–	–	143,342.46
TOTAL	2,590,410.95	–	204,000.00	–	106,298.90	2,900,709.85
GRAND TOTAL	2,590,410.95	111,846.57	204,000.00	93,205.48	112,961.83	3,112,424.83

Notes:

Subject to shareholders' approval at the forthcoming Annual General Meeting.

⁽¹⁾ Resigned as Board member on 28 January 2017 but remains as the GMD of KIBB. Datuk Chay Wai Leong's remuneration provided above is prorated accordingly

⁽²⁾ Appointed as INED on 1 June 2017

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⁽⁶⁾ Resigned as NINED on 31 May 2017

⁽⁷⁾ Benefits-in-kind for the Chairman include golf club membership, leave passage, driver, car and other claimable benefits

⁽⁸⁾ Benefits-in-kind for the Deputy Chairman include golf club membership, car and other claimable benefits

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Board Effectiveness

In line with the requirements of the MMLR, BNM's Policy Document on Corporate Governance and the recommendations of the MCCG, the performance and contribution of the Board, Board Committees and individual Directors are assessed annually in accordance with the Board Evaluation Framework approved by the Board.

This performance evaluation aims to objectively improve the effectiveness, maximise strengths and address weaknesses of the Board, Board Committee, as well as individual Directors, if any. It enables the Board to assess how they are performing and identify how certain elements of their performance may be improved.

Individual Director's performance evaluation is also aimed at assessing whether each Director continues to contribute effectively and is able to demonstrate commitment to the role, including commitment of time for Board and Board Committee meetings and any other duties.

The performance evaluation was conducted using the self-assessment method for Board and Board Committees and a combination of self-assessment and peer assessment method for individual Directors, based on pre-determined criteria covering key areas in line with the Board Charter, as well as the Terms of Reference of the Board Committees.

The Board's effectiveness was assessed in the areas of its structure, operations and interaction, roles and responsibilities, strategy and planning, financial overview, performance management, human capital management, risk management and internal control, shareholders communication and investor relations; and understanding of the Board Committees' roles.

Independent Professional Advice

The Board has a procedure for Directors (either individually or as a group) to have access to independent professional advice, at the expense of the Company, as well as separate and independent access to Senior Management and Company Secretary at any point in time.

Directorships in Other Companies

A Director must not have competing time commitments that impair his ability to discharge his duties effectively.

Directors should notify the Board before accepting any new directorship in a public company incorporated in Malaysia and all its subsidiaries incorporated in Malaysia or otherwise. The notification should include an indication of time that will be spent on the new appointment.

EFFECTIVE AUDIT AND RISK MANAGEMENT

Audit Committee

The AC of KIBB comprises a majority of INEDs and is chaired by an INED who is not the Chairman of the Board.

Details on the AC's composition, as well as its members' attendance at the AC meetings during the financial year 2017 are provided in this Annual Report and Section B of the CG Report.

The AC supports the Board in ensuring that there is a reliable and transparent financial reporting process within KIBB and its subsidiaries.

The functions and responsibilities of the AC are set out in the Terms of Reference of the AC which is available on KIBB's website at https://www.kenanga.com.my/AC_TOR.pdf

Internal Audit Function

The Group Internal Audit ("GIA") is established by the Board to provide independent and objective assurance to the Board that the established internal controls, risk management and governance processes are adequate and operating effectively and efficiently. To ensure independence and objectivity, GIA, which is headed by the Group Chief Internal Auditor ("GCIA"), reports independently to the AC and has no responsibilities or authority over any of the activities it reviews.

The internal audit function is guided by its Audit Charter which is approved by the AC. The Audit Charter, amongst others, outlines the GIA's objectives, mission, scope, responsibility, accountability, authority, independence and objectivity, as well as standards and ethics.

An Annual Audit Plan based on the appropriate risk based methodology has been developed and approved by the AC. On a quarterly basis, audit reports and status of internal audit activities including the sufficiency of GIA resources are presented to the AC for review. Periodic follow up reviews are conducted to ensure adequate and timely implementation of Management's action plans.

The GCIA is invited to attend the AC meetings to facilitate the deliberation of audit reports.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The AC, pursuant to its Terms of Reference, oversees the effectiveness of the internal audit function of KIBB including:

- reviewing, approving and reporting to the Board the audit scope, procedures and frequency;
- reviewing and reporting to the Board key audit reports and ensuring that Senior Management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit;
- noting significant disagreements between the GCIA and the rest of the Senior Management team, irrespective of whether these have been resolved, in order to identify any impact the disagreements may have on the audit process or findings;
- establishing a mechanism to assess the performance and effectiveness of the internal audit function;
- reviewing and reporting to the Board the adequacy of scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out its work; and
- appointing, setting compensation, evaluating the performance and deciding on the transfer and dismissal of the GCIA and of any staff member of the internal audit function at the request of the GCIA.

Group Board Risk Committee

The GBRC comprises a majority of INEDs and is chaired by an INED who is not the Chairman of the Board.

Details on the GBRC composition, as well as its members' attendance at the GBRC meetings during the financial year ended 31 December 2017 are provided in Section B of the CG Report.

The GBRC was established to support the Board in meeting the expectations on risk management as set out in BNM's Policy Document on Risk Governance. It assists the Board in the implementation of a sound remuneration system, by examining whether incentives provided by the remuneration system take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the NRC.

The functions and responsibilities of the GBRC are set out in the Terms of Reference of the GBRC which is available on KIBB's website at https://www.kenanga.com.my/GBRC_TOR.pdf

Risk Management and Internal Control

The Board is responsible to ensure that KIBB has in place effective and comprehensive risk management policies, procedures and infrastructure to identify, measure, monitor and control the various types of risks undertaken by Kenanga Group.

In discharging this responsibility, the Board approves and periodically reviews the risk management capabilities of KIBB to ensure their ability to support KIBB's business activities and any expansion thereof.

It is important to emphasise that the ultimate responsibility for ensuring a sound internal control system and reviewing the effectiveness of the system lies with the Board. The Company's inherent system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the Company's corporate objectives, as well as to safeguard the shareholders' investments and the Company's assets.

Details of KIBB's internal control system and risk management framework are set out in the Statement on Risk Management and Internal Control in this Annual Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

Audit Committee to Ensure Compliance with Financial Reporting Standards

At the Board meetings, the Board reviews the Management reports on the business performance of KIBB, as well as its major subsidiaries, and reviews, inter-alia, the results compared to the preceding month and year-to-date.

The Board deliberates and in the process, assesses the viability of business propositions and corporate proposals, and the principal risks that may have significant impact on KIBB's business or on its financial position, as well as the related mitigating factors.

The Board aims to provide a clear, balanced and comprehensive assessment of the Group's financial performance and prospects through the Audited Financial Statements and quarterly financial reports, as well as through material disclosure made in accordance with the MMLR of Bursa Securities.

The AC assists the Board in overseeing the integrity of the Group's financial reporting and part of this role involves the operation of the financial reporting processes. The processes are aimed at providing the assurance that the financial statements and related notes are completed in accordance with applicable legal requirements and accounting standards and give a true and fair view of the Group's financial positions.

During the year under review, two (2) sessions between the AC and the External Auditors in the absence of the Management were held as part of the medium for greater exchange of views and opinions between both parties in relation to financial reporting.

Investor Relations and Shareholder Communications

The Board is committed to providing the shareholders, investors and other stakeholders with comprehensive, timely and equal access to information on the Group's activities to enable them to make informed investment decisions.

The Company employs a wide range of communication channels such as direct communication and publication of all relevant Group information on its website at www.kenanga.com.my. The Company utilises its corporate website as a means of providing information to its shareholders and the broader investment community.

Kenanga Group's corporate website provides comprehensive and easy access to the latest information about the Group. The Group information on the corporate website includes information relating to inter alia, KIBB and its subsidiaries' corporate profiles, Board, Senior Management, corporate governance related matters such as the Board Charter, as well as the Terms of Reference of the Board Committees, financial reports, annual reports and corporate news.

Information relating to the procedures of whistleblowing is also available on the corporate website.

General Meetings

The Company disseminates its Annual Report in a CD-ROM format together with a summarised version of the Financial Statements, Notice of AGM and Proxy Form, in order to facilitate shareholders' access to such key information.

Shareholders are encouraged to attend the AGM and any Extraordinary General Meeting ("EGM") of the Company and to use these opportunities to raise questions and vote on important matters affecting the Group, including the election of Directors, the receipt of the Audited Financial Statements, as well as related party transactions and acquisitions. The External Auditors and advisers also attend the AGM and EGM and are available to answer any queries.

Apart from the above engagement with stakeholders through Annual Reports and general meetings, the Company also makes announcements relating to the quarterly results and other relevant announcements to Bursa Securities via Bursa LINK to provide stakeholders with material key information which could affect their decision making, thus enhancing the level of the Company's transparency.

The Board strengthens its lines of communication with major shareholders through the Senior Independent Director, Encik Izlan Izhah, who is also the Chairman of the Board, who takes heed of their concerns on matters related to corporate governance and the Group's performance.

Memorandum and Articles of Association

In line with the enforcement of the new Companies Act, 2016, as well as the revamped MMLR of Bursa Securities, the Memorandum and Articles of Association of the Company would be reviewed and updated and tabled for the shareholders' approval at the AGM in 2019.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF THE AUDITED FINANCIAL STATEMENTS

(Pursuant to Paragraph 15.26(a) of the MMLR)

The Board is fully accountable for ensuring the Audited Financial Statements are prepared in accordance with the Companies Act, 2016 and the applicable approved accounting standards set out by the Malaysian Accounting Standards Board so as to present a true and fair view of the state of affairs of the Group and of the profit and loss and cash flow as at end of the accounting period.

In preparing the Audited Financial Statements, the Directors are satisfied that the applicable approved accounting standards in Malaysia have been complied with and reasonable and prudent judgment and estimates have been made. The Audited Financial Statements are also prepared on a going concern basis, as the Board has a reasonable expectation, after having made enquiries that the Group has adequate resources, to continue its operational existence for the foreseeable future.

ADDITIONAL INFORMATION

Audit and Non-Audit Fees

The details of the audit and non-audit fees payable to the External Auditors, Messrs. Ernst & Young ("EY") and its affiliates, for the financial year ended 31 December 2017 are as tabulated below.

	Group (RM)	KIBB (RM)
Statutory Audit	463,700	295,000
Audit/Assurance Related	61,308	61,308
Non-Audit Fees		
– EY Assurance Team	289,500	255,000
Non-Audit Fees		
– EY Tax Team	113,800	46,000
Total Non-Audit	403,300	301,000
Grand Total	928,308	657,308

Related Party Transactions ("RPTs") and Recurrent Related Party Transactions ("RRPTs")

All RPTs and RRPTs are reviewed by GIA on a quarterly basis and a report is submitted to the AC for its review.

Details of these transactions are set out under Note 36 of the Financial Statements section appearing on pages 156 to 158 of this Annual Report.

Material Contracts Involving Interests of Directors, Chief Executive Officer Who is Not a Director or Major Shareholders

There were no material contracts entered into by the Company or its subsidiary companies involving Directors, GMD or major shareholders' interests, which subsisted at the end of the financial year ended 31 December 2017.

Utilisation of Proceeds Raised from Corporate Proposals

On 20 April 2017, the Company issued the first issuance of RM5 million Subordinated Notes under the RM250 million in nominal value Tier 2 Subordinated Note Programme which was established on 27 March 2017.

The proceeds from the issuance are being utilised by the Company for working capital requirement.

Details on the utilisation of proceeds are set out under Note 26 of the Financial Statements section appearing on page 150 of this Annual Report.

This Statement on Corporate Governance is made in accordance with a resolution of the Board of Directors dated 27 March 2018.

IZLAN IZHAB

Chairman of the Board

ETHICS AND COMPLIANCE STATEMENT

OUR PHILOSOPHY

Kenanga Investment Bank Berhad (“**KIBB**”) and its Group of Companies believes that integrating a strong ethics and compliance culture into our daily management of business and strategic planning creates a competitive advantage. It would not only help to minimise the risk of regulatory scrutiny, prosecution and penalties, but would also preserve good reputation and enhance business opportunities.

Premised on this, Group Regulatory and Corporate Services as the caretaker of regulatory compliance and corporate governance matters continuously reassess the Group’s policies, procedures and control measures in ensuring the implementation of high standard ethical and compliance business conduct.

• Group Regulatory and Corporate Services (“**GRCS**”)

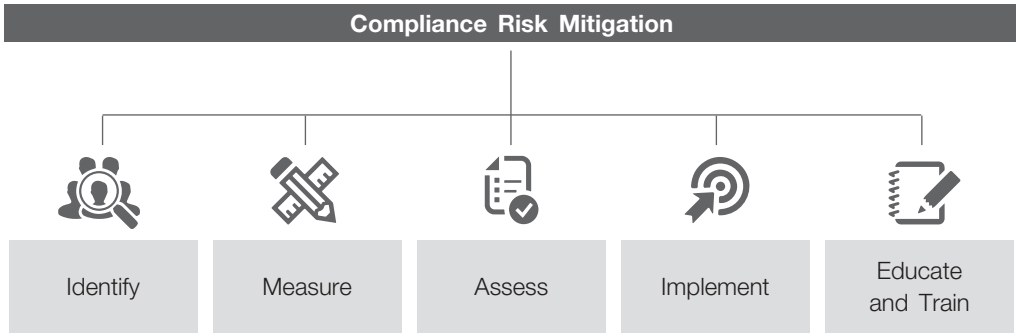
Being the catalyst for ethics and compliance culture for the Group, GRCS grouped five (5) different control functions that serve to advise and guide the Group’s business and operational functions to adhere to the applicable laws, regulations and guidelines issued by regulators, and policies, procedures and controls adopted internally.

- Group Compliance;
- Group Corporate Crime Prevention;
- Group Prudential Supervision and Regulatory Affairs;
- Group Legal; and
- Group Company Secretarial.

Due to the roles and responsibilities entail, it is only natural that GRCS independently reports directly to the Board of Directors (“**Board**”) of KIBB.

OUR APPROACH

Corresponding to the policy document issued by Bank Negara Malaysia’s (“**BNM**”) on “Compliance”, which took effect on 1 January 2017, GRCS has refined the roles and responsibilities of the different business and operational functions in the Group in respect of compliance risk management. The refinements serve to reinforce the stand of the Board and Senior Management on the importance of collective responsibility in managing compliance risk across the Group.

Approach	Concept
Compliance Risk Mitigation	<p>Compliance risk mitigation involves the process of developing and implementing controls such as policies, procedures and practices to prevent or minimise compliance risks.</p> <div style="text-align: center;">  <pre> graph TD A[Compliance Risk Mitigation] --> B[Identify] A --> C[Measure] A --> D[Assess] A --> E[Implement] A --> F[Educate and Train] </pre> </div> <p>In essence, all parties in the Group hold responsibility in compliance risk management. While GRCS establishes compliance risk mitigation plan, the business and operational functions would ensure adoption of the same in their respective operational processes and practices for compliance purposes.</p>

ETHICS AND COMPLIANCE STATEMENT

Approach	Concept
Compliance Risk Monitoring	<p>Compliance risk monitoring primarily serves to monitor and test that compliance risk mitigation is working properly. This would also help to identify new or changed risks for possible reassessment to the compliance risk mitigation.</p> <div data-bbox="376 583 1450 1055"> <p style="text-align: center;">Compliance Plans/Programmes</p> <pre> graph TD A[Compliance Plans/Programmes] --> B[Identify critical and high compliance risks] A --> C[Identify key compliance risk mitigation activities] A --> D[Identify routine business transaction associated to compliance obligations] A --> E[Compliance with legal and regulatory requirements] A --> F[Implementation of Group's policies and procedures] </pre> </div> <p>GRCS would establish plans and programmes to address the objective of monitoring and testing requirements of KIBB Group's compliance. Where monitoring is the direct responsibility of the business or operational function, GRCS would provide advice on the required compliance plans or programmes to suit their activities.</p> <p>Compliance risk monitoring forms the basis for development and conduct of review, testing and monitoring programmes by GRCS across the Group.</p>
Compliance Risk Reporting	<p>Business and operational functions are required to submit cyclical and incident reports on compliance risk related matters. The reports should highlight newly identified and provide update to existing compliance risks involving their business or operational activities.</p> <p>Compliance risk reporting would allow the Senior Management to gauge whether the business and operations of the Group are within tolerable compliance risk level. It also provides an avenue for communication and discussion of potential risk issues.</p>
Compliance Risk Advisory	<p>In carrying out one of its core functions, GRCS would provide advisory and support to the Board, Senior Management and all employees of the Group on compliance risks, obligations, responsibilities, concerns and other ad-hoc compliance issues. This involves continuous engagements and discussions with business and operational functions in a transparent and comprehensive disclosure so as to obtain an objective and holistic solution or recommendation.</p>
Compliance Scorecard	<p>Compliance scorecard is a tool to evaluate compliance level of business and operational functions. Performance of a particular department or division is rated taking into consideration achievements in compliance risk management in their respective areas. This would not only serve to ensure high compliance level of the Group, but sought to instil compliance culture within the business and operational functions, and eventually an individual employee. Accountability to compliance and governance is now made clear and transparent across the Group.</p>

ETHICS AND COMPLIANCE STATEMENT

ETHICAL AND COMPLIANCE BUSINESS CONDUCT

Taking cognisance of the increased focus by regulators on ethical and compliance matters, particularly involving treatment to clients and conduct of employees internally, the Group has placed a greater emphasis in promoting orderly and transparent conduct of business. Irrespective of the initiative for refinement of the compliance risk management structure, we continue to ensure enhancement of existing and introduction of new governance measures within the Group. We believe that ethics and values should not be consigned to the back burner.

- **Anti-Money Laundering and Counter Financing of Terrorism (“AML/CFT”)**

The *Group AML/CFT Policy & Procedure* has already established a strong and robust AML/CFT compliance framework for KIBB Group. It sets the foundation for introduction of the required control measures towards detection and minimisation of money laundering and terrorism financing risks.

Nevertheless, to keep pace with the growing markets and complex business structure, it is important for us to further intensify the AML/CFT control measures. Thus, we have embarked on the implementation of the AML/CFT System for a timely and regular detection, monitoring and reporting of suspicious activities, which would eventually introduce a more unified and systematic approach throughout the Group. This would also ensure that we accede to BNM and Securities Commission Malaysia’s (“SC”) expectations on the Risk-Based Approach and Management Information System for AML/CFT purposes.

- **Whistleblowing Policy**

We promote a culture of constructive challenge by instilling a sense of belonging in an individual employee with the end objective of collectively safeguarding interest of the Group and our clients.

To this effect, the *Group Whistleblowing Policy & Guidance Notes* provides a formal framework and multiple channels for all employees to raise concerns and report illegal or unethical practices encountered within their workplace. As part of continuous advancements, the whistleblowing mechanism has been enhanced covering all vendors’ request for proposals (“RFP”), letter of awards as well as our *eprocurement* website. In addition, to instil greater governance, the Chairman of Audit Committee is the Designated Director for the oversight of the Group’s Whistleblowing Framework and is notified on all pertinent decisions falling within the subject matter.

- **Conflict Management**

We also ensure that the clients are adequately informed about any conflict of interest that may affect our provision of a financial service. The *Group Conflict Management Policy* requires appropriate disclosures to be made by providing sufficient details in a clear, concise and effective manner so as to allow clients to make an informed decision taking into consideration instances where a particular conflict may affect the service offered or provided to them.

- **Personal Data Protection**

We have adopted the *Personal Data Protection Framework* and *Personal Data Protection Act (“PDPA”) Data Access and Retention Procedure* to ensure that controls, procedures and processes are implemented at each business and operational functions in order to comply with the data protection requirements. The *Personal Data Protection Notice* is also published in the Group’s corporate website for public viewing.

- **Chinese Wall and Insider Trading**

As an Investment Bank, we play a pivotal role not only in the protection of our clients’ interests but also in maintaining integrity of the capital market industry at large.

Towards this, we have implemented the *Group Chinese Wall Policy* as an effort to control the flow of confidential information and material non-public price-sensitive information of the Group. This also serves to avoid the risk of possible breach of insider trading provisions, protect client confidentiality and manage conflict of interest. Effective implementation of the Policy will minimise the risk of a conflict between the Group’s interests and duties to our clients, and avoid any party from gaining an unfair advantage over the rest of the market.

- **Anti-Fraud Policy**

It is our aim to prevent and deter any unlawful or irregular behaviours, conducts, practices, deeds and omissions amounting to actual and or attempted fraud, corruption or bribery from occurring in the Group.

We have introduced the *Group Anti-Fraud, Bribery and Corruption Policy* as an effort to provide a reference point for the employees to combat fraud, bribery and corruption or prevent situations in which fraudulent, bribery and corrupt practices may take root. This Policy helps the identification of various forms and illustrations of fraud, understanding of respective roles and responsibilities, and dealing with improper solicitation, fraud, corrupt and bribery instances that may arise in the course of work.

ETHICS AND COMPLIANCE STATEMENT

STRENGTHENING ETHICS AND COMPLIANCE THROUGH EDUCATION AND AWARENESS

Throughout the year, GRCS has propelled to strengthen the ethical and compliance values within the Group through various engagements and learning programmes involving all levels of employees. These initiatives extend outside of the customary education and awareness programmes conducted by GRCS.

• Annual Regulatory Seminar 2017

The second Annual Regulatory Seminar held under the theme *Embracing the Regulatory Landscape* was approved by the Securities Industry Development Corporation (“**SIDC**”) as part of the Continuing Professional Education (“**CPE**”) programme for KIBB Group with the allocation of ten (10) CPE points. The Seminar was designed to provide the latest updates, developments and trends in legal and regulatory landscape and their impact to the Investment Banking business for attention of the members of the Board of Directors, Senior Management, Heads of Division and Department as well as Heads of Branch. In all, there was a total of one hundred and fourteen (114) present.

Speakers to the one (1) day Seminar included representatives from the SC and Securities Industry Dispute Resolution Centre (“**SIDREC**”) who have provided meaningful insights of the SC’s regulatory expectations and SIDREC’s role in dispute resolution.

• Fraud Awareness Campaign 2017

Towards achieving KIBB Group’s commitment to raise awareness on fraud offence and the strategy applied to create an anti-fraud culture within the Group, GRCS has organised a six (6)-week long duration of Fraud Awareness Campaign with events ranging from discussions, talks by distinguished speakers as well as fun-filled activities incorporating anti-fraud learning elements for all employees.

The Campaign reached its peak with the Group’s Fraud Awareness Week (“**FAW**”) running from 13 November until 17 November 2017 coinciding with the International FAW organised by the Association of Certified Fraud Examiners (“**ACFE**”). The Opening Ceremony of the Group’s FAW was attended by the Chief Executive Officer of SIDC, Partnership Manager of Asia Pacific-ACFE, President and Chief Executive Officer of Institut Integriti Malaysia, Chief Regulatory Officer of Bursa Malaysia Berhad and Executive Director of Malaysian Investment Banking Association.

Our participation in the FAW demarcated a visible statement in the commitment to prevent fraud hence bolster investors, regulators and the general public confidence vis-à-vis the Group’s integrity. With this initiative, we hope to portray a proactive role as an anti-fraud professional, which would initiate discussions amongst the capital markets participants and financial industry at large on the importance of fraud prevention to the society.

MAINTAINING A HIGH LEVEL CORPORATE GOVERNANCE

With a series of corporate governance codes and guidelines issued in recent years by the regulators and authorities to improve best practices aimed at strengthening Malaysian corporate culture, we have taken steps to drive and transform our corporate culture to be in line with these changes and standards:

- Policy Document on Corporate Governance issued by BNM effective 3 August 2016;
- Malaysian Code on Corporate Governance 2017 issued by the SC effective 26 April 2017; and
- Third (3rd) edition of the Corporate Governance Guide issued by Bursa Malaysia Berhad on 14 December 2017.

With regard to BNM’s Policy Document on Corporate Governance, GRCS in collaboration with Group Human Resource, has conducted a gap analysis on KIBB’s corporate governance standards and practices, Board operations, as well as remuneration framework. Arising from the gap analysis, certain action plans have been implemented, thus enhancing KIBB’s status of compliance to the eighty-one (81) standards stipulated in the Policy Document on Corporate Governance from 84% to 87%. The balance of the standards is on track for implementation in accordance with the timeline set by BNM.

ETHICS AND COMPLIANCE STATEMENT

STRATEGIC PRIORITIES FOR 2018

- **Managing Reputational, Culture and Conduct Risks**

We acknowledge the need to strengthen the regulatory framework thus will remain vigilant to the regulatory developments in order to ensure proper planning in formulating viable and effective plans. In this respect, we recognise the importance of proactive engagement with the regulators to facilitate understanding and proper implementation of the regulatory requirements. Thus, we would strive to build and maintain positive relationships with all regulators to meet common objectives of creating ethical and compliance business environment. This would help us stay on the right side of regulators and to breed the right mindset internally.

- **Meeting Regulatory Compliance and Standards**

We understand the demeaning impact, which may come with the developments of business on the ethics and compliance values. Thus, we will continue to promulgate the importance of subscribing to the required ethical and compliance values in business conduct, not only through adoption and implementation of necessary policies, procedures and practices, but also through continuous education and awareness programmes tailored to the needs and requirements affecting all employees of the Group.

- **Enhancing Data and Cyber Security**

We would enhance governance in the area of cyber security to avoid, detect, counteract, or minimise security risks to physical property, information, computer systems, or other assets. This would significantly involve monitoring and anticipating the trend of cyber threats by Group Technology and subsequent implementation of required control measures.

- **Recruiting and Retaining Key Talents**

We would continue to recruit new and retain experienced employees to fill in the pool of talents in ethics and regulatory compliance areas, particularly specialised in Investment Banking knowledge. This would in turn support the continuity of qualified ethics and compliance officers hence promotes sustainability of the capital markets industry.

- **Managing Threat of Financial Crime**

As the market grows, business is expected to develop, bringing in the introduction of new and complex structures, which would often involve deployment of new technologies and systems. While such developments would thrive the markets, further strengthening of the regulatory framework is also necessary to continue maintaining an orderly and fair market conduct. Thus, the Group recognises the need for appropriate regulatory requirements and would continue to support regulators' efforts to regulate conduct of business and financial crimes in order to maintain integrity of the capital market industry.

FORWARD LOOKING STATEMENT

We recognise that ethical and compliance business conduct are the collective responsibility of the Board, Senior Management and every employee of KIBB Group.

Thus, continuous communications and collaborations amongst all are the key factors in working towards sustaining ethical and compliance consistency in developing business environment. This objective could only be achieved with concerted efforts and support from all within the Group.

Through a comprehensive approach in managing compliance risk in the entire compliance lifecycle, we continue to be committed to maintaining a culture of strong and sound regulatory compliance and governance, with corporate consciousness being naturally instilled in our DNA.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

Pursuant to Paragraph 15.26(b) of the Main Market Listing Requirements (“MMLR”) of Bursa Malaysia Securities Berhad (“Bursa Securities”), a listed issuer must ensure that its Board of Directors (“Board”) includes in its annual report a statement about the state of its risk management and internal controls. In addition, the Malaysian Code on Corporate Governance also stipulates that the Board should maintain a sound system of internal controls, including a review of its effectiveness to safeguard shareholders’ investments and the Group’s assets.

Set out below is the Board’s Statement on Risk Management and Internal Control in compliance with the MMLR of Bursa Securities.

BOARD RESPONSIBILITY

The Board is committed to maintaining a sound system of internal controls and has instituted a risk management framework, as well as good corporate governance measures to monitor the Group’s effectiveness in safeguarding shareholders’ investments and the Group’s assets.

Hence, this will complement well with the Board’s responsibilities for the overall effectiveness of the Group-wide risk management framework and a sound system of internal controls.

The Board is responsible for determining key strategies and policies for significant risks and control issues, whereas a functional management is responsible for the effective implementation of the Board’s policies by way of identifying, monitoring and managing risks. However, as any system of internal controls will have its inherent limitations, the system has been designed to manage risks rather than provide absolute assurance against material misstatement, fraud or loss.

The Board has also received reasonable assurance from the Group Managing Director and Group Chief Financial and Operations Officer that the Group’s risk management and internal control system is operating adequately and effectively, in all material aspects.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Board and Management of the Group are committed to the implementation of an internal control system to manage those risks that could affect the Group’s continued growth and financial viability.

As such, measures are taken to continuously evaluate changes in the risk profile of the Group and business complexities to assist the Board and Management to anticipate and manage all potential risks and protect shareholders’ value.

The key elements of the Group’s internal control system include the following:

1. An organisational structure, which is aligned to business and operational requirements, and led by Heads of Departments with accountability in place;
2. Integrated business planning and operational budgeting processes driven by commercial objectives;
3. A clear definition of authority and responsibilities that have been approved by the Board and subject to continuous updating and review;
4. Standard operating manuals which document the organisation-wide policies and procedures to ensure compliance to internal controls and applicable laws and regulations are reviewed periodically to meet changes in business operations and regulatory requirements;
5. Regular training and updates for employees on requirements/guidelines of Bank Negara Malaysia (“BNM”), Bursa Securities and the Securities Commission Malaysia (“SC”), as well as on the importance of corporate governance, risk management and internal control;

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

6. Establishment of strong risk management governance with an enterprise risk management framework as a pillar for other risk guidelines and sound practices by Group Risk Management (“**GRM**”). The risk governance structure in the framework defines the roles and responsibilities throughout the organisation to ensure accountability and ownership;
7. Establishment of risk policies, tools and methodologies to identify, quantify and manage the risks. GRM is also responsible for establishing the risk measurement and monitoring process to ensure that the Group’s risk profile and portfolio concentration are reported to the various risk committees on a regular basis;
8. The risk management philosophy adopted by the Group is based on the three (3) lines of defence approach. The line management is the first line of defence and is primarily responsible for the day-to-day risk management by identifying the risks, assessing impact and taking appropriate actions to manage and mitigate risks.

The second line of defence is the oversight functions which are GRM and Group Compliance. They perform independent monitoring of business units, reporting to management to ensure that the Group is conducting business and operations within internal guidelines and is regulatory compliant.

The third line of defence is Group Internal Audit (“**GIA**”) which provides independent assurance to the Board on effectiveness and efficiency of system of internal controls, risk management and governance processes;

9. Establishment of a Group Approving Authority Framework to ensure that approving authorities are granted to appropriate individuals or committee and there is no significant concentration of authority given to a single person or committee;
10. Comprehensive internal credit analysis and evaluations based on a number of factors and sources of information such as due diligence investigation, credit checks, bankruptcy searches, evaluation of business financial performance and industry risk review are conducted to mitigate credit risks;
11. Under operational risk management, for the implementation of Risk Control Self-Assessment tool, each business unit undertakes regular self-assessment to identify and assess the effectiveness of the controls put in place for all material

products, activities, processes and systems to manage the risks identified. This tool serves as an early warning signal to drive appropriate management actions before risks materialise into losses;

12. Establishment of a product development guideline for any new product or service that the Group intends to launch, to ensure that all material risks associated with the new product or service are identified, assessed and managed via appropriate risk management controls;
13. Compliance reviews and monitoring are undertaken by Group Regulatory and Corporate Services (“**Group Regulatory**”) using various tools and approaches based on the framework set by Group Regulatory. These reviews and monitoring are performed to assess the level of compliance with the relevant regulatory requirements and the respective companies’ internal policies and procedures. Any regulatory deviation or compliance breaches will be reported to the respective Boards and the relevant regulators. Appropriate corrective actions including disciplinary actions will be taken to address the breach with a view to pre-empt and prevent the occurrence of a similar breach.

A list of identified laws, regulations and other regulatory instruments applicable to the Group is documented and maintained to facilitate compliance. Group Regulatory also provides timely, structured and comprehensive advice and support to the Group on matters relating to the laws and rules applicable to the Group. The Group also has a self-assessment framework in place to facilitate and promote regulatory compliance by the business lines units within the Group.

The Board is satisfied that in 2017 the Group complied with the principles and recommendations of the “Malaysian Code on Corporate Governance” and the “Corporate Governance Guide”; and

14. GIA provides independent and objective assurance to the Board that the established internal controls, risk management and governance processes are adequate and are operating effectively and efficiently. To ensure independence and objectivity, the GIA reports independently to the Audit Committee and has no responsibilities or authority over any of the activities it reviews.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

An Annual Audit Plan based on the appropriate risk based methodology has been developed and approved by the Audit Committee. On a quarterly basis, audit reports and status of internal audit activities including the sufficiency of GIA resources are presented to the Audit Committee for review.

Periodic follow up reviews are conducted to ensure adequate and timely implementation of Management's action plans;

15. Quarterly meetings are held by the Audit Committee together with Management to review issues highlighted in the reports by internal and external auditors as well as audits conducted by regulators such as the SC, Bursa Securities and BNM, in particular the actions taken to address issues. If required, the internal auditors will also assist the Audit Committee to periodically review the measures taken to address the Audit Committee's concerns on any internal control system;
16. Regular Board and Management meetings to review the operational and financial performance of the Group and assess any significant internal control issue highlighted by the Audit Committee, GIA, Group Regulatory, regulators and external auditors so as to seek resolution of those matters;
17. The Board does not regularly review the internal control systems of associate companies and joint venture company as the Board does not have any direct control over their operations. Notwithstanding the above, the Group's interests are served through representation on the Boards of the respective associate companies and joint venture company, and through receipt and review of management accounts and related enquiries thereon. Such representation also provides the Board with information for decision-making on the continuity of the Group's investments based on the performance of the associate companies and joint venture company. The representation also enables the Group to influence the financial and operating policies of associate companies and joint venture company;
18. Management is responsible for, amongst others:
 - reviewing the actual performance against expectations and budget on a quarterly basis;
 - addressing any internal control issues with the Audit Committee, GIA and the external auditors; and
 - addressing any matters arising from the meetings of the Board and Audit Committee and ensuring that actions are taken in relation to these matters.

Effectiveness of Risk Management Framework and Internal Control System

The Board confirms that the risk management framework and the system of internal controls, with the key elements highlighted above, was implemented to identify, evaluate and manage significant risks faced by the Group during the financial year and has taken into consideration any material developments up to the date of approval of the annual report and financial statements. The main risk areas faced by the Company and the guidelines and policies adopted to manage them are provided in detail under Note 50 of the Audited Financial Statements of the Company for the Financial Year Ended 31 December 2017.

The Board is satisfied that there is a sound system of risk management and internal controls in the Group which is functioning adequately and there are regular checks to ensure the controls are efficient and effective.

Review of the Statement by External Auditors

As required by Paragraph 15.23 of the MMLR of Bursa Securities, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their review was performed in accordance with the Recommended Practice Guide ("RPG") 5 ("Revised 2015), *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the annual report* issued by the Malaysian Institute of Accountants. Based on the review, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process that the Board has adopted in the review of the adequacy and integrity of the internal controls of the Group. RPG5 does not require the external auditors to, and they did not, consider whether this Statement covers all risks and controls, or to form an opinion on the effectiveness of the Group's risk and control procedures.

This Statement on Risk Management and Internal Control is made in accordance with the resolution of the Board dated 8 March 2018.

AUDIT COMMITTEE REPORT

1. COMPOSITION

1.1 The Audit Committee (“AC”) presently comprises five (5) members of the Board, four (4) of whom are Independent Non-Executive Directors and one (1) is Non-Independent Non-Executive Directors as follows:

a. Jeremy Nasrulhaq

Chairman, Independent Non-Executive Director (Appointed as Member of the AC on 1 June 2017 and subsequently re-designated as AC Chairman on 8 September 2017)

b. Izlan Izhah

Member, Independent Non-Executive Director (Appointed as Member of the AC on 7 February 2017)

c. Luk Wai Hong, William

Member, Independent Non-Executive Director (Change of designation from Member to Chairman of the AC on 7 February 2017 and subsequently re-designated from Chairman to Member of the AC on 8 September 2017)

d. Kanagaraj Lorenz

Member, Independent Non-Executive Director (Appointed as Member of the AC on 2 April 2018)

e. Ismail Harith Merican

Member, Non-Independent Non-Executive Director

Mr. Kanagaraj Lorenz was appointed in place of Mr. Luigi Fortunato Ghirardello (“**Mr. Ghirardello**”) who has ceased to be a member of the AC effective from 2 April 2018 following a revision to the AC’s composition. Mr. Ghirardello has been serving as a member of the AC since his appointment on 7 February 2017.

1.2 The composition of the AC is in line with Paragraphs 15.09(1)(a) and 15.09(1)(b) of Bursa Malaysia Securities Berhad’s Main Market Listing Requirements (“**MMLR**”) which requires the AC to compose of no fewer than three (3) members, all of whom must be Non-Executive Directors, with a majority of them being Independent Directors.

1.3 During the financial year ended 31 December 2017, the composition of the AC has gone through the following changes:

a. Appointment of New Member

Following the cessation of Datuk Kevin How Kow as a member of the AC on 31 May 2017, Encik Jeremy Nasrulhaq (“**Encik Jeremy**”) was appointed as a new member of the AC on 1 June 2017 enabling the Company to meet the requirement of Paragraph 15.09(1)(c) of the MMLR which states that at least one (1) member of the AC shall possess the requisite qualification as stated therein.

Encik Jeremy, is a Fellow member of the Chartered Institute of Management Accountants, United Kingdom and a registered Chartered Accountant of the Malaysian Institute of Accountants (“**MIA**”).

b. Change in Chairmanship

The Chairmanship of the AC was changed on 8 September 2017 with the appointment of Encik Jeremy as the new Chairman, following the re-designation of Mr. Luigi Fortunato Ghirardello from an Independent Non-Executive Director to a Non-Independent Non-Executive Director of the Company and the restructuring of the composition of the Board committees to comply with Bank Negara Malaysia (“**BNM**”)’s Policy Document on *Corporate Governance* and the MMLR, which requires Board Committees to comprise majority Independent Directors with the Chairman being an Independent Director.

AUDIT COMMITTEE REPORT

1.4 The effectiveness of the AC as a whole, as well as its members individually, is assessed annually in accordance with the Board Evaluation Framework based on set criteria covering the areas of composition, processes and procedures, interaction with Management, as well as roles and responsibilities. Based on the assessment conducted in 2017, the Board is satisfied with the performance of the AC and with the manner in which the AC has discharged its roles and responsibilities as stipulated in its Terms of Reference ("**TOR**"), which is available at the Company's corporate website at www.kenanga.com.my.

2. AC MEETINGS HELD DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2.1 During the financial year ended 31 December 2017, the AC had convened seven (7) meetings. The meetings were appropriately structured where members were given the agenda and sufficient notification. The AC meetings were of adequate length to allow the AC to accomplish its agenda with sufficient time to discuss the emerging issues.

The AC conducted its meeting in an open and constructive communication mode and encouraged focused discussion, questioning and expressions of differing opinions.

2.2 The Group Chief Internal Auditor ("**GCIA**") attended all meetings of the AC to present the respective internal audit reports. As and when necessary, the AC would request the attendance of relevant personnel at its meetings to brief the AC on specific issues arising from the internal audit reports.

The Group Chief Financial and Operations Officer ("**GCFOO**") on the other hand, attended the AC meetings to present the unaudited quarterly financial statements, as well as other financial reporting related matters for the AC's deliberation and recommendation to the Board for approval.

2.3 In addition, separate private discussions were also held between the Chairman of the AC and/or the AC with the GCIA and between the AC and the External Auditors, without the presence of Management. During the financial year under review, the AC met with the External Auditors without Management's presence twice, i.e. on 25 January 2017 and 25 October 2017 after tabling of the Audit Results in respect of the financial year ended 31 December 2016 and the External Auditors' 2017 Audit Plan respectively.

During these meetings, the AC sought the feedback from the External Auditors with regard to the support provided by Management in terms of providing timely and accurate information, as well as the adequacy of resources in the financial reporting functions. Based on the External Auditors' feedback, Management was noted to have provided full cooperation to the External Auditors in the course of the External Auditors' audit assignments. The External Auditors had also indicated that Management had been very pro-active in approaching them for any issues arising during the year, which contributed to an effective audit planning by the External Auditors.

2.4 In fulfilling its reporting responsibility to the Board, after each meeting, the Chairman of the AC reported the AC's deliberations and recommendations to the Board.

Minutes of each AC meeting were recorded and tabled for confirmation at the following AC meeting and subsequently presented to the Board for notation.

AUDIT COMMITTEE REPORT

2.5 AC Members' Attendance at AC Meetings

Details of the AC members' attendance at its meetings held during the financial year ended 31 December 2017 are as stated below.

	25 January 2017	27 February 2017	28 March 2017	20 April 2017	23 May 2017	20 July 2017	25 October 2017	Number of Meetings Attended	%
Datuk Kevin How Kow (Ceased as AC Member on 31 May 2017)	✓	✓	✓	✓	✓	NA	NA	5 out of 5	100
Luk Wai Hong, William	✓	✓	✓	✓	✓	✓	✓	7 out of 7	100
Ismail Harith Merican	✓	X	✓	✓	✓	✓	✓	6 out of 7	86
Izlan Izzah (Appointed as AC Member on 7 February 2017)	NA	✓	✓	✓	✓	✓	✓	6 out of 6	100
Luigi Fortunato Ghirardello (Appointed as AC Member on 7 February 2017)	NA	✓	✓	✓	✓	✓	✓	6 out of 6	100
Jeremy Nasrulhaq (Appointed as AC Member on 1 June 2017 and subsequently re- designated as AC Chairman on 8 September 2017)	NA	NA	NA	NA	NA	✓	✓	2 out of 2	100

3. SUMMARY OF THE AC'S ACTIVITIES DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

3.1 Financial Reporting

- a. In discharging its role and responsibility pertaining to the Company's financial reporting, the AC had at its meeting held on 25 January 2017, reviewed the quarterly financial statements for the quarter ended 31 December 2016, as well as the annual audited financial statements for the financial year ended 31 December 2016.

In reviewing the annual audited financial statements, the AC discussed with Management and the External Auditors, the accounting principles and standards that were applied and their judgment of the items that might affect the financial statements.

The AC also deliberated on audit issues and key audit matters raised by the External Auditors and the action plans required to address those issues.

- b. The subsequent quarterly financial statements for the quarters ended 31 March 2017, 30 June 2017 and 30 September 2017 were tabled and reviewed by the AC at its quarterly meetings held on 20 April 2017, 20 July 2017 and 25 October 2017 respectively, upon which the AC had recommended the quarterly financial statements to the Board for approval.

AUDIT COMMITTEE REPORT

- c. The AC had, at its meeting held on 25 October 2017, recommended the impairment approach and assumptions used for Kenanga Group, subject to the final assessment to be done for the financial results as at 31 December 2017, for the Board's adoption. The AC's recommendation was subsequently approved by the Board on 31 October 2017.
- d. With regard to the implementation of the Malaysian Financial Reporting Standard ("MFRS") 9 – Financial Instrument, the AC was updated at its quarterly meetings on 25 January 2017, 20 April 2017, 20 July 2017 and 25 October 2017, on the status of the Company's implementation of MFRS 9.
- e. At each of its quarterly meeting, the AC was also notified of the amount of non-audit fees incurred and paid by Kenanga Group to the External Auditors and their affiliates to ensure compliance with the Group's Policy on Non-Audit Services by External Auditors.

3.2 External Audit

- a. The report by the External Auditors on the statutory audit of the financial statements of the Company for the financial year ended 31 December 2016 was reviewed and deliberated by the AC at its meeting held on 25 January 2017.

During its deliberation, in addition to the relevant disclosures in the audited financial statements, the AC had also considered the recommendations made by the External Auditors towards enhancing internal controls and procedures.

- b. The AC had also at the same meeting reviewed the list of services provided by the External Auditors during the financial year comprising audit and regulatory-related services; issuance of a written communication to Management and the AC describing significant deficiencies and material weaknesses identified during the External Auditors' audit, including recommendations for improvements in controls and procedures.

In addition, the External Auditors' services also included the annual review of the Statement on Risk Management and Internal Control, as well as other regulatory submission as required under the various regulatory requirements.

- c. The AC was subsequently at its meeting held on 27 February 2017 updated by the External Auditors of the latest status of the statutory audits conducted on Kenanga Group, wherein the AC had deliberated on audit matters which required the AC's attention.

- d. Pursuant to section 67(1) of the Financial Services Act, 2013 ("FSA"), an auditor appointed by a licensed person shall meet the qualification criteria set out in BNM's Policy Document on External Auditor and shall continue to meet the criteria throughout the audit engagement.

In addition, BNM's letter dated 3 May 2012 on "Supervisory Expectations on AC Pertaining to the Appointment/ Re-appointment of External Auditors" also sets out the areas of assessment to be performed.

Being a licensed financial institution under the FSA, the Company is required to undertake an annual assessment on areas focusing on performance and independence of External Auditors.

In relation to the audit of the Company's financial statements for the financial year ended 31 December 2017, the External Auditors had given a written assurance to the AC that they were not aware of any relationships or matters that, in their professional judgement, might reasonably be thought to bear on their independence; and that they were independent in accordance with the Bylaws (on Professional Ethics, Conduct and Practice) of the MIA, throughout their audit engagement for 2017.

This written assurance by the External Auditors was contained in the External Auditors' report which was presented to the AC on 25 January 2018.

Based on the assessment conducted, the AC had concluded that the External Auditors had fulfilled all the qualification criteria set out in BNM's Policy Document on External Auditor in terms of its performance and independence and had therefore, recommended to the Board that the External Auditors be re-appointed as the Company's External Auditors for the financial year ending 31 December 2018.

- e. At its meeting held on 25 October 2017, the AC had reviewed and recommended the audit fees of the External Auditors covering their recurring audit assignments and other regulatory-related services for the financial year ended 31 December 2017 to the Board for approval. At the same meeting, the AC had also reviewed and approved the 2017 Audit Plan of the External Auditors.
- f. On 25 January 2018, the GCFOO briefed the AC that the non-audit fees incurred and paid by Kenanga Group to the External Auditors for the financial year ended 31 December 2017 were RM362,224 or 73% of the audit fees for the financial year ended 31 December 2017.

AUDIT COMMITTEE REPORT

3.3 Internal Audit

- a. The AC at its meeting on 25 January 2017 had reviewed and approved the 2017 Audit Plan tabled by Group Internal Audit ("GIA") after considering the adequacy of scope and comprehensiveness of the coverage of activities within Kenanga Group, as well as the adequacy of resources in the internal audit department.
- b. In 2017, the AC had reviewed and deliberated on a total of fifty-nine (59) internal audit reports (including twenty-one (21) special reviews) in relation to the audits carried out by GIA, together with the audit recommendations made by GIA and the Management's responses to those recommendations. Where appropriate, the AC directed Management to rectify and improve the control and workflow procedures based on GIA's recommendations and suggestions for improvement.

The AC, at all its quarterly meetings, also reviewed the implementation status of the corrective actions arising from the audit recommendations to ensure that the key risks and control lapses were addressed in a timely manner.

- c. With a view of continuously enhancing the processes of the internal audit department, the AC had on 25 October 2017 reviewed and approved the updated Internal Audit Manual.
- d. For the purpose of evaluating the performance of the GCIA, the AC had at its meeting on 25 January 2018, reviewed and deliberated on the GCIA's 2017 Performance Appraisal, as well as 2018 Balanced Scorecard, prior to submission of the same to the Group Nomination and Remuneration Committee for its further recommendation to the Board for approval. The AC's recommendation was subsequently approved by the Board on 30 January 2018.

3.4 Regulatory Examinations/Inspection Report

- a. As stipulated in its TOR, the AC also deliberates on reports issued by the regulators arising from their examinations or inspections on entities within Kenanga Group. This is to ensure proper implementation of appropriate remedial and corrective measures in respect of the findings arising from examinations/ inspections conducted by the regulators.
- b. During the year, at its meeting on 25 January 2017, 20 April 2017 and 25 October 2017, the AC had deliberated on three (3) regulatory examinations/ inspection reports issued by Bursa Malaysia Berhad, BNM and the Securities Commission Malaysia respectively.

In its deliberation, the AC not only discussed in detail the findings, areas for enhancement and recommendation made by the regulators, but also on the action plans identified by Management to address those findings.

3.5 Related Party Transactions

During its quarterly meetings, the AC also reviewed the related party transactions entered into by the Company and/or its group of companies to ensure compliance with the MMLR.

4. INTERNAL AUDIT FUNCTION

- 4.1 The Company has an in-house audit function within Kenanga Group. In discharging its responsibilities, GIA, which reports functionally to the AC and administratively to the Group Managing Director, provides independent and objective assurance to the Board and Management that the policies, procedures and operations that Management has put in place for risk management, control and governance are adequate, operating effectively and efficiently, and in compliance with prescribed laws and regulations.
- 4.2 During the year under review, GIA carried out internal audit reviews based on its 2017 Audit Plan as approved by the AC. This Audit Plan was developed using a risk-based methodology. The audit reviews conducted by GIA included financial and operational audits, IT/technical audits and compliance audits on regulatory requirements. In addition, GIA also conducted project reviews and/or provided consulting functions covering new business products/ services and system implementation to ensure the adequacy of controls put in place prior to implementation.
- 4.3 GIA also conducted special reviews at the request of the AC, Management or regulators. In 2017, GIA had conducted twenty-one (21) such reviews and escalated the reports arising therefrom to the AC, as well as the relevant Boards of affected entities, for deliberation and action, wherever necessary.
- 4.4 All Internal Audit reports, detailing the audit findings, audit recommendations, as well as Management's responses to those recommendations were circulated to the Group Managing Director and Heads of the respective Divisions/ Departments within Kenanga Group. Follow-up reviews were performed on the implementation status of the audit recommendations and reported to the AC accordingly.
- 4.5 The total costs incurred by GIA in discharging its functions and responsibilities in 2017 amounted to RM3.25 million compared to RM2.28 million incurred in 2016. The increase in cost incurred was due to the increase in GIA's headcount to facilitate the increase in reviews arising from the expansion of Kenanga Group's business operations and industry wide reviews requested by regulatory bodies.
- 4.6 As at 31 December 2017, GIA's headcount was eighteen (18).

SUSTAINABILITY STATEMENT

Corporate sustainability has always been central to our business operations and governance. Our emphasis on continuously engaging with our different stakeholder groups; responding to the ever-changing financial landscape through innovation and collaboration; balancing commercial priorities with giving back to the community and a conscious effort towards raising environmental awareness and conservation, has served as a cornerstone to promote our growth and progress over the last four (4) decades – from a humble stockbroking company to one of the largest independent investment banks in the country today.

We are committed to the journey as a financial services provider, business partner, employer, community member, environmental steward and a value creator for our shareholders. It is a dynamic process as we continually monitor the changing trends and demands around us, and endeavour to further incorporate appropriate sustainable practices within the organisation.

SUSTAINABILITY GOVERNANCE

During the year under review, different business units and teams within the organisation have been involved in the various aspects of sustainability management. The sustainability structure that we are working towards is as listed below:

Group Managing Director	Oversees overall sustainability management that includes strategies, progress updates and performance as well as highlights relevant key issues to the Board of Directors.
Group Executive Committee	Reviews and approves key sustainability-related matters.
Tengku Noor Zakiah Staff Outreach Fund Committee	Oversees, assesses and approves requests to utilise funds in aid of our employees.
Group Risk Management	Reviews and advises the business units on risk management within the Group.
Group Regulatory and Corporate Services	Facilitates highest level of compliance governance by the Group as a whole.
Group Human Resource	Manages all aspects of the Group's people management.
Group Marketing and Communications	Develops community outreach and stakeholder engagement programmes.
Business Units	Implement sustainable measures in their respective businesses and operational areas.

SUSTAINABILITY STATEMENT

STAKEHOLDER ENGAGEMENT

Throughout the year, we actively engage our different stakeholder groups through various communication channels and activities. The input and feedback gathered serve to facilitate our plans for improvements, innovation in our products and services as well as, anticipation of future market demands.

Employees



- Team meetings
- Surveys
- Training and development programmes
- Bulletins and updates
- Employee volunteerism programmes
- Employee events and campaigns
- Policies and procedures
- Performance assessment
- On-boarding sessions

Regulators



- Corporate website
- Policies and procedures
- Meetings, briefings, seminars and round-table discussions

Customers



- Corporate website
- Customer service help-line and e-mail
- Social media platforms (i.e. Facebook and YouTube)
- Mass media
- Roadshows
- Workshops
- Meetings, briefings, seminars and conferences
- Surveys

Vendors



- Meetings and briefings
- Corporate website
- Policies and procedures
- e-Procurement system

Shareholders



- Corporate website
- Annual report
- Annual General Meeting
- Extraordinary General Meeting

Communities



- Community outreach programmes
- Employee volunteerism programmes
- Social media platforms (i.e. Facebook and YouTube)

MATERIAL SUSTAINABILITY MATTERS

In line with Bursa Malaysia's Sustainability Reporting Guideline, we have started reporting our sustainability efforts based on material Economic, Environmental and Social elements.

SUSTAINABILITY STATEMENT



ECONOMIC

Throughout 2017 various efforts were made to drive growth and sustainability of the business. Key highlights are described below:



Innovating Within The Stockbroking Landscape

The joint venture with Japan-based Rakuten Securities, Inc. to establish Rakuten Trade Sdn Bhd commenced operations in May 2017. Offering Malaysian traders the first (1st) fully online trading platform, it has brought about a new digital trading experience to our local trading community.

In addition, the Company continues to roll out improvements to our Invesk mobile application. With its latest enhancement, traders are able to, not only access data, research and tools to help make trading decisions, but also to link their trading account to the app, streamlining clients' journey for a more robust and efficient experience.

With cyber threats and cyber risks increasingly becoming a concern, we are actively seeking means to further enhance cyber security. Amongst some of the initiatives we will be embarking on this year include, being the first (1st) investment bank in the country to adopt MIMOS' multi-factor authentication software to provide greater online protection to our online traders.

Cultivating Financial Literacy

During the year, the Group championed financial literacy through various platforms – from face-to-face interactions to the digital sphere.

Seminars, talks and workshops organised by the Group, with some in collaboration with regulators, were held at major cities throughout the year. Some of these included:

- Market and Global Outlook seminars attended by approximately five hundred (500) members of the public were conducted in Kuala Lumpur, Johor, Kuching and Penang.
- Twelve (12) workshops on fundamental and technical analysis were conducted with total attendance of over one thousand (1,000) traders.
- Retirement Forum: The Coming Third Age Crisis, was conducted in collaboration with The Edge Publication and attended by over one hundred (100) participants.
- Top-Of-Your-Life Workshops with a total of over three hundred (300) participants in attendance, was conducted in collaboration with the Private Pension Administrator and The Star Publication to promote the importance of Private Retirement Savings.
- Supported the three (3)-day investor education fair, InvestSmart Fest 2017 by the Securities Commission Malaysia via booth participation.
- Supported the Karnival Kewangan by Bank Negara Malaysia via booth participation.
- Supported the Shariah Investing Fair by Bursa Malaysia via booth participation.
- Supported the Workshop@Bursa by Bursa Malaysia via seminars conducted in Johor, Kuching, Kuantan and Sabah.

SUSTAINABILITY STATEMENT



On a monthly basis, the Company's Research team shares our views on the Malaysian market outlook via telephone interviews. This radio programme – Good Morning Bursa Malaysia is broadcasted to Thailand.

One of the key initiatives was the roll-out of the KenTrade Trading Challenge, a simulated online stock trading contest designed to introduce stock trading to non-traders and to debunk the misconception that stock trading is complex.

In 2017, the Challenge was given a new twist, with the ten (10) finalists being granted a total of RM1 million cash to trade on the bourse, transitioning them from a virtual environment to a live one. An annual Challenge, the programme has attracted over fifty thousand (50,000) sign-ups since its inception in 2014.

Vigilant Risk Management and Internal Control

Risk management is a crucial component in sustaining the Group's continued growth. The Group manages risk as an integral part of its overall business strategy and guided by the principles of sound corporate governance to the assessment and management of risks. We are committed to ensure the long-term business viability that is in line with the Group's business strategies. Please refer to the Statement on Risk Management and Internal Control set out on pages 56 to 58 of this annual report.

Related policies and guidelines include:



Group Anti-Money Laundering and Counter Financing of Terrorism Policy & Procedure



Group Conflict Management Policy



Group Data Protection Framework



Group Chinese Wall Policy



Related Third Party Transactions Policy and Procedure



Group Competition Act Compliance Policy

More details on page 53 of this annual report.

SUSTAINABILITY STATEMENT



ENVIRONMENTAL

Throughout the years, the Group has consistently promoted environmental awareness amongst its employees, vendors and other stakeholders.

In 2017, we participated in the Earth Hour international campaign for the eighth (8th) consecutive year by switching off all non-essential lighted signages at the Group's premises for one (1) hour on 19 March. Leading up to event day, interesting facts about this international campaign was disseminated to all our employees, encouraging them to be green advocates.

In April 2017, the Group launched Green-at-Work, an inaugural month-long campaign to promote environmental awareness amongst employees. Plants were given out to two hundred (200) employees, while almost one hundred (100) employees participated in the weekly workshops on recycling, upcycling and terrarium building. The campaign culminated in a conservation activity at Sungai Bonus where over sixty (60) employees and their family members, attended to make two hundred (200) mud balls for river restoration, as well as plant over thirty (30) saplings along the river.



Towards our adoption of energy-efficient technology in our operations, most of the light fittings at the lift lobby and the car park at our corporate office, Kenanga Tower have been replaced with LED light fittings. We are currently working with Ark Solution Sdn Bhd, an energy-savings and energy efficiency technology consultancy services provider that is registered with the Suruhanjaya Tenaga Malaysia, to advise us on our energy-saving efforts.

During the year, the Tun Razak Exchange MRT station which is located within close proximity to Kenanga Tower commenced operations. Communications were sent to employees encouraging them to utilise public transport as one of the means to help conserve the environment.

SUSTAINABILITY STATEMENT



SOCIAL

At Kenanga Group, our priority is to take into account the needs of our employees and the communities in which we operate in.

Diversity Is Key

The Group is a melting-pot of one thousand one hundred and seventy-three (1,173) employees from diverse backgrounds, age groups, ethnicity and cultures. The Group has a healthy gender diverse workforce comprising 52% females and 48% males.



To foster greater appreciation of cultural diversity and to strengthen the spirit of camaraderie amongst the employees, we celebrate all major festivities such as Chinese New Year, Hari Raya and Deepavali annually with specific events and activities for all employees to participate.



Long Service

51% of our employees have been with the Group for over five (5) years with 11% who have been with the Group for over twenty (20) years. In 2017, we had given out long service awards to a total of twelve (12) employees – ten (10) employees who had served twenty (20) years and two (2) employees who had served thirty (30) years with the Group.

We appreciate the contribution and commitment of our employees and will continue to put in place programmes to retain, nurture and grow our talent.

Employee Engagement Activities

Tengku Noor Zakiah Staff Outreach Fund

The Tengku Noor Zakiah Staff Outreach Fund (the Fund) was established to provide financial aid specifically to employees and their family members who are in need of funding for treatment of illnesses, or if they require financial assistance due to disasters or tragedies. In 2017, the Fund provided cash aid to five (5) employees who were personally or whose family member was in need.

Tengku Noor Zakiah Cup

In its fourth (4th) year, our employees were divided into five (5) teams to compete in eight (8) sporting activities that ran throughout the year. This well-received initiative that promotes a healthy lifestyle, friendly competition and team work culminated in a prize-giving ceremony during the Kenanga Family Day on 25 November 2017 at the Sunway Lagoon theme park.



SUSTAINABILITY STATEMENT

Family Activities

In our efforts to promote the value of family inclusiveness, two (2) annual events that encouraged the participation of family members were organised. More than nine hundred and fifty (950) employees and their families attended the movie screening of Spider-Man Homecoming, while over one thousand and five hundred (1,500) employees and their families participated in the Kenanga Family Day held at the Sunway Lagoon theme park.

Talent Development

We provide our employees with opportunities for continual learning and development as well as encourage them to grow with the Group. In 2017, 85.4% of our employees attended training programmes and courses that resulted in an average training hours of 22.4 hours (or 2.8 days) per employee.

We continue to strategically plan the Group's training and development initiatives in line with our business needs, regulatory requirements and people development principles. Through the focused prioritisation of training programmes, we are able to ensure that employees attend the relevant and impactful courses that contribute to the Group's progress as well as fulfil their professional and personal development needs.

Programmes and courses are categorised as follows:



Category	Description
Regulatory	A compulsory course for individuals to attend in order to ensure compliance with regulatory requirements and corporate governance.
Leadership	A course that focuses on providing managers with competencies to facilitate execution of the Group's strategy through building alignment, winning mindshare and growing the capabilities of others.
Functional	A technical and/or practical-based course where individuals can improve their technical skills and competencies. This includes accredited courses where individuals obtain certification or professional qualification as warranted by their job roles.
Personal effectiveness	A course that provides tools to individuals to enhance their personal competencies through self-improvement and make good use of their resources.

SUSTAINABILITY STATEMENT



Community Outreach and Employee Volunteerism Programmes

The Group recognises the importance of contributing towards the betterment of the communities in which we operate. Throughout 2017, we continued to inculcate employee volunteerism in our community outreach programmes. Listed below are some of the highlights:

- We continued our support for Pusat Jagaan Anak Yatim An-Najah – a home for underprivileged children. We invited the children to Karnival Kewangan, a roadshow led by Bank Negara Malaysia to introduce the concept of financial literacy. During the year, we also hosted the children to a fund-raising concert, 'The Bare Necessities Choir' by the Persatuan Kebajikan Epidermolysis Bullosa Malaysia.
- Our nationwide blood donation drive delivered sixty-two (62) bags of blood from eighty-three (83) employee volunteers.
- We continued our annual participation in the Bursa Bull Charge and The Edge KL Rat Race charity runs with Kenanga Group runners and on-ground employee cheer teams. More than RM3.2 million in funds raised through these charity runs were channelled to deserving charity organisations.
- We continued our support for Dialogue in the Dark – a social enterprise that aims to elevate the lives of the visually-impaired by equipping them with relevant skills. We participated in their fund-raising event for Concert in the Dark – where audience experienced live music in total darkness.
- We continued our support for Yayasan Sukarelawan Siswa (YSS) with our staff participation in their 2017 programmes:
 - February 2017, six (6) of our employees participated in the Sarawak Mission to Miri
 - July 2017, seven (7) of our employees participated in the Sabah Mission
- We participated in the ScamBuster Run on 15 October 2017 with fifty-six (56) employees as volunteers. This fun run was organised to raise awareness on illegal investment schemes and scams. Proceeds from the registration fees were channelled to the National Kidney Foundation Malaysia.

Related policies and guidelines include:



Group Code of Ethics and Conduct for Employees



Group Whistleblowing Policy and Guidance Notes



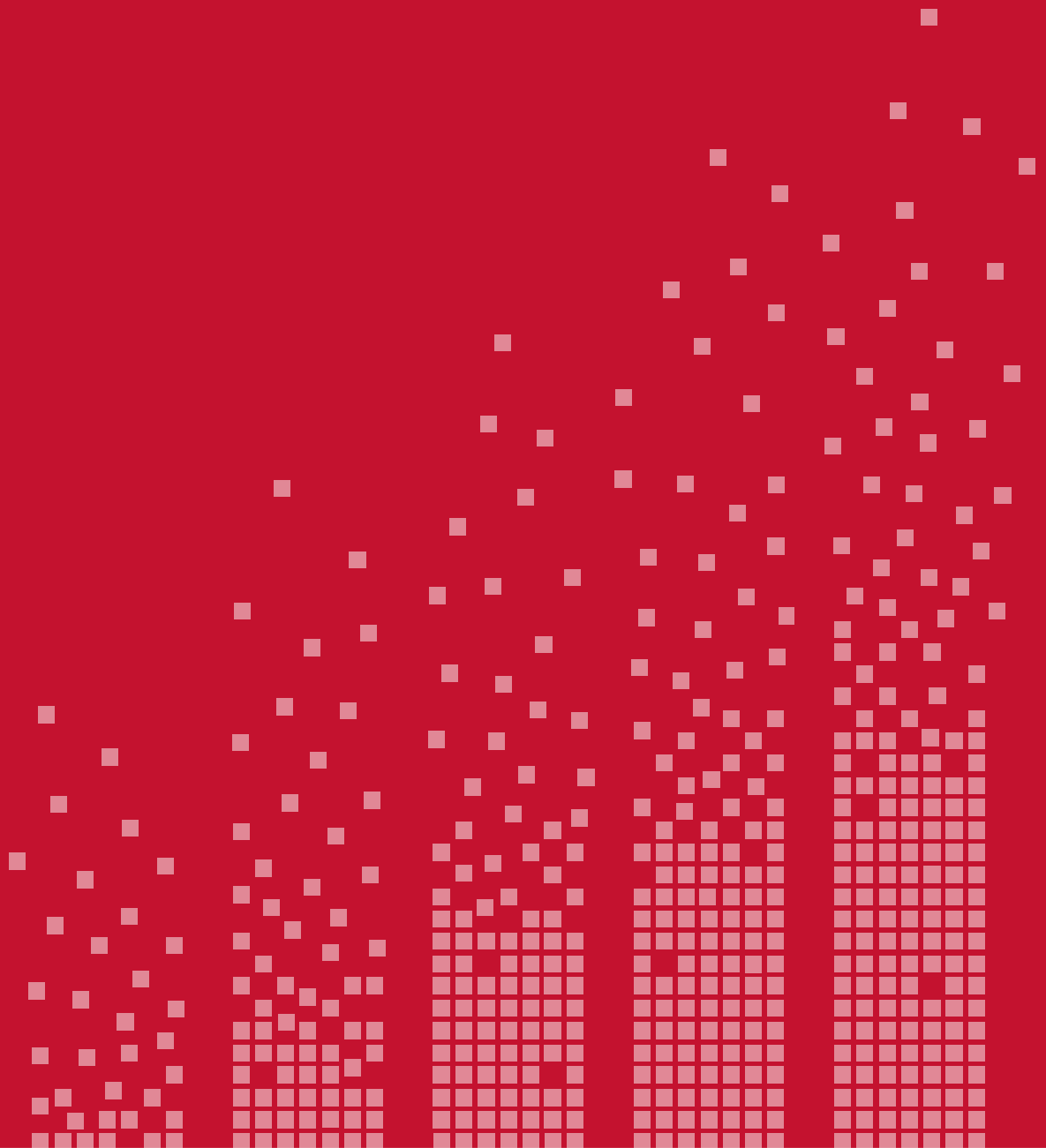
Group Fit and Proper Criteria for Management Key Responsible Persons and Company Secretary Policy



Sponsorship Policy

More details on page 53 of this annual report.

Financial



Statements

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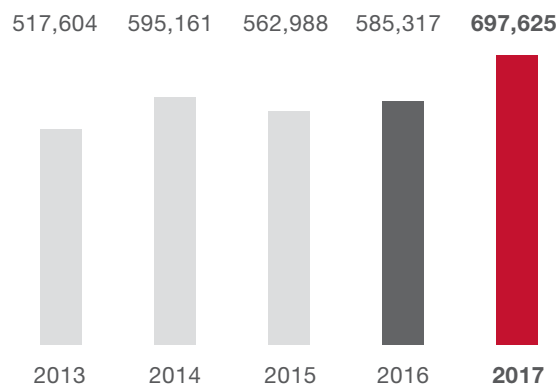
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FIVE (5)-YEAR GROUP FINANCIAL SUMMARY

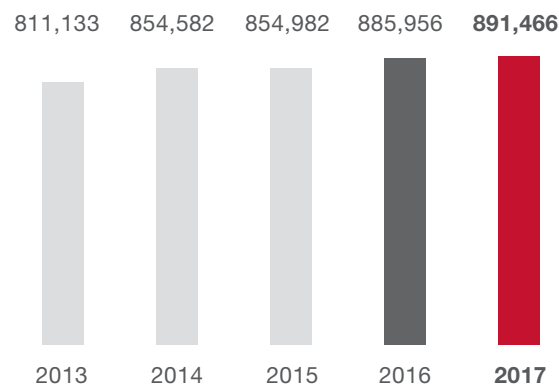
	2017 RM'000	2016 RM'000	2015 RM'000 Restated	2014 RM'000 Restated	2013 RM'000 Restated
RESULTS					
Operating Revenue	697,625	585,317	562,988	595,161	517,604
Profit before Taxation continuing operations	40,619	32,537	18,223	41,767	8,791
Profit after taxation for the financial year attributable to equity holders of KIBB	24,188	19,720	11,304	29,506	6,191
ASSETS					
Total Assets	6,492,581	6,069,780	6,120,955	5,730,045	5,669,038
SHAREHOLDERS' FUNDS					
Paid-up share capital	246,137	180,637	770,000	770,000	770,000
Shareholders' funds attributable to equity holders of KIBB	891,466	885,956	854,982	854,582	811,133
FINANCIAL RATIOS					
Net return on average' shareholders' funds (%)	2.72	2.27	1.32	3.54	0.76
Net return on average assets (%)	0.37	0.32	0.19	0.52	0.11
SHARE INFORMATION					
Basic earnings per share (sen)	3.35	2.59	1.47	3.83	0.80
Net assets backing per share (RM)	1.23	1.23	1.11	1.11	1.05
Dividend cover (times)	1.12	1.21	1.56	–	–
Net dividend per share (sen)	3.00	2.25	1.00	–	–

FIVE (5)-YEAR GROUP FINANCIAL HIGHLIGHTS

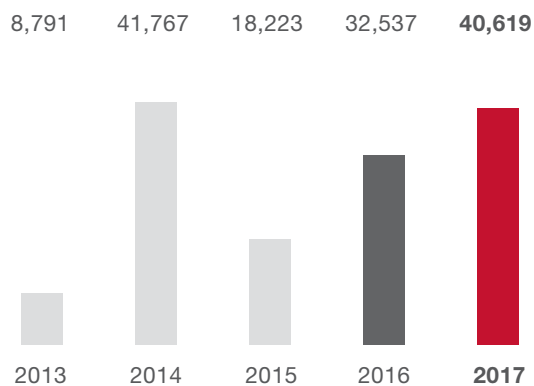
Operating Revenue (RM'000)



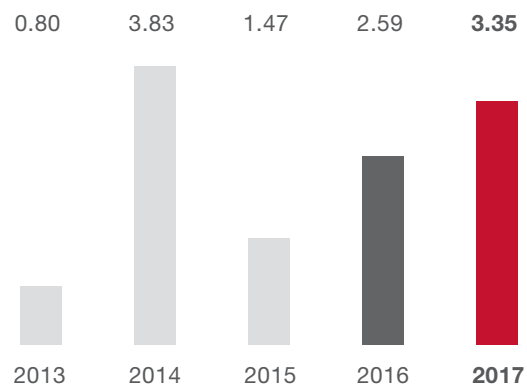
Shareholders' Funds (RM'000)



Profit Before Taxation (RM'000)



Basic Earnings per Share (Sen)



DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of Kenanga Investment Bank Berhad ("the Bank" or "KIBB") and its subsidiaries ("the Group") for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the investment banking business, provision of stockbroking and related financial services. The principal activities of the subsidiaries are described in Note 14 to the financial statements.

There were no significant changes in the nature of the principal activities during the financial year.

RESULTS

	Group RM'000	Bank RM'000
Profit after taxation and zakat	37,522	45,381
Share of results in associates and joint venture	(13,356)	–
Profit for the financial year	24,166	45,381
Attributable to:		
Equity holders of the Bank	24,188	45,381
Non-controlling interests	(22)	–
Profit for the financial year	24,166	45,381

There were no material transfers to or from reserves or provisions during the financial year, other than those arising from significant events as disclosed in Note 28 to the financial statements.

In the opinion of the Directors, the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than the effects from the significant events as disclosed in Note 53 to the financial statements.

DIVIDENDS

During the financial year, a final single tier dividend of 2.25 sen per ordinary share on 722,546,999 ordinary shares in respect of the financial year ended 31 December 2016, which amounted to RM16,257,320 was paid on 9 June 2017.

The Directors recommend a final dividend in respect of the current financial year ended 31 December 2017 of 3.00 sen on 722,546,999 ordinary shares, amounting to a dividend payable of RM21,676,410 to be proposed for the shareholders' approval at the forthcoming Annual General Meeting.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2018.

ISSUANCE OF SHARES

The Bank had not issued any new shares during the financial year.

DIRECTORS' REPORT

BUSINESS REVIEW FOR 2017

The pre-tax profit ("PBT") of the Group and the Bank for the financial year ended 31 December 2017 ("FYE17") are RM40.6 million and RM61.6 million as compared to PBT of RM32.5 million and RM33.6 million respectively in the previous financial year ("FYE16").

The performance of the Group's respective business segments are analysed as follows:

STOCKBROKING

Stockbroking division registered a higher PBT of RM37.6 million in FYE17 (FYE16: PBT of RM16.2 million) mainly due to higher brokerage income, interest income and trading and investment income as a result of the improved equity market in 2017.

INVESTMENT BANKING

Investment Banking registered a lower PBT of RM19.7 million in FYE17 (FYE16: PBT of RM34.7 million) mainly due to lower trading and investment income from bond securities mitigated by higher interest income and placement fees recorded for FYE17.

INVESTMENT AND WEALTH MANAGEMENT

Investment and Wealth Management registered a lower loss before tax ("LBT") of RM1.9 million (FYE16: LBT of RM8.1 million) as a result of higher management fee income contributed by higher Assets Under Management ("AUM") (FYE17: RM8.7 billion; FYE16: RM7.4 billion).

FUTURES

Futures segment recorded LBT of RM1.1 million in FYE17 as compared to PBT of RM2.6 million in FYE16 mainly due to lower commission income and interest income earned during the year. Income decreased mainly due to lower levels of client activities amid the sluggish market conditions.

MONEY LENDING AND FINANCING

This segment reported a lower PBT of RM0.4 million in FYE17 compared to PBT of RM0.6 million in FYE16 due to lower financing activities as a result of stiff competition in the market.

CAPITAL RATIOS

The Group and the Bank remain on a strong financial footing with total capital ratios (before deducting proposed dividends) of 30.102% and 28.390% respectively, and total capital ratios (after deducting proposed dividends) of 28.881% and 27.052% respectively, well above the minimum 8% as prescribe by Bank Negara Malaysia ("BNM").

OUTLOOK AND PROSPECTS FOR 2018

The Malaysian economy registered strong growth in 2017. However, we expect growth rates to be lower in 2018. This relative weakness will be reflected in comparatively subdued demand for Malaysia's largest export category, electronic and electrical goods, the bulk of which goes to China and the United States of America ("U.S."). We expect real gross domestic product ("GDP") growth in China to slow markedly in 2018 as more aggressive efforts are made to bring debt levels under control. This will be followed by a significant, albeit temporary, loss of growth momentum in the U.S. economy, partly influenced by further U.S. Federal Reserve ("U.S. Fed") rate increases. However, following the newly approved U.S. tax cuts, this should lift U.S. growth prospects thus mitigating the likelihood of a possible economic downturn.

DIRECTORS' REPORT

OUTLOOK AND PROSPECTS FOR 2018 (CONT'D.)

Given that the U.S. Fed has signalled intentions to have at least three (3) more rate increases in 2018, this would likely trigger a risk of more global capital shifting out of emerging markets and back towards safe havens such as the U.S. A growing chorus of central banks are also raising or signalling intentions to raise interest rates. BNM is no exception as it had in January 2018 expectedly raised the Overnight Policy Rate by twenty-five (25) basis points to 3.25% from 3.00% given the strength of the global and domestic macroeconomic conditions.

We are cautiously optimistic of a better performance in 2018, notwithstanding that we expect the Malaysian equities market to be less active after the anticipated general election. We will continue to strive to diversify our income to reduce our reliance on brokerage fees by increasing interest income as well as to build on our AUM growth momentum from our Investment and Wealth Management business for management fee income.

INDEMNIFICATION OF DIRECTORS

The Bank has maintained a Directors and Officers Liability Insurance on a group basis up to the aggregate limit of RM30 million against any legal liability incurred by the Directors and Officers in the discharge of their duties while holding office for the Group. The Directors and Officers shall not be indemnified by such insurance for any gross negligence, fraud, intentional breach of law or breach of trust proven against them.

DIRECTORS

The names of the Directors of the Bank in office since the date of the last report and at the date of this report are:

Izlan Bin Izhab	(Independent Non-Executive Director/Chairman)
Datuk Syed Ahmad Alwee Alsree	(Non-Independent Non-Executive Director/Deputy Chairman)
Dato' Richard Alexander John Curtis	(Non-Independent Non-Executive Director)
Luigi Fortunato Ghirardello*	(Non-Independent Non-Executive Director)
Ismail Harith Merican	(Non-Independent Non-Executive Director)
Luk Wai Hong, William	(Independent Non-Executive Director)
Jeremy Bin Nasrulhaq (appointed on 1 June 2017)	(Independent Non-Executive Director)
Norazian Binti Ahmad Tajuddin (appointed on 15 December 2017)	(Independent Non-Executive Director)
Kanagaraj Lorenz (appointed on 26 December 2017)	(Independent Non-Executive Director)
Datuk Kevin How Kow (resigned on 31 May 2017)	(Non-Independent Non-Executive Director)

* On 29 July 2017, Luigi Fortunato Ghirardello was re-designated from Independent Non-Executive Director to Non-Independent Non-Executive Director of KIBB.

The names of the Directors who served on the respective Boards of the Bank's subsidiaries since the beginning of the current financial year to the date of this report are disclosed in Note 54 to the financial statements.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Bank was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

DIRECTORS' REPORT

DIRECTORS' BENEFITS (CONT'D.)

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full time employee of the Bank as shown in Note 39 of the financial statements or from related corporations) by reason of a contract made by the Bank or a related corporation with any 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.

DIRECTORS' INTERESTS

According to the register of Director's shareholdings, the interests of Directors in office at the end of the financial year in shares in the Bank, are as follow:

The Bank:

	At 1.1.2017	Number of ordinary shares		At 31.12.2017
		Addition	Disposal	
Direct interest:				
Luigi Fortunato Ghirardello	140,000	200,000	–	340,000
Dato' Richard Alexander John Curtis	800,000	300,000	–	1,100,000

Other than as disclosed above, none of the other Directors in office at the end of the financial year had any interest in shares in the Bank or its related corporations during the financial year.

OTHER STATUTORY INFORMATION

- (a) Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps:
- (i) 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 satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Group and of the Bank misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Bank which would render any amount stated in the consolidated financial statements misleading.

DIRECTORS' REPORT

OTHER STATUTORY INFORMATION (CONT'D.)

(e) At the date of this report, there does not exist:

- (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (ii) any contingent liability in respect of the Group and of the Bank which has arisen since the end of the financial year.

(f) In the opinion of the Directors:

- (i) no contingent liability 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 or of the Bank to meet their obligations as and when they fall due, other than those arising in the normal course of business as disclosed in Note 42 and Note 43 to the financial statements; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Bank for the financial year in which this report is made.

COMPLIANCE WITH BANK NEGARA MALAYSIA'S POLICY DOCUMENT ON FINANCIAL REPORTING

The Directors have taken reasonable steps to ensure that the preparation of the financial statements of the Group and of the Bank are in compliance with the BNM's Policy Document on Financial Reporting and the Guidelines on Classification and Impairment Provisions for Loan/Financing.

SIGNIFICANT EVENTS AND SUBSEQUENT EVENTS

Details of significant and subsequent events are disclosed in Note 53 to the financial statements.

AUDITORS AND AUDITORS' REMUNERATION

The auditors, Messrs Ernst & Young, have expressed their willingness to continue in office. The auditors' remuneration is disclosed in Note 33 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors on 14 March 2018.

Izlan Bin Izhab

Kuala Lumpur, Malaysia

Jeremy Bin Nasrulhaq

STATEMENT BY DIRECTORS

Pursuant to Section 251(2) of the Companies Act, 2016

We, Izlan Bin Izhab and Jeremy Bin Nasrulhaq, being two (2) of the Directors of Kenanga Investment Bank Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 88 to 228 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2017 and of their financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors on 14 March 2018.

Izlan Bin Izhab

Jeremy Bin Nasrulhaq

Kuala Lumpur, Malaysia

STATUTORY DECLARATION

Pursuant to Section 251(1)(b) of the Companies Act, 2016

I, Cheong Boon Kak, being the officer primarily responsible for the financial management of Kenanga Investment Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 88 to 228 are, in my opinion, 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 Cheong Boon Kak
at Kuala Lumpur in the Federal Territory
on 14 March 2018

Cheong Boon Kak

Before me,

INDEPENDENT AUDITORS' REPORT

to the Members of Kenanga Investment Bank Berhad (Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Kenanga Investment Bank Berhad ("the Bank"), which comprise the statements of financial position as at 31 December 2017 of the Group and of the Bank, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 88 to 228.

In our opinion, the accompanying financial statements of the Group and of the Bank give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2017, and of their financial performance and their 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 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and of the Bank for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Bank as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matters below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITORS' REPORT

to the Members of Kenanga Investment Bank Berhad (Incorporated in Malaysia)

Key audit matters (Cont'd.)

Risk Area and Rationale

Impairment assessment of loans, advances and financing

The impairment allowances of loans, advances and financing are estimated by management through the application of judgment and use of highly subjective assumptions. Due to the significance of loans, advances and financing and the related estimation uncertainty, this is a key area of focus in our audit.

Larger, individually significant loans, advances and financing, mainly in the Bank and a money lending subsidiary, are assessed on an individual basis. Collective assessments are made on portfolio basis for other loans, advances and financing, which are homogenous in nature.

Relevant details have been disclosed in Note 3.4(g)(iii) and (iv) (Summary of significant accounting policies), Note 4(iii) (Significant accounting estimates and judgments), Note 10 (Loans, advances and financing) and Note 50(a) (Financial risk management – Credit risk) to the financial statements.

Fair value measurement of financial instruments

When fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, they are determined by the Group using a variety of valuation techniques that include the use of financial models. The inputs to these models are taken from observable market where possible, but where this is not feasible, judgment is required to establish fair values. Judgments include considerations of liquidity and model inputs such as volatility for longer-dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities.

Relevant details have been disclosed in Note 3.4(f)(iv) (Summary of significant accounting policies), Note 4(ii) (Significant accounting estimates and judgments) and Note 51 (Fair value of financial instruments) to the financial statements.

Our Response

Our audit procedures included assessment of system-based and manual controls over the timely recognition, recording and monitoring of impaired loans, advances and financing; evaluating the methodologies, inputs and assumptions used by the Group and the Bank in calculating collective impairment allowance; assessing the adequacy of individual impairment allowance for individually assessed loans, advances and financing; and assessing if sufficient disclosures have been made in the financial statements.

In the current year, we continue to pay particular attention to the loans, advances and financing which are unsecured, partially secured or are subject to potential collateral shortfalls. For individually assessed loans, we selected a sample of loans and tested the estimation of the future expected cash flows from customers and where applicable, realisation of collaterals held. We also examined selected individually significant exposures which had not been identified by management as potentially impaired and formed our own judgment as to whether that was appropriate.

For the collective impairment model used by the Group and the Bank, we tested a sample of data used in the model and tested the calculations within the model. We assessed whether the modelling assumptions used considered all relevant risks and are reasonable in light of historical experience and circumstances of the customers.

Our audit procedures included reviewing and evaluating management's rationale for selecting and using the valuation models to assess if the use of such models was appropriate.

Our audit procedures also included, among others, testing management's controls related to the development and calibration of the model and confirming that management had determined it was not necessary to make any adjustments to the output of the model to reflect the assumptions that marketplace participants would use in similar circumstances.

INDEPENDENT AUDITORS' REPORT

to the Members of Kenanga Investment Bank Berhad (Incorporated in Malaysia)

Key audit matters (Cont'd.)

Risk Area and Rationale

Goodwill

MFRS 136 requires the Group to annually test the amount of goodwill for impairment. This annual impairment test was significant to the preparation of financial statements because the assessment process is complex and highly judgmental and is based on assumptions that are affected by expected future market or economic conditions. Relevant details have been disclosed in Note 3.4(e)(i) (Summary of significant accounting policies, Note 4(i) (Significant accounting estimates and judgments) and Note 18 (Intangible assets) to the financial statements.

Our Response

Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group, in particular those relating to the projected revenue and expense growths, and applicable discount rates.

We reviewed the adequacy of the Group's disclosures in the financial statements about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill.

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Bank are responsible for the other information. The other information comprises the Directors' Report and the annual report, but does not include the financial statements of the Group and of the Bank and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of the Group and of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard on the Directors' Report.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors of the Bank and take appropriate action.

Responsibilities of Directors for the Financial Statements

The directors of the Bank are responsible for the preparation and fair presentation of the financial statements of the Group and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Bank, the directors are responsible for assessing the Group's and the Bank's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative to do so.

INDEPENDENT AUDITORS' REPORT

to the Members of Kenanga Investment Bank Berhad (Incorporated in Malaysia)

Auditors' responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITORS' REPORT

to the Members of Kenanga Investment Bank Berhad (Incorporated in Malaysia)

Auditors' responsibility for the audit of the financial statements (Cont'd.)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Bank for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER MATTERS

This report is made solely to the members of the Bank, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young

AF: 0039

Chartered Accountants

Kuala Lumpur, Malaysia

14 March 2018

Chan Hooi Lam

No. 02844/02/2020 J

Chartered Accountant

SHARIAH COMMITTEE'S REPORT

In the name of Allah, the Beneficent, the Merciful.

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Skim Perbankan Islam of Kenanga Investment Bank Berhad ("KIBB SPI") during the financial year ended 31 December 2017. We have also conducted our review to form an opinion as to whether KIBB SPI has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

The management of KIBB is responsible for ensuring that KIBB SPI conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on our review of the operations of KIBB SPI, and to report to you.

We have assessed the work carried out by Shariah review which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by KIBB SPI.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that KIBB SPI has not violated the Shariah principles.

In our opinion:

- (1). The contracts, transactions and dealings entered into by KIBB SPI during the financial year ended 31 December 2017 that we have reviewed are in compliance with the Shariah principles;
- (2). The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles; and
- (3). The calculation of zakat is in compliance with Shariah principles.

We, the members of the Shariah Committee of KIBB, do hereby confirm that the operations of KIBB SPI for the financial year ended 31 December 2017 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee:

Shariah Committee Member:

Dr. Kamaruzaman Noordin

Dr. Muhammad Arzim Naim

Kuala Lumpur, Malaysia

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

Group	Note	2017 RM'000	2016 RM'000 Restated (Note 55)
Assets			
Cash and bank balances	5	1,347,517	1,227,601
Financial assets at fair value through profit or loss	6	557,568	388,248
Financial investments available-for-sale	7	1,010,167	937,704
Financial investments held-to-maturity	8	38,001	40,000
Derivative financial assets	9	67,393	39,117
Loans, advances and financing	10	2,195,501	2,105,584
Balances due from clients and brokers	11	494,883	445,005
Other assets	12	118,417	231,439
Statutory deposit with Bank Negara Malaysia	13	116,186	99,504
Tax recoverable		7,028	7,465
Investments in associates	15	60,438	72,671
Investment in a joint venture company	16	13,220	6,962
Property, plant and equipment	17	189,842	191,717
Intangible assets	18	266,414	266,922
Deferred tax assets	19	10,006	9,841
Total assets		6,492,581	6,069,780
Liabilities			
Deposits from customers	20	4,233,914	3,286,027
Deposits and placements of banks and other financial institutions	21	210,762	550,954
Balances due to clients and brokers	22	624,612	857,065
Derivative financial liabilities	23	36,174	47,406
Other liabilities	24	329,150	238,744
Obligations on securities sold under repurchase agreements	25	74,993	27,253
Borrowings	26	90,000	165,700
Provision for taxation and zakat		1,510	439
Total liabilities		5,601,115	5,173,588
Equity			
Share capital	27	246,137	180,637
Reserves	28	645,329	705,319
Equity attributable to equity holders of the Bank		891,466	885,956
Non-controlling interests		–	10,236
Total equity		891,466	896,192
Total liabilities and shareholders' equity		6,492,581	6,069,780
Commitments and contingencies	42	3,293,234	2,923,332

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		2017 RM'000	2016 RM'000 Restated (Note 55)
Bank	Note		
Assets			
Cash and bank balances	5	1,092,544	949,421
Financial assets at fair value through profit or loss	6	549,735	381,588
Financial investments available-for-sale	7	1,010,167	937,704
Financial investments held-to-maturity	8	38,001	40,000
Derivative financial assets	9	67,393	39,117
Loans, advances and financing	10	2,180,080	2,065,887
Balances due from clients and brokers	11	494,883	445,005
Other assets	12	66,582	74,909
Statutory deposit with Bank Negara Malaysia	13	116,186	99,504
Tax recoverable		–	894
Investments in subsidiaries	14	72,564	67,550
Investment in an associate	15	56,235	56,235
Investment in a joint venture company	16	20,000	7,500
Property, plant and equipment	17	186,978	190,731
Intangible assets	18	305,409	305,409
Deferred tax assets	19	7,798	7,554
Total assets		6,264,555	5,669,008
Liabilities			
Deposits from customers	20	4,278,148	3,355,577
Deposits and placements of banks and other financial institutions	21	210,762	550,954
Balances due to clients and brokers	22	416,960	474,231
Derivative financial liabilities	23	36,174	47,406
Other liabilities	24	243,234	195,833
Obligations on securities sold under repurchase agreements	25	74,993	27,253
Borrowings	26	69,000	115,200
Provision for taxation and zakat		1,121	48
Total liabilities		5,330,392	4,766,502
Equity			
Share capital	27	246,137	180,637
Reserves	28	688,026	721,869
Total equity		934,163	902,506
Total liabilities and shareholders' equity		6,264,555	5,669,008
Commitments and contingencies	42	3,411,302	2,991,536

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December 2017

		Group		Bank	
		2017 RM'000	2016 RM'000 Restated (Note 55)	2017 RM'000	2016 RM'000 Restated (Note 55)
	Note				
Operating revenue	29	697,625	585,317	623,477	513,498
Interest income	30	295,335	255,187	287,630	240,387
Interest expense	31	(208,506)	(166,458)	(209,703)	(163,095)
Net interest income		86,829	88,729	77,927	77,292
Net income from Islamic banking operations	52(b)	11,082	15,933	11,082	15,933
Other operating income	32	368,147	304,696	303,313	250,283
Net income		466,058	409,358	392,322	343,508
Other operating expenses	33	(411,190)	(377,058)	(330,904)	(311,406)
Operating profit		54,868	32,300	61,418	32,102
(Allowance for)/Write back of impairment on:					
– loans, advances and financing	34	(292)	(653)	(97)	72
– balances due from clients and brokers and other receivables	35	(601)	1,439	787	1,439
– investment in subsidiaries	14	–	–	(500)	–
		53,975	33,086	61,608	33,613
Share of results of associates and joint venture	15, 16	(13,356)	(549)	–	–
Profit before taxation and zakat		40,619	32,537	61,608	33,613
Taxation and zakat	40	(16,453)	(12,330)	(16,227)	(11,586)
Profit for the financial year		24,166	20,207	45,381	22,027
Other comprehensive income/(loss):					
Items that may be reclassified subsequently to profit or loss:					
Foreign exchange differences on consolidation		(6,990)	2,735	–	–
Share of other comprehensive income in associates		1,872	3,106	–	–
Net gain on fair value changes of financial investments available-for-sale		3,333	7,122	3,333	7,122
Income tax relating to the components of other comprehensive income	19	(800)	(1,709)	(800)	(1,709)
Other comprehensive (loss)/income for the financial year, net of tax		(2,585)	11,254	2,533	5,413
Total comprehensive income for the financial year, net of tax		21,581	31,461	47,914	27,440

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December 2017

		Group		Bank	
		2017 RM'000	2016 RM'000 Restated (Note 55)	2017 RM'000	2016 RM'000 Restated (Note 55)
	Note				
Profit for the financial year attributable to:					
Equity holders of the Bank		24,188	19,720	45,381	22,027
Non-controlling interests		(22)	487	–	–
		24,166	20,207	45,381	22,027
Total comprehensive income attributable to:					
Equity holders of the Bank		21,603	30,974	47,914	27,440
Non-controlling interests		(22)	487	–	–
		21,581	31,461	47,914	27,440
Earnings per share attributable to equity holders of the Bank:					
Basic (sen)	41	3.35	2.59		
Diluted (sen)	41	3.35	2.59		

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2017

Group	Attributable to equity holders of the Bank										
	Non-distributable					Distributable					Total equity RM'000
	Ordinary shares (Note 27) RM'000	Capital reserve (Note 28) RM'000	Share premium (Note 28) RM'000	Statutory reserve (Note 28) RM'000	Available-for-sale deficit (Note 28) RM'000	Regulatory reserve (Note 28) RM'000	Exchange reserve (Note 28) RM'000	Retained profits (Note 28) RM'000	Total attributable to equity holders RM'000	Non-controlling interests RM'000	
At 1 January 2017	180,637	88,938	65,500	465,741	(11,034)	23,929	24,388	47,857	885,956	10,236	896,192
Net profit/(loss) for the financial year	-	-	-	-	-	-	-	24,188	24,188	(22)	24,166
Share of other comprehensive income of associates	-	-	-	-	1,872	-	-	-	1,872	-	1,872
Other comprehensive income/(loss)	-	-	-	-	2,533	-	(6,990)	-	(4,457)	-	(4,457)
Total comprehensive income/(loss) for the financial year	-	-	-	-	4,405	-	(6,990)	24,188	21,603	(22)	21,581
Transfer to regulatory reserve	-	-	-	-	-	1,348	-	(1,348)	-	-	-
Transfer to retained profits	-	-	-	(465,741)	-	-	-	465,741	-	-	-
Transfer pursuant to Companies Act 2016	65,500	-	(65,500)	-	-	-	-	-	-	-	-
Acquisition of interest from non-controlling interest (Note 53(1))	-	-	-	-	-	-	-	164	164	(10,214)	(10,050)
Dividend paid (Note 45)	-	-	-	-	-	-	-	(16,257)	(16,257)	-	(16,257)
At 31 December 2017	246,137	88,938	-	-	(6,629)	25,277	17,398	520,345	891,466	-	891,466

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2017

		Attributable to equity holders of the Bank				Non-distributable				(Accumulated losses)/			
		Available-				Total				Total			
		Ordinary shares	Reorga- nisation reserve	Capital reserve	Share premium	Statutory reserve	Regulatory reserve	Exchange reserve	Retained profits	attributable to equity holders	Non- controlling interests	equity	
		(Note 27)	(Note 28)	(Note 28)	(Note 28)	(Note 28)	(Note 28)	(Note 28)	(Note 28)	RM'000	RM'000	RM'000	RM'000
Group	At 1 January 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As previously reported		770,000	-	-	65,500	94,623	(19,553)	22,111	21,773	(40,821)	913,633	9,749	923,382
Effects of merger accounting		-	(103,666)	15,548	-	-	-	(120)	29,587	(58,651)	-	-	(58,651)
As restated		770,000	(103,666)	15,548	65,500	94,623	(19,553)	22,111	21,653	(11,234)	854,982	9,749	864,731
Net profit for the financial year		-	-	-	-	-	-	-	19,720	19,720	487	-	20,207
Share of other comprehensive income of associates		-	-	-	-	-	3,106	-	-	-	-	-	3,106
Other comprehensive income		-	-	-	-	-	5,413	-	2,735	-	-	-	8,148
Total comprehensive income for the financial year		-	-	-	-	-	8,519	-	2,735	19,720	487	-	31,461
Transfer to regulatory reserve		-	-	-	-	-	-	1,818	-	(1,818)	-	-	-
Capital restructuring exercise involving: Capital reduction		-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction and repayment		(47,453)	64,817	-	-	-	-	-	-	(17,364)	-	-	-
Par value reduction		(541,910)	38,849	73,390	-	371,118	-	-	-	58,553	-	-	-
At 31 December 2016		180,637	-	88,938	65,500	465,741	(11,034)	23,929	24,388	47,857	885,956	10,236	896,192

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2017

Bank	Non-distributable						Available- for-sale deficit (Note 28) RM'000	Retained profits (Note 28) RM'000	Total equity RM'000
	Ordinary shares (Note 27) RM'000	Regulatory reserve (Note 28) RM'000	Share premium (Note 28) RM'000	Capital reserve (Note 28) RM'000	Statutory reserve (Note 28) RM'000				
At 1 January 2017	180,637	23,929	65,500	153,863	465,741	(7,373)	20,209	902,506	
Net profit for the financial year	-	-	-	-	-	-	45,381	45,381	
Other comprehensive income	-	-	-	-	-	2,533	-	2,533	
Total comprehensive income for the financial year	-	-	-	-	-	2,533	45,381	47,914	
Transfer to regulatory reserve	-	1,348	-	-	-	-	(1,348)	-	
Transfer to retained profits	-	-	-	-	(465,741)	-	465,741	-	
Transfer pursuant to Companies Act 2016	65,500	-	(65,500)	-	-	-	-	-	
Dividend paid (Note 45)	-	-	-	-	-	-	(16,257)	(16,257)	
At 31 December 2017	246,137	25,277	-	153,863	-	(4,840)	513,726	934,163	

Bank	Non-distributable						Available- for-sale deficit (Note 28) RM'000	(Accumulated losses)/ Retained profits (Note 28) RM'000	Total equity RM'000
	Ordinary shares (Note 27) RM'000	Re- organisation reserve (Note 28) RM'000	Capital reserve (Note 28) RM'000	Share premium (Note 28) RM'000	Regulatory reserve (Note 28) RM'000	Statutory reserve (Note 28) RM'000			
At 1 January 2016	770,000	-	-	65,500	22,111	94,623	(12,786)	(47,895)	891,553
Net profit for the financial year	-	-	-	-	-	-	-	22,027	22,027
Other comprehensive income	-	-	-	-	-	-	5,413	-	5,413
Total comprehensive income for the financial year	-	-	-	-	-	-	5,413	22,027	27,440
Transfer to regulatory reserve	-	-	-	-	1,818	-	-	(1,818)	-
Reserve arising from group internal reorganisation	-	(16,487)	-	-	-	-	-	-	(16,487)
Capital restructuring exercise involving:									
Capital reduction	(47,453)	-	-	-	-	-	-	47,453	-
Par value reduction	(541,910)	16,487	153,863	-	-	371,118	-	442	-
At 31 December 2016	180,637	-	153,863	65,500	23,929	465,741	(7,373)	20,209	902,506

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the financial year ended 31 December 2017

	Note	Group		Bank	
		2017 RM'000	2016 RM'000 Restated (Note 55)	2017 RM'000	2016 RM'000 Restated (Note 55)
Cash flows from operating activities					
Profit before taxation and zakat		40,619	32,537	61,608	33,613
Adjustments for:-					
Allowance for impairment on loans, advances and financing	34	366	1,029	171	304
Depreciation of property, plant and equipment	33	13,154	12,390	12,679	11,319
Amortisation of intangible assets – software licence	33	666	970	–	–
Allowance for/(write back of) impairment on balances due from clients and brokers, and other receivables	35	1,234	(1,352)	(154)	(1,352)
Allowance for impairment on investment in subsidiaries	14	–	–	500	–
Property, plant and equipment written off	33	364	4,844	329	2,988
Gross dividend income from investments	32(b)	(1,897)	(2,406)	(7,121)	(1,772)
Loss on disposal of property, plant and equipment	32(c)	21	–	21	–
Operating profit before working capital changes carried forward		54,527	48,012	68,033	45,100
Net gain from sale of financial assets at fair value through profit or loss and derivatives		(57,370)	(59,574)	(57,370)	(60,814)
Net gain from sale of financial investments available-for-sale		(2,868)	(21,620)	(2,868)	(21,620)
Unrealised loss on revaluation of financial assets at fair value through profit or loss and derivatives		7,632	18,650	7,632	18,650
Share of results of associates and joint venture		13,356	549	–	–
Operating gain/(loss) before working capital changes		15,277	(13,983)	15,427	(18,684)
(Increase)/decrease in operating assets:					
Loans, advances and financing		(90,283)	(176,549)	(114,364)	(187,525)
Other assets		111,869	(20,330)	8,599	25,823
Statutory deposit with Bank Negara Malaysia		(16,682)	21,249	(16,682)	21,249
Balances due from clients and brokers		(49,978)	12,889	(49,978)	12,889
Trust monies and deposits	5	(18,523)	223,206	(2,477)	6,196
Increase/(decrease) in operating liabilities:					
Other liabilities		96,123	(19,833)	54,387	(18,719)
Balances due to clients and brokers		(232,453)	(39,237)	(57,271)	119,898
Deposits from customers		947,887	69,488	922,571	67,517
Deposits and placements of banks and other financial institutions		(340,192)	(24,205)	(340,192)	(24,205)
Obligations on securities sold under repurchase agreements		47,740	(68,057)	47,740	(68,057)
Cash generated from/(used in) operations		470,785	(35,362)	467,760	(63,618)
Taxation and zakat paid		(16,002)	(11,497)	(15,272)	(11,277)
Net cash generated from/(used in) operating activities		454,783	(46,859)	452,488	(74,895)

STATEMENTS OF CASH FLOWS

For the financial year ended 31 December 2017

	Note	Group		Bank	
		2017 RM'000	2016 RM'000 Restated (Note 55)	2017 RM'000	2016 RM'000 Restated (Note 55)
Cash flows from investing activities					
Acquisition of non-controlling interest	54(1)	(10,050)	–	(10,050)	–
Dividend received in respect of pre-acquisition profits		–	–	4,536	–
Net acquisition of additional shares in an existing subsidiary	14	(10,050)	–	(5,514)	–
Dividend income from investments	32(b)	1,897	2,406	7,121	1,772
Purchase of property, plant and equipment		(17,452)	(158,627)	(15,101)	(157,455)
Purchase of intangible assets		(200)	(718)	–	–
Proceeds from disposal of property, plant and equipment and intangible assets		131	2,888	89	2,958
Additional investment in a joint venture	16	(12,500)	(7,500)	(12,500)	(7,500)
Proceeds from disposal of a subsidiary		–	–	–	60
Net (purchase)/sales of securities		(223,259)	268,807	(223,480)	258,698
Net cash (used in)/generated from investing activities		(261,433)	107,256	(249,385)	98,533
Cash flows from financing activities					
Dividend paid	45	(16,257)	–	(16,257)	–
Net (repayment)/drawdown of borrowings		(75,700)	24,700	(46,200)	70,200
Net cash (used in)/generated from financing activities		(91,957)	24,700	(62,457)	70,200
Net increase in cash and cash equivalents		101,393	85,097	140,646	93,838
Cash transferred in due to merger		–	–	–	9,635
Cash and cash equivalents at beginning of financial year		1,041,684	956,587	891,414	787,941
Cash and cash equivalents at end of financial year	5	1,143,077	1,041,684	1,032,060	891,414

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE INFORMATION

The Bank is principally engaged in the investment banking business, provision of stockbroking and related financial services.

The Bank is a public limited liability company incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Bank is located at Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Wilayah Persekutuan.

The principal activities of the subsidiaries are described in Note 14. There have been no significant changes in the nature of the principal activities during the financial year.

The financial statements of the Bank have been approved and authorised for issue in accordance with a resolution of the Board of Directors on 14 March 2018.

2. CHANGES IN ACCOUNTING POLICIES AND REGULATORY REQUIREMENT

2.1 New and amended Malaysian Financial Reporting Standards ("MFRSs") adopted

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended MFRSs, which became effective for the Group and the Bank on 1 January 2017:

- Amendments to MFRS contained in the documents entitled "Annual Improvements to MFRSs 2014-2016 Cycle";
- Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses;
- Amendments to MFRS 107: Statement of Cash Flows: Disclosure Initiative; and
- Amendments to MFRS 12: Disclosure of Interests in Other Entities contained in the documents entitled "Annual Improvements to MFRSs 2014-2016 Cycle".

The adoption of the new and amended MFRSs did not have any significant impact on the financial position or performance of the Group and of the Bank.

2.2 Standards issued but not yet effective

The following are new MFRSs, amended MFRSs and Interpretation Committee's ("IC") Interpretations issued by the Malaysian Accounting Standards Board ("MASB") that will be effective for the Group and the Bank in future years. The Group and the Bank intend to adopt the relevant standards when they become effective.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. CHANGES IN ACCOUNTING POLICIES AND REGULATORY REQUIREMENT (CONT'D.)

2.2 Standards issued but not yet effective (cont'd.)

Description	Effective for annual periods beginning on or after
MFRS 9: Financial Instruments	1 January 2018
MFRS 15: Revenue from Contracts with Customers	1 January 2018
Clarification to MFRS 15: Revenue from Contracts with Customers	1 January 2018
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards contained in the documents entitled "Annual Improvements to MFRS Standards 2014-2016 Cycle"	1 January 2018
Amendments to MFRS 128: Investment in Associates and Joint Venture contained in the documents "Annual Improvements to MFRS Standards 2014-2016 Cycle"	1 January 2018
Amendments to MFRS 4: Applying MFRS 9 Instruments with MFRS 4 Insurance Contracts	Temporary exemption from MFRS 9 subject to certain criteria being met for annual periods beginning on or after 1 January 2018
Amendments to MFRS 140: Transfers of Investment Property	1 January 2018
IC Interpretation 22: Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 16: Leases	1 January 2019
Amendments to MFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to MFRS 128: Long-term interests in Associates and Joint Ventures	1 January 2019
IC Interpretation 23: Uncertainty Over Income Tax Treatments	1 January 2019
Amendments to MFRS 3: Business Combinations contained in the documents entitled "Annual Improvements to MFRS Standards 2015-2017 Cycle"	1 January 2019
Amendments to MFRS 11: Joint Arrangements contained in the documents entitled "Annual Improvements to MFRS Standards 2015-2017 Cycle"	1 January 2019
Amendments to MFRS 112: Income Tax Consequences of Payments on Financial Instruments Classified as Equity contained in the documents entitled "Annual Improvements to MFRS Standards 2015-2017 Cycle"	1 January 2019
Amendments to MFRS 123: Borrowing Costs Eligible for Capitalisation contained in the documents entitled "Annual Improvements to MFRS Standards 2015-2017 Cycle"	1 January 2019
MFRS 17: Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be announced by MASB

The directors expect that the adoption of the above standards will have no material impact on the financial statements in the period of initial application except as discussed below:

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. CHANGES IN ACCOUNTING POLICIES AND REGULATORY REQUIREMENT (CONT'D.)

2.2 Standards issued but not yet effective (cont'd.)

MFRS 9 Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018. Retrospective application is required, but comparative information is not compulsory.

The Group has set up a project team to prepare for MFRS 9 Implementation with the involvement from Risk, Finance and Operations personnel, as well as the assistance from external consultants. The project team regularly reports to the Audit Committee. The Bank has also engaged its external auditor to independently verify and validate the accounting policies and solution tools to be developed under the project and to report on whether they comply with the requirements of MFRS 9.

The adoption of MFRS 9 will have an effect on the classification and measurement of the Group and the Bank's financial assets, but will not have an impact on the classification and measurement of the Group and the Bank's financial liabilities. The impact on hedge accounting is not applicable to the Bank.

MFRS 9 will require all financial assets, other than equity instruments and derivatives, to be classified on the basis of two criteria, namely the entity's business model for managing the assets, as well as the instruments' contractual cash flow characteristics. Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest. If the financial assets are held within a business model whose objective is achieved by both selling financial assets and collecting contractual cash flows that are solely payments of principal and interest, the assets shall be measured at fair value through other comprehensive income ("FVOCI"). Any financial assets that are not measured at amortised cost or FVOCI will be measured at fair value through profit or loss ("FVTPL"). MFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments are normally measured at FVTPL; nevertheless entities are allowed to irrevocably designate equity instruments that are not held for trading as FVOCI, with no subsequent reclassification of gains or losses to the profit or loss.

Having completed its latest assessment, the Group and the Bank does not expect any major change in classification and measurement of financial assets; with the outcome as follow:

- the majority of loans and advances that are classified as loans and receivables under MFRS 139 are expected to be measured at amortised cost under MFRS 9;
- investments in money market instruments and corporate bonds held for liquidity management purposes, some of which are currently classified as available-for-sale under MFRS 139, are expected to be measured at FVOCI under MFRS 9;
- the investments in equity instruments not held for trading which are classified as available-for-sale under MFRS 139 are expected to be measured at FVOCI (with no recycling to profit or loss) under MFRS 9;
- financial assets held for trading are expected to continue to be measured at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. CHANGES IN ACCOUNTING POLICIES AND REGULATORY REQUIREMENT (CONT'D.)

2.2 Standards issued but not yet effective (cont'd.)

MFRS 9 Financial Instruments (cont'd.)

MFRS 9 will fundamentally change the loan loss impairment methodology. The standard will replace MFRS 139's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. The impairment requirements based on ECL approach is applicable for all loans and other debt financial assets not held at FVTPL, as well as loan commitments and financial guarantee contracts. The allowance for expected losses shall be determined based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the lifetime of the asset.

The impairment requirements are expected to result in a higher allowance for impairment losses by approximately RM1.0 million to RM2.0 million to the Group under the ECL approach upon adoption of MFRS 9 which will be recognised in retained earnings and reserves as at 1 January 2018.

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group and the Bank have assessed and determined that the existing policies applied by the Group and the Bank in respect of the recognition of revenue comply with the requirements of MFRS 15. Therefore, the Group does not expect any financial impact from the adoption of this standard.

MFRS 16 Leases

MFRS 16 introduces a single accounting model for a lessee and eliminates the distinction between finance lease and operating lease. All leases will be brought onto the balance sheet as recording certain leases as off-balance sheet leases will no longer be allowed except for some limited practical exemptions. The lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying assets are low-value assets. Upon adoption of MFRS 16, an entity is required to account for major part of operating leases in the balance sheet by recognising the 'right-of-use' assets and lease liability. MFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early application permitted provided MFRS 15 is also applied. Based on the current assessment, the Group expects the rental of branch premises to be affected by this standard with future leases to be recognised on balance sheet. However, the Group does not expect the amount to be significant in relation to the size of our total assets.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. CHANGES IN ACCOUNTING POLICIES AND REGULATORY REQUIREMENT (CONT'D.)

2.3 Significant change in regulatory requirement

BNM Policy Document on capital funds

On 3 May 2017, BNM issued a revised policy document, Capital Funds. The key change in the revised policy document is the removal of the requirement for banking institutions to maintain a reserve fund. The Group and the Bank had previously maintained the reserve fund via transfer from retained earnings to Statutory Reserve. Arising from this change, during the current financial period, the Group and the Bank had reclassified balances in Statutory Reserve to retained earnings.

3. ACCOUNTING POLICIES

3.1 Basis of preparation

The financial statements of the Group and of the Bank have been prepared on a historical cost basis unless otherwise indicated.

3.2 Statement of compliance

The financial statements of the Group and of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs"), and the requirements of the Companies Act, 2016 in Malaysia.

3.3 Functional and presentation currency

The financial statements are presented in Ringgit Malaysia ("RM"), which is also the Bank's functional currency and all values are rounded to the nearest thousand ("RM'000"), unless otherwise stated.

3.4 Summary of significant accounting policies

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the reporting date.

The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Bank and consistent accounting policies are applied for like transactions and events in similar circumstances.

The Bank controls an investee if and only if the Bank has all the following:

- (i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- (ii) Exposure, or rights, to variable returns from its investment with the investee;
- (iii) The ability to use its power over the investee to affect its returns.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(a) Basis of consolidation (cont'd.)

When the Bank has less than a majority of the voting rights of an investee, the Bank considers the following in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power over the investee:

- (i) The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- (ii) Potential voting rights held by the Bank, other vote holders or other parties;
- (iii) Rights arising from other contractual arrangements; and
- (iv) Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Subsidiaries are fully consolidated from the date of acquisition, being the date of which the Group obtains control, and continue to be consolidated until the date when such control ceases. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between:

- (i) The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- (ii) The previous carrying amount of the assets and liabilities of the subsidiary and any differences is recognised in profit or loss. The subsidiary's cumulative gain and loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method of accounting or the merger method of accounting.

- (i) Under the acquisition method of accounting

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(a) Basis of consolidation (cont'd.)

Business combinations (cont'd.)

(i) Under the acquisition method of accounting (cont'd.)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net assets of the subsidiary acquired. The accounting policy for goodwill is set out in Note 3.4(e)(i).

(ii) Under the merger method of accounting

For business combinations involving entities or businesses under common control, the Group applies the merger (or common control) accounting, whereby no assets or liabilities are restated to their fair values. Instead, the acquirer incorporates predecessor carrying values. No new goodwill arises in merger accounting.

The acquirer incorporates the acquired entity's results and balance sheet prospectively from the date on which the business combination between entities under common control occurred. Prior financial period's numbers are restated to reflect as if these entities have been under common control since the beginning of the earliest financial period presented in the financial statements.

Merger accounting may lead to a difference between the cost of the transaction and the carrying value of the net assets. The difference is recorded in reorganisation reserve.

(b) Subsidiaries

In the Bank's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(c) Investment in associates

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

On acquisition of an investment in associate, any excess of the investment cost over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill and included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities of the investee over the cost of investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss for the period in which the investment is acquired.

An associate is equity accounted for from the date on which the investee becomes an associate.

Under the equity method, on initial recognition the investment in an associate is recognised at cost and the carrying amount is increased or decreased to recognise the Group's share of profit or loss and other comprehensive income of the associate after the date of acquisition. When the Group's share of losses in an associate equal or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate is recognised in the Group's financial statements only to the extent of unrelated investors' interest in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The financial statements of the associate are prepared as of the same reporting date as the Bank. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with MFRS 136 impairment of assets as a single asset, by comparing its recoverable amount (higher of value-in-use and fair value less costs to sell) with its carrying amount. Any impairment loss is recognised in profit or loss. Reversal of an impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

In the Bank's separate financial statements, investment in associate is accounted for at cost less accumulated impairment losses. On disposal of such investment, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(d) Investment in jointly controlled entity

Jointly controlled entities are entities over which there is contractually agreed sharing of control by the Group with one (1) or more parties where the strategic financial and operating decisions relating to the entities require unanimous consent of the parties sharing control.

The Group's interest in jointly controlled entities is accounted for in the financial statements by the equity method of accounting. Equity accounting involves recognising the Group's share of the post-acquisition results of jointly controlled entities in profit or loss and its share of post-acquisition changes of the investee's reserves in other comprehensive income. The cumulative post-acquisition changes are adjusted against the cost of the investment and include goodwill on acquisition (net of accumulated impairment loss).

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the purchase of assets by the Group from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

Where necessary, adjustments have been made to the financial statements of jointly controlled entities to ensure consistency of accounting policies with those of the Group.

(e) Goodwill and intangible assets

(i) Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the date of acquisition, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.4(h).

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(ii) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the financial year in which the expenditure is incurred.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(e) Goodwill and intangible assets (cont'd.)

(ii) Other intangible assets (cont'd.)

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embedded in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in the useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Intangible assets are amortised over their finite useful lives at the following annual rate:

Computer software licence	14.28% to 33.33%
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(f) Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the financial instrument.

(i) Initial recognition and subsequent measurement

Financial assets within the scope of MFRS 139 are classified as financial assets at fair value through profit or loss, loans and receivables, financial investments held-to-maturity and financial investments available-for-sale, as appropriate. The Group and the Bank determine the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

The Group's and the Bank's financial assets include cash and short-term funds, deposits and placements, financial assets at fair value through profit or loss, financial investments available-for-sale, financial investments held-to-maturity, derivative financial assets, loans and other receivables.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(f) Financial assets (cont'd.)

(i) Initial recognition and subsequent measurement (cont'd.)

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

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group and the Bank that are not designated as hedging instruments in hedge relationships as defined by MFRS 139. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statements of financial position at fair value with changes in fair value recognised in profit or loss.

The Group and the Bank evaluate its financial assets held-for-trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group and the Bank are unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group and the Bank may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, financial investments available-for-sale or financial investments held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held-for-trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. The specific accounting policy on derivatives is detailed in Note 3.4(o).

(2) Financial investments available-for-sale ("AFS")

Financial investments AFS include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Group has not designated any loans, advances and financing as AFS.

After initial measurement, financial investments AFS are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income in the "AFS reserve" until the investment is derecognised, at which time the cumulative gain or loss is recognised in "other operating income", or the investment is determined to be impaired, when the cumulative loss is reclassified from the "AFS reserve" to profit or loss in "impairment losses on financial investments". Interest income on AFS debt securities is calculated using the effective interest method and is recognised in profit or loss. Foreign exchange gains and losses on monetary instruments are recognised in profit or loss. Dividends on an AFS equity investment are recognised in profit or loss when the right to receive payment is established. Equity investments whose fair value cannot be reliably measured are measured at cost less impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(f) Financial assets (cont'd.)

(i) Initial recognition and subsequent measurement (cont'd.)

(2) Financial investments available-for-sale ("AFS") (cont'd.)

The Group and the Bank evaluate whether the ability and intention to sell its financial investments AFS in the near term is still appropriate. When the Group and the Bank are unable to trade these financial investments due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group and the Bank may elect to reclassify these financial investments in rare circumstances. Reclassification to loans and receivables is permitted when the financial investments meet the definition of loans and receivables and the Group and the Bank have the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the Group and the Bank have the ability and intention to hold the financial investments accordingly.

For a financial investment reclassified from AFS category, any previous gain or loss on that investment that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the investment using the effective interest method. If the investment is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

(3) Financial investments held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as financial investments held-to-maturity when the Group and the Bank have the positive intention and ability to hold them to maturity. After initial measurement, financial investments held-to-maturity are measured at amortised cost using the effective interest method less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate ("EIR"). The EIR amortisation and losses arising from impairment of such investments are recognised in profit or loss.

If the Group and the Bank were to sell or reclassify more than an insignificant amount of financial investments held-to-maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as AFS. Furthermore, the Group and the Bank would be prohibited from classifying any financial investments as held-to-maturity during the following two years.

(4) Loans and receivables

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

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less allowance for impairment. Gains and losses are recognised in profit or loss when the loans are impaired, and through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(f) Financial assets (cont'd.)

(ii) Reclassification of financial assets

Reclassifications are made at fair value as of the reclassification date. The fair value becomes the new cost or amortised cost as applicable. Any gain or loss already recognised before the reclassification date is not reversed.

(iii) Derecognition

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of asset within the period generally established by regulation or convention in the market place concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, i.e., the date that the Group and the Bank commit to purchase or sell the asset.

(iv) Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group and the Bank use valuation techniques that are appropriate in the circumstances for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 51.

For financial instruments measured at fair value, where available, quoted and observable market prices in an active market or dealer price quotations are used to measure fair value. These include listed equity securities and broker quotes from Bloomberg.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(g) Impairment of financial assets

The Group and the Bank assess at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. 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 has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(i) Financial investments held-to-maturity

Evidence of impairment may include indications that the debt issuer is experiencing significant financial difficulty and default or delinquency in interest or principal repayments.

For financial investments carried at amortised cost in which there is objective evidence of impairment, impairment loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original EIR. The amount of the impairment loss is recognised in profit or loss.

(ii) Financial investments AFS

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that financial investments classified as AFS are impaired.

The cumulative impairment loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss.

Impairment losses on investment in equity instruments classified as AFS recognised are not reversed in profit or loss subsequent to their recognition. Increase in fair value, if any, subsequent to the impairment loss is recognised in other comprehensive income. Reversals of impairment losses on debt instruments classified as AFS are recognised in profit or loss if the increase in fair value can be objectively related to an event occurring after the recognition of the impairment loss in other comprehensive income.

(iii) Loans, advances and financing

Individual assessment

The criteria that the Group and the Bank use to determine that there is objective evidence of an impairment include:

- any significant financial difficulty of the obligor;
- a breach of contract, such as a default or delinquency in interest or principal repayments;
- a high probability of bankruptcy or other financial reorganisation of the obligor;
- concerns over the viability of the obligor's business operations and its capacity to trade successfully out of financial difficulties and to generate sufficient cash flows to service its debt obligations; and
- any adverse news or developments affecting the local economic conditions or business environment which will adversely affect the repayment capacity of the borrower.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(g) Impairment of financial assets (cont'd.)

(iii) Loans, advances and financing (cont'd.)

Individual assessment (cont'd.)

The Group and the Bank first assess loans individually whether objective evidence of impairment exists. If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original EIR. Where appropriate, the calculation of present value of estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective assessment

Loans which are not individually significant and loans that have been individually assessed with no evidence of impairment loss are grouped together for collective impairment assessment. These loans are grouped within similar credit risk characteristics for collective assessment, whereby data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.) and concentrations of risks (such as the performance of different individual groups) are taken into consideration.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated based on the historical loss experience of the Group and 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 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 period to period. 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 carrying amount of the financial asset is reduced through the use of an impairment allowance account and the amount of impairment loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed the amortised cost at the reversal date. The amount is recognised in profit or loss.

An uncollectible financial asset classified as impaired is written-off after taking into consideration the realisable value of collateral, if any, when in the opinion of management there is no prospect of recovery.

(iv) Renegotiated loans

For renegotiated loans, the Group and the Bank may extend the payment arrangements and agree on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loan continues to be subject to impairment assessment, calculated using the loan's original EIR.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(h) Impairment of non-financial assets

The Group and the Bank assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment assessment for an asset is required, the Group and the Bank makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU).

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date to determine whether there is indication that previously recognised impairment losses no longer exist or have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine that asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

(i) Cash and cash equivalents

Cash and cash equivalents as stated in the statements of cash flows comprise cash and short-term funds and deposits and placements with financial institutions that are readily convertible into cash with insignificant risk of changes in value.

(j) Provisions

Provisions are recognised when the Group and the Bank have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

(k) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(k) Financial liabilities (cont'd.)

Financial liabilities, are recognised in the statements of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

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

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held-for-trading include derivative financial instruments entered into by the Group and the Bank that do not meet the hedge accounting criteria. The accounting policy for derivative financial instruments is disclosed in Note 3.4(o).

(ii) Other financial liabilities

The Group's and the Bank's other financial liabilities include deposits from customers, deposits and placements of banks and other financial institutions and balances due to clients and brokers.

Deposits from customers, deposits and placements of banks and other financial institutions are initially recognised at placement values, which represent the fair value plus directly attributable transaction costs, and subsequently measured at amortised cost using the EIR.

Balances due to clients and brokers represent amounts payable in respect of outstanding contracts entered into on behalf of these clients where settlements have yet to be made, which represent the initial fair value plus directly attributable transaction costs, and subsequently measured at amortised cost using the EIR. The credit terms for trade settlements are based on the agreements entered into between the Group and its clients and are in accordance with the Rules of Bursa Malaysia Securities Berhad ("Bursa Rules").

Other financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at cost using the EIR. Gains or losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

(l) Property, plant and equipment and depreciation

All items of property, plant and equipment are initially recorded at cost. 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 are recognised in profit or loss during the financial period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(l) Property, plant and equipment and depreciation (cont'd.)

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.4(h).

Freehold land with an indefinite useful life and capital work-in-progress is not depreciated as these assets are not available for use. Depreciation of other property, plant and equipment is provided for on a straight-line-basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Building	2%
Motor vehicles	20% to 25%
Computer equipment	10% to 33.33%
Office equipment	10% to 33.33%
Furniture and fittings	5% to 20%
Renovations	10% to 20%

The residual values, useful life and depreciation method are reviewed at each reporting date to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in profit or loss.

(m) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an agreement.

(i) Finance leases

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the statements of financial position as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's and the Bank's incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 3.4(l).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(m) Leases (cont'd.)

(ii) Operating leases

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the term of the relevant lease.

(n) Share capital

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(o) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which derivative contracts are entered into and are subsequently remeasured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Derivative financial instruments are presented separately in the statements of financial position as assets (positive changes in fair values) and liabilities (negative changes in fair values). Any gains or losses arising from changes in the fair value of the derivatives are recognised immediately in profit or loss.

(p) Income recognition

(i) Interest, financing and profit income

Interest income is recognised in profit or loss for all interest or profit bearing assets on an effective yield basis.

Interest income includes the amortisation of premium or accretion of discount.

Once a loan has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

(ii) Fee and other income

Brokerage fees are recognised on contract date upon execution of trade on behalf of clients computed based on a pre-determined percentage of the contract value.

Loan arrangement fees and commissions, management and participation fees, underwriting fees and placement fees are recognised as income when all conditions precedent are fulfilled.

Custodian fees, guarantee fees and fund management fees are recognised as income based on time apportionment basis.

Corporate advisory fees are recognised as income on the completion of each stage of the assignment.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(p) Income recognition (cont'd.)

(ii) Fee and other income (cont'd.)

Rollover fee is recognised upon the rollover of specific contracts under share margin financing.

Gain/(loss) on disposal of investments is recognised upon the transfer of risks and rewards of ownership.

(iii) Islamic banking income

Income from Islamic banking scheme is recognised on an accrual basis in accordance with Shariah principles.

(iv) Other income

Dividend income is recognised when the right to receive the payment is established.

All other income items are recognised on an accrual basis.

(q) Interest, financing and profit expense

Interest expense on deposits from customers, placements of financial institutions and borrowings is recognised using EIR.

(r) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Group and the Bank and recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(r) Foreign currency (cont'd.)

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into RM at the rates of exchange ruling at the reporting date and income and expenses are translated at exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income and accumulated in equity under foreign currency translation reserve relating to that particular foreign operation is recognised in profit or loss.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the reporting date.

(s) Income taxes

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(ii) Zakat

This represent business zakat payable by the Bank in compliance with Shariah principles and as approved by the Bank's Shariah Committee.

(iii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(s) Income taxes (cont'd.)

(iv) Deferred tax (cont'd.)

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the financial year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(t) Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the financial year in which the associated services are rendered by employees of the Group and of the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in profit or loss as incurred. Once the contributions have been paid, the Group has no further payment obligations.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies (cont'd.)

(u) Segment information

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Bank who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 49, including the factors used to identify the reportable segments and the measurement basis of segment information.

(v) Contingent liabilities and contingent assets

The Group and the Bank do not recognise a contingent liability but disclose 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 (1) 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.

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 (1) or more uncertain future events beyond the control of the Group and the Bank. The Group and the Bank do not recognise any contingent asset but disclose its existence where inflows of economic benefits are probable, but not virtually certain.

(w) Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in fiduciary capacity are not recognised as assets of the Group.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with MFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of revenues, expenses, assets and liabilities, the accompanying disclosures and the disclosure of contingent liabilities. Judgments, estimates and assumptions are continually evaluated and are based on past experience, reasonable expectations of future events and other factors. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Group's accounting policies, management has made the following estimates and judgments which have the most significant effect on the amounts recognised in the financial statements.

- (i) The Group and the Bank determine whether goodwill and other intangible assets are impaired at least on an annual basis. This requires an estimation of the value-in-use of the CGU to which goodwill and other intangible assets are allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More detailed disclosures on the assessment of impairment of goodwill and other intangible assets are disclosed in Note 18.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D.)

- (ii) The fair value of financial assets at fair value through profit or loss (Note 6), financial investments AFS (Note 7), derivative financial assets (Note 9) and derivative financial liabilities (Note 23) are derived from quoted and observable market prices. However, if the financial instruments are not traded in an active market, fair value may be established by using a valuation technique which includes but is not limited to using recent arm's length market transactions between knowledgeable, willing parties, and reference to the current fair value of another instrument that is substantially the same. The Group and the Bank use acceptable valuation technique which involves making assumptions based on market conditions and other factors as of the reporting date.
- (iii) The Group and the Bank assess at each reporting date whether there is any objective evidence that loans, advances and financing are impaired. To determine whether there is objective evidence of impairment, the Group and the Bank consider factors such as those disclosed in Note 3.4(g). Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on available information obtained from the debtors, market, and management's judgment. Among the factors considered are the underlying assumptions used in the projected cash flows which include net realisable value of the underlying collaterals, capability and financial capacity to generate sufficient cash flows to service debt obligations.

The carrying value of the Group's and the Bank's loans, advances and financing at the reporting date is disclosed in Note 10.

- (iv) The Group and the Bank estimate the useful lives of property, plant and equipment and software based on factors such as the expected level of usage due to physical wear and tear, future technological developments and legal or other limits on the use of the relevant assets. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment, and software would increase the recorded depreciation and decrease their carrying value. The total carrying amounts of property, plant and equipment, and software are disclosed in Notes 17 and 18 respectively.
- (v) Deferred tax assets are recognised for all unutilised tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the tax losses and unabsorbed capital allowances can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. As at financial year end, the total carrying value of unutilised tax losses and unabsorbed capital allowances are disclosed in Note 19.
- (vi) The Group and the Bank assess whether there is any indication that investments in subsidiaries and investment in associates may be impaired at each reporting date.

If indicators are present, these assets are subject to impairment review. The impairment review comprises comparison of the carrying amount of the investment and the investment's estimated recoverable amount.

Judgments made by management in the process of applying the Group's and the Bank's accounting policies in respect of investments in subsidiaries and investment in an associate are as follows:

- The Bank determines whether its investments are impaired following certain indications of impairment such as, amongst others, significant changes with adverse effects on the investment and deteriorating financial performance of the investment due to observed changes and fundamentals.
- Depending on their nature and the industries in which the investments relate to, judgments are made by management to select suitable methods of valuation such as, amongst others, discounted cash flows and realisable net asset value.

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4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D.)

- (vii) Once a suitable method of valuation is selected, management makes certain assumptions concerning the future to estimate the recoverable amount of the investment. These assumptions and other key sources of estimation uncertainty at the reporting date may have a significant risk of causing material adjustment to the carrying amounts of the investments within the next financial year. Depending on the specific individual investment, assumptions made by management may include, amongst others, assumptions on expected future cash flows, revenue growth, discount rate used for purposes of discounting future cash flows which incorporates the relevant risks, and expected future outcome of certain past events.

Investments in subsidiaries and associates of the Group are disclosed in Notes 14 and 15 respectively.

5. CASH AND BANK BALANCES

	Group		Bank	
	2017 RM'000	2016 RM'000 Restated (Note 55)	2017 RM'000	2016 RM'000 Restated (Note 55)
Cash and balances with banks and other financial institutions	279,972	146,195	126,640	79,704
Money at call and deposit placements	1,067,545	1,081,406	965,904	869,717
	1,347,517	1,227,601	1,092,544	949,421
Included in cash and bank balances are:				
Cash and cash equivalents	1,143,077	1,041,684	1,032,060	891,414
Monies held in trust on behalf of dealer's representatives and segregated funds for customers	204,440	185,917	60,484	58,007
	1,347,517	1,227,601	1,092,544	949,421

Monies held in trust on behalf of clients of RM728,134,000 (2016: RM665,738,000) in respect of the stockbroking business are excluded from the cash and bank balances of the Group and the Bank in accordance with Financial Reporting Standards Implementation Committee ("FRSIC") Consensus 18.

NOTES TO THE FINANCIAL STATEMENTS

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6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2017 RM'000	2016 RM'000 Restated (Note 55)	2017 RM'000	2016 RM'000
At fair value				
Money market instruments:				
Malaysian Government Securities	20,254	–	20,254	–
Malaysian Government Investment Certificates	50,171	–	50,171	–
Quoted securities:				
Shares in Malaysia	216,060	191,578	216,060	191,578
Shares outside Malaysia	3,368	19,632	3,368	19,632
Unquoted securities:				
Shares and funds in Malaysia	18,041	6,660	10,208	–
Unquoted private debt securities in Malaysia:				
Corporate Bonds	–	45,035	–	45,035
Corporate Bills	89,733	84,639	89,733	84,639
Islamic Corporate Sukuk	–	14,668	–	14,668
Islamic Corporate Bills	159,941	24,969	159,941	24,969
	557,568	387,181	549,735	380,521
Unquoted private debt securities outside Malaysia:				
Redeemable Corporate Notes*	–	1,067	–	1,067
	557,568	388,248	549,735	381,588

* The Redeemable Corporate Notes contained embedded derivatives including early redemption options. As the embedded derivatives cannot be measured separately on a reliable basis, the entire hybrid instruments were designated to be carried at fair value through profit or loss in accordance with MFRS 139. The Redeemable Corporate Notes were fully redeemed during the year.

NOTES TO THE FINANCIAL STATEMENTS

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7. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Group		Bank	
	2017 RM'000	2016 RM'000 Restated (Note 55)	2017 RM'000	2016 RM'000
At fair value				
Money market instruments:				
Malaysian Government Securities	49,534	19,566	49,534	19,566
Malaysian Government Investment Certificates	155,357	58,428	155,357	58,428
Sukuk Perumahan Kerajaan	10,076	10,056	10,076	10,056
Negotiable Instruments of Deposits	50,000	50,000	50,000	50,000
Islamic Negotiable Instruments of Deposits	–	149,890	–	149,890
	264,967	287,940	264,967	287,940
Unquoted securities:				
Shares	490	490	490	490
Unquoted private debt securities:				
Islamic Corporate Sukuk	514,626	524,752	514,626	524,752
Corporate Bonds	230,084	124,522	230,084	124,522
	744,710	649,274	744,710	649,274
	1,010,167	937,704	1,010,167	937,704

Included in financial investments available-for-sale are financial assets sold under repurchase agreements as follows:

	Group and Bank	
	2017 RM'000	2016 RM'000
Malaysian Government Investment Certificates (Note 25)	37,861	27,253
Malaysian Government Securities (Note 25)	37,132	–
	74,993	27,253

8. FINANCIAL INVESTMENTS HELD-TO-MATURITY

	Group and Bank	
	2017 RM'000	2016 RM'000
At amortised cost		
Unquoted private debt securities:		
Islamic Corporate Sukuk	38,001	40,000

NOTES TO THE FINANCIAL STATEMENTS

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9. DERIVATIVE FINANCIAL ASSETS

	Group and Bank	
	2017	2016
	RM'000	RM'000
At fair value		
Dual currency investment – Options	118	45
Equity related contracts – Options	64,820	33,498
Equity related contracts – Swap	2,455	5,574
	67,393	39,117
Contract/Notional amount		
Dual currency investment – Options	18,114	17,407
Equity related contracts – Options	111,305	93,636
Equity related contracts – Swap	75,772	57,262
	205,191	168,305

10. LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Term loans	588,800	505,348	614,478	562,084
Share margin financing	1,557,649	1,490,721	1,557,649	1,490,721
Others	51,985	112,082	–	–
Subordinated term loan*	–	–	10,261	15,219
Gross loans, advances and financing	2,198,434	2,108,151	2,182,388	2,068,024
Allowance for impairment on loans, advances and financing				
– Individual allowance	(2,264)	(2,135)	(1,441)	(1,266)
– Collective allowance	(669)	(432)	(867)	(871)
	(2,933)	(2,567)	(2,308)	(2,137)
Net loans, advances and financing	2,195,501	2,105,584	2,180,080	2,065,887

* Subordinated term loan to a subsidiary

The subordinated loan granted to a subsidiary company, Kenanga Futures Sdn Bhd (formerly known as Kenanga Deutsche Futures Sdn Bhd), is unsecured with effective interest rate of 5.70% per annum (FYE16: 5.88%) and is repayable by November 2021.

NOTES TO THE FINANCIAL STATEMENTS

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10. LOANS, ADVANCES AND FINANCING (CONT'D.)

(i) Gross loans, advances and financing analysed by type of customer are as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Domestic business enterprises				
– Others	904,376	894,834	889,531	900,953
Individuals	1,230,307	1,158,958	1,229,106	1,112,712
Foreign enterprises	63,751	54,359	63,751	54,359
	2,198,434	2,108,151	2,182,388	2,068,024

(ii) Gross loans, advances and financing analysed by geographical distribution are as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
In Malaysia	2,124,179	2,042,417	2,108,133	2,002,290
Outside Malaysia	74,255	65,734	74,255	65,734
	2,198,434	2,108,151	2,182,388	2,068,024

(iii) Gross loans, advances and financing analysed by interest rate/profit rate sensitivity are as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Fixed rate				
– Other fixed rate loans	1,609,617	1,602,786	1,557,633	1,490,704
Variable rate				
– Other variable rates	565,481	464,882	601,419	536,837
– Base lending rate plus	23,336	40,483	23,336	40,483
	2,198,434	2,108,151	2,182,388	2,068,024

(iv) Gross loans, advances and financing analysed by economic purpose are as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Purchase of securities	1,836,502	1,720,409	1,819,194	1,703,996
Working capital	193,274	243,792	203,635	254,056
Others	168,658	143,950	159,559	109,972
	2,198,434	2,108,151	2,182,388	2,068,024

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10. LOANS, ADVANCES AND FINANCING (CONT'D.)

(v) Gross loans, advances and financing analysed by residual contractual maturity are as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Within one year	1,778,176	1,785,930	1,751,870	1,673,848
More than one year	420,258	322,221	430,518	394,176
	2,198,434	2,108,151	2,182,388	2,068,024

(vi) Movements in impaired loans, advances and financing are as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At beginning of the financial year	2,608	7,942	1,735	1,954
Impaired during the financial year	176	1,824	176	160
Amount written off	–	(379)	–	(379)
Amount recovered	(47)	(6,779)	(1)	–
At end of the financial year	2,737	2,608	1,910	1,735
Individual allowance	(2,264)	(2,135)	(1,441)	(1,266)
	473	473	469	469
Net impaired loans as % of gross loans, advances and financing less individual allowance	0.02%	0.02%	0.02%	0.02%

Impaired loans, advances and financing consist of all the past due accounts regardless of any recognition of allowances for impairment.

(vii) Impaired loans, advances and financing analysed by geographical distribution are as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
In Malaysia	2,737	2,608	1,910	1,735

(viii) Impaired loans, advances and financing analysed by economic purpose are as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Working capital	827	869	–	–
Purchase of securities	1,910	1,739	1,910	1,735
	2,737	2,608	1,910	1,735

NOTES TO THE FINANCIAL STATEMENTS

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10. LOANS, ADVANCES AND FINANCING (CONT'D.)

(ix) Movements in allowances for loans, advances and financing are as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Individual allowance				
At beginning of the financial year	2,135	1,395	1,266	1,395
Allowance made (Note 34)	176	932	176	63
Allowance written back (Note 34)	(47)	(192)	(1)	(192)
At end of the financial year	2,264	2,135	1,441	1,266
Collective allowance				
At beginning of the financial year	432	143	871	438
Allowance made (Note 34)	509	406	268	550
Allowance written back (Note 34)	(272)	(117)	(272)	(117)
At end of the financial year	669	432	867	871
Collective allowance as % of gross loans, advances and financing less individual allowance	0.03%	0.02%	0.04%	0.04%

11. BALANCES DUE FROM CLIENTS AND BROKERS

	Group and Bank	
	2017 RM'000	2016 RM'000 Restated (Note 55)
Balances due from clients and brokers	516,250	471,740
Less: allowance for impairment	(21,367)	(26,735)
	494,883	445,005

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11. BALANCES DUE FROM CLIENTS AND BROKERS (CONT'D.)

Movements of allowance for impairment

	Group and Bank	
	2017	2016
	RM'000	RM'000
At beginning of the financial year	26,735	27,328
Allowance made during the financial year (Note 35)	6,262	5,408
Allowance for impairment written back (Note 35)	(6,163)	(5,975)
Allowance for impairment losses written off against balances due from clients and brokers	(5,467)	(26)
At end of the financial year	21,367	26,735

Balances due from clients and brokers represent the amounts receivable in respect of outstanding contracts, contra losses and interests.

The credit terms in respect of balances due from clients and brokers are based on the agreements entered into between the Bank and its clients and are in accordance with the Bursa Malaysia Securities Berhad Rules.

12. OTHER ASSETS

		Group		Bank	
		2017	2016	2017	2016
		RM'000	RM'000	RM'000	RM'000
	Note		Restated (Note 55)		Restated (Note 55)
Assets segregated for customers	(a)	32,431	138,146	–	–
Interest/income receivable		11,989	9,430	11,547	8,933
Amounts due from subsidiary companies		–	–	116	872
Amounts due from related parties	(b)	33	104	33	104
Prepayments and deposits		18,699	21,567	17,435	20,372
Other debtors	(c)	40,019	65,797	20,817	48,233
Treasury trade receivables		19,986	–	19,986	–
		123,157	235,044	69,934	78,514
Allowance for impairment		(4,740)	(3,605)	(3,352)	(3,605)
		118,417	231,439	66,582	74,909

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12. OTHER ASSETS (CONT'D.)

Movements of allowance for impairment

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At beginning of the financial year	3,605	4,666	3,605	4,666
Allowance made during the financial year (Note 35)	3,950	3,134	2,562	3,134
Allowance for impairment written back (Note 35)	(2,815)	(3,919)	(2,815)	(3,919)
Allowance for impairment losses written off against other assets	–	(276)	–	(276)
At end of the financial year	4,740	3,605	3,352	3,605

(a) Assets segregated for customers

This represents margin deposits paid by a subsidiary to Bursa Malaysia Derivatives Clearing Berhad.

(b) Amount due from related parties

Amounts due from all related parties comprise payments of expenses made on behalf of these related parties and are unsecured, non-interest bearing and repayable on demand.

(c) Other debtors

Included in other debtors are receivables from corporate advisory billings which are non-interest bearing and generally on 90 day (2016: 90 day) terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

13. STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA (“BNM”)

The non-interest bearing statutory deposit is maintained with BNM in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act 2009. The amount is determined as a set percentage of net eligible liabilities.

14. INVESTMENT IN SUBSIDIARIES

	Bank	
	2017 RM'000	2016 RM'000
Unquoted shares, at cost		
At beginning of the financial year	67,550	59,860
Add: Acquisition of shares in a subsidiary (Note (i))	5,514	–
Less: Disposal of a subsidiary (Note (ii))	–	(60)
Add: Effect of merger accounting (Note (iii))	–	7,750
Less: Impairment losses	(500)	–
At end of the financial year	72,564	67,550

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14. INVESTMENT IN SUBSIDIARIES (CONT'D.)

- (i) Acquisition of remaining 27% equity interest in Kenanga Futures Sdn Bhd (formerly known as Kenanga Deutsche Futures Sdn Bhd) (Note 53 (1)).
- (ii) Being deemed disposal of a wholly-owned subsidiary, ECML Nominees (Asing) Sdn Bhd ("ECMLNA") (now known as Rakuten Trade Sdn Bhd), to Rakuten Securities, Inc. which acquired 50% equity interest of Rakuten Trade Sdn Bhd (formerly known as ECMLNA). As a result of loss of control over ECMLNA, the investment in subsidiary was derecognised and reclassified to investment in a joint venture/ jointly controlled company. The dilution of the equity interest in ECMLNA constituted a deemed disposal of the Bank's equity interest in subsidiary.
- (iii) Based on merger/common control accounting, K & N Kenanga Holdings Berhad ("KNKH"), Kenanga Capital Sdn Bhd, Kenanga Capital Islamic Sdn Bhd, Kenanga Private Equity Sdn Bhd and Kenanga Management & Services Sdn Bhd became wholly-owned subsidiaries of the Bank, pursuant to the Group internal reorganisation.

Details of the subsidiary companies are as follows:

Name	Principal activities	Effective equity interest		Non-controlling interest	
		2017 %	2016 %	2017 %	2016 %
<u>Local subsidiary companies</u>					
Kenanga Futures Sdn Bhd (formerly known as Kenanga Deutsche Futures Sdn Bhd) (“KF”)	Futures broker	100	73	–	27
Kenanga Nominees (Asing) Sdn Bhd	Provision of nominee services	100	100	–	–
Kenanga Nominees (Tempatan) Sdn Bhd	Provision of nominee services	100	100	–	–
Kenanga Private Equity Sdn Bhd	Private equity management	100	100	–	–
ECML Berhad	Dormant	100	100	–	–
ECML Nominees (Tempatan) Sdn Bhd	Dormant	100	100	–	–
Avenue Kestrel Sdn Bhd	Dormant	100	100	–	–
K & N Kenanga Holdings Berhad	Investment holding	100	100	–	–
The subsidiary company of K & N Kenanga Holdings Berhad is:					
SSSB Management Services Sdn Bhd	Dormant	100	100	–	–
Kenanga Management & Services Sdn Bhd	Provision of car park management services	100	100	–	–
Kenanga Investors Berhad	Promotion and management of collective investment schemes and management of investment funds	100	100	–	–

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14. INVESTMENT IN SUBSIDIARIES (CONT'D.)

Name	Principal activities	Effective equity interest		Non-controlling interest	
		2017 %	2016 %	2017 %	2016 %
<u>Local subsidiary companies</u> (cont'd.)					
The subsidiary companies of Kenanga Investors Berhad are:					
Kenanga Islamic Investors Berhad	Management of Islamic collective investment schemes and Islamic investment funds	100	100	–	–
KUT Nominees (Tempatan) Sdn Bhd	Dormant	100	100	–	–
KUT Nominees (Asing) Sdn Bhd	Dormant	100	100	–	–
Kenanga Funds Berhad	Dormant	100	100	–	–
Kenanga Capital Sdn Bhd	Licensed money lender	100	100	–	–
The subsidiary company of Kenanga Capital Sdn Bhd is:					
Kenanga Capital Islamic Sdn Bhd	Islamic factoring and leasing	100	100	–	–
<u>Overseas subsidiary company</u>					
Kenanga Singapore Pte. Ltd.*	Dormant	100	100	–	–

* Audited by affiliate of Ernst & Young.

(a) Summarised financial statements

The summarised financial information of KF which has non-controlling interests before the acquisition of remaining interest in KF that are material to the Group is set out below. The summarised financial information presented below is the amount before inter-company elimination.

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14. INVESTMENT IN SUBSIDIARIES (CONT'D.)

(a) Summarised financial statements (cont'd.)

(i) Non-controlling interests ("NCI") in KF

The Group's subsidiary that has material NCI are as follows:

	KF	
	2017 RM'000	2016 RM'000
NCI percentage of ownership interest and voting interest	–	27%
Carrying amount of NCI	10,236	9,749
(Loss)/Profit allocated to NCI	(22)	487
Elimination of NCI due to change of stake in KF	(10,214)	–
	–	10,236
Non-current assets	2,134	2,255
Current assets	244,555	436,030
Total assets	246,689	438,285
Current liabilities	209,975	385,374
Non-current liabilities	10,000	15,000
Total liabilities	219,975	400,374
Net assets	26,714	37,911
Equity attributable to the Bank	26,714	27,675
NCI	–	10,236

(ii) Summarised statements of profit or loss and other comprehensive income

	KF	
	2017 RM'000	2016 RM'000
Revenue	12,962	19,491
(Loss)/Profit for the financial year	(1,197)	1,805
Attributable to:		
The Bank	(1,175)	1,318
NCI	(22)	487

NOTES TO THE FINANCIAL STATEMENTS

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14. INVESTMENT IN SUBSIDIARIES (CONT'D.)

(a) Summarised financial statements (cont'd.)

(iii) Summarised statements of cash flows

	KF	
	2017 RM'000	2016 RM'000
Operating activities	9,999	5,321
Investing activities	(577)	(1,064)
Financing activities	(15,599)	(3,970)
Net (decrease)/increase in cash and cash equivalents	(6,177)	287

15. INVESTMENT IN ASSOCIATES

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Unquoted shares at cost	88,644	88,644	68,435	68,435
Share of post acquisition losses	(24,104)	(16,990)	–	–
Share of changes in other comprehensive income	(2,159)	(4,031)	–	–
Dividends received	(102)	(102)	–	–
Foreign exchange differences	17,769	24,760	–	–
	80,048	92,281	68,435	68,435
Less: Accumulated impairment losses	(19,610)	(19,610)	(12,200)	(12,200)
	60,438	72,671	56,235	56,235
Represented by:				
Share of net tangible assets	60,438	72,671		

(a) Details of the associates are as follows:

Name	Place of incorporation	Principal activities	Effective equity interest	
			2017 %	2016 %
Kenanga Investment Corporation Ltd*	Sri Lanka	Investment banking related activities	45.0	45.0
AL Wasatah Al Maliah Company* ("Wasatah Capital")	Kingdom of Saudi Arabia	Dealing as principal and to provide underwriting, arranging, managing investment funds and custodian services	29.6	29.6
Kenanga Vietnam Securities Joint Stock Corporation*^	Vietnam	Securities, brokerage depository and advisory business	49.0	49.0

* Audited by firms other than Ernst & Young

^ Equity accounted for using unaudited management accounts

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15. INVESTMENT IN ASSOCIATES (CONT'D.)

(a) Details of the associates are as follows: (cont'd.)

The Group and the Bank carried out an impairment assessment on the associates in accordance with the accounting policy stated in Note 3.4(h). The recoverable amount is based on the Group's share of net tangible assets of the associates. Based on management's assessment, the Group and the Bank have made adequate provision for impairment loss on the investments as at the financial year-end.

(b) Summarised financial information of the material associate is as follows:

The summarised financial information represents the amounts in the MFRS financial statements of the material associate and not the Group's share of those amounts.

(i) Summarised statement of financial position

	Wasatah Capital	
	2017	2016
	RM'000	RM'000
Current assets	59,904	73,569
Non-current assets	144,246	171,182
Total assets	204,150	244,751
Current liabilities*	997	2,973
Non-current liabilities	2,215	–
Total liabilities	3,212	2,973
Net assets	200,938	241,778

* The current liabilities is net of zakat provision for the financial year as the zakat are not shared by non-Saudi shareholders in accordance with the regulations of Zakat department of Zakat & Income Tax as applicable in the Kingdom of Saudi Arabia. Therefore, the provision is not included in the net assets for the purpose of showing the Group and the Bank's share of net assets in Wasatah Capital.

(ii) Summarised statement of profit or loss and other comprehensive income

	Wasatah Capital	
	2017	2016
	RM'000	RM'000
Revenue	16,407	18,019
(Loss)/Profit for the financial year	(23,553)	301
Other comprehensive income	5,172	10,550
Total comprehensive (loss)/income	(18,381)	10,851

NOTES TO THE FINANCIAL STATEMENTS

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15. INVESTMENT IN ASSOCIATES (CONT'D.)

(b) Summarised financial information of the material associate is as follows: (cont'd.)

(iii) Reconciliation of the summarised financial information presented above to the carrying amount of the Group's interest in the material associate

	Wasatah Capital	
	2017	2016
	RM'000	RM'000
Net assets at 1 January	241,778	221,667
(Loss)/Profit for the financial year	(23,553)	301
Other comprehensive income	5,172	10,550
Movement of foreign exchange reserve	(22,459)	9,260
Net assets at 31 December	200,938	241,778
Interest in associate	29.60%	29.60%
Carrying value of Group's interest in associate	59,478	71,566

(c) Aggregate information of associates that are not individually material

	2017	2016
	RM'000	RM'000
The Group's share of results in associates, representing share of total comprehensive loss	56	100

16. INVESTMENT IN A JOINT VENTURE COMPANY

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Unquoted shares, at cost				
At beginning of the financial year	7,500	–	7,500	–
Add: Subscription of new shares in a joint venture company	12,500	7,500	12,500	7,500
	20,000	7,500	20,000	7,500
Cumulative share of results	(6,780)	(538)	–	–
At end of the financial year	13,220	6,962	20,000	7,500

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16. INVESTMENT IN A JOINT VENTURE COMPANY (CONT'D.)

(a) The summarised income and expenses of the joint venture company are as follows:

	Group	
	2017	2016
	RM'000	RM'000
Revenue	899	–
Loss after taxation	(12,484)	(1,076)

(b) The summarised assets and liabilities of the joint venture company are as follows:

	Group	
	2017	2016
	RM'000	RM'000
Total assets	87,054	14,683
Total liabilities	60,616	760

(c) Details of the joint venture company held by the Bank are as follows:

Name	Percentage (%) of equity held		Principal activities
	2017	2016	
Rakuten Trade Sdn Bhd (formerly known as EB Global JV Sdn Bhd)	50	50	Dealing in listed securities, online brokerage services and providing investment advice

NOTES TO THE FINANCIAL STATEMENTS

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17. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM'000	Building RM'000	Motor vehicles RM'000	Plant and office equipment RM'000	Furniture and fittings RM'000	Research library RM'000	Renovations RM'000	Capital work-in-progress RM'000	Total RM'000
2017									
Cost									
At 1 January 2017	81,910	46,830	6,737	71,744	41,178	703	23,833	18,308	291,243
Adjustment*	-	-	-	-	-	-	-	(1,628)	(1,628)
Additions	-	-	-	5,106	3,654	-	6,059	2,633	17,452
Reclassification	-	-	-	3,934	3,716	-	2,200	(9,850)	-
Disposals/write-off (Note 24)	-	-	(105)	(4,304)	(3,382)	(703)	(2,758)	(5,717)	(16,969)
At 31 December 2017	81,910	46,830	6,632	76,480	45,166	-	29,334	3,746	290,098
Accumulated depreciation									
At 1 January 2017	-	691	6,005	41,928	35,630	703	14,569	-	99,526
Adjustment	-	-	-	(1,628)	-	-	-	-	(1,628)
Depreciation charge for the financial year (Note 33)	-	936	402	7,346	1,901	-	2,569	-	13,154
Disposals/write-off	-	-	(105)	(4,217)	(3,275)	(703)	(2,496)	-	(10,796)
At 31 December 2017	-	1,627	6,302	43,429	34,256	-	14,642	-	100,256
Net carrying amount									
At 31 December 2017	81,910	45,203	330	33,051	10,910	-	14,692	3,746	189,842

* Adjustment was made to reflect net book value of assets transferred from an information technology outsourcing company which was recorded at cost in previous year

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

17. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Group	Freehold land RM'000	Building RM'000	Motor vehicles RM'000	Plant and office equipment RM'000	Furniture and fittings RM'000	Research library RM'000	Renovations RM'000	Capital work-in-progress RM'000	Total RM'000
2016									
Cost									
At 1 January 2016	-	500	8,041	46,362	41,525	703	30,243	4,914	132,288
Additions	81,910	46,330	5	31,681	1,221	-	260	15,077	176,484
Acquisition due to merger	-	-	375	582	-	-	-	-	957
Reclassification	-	-	-	1,486	3	-	193	(1,683)	(1)
Disposals/write-off	-	-	(1,684)	(8,367)	(1,571)	-	(6,863)	-	(18,485)
At 31 December 2016	81,910	46,830	6,737	71,744	41,178	703	23,833	18,308	291,243
Accumulated depreciation									
At 1 January 2016	-	141	6,693	38,648	34,417	703	15,988	-	96,590
Depreciation charge for the financial year (Note 33)	-	550	621	6,780	1,870	-	2,569	-	12,390
Reclassification	-	-	-	9	(9)	-	-	-	-
Disposals/write-off	-	-	(1,309)	(3,509)	(648)	-	(3,988)	-	(9,454)
At 31 December 2016	-	691	6,005	41,928	35,630	703	14,569	-	99,526
Net carrying amount									
At 31 December 2016	81,910	46,139	732	29,816	5,548	-	9,264	18,308	191,717

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

17. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Bank	Freehold land RM'000	Building RM'000	Motor vehicles RM'000	Plant and office equipment RM'000	Furniture and fittings RM'000	Research library RM'000	Renovations RM'000	Capital work-in-progress RM'000	Total RM'000
2017									
Cost									
At 1 January 2017	81,910	46,830	6,557	68,986	40,127	703	22,614	18,303	286,030
Adjustment *	-	-	-	-	-	-	-	(1,628)	(1,628)
Additions	-	-	-	4,800	3,197	-	4,761	2,343	15,101
Reclassification	-	-	-	3,932	3,679	-	1,977	(9,588)	-
Disposals/write-off (Note 24)	-	-	(105)	(3,700)	(3,366)	(703)	(2,758)	(5,717)	(16,349)
At 31 December 2017	81,910	46,830	6,452	74,018	43,637	-	26,594	3,713	283,154
Accumulated depreciation									
At 1 January 2017	-	691	5,827	39,675	34,675	703	13,728	-	95,299
Adjustment	-	-	-	(1,628)	-	-	-	-	(1,628)
Depreciation charge for the financial year (Note 33)	-	936	402	7,106	1,844	-	2,391	-	12,679
Disposals/write-off	-	-	(105)	(3,611)	(3,259)	(703)	(2,496)	-	(10,174)
At 31 December 2017	-	1,627	6,124	41,542	33,260	-	13,623	-	96,176
Net carrying amount									
At 31 December 2017	81,910	45,203	328	32,476	10,377	-	12,971	3,713	186,978

* Adjustment was made to reflect net book value of assets transferred from an information technology outsourcing company which was recorded at cost in previous year

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

17. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Bank	Freehold land RM'000	Building RM'000	Motor vehicles RM'000	Plant and office equipment RM'000	Furniture and fittings RM'000	Research library RM'000	Renovations RM'000	Capital work-in-progress RM'000	Total RM'000
2016									
Cost									
At 1 January 2016	-	500	6,177	42,453	39,574	703	24,974	4,874	119,255
Additions	81,910	46,330	5	30,816	1,159	-	238	14,853	175,311
Acquisition due to merger	-	-	375	581	-	-	-	-	956
Reclassification	-	-	-	1,449	(27)	-	1	(1,424)	(1)
Disposals/write-off	-	-	-	(6,313)	(579)	-	(2,599)	-	(9,491)
At 31 December 2016	81,910	46,830	6,557	68,986	40,127	703	22,614	18,303	286,030
Accumulated depreciation									
At 1 January 2016	-	141	5,357	35,455	33,151	703	12,720	-	87,527
Depreciation charge for the financial year (Note 33)	-	550	470	6,400	1,769	-	2,130	-	11,319
Reclassification	-	-	-	9	(9)	-	-	-	-
Disposals/write-off	-	-	-	(2,189)	(236)	-	(1,122)	-	(3,547)
At 31 December 2016	-	691	5,827	39,675	34,675	703	13,728	-	95,299
Net carrying amount									
At 31 December 2016	81,910	46,139	730	29,311	5,452	-	8,886	18,303	190,731

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

18. INTANGIBLE ASSETS

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Total intangible assets					
Goodwill	(a)	208,754	208,754	252,909	252,909
Merchant banking licence	(b)	52,500	52,500	52,500	52,500
Fund management contracts	(c)	4,169	4,169	–	–
Computer software	(d)	575	1,083	–	–
Trading and clearing rights for derivatives broking	(e)	416	416	–	–
At end of the financial year		266,414	266,922	305,409	305,409
(a) Goodwill					
Cost					
At beginning of the financial year		244,521	244,521	288,676	288,676
Accumulated impairment loss					
– at beginning/end of the financial year		(35,767)	(35,767)	(35,767)	(35,767)
At end of the financial year		208,754	208,754	252,909	252,909
(b) Merchant banking licence					
Cost					
At beginning/end of the financial year		52,500	52,500	52,500	52,500
(c) Fund management contracts					
Cost					
At beginning/end of the financial year		4,169	4,169	–	–
(d) Computer software					
Cost					
At beginning of the financial year		5,717	4,659	2,281	1,920
Additions		200	1,061	–	–
Addition due to merger		–	–	–	361
Disposals/write-off		(1,058)	(3)	–	–
At end of the financial year		4,859	5,717	2,281	2,281

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

18. INTANGIBLE ASSETS (CONT'D.)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(d) Computer software (cont'd.)				
Accumulated amortisation				
At beginning of the financial year	4,634	3,666	2,281	1,920
Addition due to merger	–	–	–	361
Amortisation (Note 33)	666	970	–	–
Disposals/write-off	(1,016)	(2)	–	–
At end of the financial year	4,284	4,634	2,281	2,281
Net carrying amount	575	1,083	–	–

(e) Trading and clearing rights for derivatives broking

Cost

At beginning/end of the financial year	416	416	–	–
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(f) Impairment test on intangible assets

The intangible assets consist of:

Goodwill

Goodwill have been allocated to the following CGUs:

	Group	
	2017 RM'000	2016 RM'000
Stockbroking	147,459	147,459
Investment banking	37,101	37,101
Treasury	18,550	18,550
Investment management	5,644	5,644
	208,754	208,754

Merchant banking licence

- Merchant banking licence which is allocated to the Bank's stockbroking, investment banking and treasury CGUs represents contribution to BNM for a licence to carry on merchant banking business to transform the Bank from a Universal Broker into an Investment Bank.

Fund management contracts

- Intangible asset relating to fund management contracts arising from the acquisition of one of the Bank's subsidiary operations is allocated to the unit trust and asset management CGU.

Trading and clearing rights

- The value of trading and clearing rights issued by Bursa Malaysia Derivatives Berhad ("BMDB") which is allocated to the futures broking CGU.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

18. INTANGIBLE ASSETS (CONT'D.)

(f) Impairment test on intangible assets The intangible assets consist of: (cont'd.)

All of the above intangible assets have an indefinite useful life and an annual impairment review has been carried out on all the intangible assets with an indefinite useful life in accordance with MFRS 136: Impairment of Assets and MFRS 138: Intangible Assets.

Key assumptions used in value-in-use calculations

For annual impairment testing purposes, the recoverable amounts of the CGUs, which are reportable business segments, are determined based on their value-in-use. The value-in-use is computed by discounting the future cash flows of the unit, which is based on financial budget and projections approved by the Board.

The following describes key assumptions on which management has based its cash flow projections to undertake impairment testing of intangible assets:

(i) Cash flow projections and growth rates

Cash flow projections for the first to third years are based on the most recent three years financial budget and business plan approved by the Board, taking into account projected regulatory capital requirements. Cash flows for the fourth to fifth years are extrapolated using growth rates that approximate the long term average growth rate for the market in which the business operates. Cash flows beyond the fifth year are projected to remain constant and estimated as a terminal value by discounting future cash flows to present value.

(ii) Discount rates

The discount rate used is based on the business units' pre-tax weighted average cost of capital plus an appropriate risk premium at the date of assessment at 8.5% (2016: 9.0%) per annum.

(g) Sensitivity to changes in assumptions

Management believes that a reasonably possible change in any of the above key assumptions would not cause the recoverable amounts of the intangible assets to be lower than carrying values of the CGUs.

NOTES TO THE FINANCIAL STATEMENTS

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19. DEFERRED TAXATION

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At beginning of the financial year	9,841	10,025	7,554	7,758
Recognised in profit or loss (Note 40)	965	1,525	1,044	1,246
Recognised in other comprehensive income	(800)	(1,709)	(800)	(1,709)
Transfer from KNKH	–	–	–	259
At end of the financial year	10,006	9,841	7,798	7,554
Deferred tax assets	10,006	9,841	7,798	7,554
Deferred tax liabilities	–	–	–	–
	10,006	9,841	7,798	7,554

Deferred tax assets and liabilities prior to offsetting are summarised as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deferred tax assets	15,953	13,125	13,447	10,686
Deferred tax liabilities	(5,947)	(3,284)	(5,649)	(3,132)
	10,006	9,841	7,798	7,554

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax liabilities of the Group:

	Accelerated capital allowances RM'000	Total RM'000
At 1 January 2017	(3,284)	(3,284)
Recognised in profit or loss	(2,663)	(2,663)
At 31 December 2017	(5,947)	(5,947)
At 1 January 2016	(1,799)	(1,799)
Recognised in profit or loss	(1,485)	(1,485)
At 31 December 2016	(3,284)	(3,284)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

19. DEFERRED TAXATION (CONT'D.)

Deferred tax assets of the Group:

	Excess of capital allowances over depreciation RM'000	Available- for-sale reserve RM'000	Impairment allowance and provisions RM'000	Unabsorbed capital allowances and tax losses RM'000	Total RM'000
At 1 January 2017	215	2,479	10,238	193	13,125
Recognised in profit or loss	(215)	–	3,569	274	3,628
Recognised in other comprehensive income	–	(800)	–	–	(800)
At 31 December 2017	–	1,679	13,807	467	15,953
At 1 January 2016	–	4,188	7,443	193	11,824
Recognised in profit or loss	215	–	2,795	–	3,010
Recognised in other comprehensive income	–	(1,709)	–	–	(1,709)
At 31 December 2016	215	2,479	10,238	193	13,125

Deferred tax liabilities of the Bank:

	Excess of capital allowances over depreciation RM'000	Total RM'000
At 1 January 2017	(3,132)	(3,132)
Recognised in profit or loss	(2,517)	(2,517)
At 31 December 2017	(5,649)	(5,649)
At 1 January 2016	(1,399)	(1,399)
Recognised in profit or loss	(1,587)	(1,587)
Transfer from KNKH	(146)	(146)
At 31 December 2016	(3,132)	(3,132)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

19. DEFERRED TAXATION (CONT'D.)

Deferred tax assets of the Bank:

	Available- for-sale reserve RM'000	Impairment allowance and provisions RM'000	Total RM'000
At 1 January 2017	2,327	8,359	10,686
Recognised in profit or loss	–	3,561	3,561
Recognised in other comprehensive income	(800)	–	(800)
At 31 December 2017	1,527	11,920	13,447
At 1 January 2016	4,036	5,121	9,157
Recognised in profit or loss	–	2,833	2,833
Recognised in other comprehensive income	(1,709)	–	(1,709)
Transfer from KNKH	–	405	405
At 31 December 2016	2,327	8,359	10,686

Deferred tax assets have not been recognised in respect of the following items:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Unutilised tax losses carried forward	2,395	3,338	–	–
Unutilised capital allowances carried forward	494	212	–	–
	2,889	3,550	–	–

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

20. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2017 RM'000	2016 RM'000 Restated (Note 55)	2017 RM'000	2016 RM'000 Restated (Note 55)
Fixed term deposits	2,856,250	2,295,897	2,866,250	2,300,906
Short term money deposits	1,293,200	972,372	1,327,071	1,036,563
Negotiable instruments of deposits	42,814	17,758	43,177	18,108
Call money deposits	41,650	–	41,650	–
	4,233,914	3,286,027	4,278,148	3,355,577
(i) The maturity structure is as follows:				
Due within six months	3,737,649	2,630,511	3,781,883	2,700,061
Six months to one year	496,265	655,516	496,265	655,516
	4,233,914	3,286,027	4,278,148	3,355,577
(ii) The deposits are sourced from the following types of customers:				
Government and statutory bodies	163,338	119,396	163,338	119,396
Individuals	131,371	92,907	131,371	92,907
Business enterprises	1,537,791	941,713	1,537,791	961,713
Non-bank financial institutions	2,401,414	2,132,011	2,401,414	2,132,011
Related companies	–	–	44,234	49,550
	4,233,914	3,286,027	4,278,148	3,355,577

21. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2017 RM'000	2016 RM'000
Licensed banks	70,000	210,000
Licensed Islamic banks	–	60,000
Other financial institutions	140,762	280,954
	210,762	550,954

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

22. BALANCES DUE TO CLIENTS AND BROKERS

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Balances due to clients and brokers	624,612	857,065	416,960	474,231

Balances due to clients and brokers represent amounts payable in respect of outstanding contracts entered into on behalf of these clients where settlements have yet to be made.

23. DERIVATIVE FINANCIAL LIABILITIES

	Group and Bank	
	2017 RM'000	2016 RM'000
At fair value		
Dual currency investment – Options	118	45
Equity related contracts – Options	36,056	47,361
	36,174	47,406
Contract/Notional amount		
Dual currency investment – Options	18,114	17,407
Equity related contracts – Options	433,635	220,442
	451,749	237,849

The contractual or underlying notional amounts of derivative financial liabilities held at fair value through profit or loss reflect the value of transactions outstanding as at reporting date, and do not represent amounts at risk.

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24. OTHER LIABILITIES

	Note	Group		Bank	
		2017 RM'000	2016 RM'000 Restated (Note 55)	2017 RM'000	2016 RM'000 Restated (Note 55)
Interest/income payable		23,000	15,518	22,465	14,515
Retention for contra losses		487	487	487	487
Structured products		46,961	24,043	46,961	24,043
Accruals and provisions	(i)	74,571	70,355	37,353	40,402
Amount held in trust on behalf of:					
– Dealer's representatives		60,484	58,007	60,484	58,007
Deposits and other creditors		101,688	66,227	74,328	58,378
Amount due to trustee		21,959	4,107	–	–
Amount due to:					
– subsidiaries		–	–	1,156	1
		329,150	238,744	243,234	195,833

(i) The movements in the provisions are as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
As at 1 January	23,112	13,983	20,419	10,575
Provision made/reversal, net	22,338	20,339	18,126	17,816
Utilisation	(16,740)	(11,210)	(13,405)	(7,972)
Reclassification/transfer out (Note 17)	(5,717)	–	(5,717)	–
As at 31 December	22,993	23,112	19,423	20,419

The nature of the provisions made above are for provision for annual leave, bonus, potential liabilities and directors fee.

25. OBLIGATIONS ON SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	Group and Bank	
	2017 RM'000	2016 RM'000
Financial investments available-for-sale (Note 7)	74,993	27,253

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

26. BORROWINGS

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Short term borrowings					
Secured:					
Revolving bank loan	(a)	64,000	75,200	64,000	75,200
Unsecured:					
Revolving bank loans	(b)	21,000	50,500	–	–
Medium term notes	(c)	–	40,000	–	40,000
Subordinated notes	(d)	5,000	–	5,000	–
		90,000	165,700	69,000	115,200

- (a) The revolving bank loan amounting to RM64 million bears interest of 0.5% per annum above cost of funds. The loan is secured by a first party legal charge over Kenanga Tower, the corporate office building of Kenanga Investment Bank Berhad. The tenure for the loan is 7 years.
- (b) The revolving bank loans bear interest of 1.50% to 2.50% over cost of fund (2016: 1.50% to 2.00% over cost of fund) plus cost of maintaining statutory reserve and liquidity requirements and is payable on maturity of the loans. The maximum tenure for the loans is 3 months (2016: 6 months).
- (c) On 13 August 2014, KKNH established a RM200 million Commercial Paper/Medium Term Notes Programme (“CP/MTN Programme”) in nominal value of up to seven (7) years tenure. Pursuant to the Group Internal Reorganisation, the CP/MTN Programme has been transferred to KIBB. KIBB may from time to time issue debt under the Programme subject to availability of funds from the market. The Bank has fully redeemed the outstanding MTN during the year.
- (d) On 20 April 2017, the Bank issued the first issuance of RM5 million Subordinated Notes under the RM250 million in nominal value Tier 2 Subordinated Note Programme which was established on 27 March 2017.

The Subordinated Notes will pay a coupon of 6.25% per annum. The Subordinated Notes has a tenure of 10 years Non-Callable 5 years from the issue date and will mature on 20 April 2027 and call date 20 April 2022. The proceeds from the issuance of the Subordinated Notes will be utilised by the Bank for working capital requirement.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

27. SHARE CAPITAL

Authorised share capital

The Authorised share capital has been removed after the Companies Act 2016 ("New Act") was enacted to replace the Companies Act 1965 in Malaysia. Related details of the New Act are described under Note 53 (2).

	Group and Bank			
	Number of Ordinary Shares		Amount	
	2017 '000	2016 '000	2017 RM'000	2016 RM'000
Issued and fully paid:				
Ordinary shares				
At 1 January	722,547	770,000	180,637	770,000
Capital reduction	–	(47,453)	–	(47,453)
Par value reduction	–	–	–	(541,910)
Transfer from share premium #	–	–	65,500	–
At 31 December	722,547	722,547	246,137	180,637

Transferred pursuant to the New Act.

28. RESERVES

	Note	Group		Bank	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Non-distributable:					
Capital reserve		88,938	88,938	153,863	153,863
Share premium	(a)	–	65,500	–	65,500
Statutory reserve	(b)	–	465,741	–	465,741
Available-for-sale deficit	(c)	(6,629)	(11,034)	(4,840)	(7,373)
Exchange reserve	(d)	17,398	24,388	–	–
Regulatory reserve	(e)	25,277	23,929	25,277	23,929
		124,984	657,462	174,300	701,660
Retained profits		520,345	47,857	513,726	20,209
		645,329	705,319	688,026	721,869

The nature and purpose of each category of reserves are as follows:

- The share premium arose from shares issued as part of consideration for the acquisition of the entire issued and paid-up share capital of ECML Berhad. It has been transferred to share capital pursuant to the New Act.
- The statutory reserve is maintained by the Bank in compliance with the requirements of BNM Guidelines on Capital Funds, pursuant to Section 47(2)(f) of the Financial Services Act 2013 and is not distributable as cash dividends. It has been transferred to retained earnings pursuant to the removal of reserve fund requirement by BNM effective 3 May 2017.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

28. RESERVES (CONT'D.)

- (c) Available-for-sale deficit is in respect of unrealised fair value gains and losses on financial investments available-for-sale, net of tax.
- (d) The exchange reserve represents foreign exchange differences arising from the translation of the financial statements of the associated company.
- (e) Regulatory reserve is maintained in addition to the collective impairment allowance that has been assessed and recognised in accordance with MFRS in compliance with BNM requirements.

29. OPERATING REVENUE

Revenue of the Bank comprises all types of revenue derived from brokerage, lending, treasury, investment and trading and other banking activities undertaken by the Bank.

Revenue of the Group comprises all types of revenue derived from brokerage, lending, treasury, investment, trading and investment management and other banking activities undertaken by the Group.

30. INTEREST INCOME

	Group		Bank	
	2017 RM'000	2016 RM'000 Restated (Note 55)	2017 RM'000	2016 RM'000 Restated (Note 55)
Loans, advances and financing				
– Interest income other than from recoveries from impaired loans	149,120	144,550	143,771	137,286
Money at call and deposit placements with financial institutions	39,173	43,001	36,817	35,465
Financial assets at fair value through profit or loss	7,836	4,677	7,836	4,677
Financial investments available-for-sale	34,285	37,493	34,285	37,493
Financial investments held-to-maturity	1,927	2,102	1,927	2,102
Others	62,994	23,364	62,994	23,364
	295,335	255,187	287,630	240,387

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

31. INTEREST EXPENSE

	Group		Bank	
	2017 RM'000	2016 RM'000 Restated (Note 55)	2017 RM'000	2016 RM'000 Restated (Note 55)
Deposits from customers	146,093	136,815	148,167	139,910
Deposits and placements from banks and other financial institutions	4,052	7,189	4,052	7,189
Borrowings	4,345	8,651	3,468	2,193
Others	54,016	13,803	54,016	13,803
	208,506	166,458	209,703	163,095

32. OTHER OPERATING INCOME

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(a) Fee income:				
Brokerage fees	188,665	143,049	188,665	143,049
Corporate advisory fees	13,182	14,714	13,218	14,853
Processing fees on loans, advances and financing	5,739	5,956	4,369	4,337
Underwriting commission	370	–	370	–
Placement fees	12,077	9,212	12,077	9,212
Commissions	8,340	12,436	–	–
Management fee income	51,096	43,413	705	1,780
Other fee income	20,351	11,280	8,382	8,626
	299,820	240,060	227,786	181,857
(b) Investment and trading income/(loss):				
Net gain from sale of financial assets at fair value through profit or loss and derivatives	57,670	56,835	57,670	58,075
Net gain from sale of financial investments available-for-sale	2,867	15,283	2,867	15,283
Unrealised loss on revaluation of financial assets at fair value through profit or loss and derivatives	(7,677)	(18,591)	(7,677)	(18,591)
Gross dividend income from:				
– Financial assets at fair value through profit or loss	1,209	1,653	969	957
– Financial investments available-for-sale	688	753	688	753
– Subsidiary	–	–	5,464	62
	54,757	55,933	59,981	56,539

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32. OTHER OPERATING INCOME (CONT'D.)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(c) Other income:				
Foreign exchange gain, net	5,859	4,222	5,907	4,202
Loss on disposal of property, plant and equipment	(21)	–	(21)	–
Other operating income	2,153	197	2,460	416
Loss on deemed disposal of a subsidiary	–	–	–	(60)
Other non-operating income				
– Rental income	3,459	2,790	5,156	5,686
– Others	2,120	1,494	2,044	1,643
	13,570	8,703	15,546	11,887
Total other operating income	368,147	304,696	303,313	250,283

33. OTHER OPERATING EXPENSES

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Personnel costs				
– Salaries, allowances and bonuses	127,963	116,244	104,302	87,702
– EPF	15,837	14,396	12,594	10,832
– Others	20,756	17,370	11,403	29,645
	164,556	148,010	128,299	128,179
Establishment costs				
– Depreciation of property, plant and equipment (Note 17)	13,154	12,390	12,679	11,319
– Amortisation of intangible assets (Note 18(d))	666	970	–	–
– Rental of premises	12,940	23,892	12,273	23,302
– Rental of equipment	665	616	318	272
– Repairs and maintenance	4,482	3,290	3,582	2,485
– Information technology expenses	8,849	11,740	8,773	11,321
– Others	7,071	7,662	4,336	5,290
	47,827	60,560	41,961	53,989

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33. OTHER OPERATING EXPENSES (CONT'D.)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Marketing expenses				
– Promotion and advertisement	8,880	8,525	6,466	4,186
– Travel and entertainment	4,133	3,578	3,071	2,320
– Others	1,963	1,378	1,629	853
	14,976	13,481	11,166	7,359
Administration and general expenses				
– Communication expenses	4,989	6,030	4,297	5,281
– Regulatory charges	21,299	19,376	19,321	16,118
– Printing and stationery	1,761	1,827	1,300	1,361
– Administrative expenses	15,586	24,568	13,562	18,698
– Professional fees and legal fees	3,463	4,471	3,137	3,069
– Fees and brokerage	136,733	98,735	107,861	77,352
	183,831	155,007	149,478	121,879
Total other operating expenses	411,190	377,058	330,904	311,406

Included in the other operating expenses are the following:

Auditors' remuneration				
– Statutory audit	464	473	295	275
– Assurance related	61	57	61	57
– Other services	403	159	301	50
Directors' remuneration (Note 39)	3,107	3,457	2,900	1,873
Property, plant and equipment written off	364	4,844	329	2,988

34. (ALLOWANCE FOR)/WRITE BACK OF IMPAIRMENT ON LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(Allowance for)/write back of impairment on loans, advances and financing:				
– Collective allowance, net (Note 10 (ix))	(237)	(289)	4	(433)
– Individual allowance, net (Note 10 (ix))	(129)	(740)	(175)	129
Bad debts and financing recovered	74	376	74	376
	(292)	(653)	(97)	72

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35. (ALLOWANCE FOR)/WRITE BACK OF IMPAIRMENT ON BALANCES DUE FROM CLIENTS AND BROKERS AND OTHER RECEIVABLES

	Group		Bank	
	2017 RM'000	2016 RM'000 Restated (Note 55)	2017 RM'000	2016 RM'000 Restated (Note 55)
Individual allowance on clients and brokers				
– Made during the financial year (Note 11)	(6,262)	(5,408)	(6,262)	(5,408)
– Written back during the financial year (Note 11)	6,163	5,975	6,163	5,975
	(99)	567	(99)	567
Impaired debts:				
– Recovered on other receivables	633	453	633	453
– Write off during the financial years	–	(366)	–	(366)
Impairment allowance on other receivables				
– Made during the financial year (Note 12)	(3,950)	(3,134)	(2,562)	(3,134)
– Written back during the financial year (Note 12)	2,815	3,919	2,815	3,919
	(1,135)	785	253	785
	(601)	1,439	787	1,439

36. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

In addition to the transactions detailed elsewhere in the financial statements, the Group and the Bank had the following transactions with related parties during the financial year.

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Transactions				
Income earned:				
Brokerage fees:				
– Key management personnel	4	4	4	4
Corporate advisory fees:				
– Subsidiary	–	–	39	169
Fees on loans, advances and financing:				
– Subsidiary	–	–	270	207
Placement income:				
– Subsidiary	–	–	–	278

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36. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D.)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Transactions (cont'd.)				
Income earned: (cont'd.)				
Management fee income:				
– Subsidiary	–	–	39	5
Other income:				
– Subsidiary	–	–	1	76
– Related company	251	–	251	–
Interest on loans, advances and financing:				
– Subsidiary	–	–	2,851	4,058
Group support services charged:				
– Subsidiary	–	–	5,015	5,625
Dividend income:				
– Subsidiary	–	–	5,464	62
Rental of office premises:				
– Subsidiaries	–	–	1,476	3,070
– Related company	196	–	196	–
Rental of equipment:				
– Subsidiary	–	–	–	13
Service charge:				
– Subsidiary	–	–	307	219
Expenditure incurred:				
Interest on deposits and placements:				
– Subsidiaries	–	–	2,073	1,878
– Key management personnel	48	–	48	–
Group support services incurred:				
– Subsidiary	–	–	1,550	22,922

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36. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D.)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Balances				
Amount due from:				
Loans, advances and financing:				
– Subsidiary	–	–	35,500	71,500
Amount due to:				
Deposits and placements:				
– Subsidiary	–	–	44,234	49,550
– Key management personnel	511	–	511	–
Balances due to clients and brokers:				
– Key management personnel	775	145	775	–
Interest payable on deposits:				
– Subsidiary	–	–	101	84

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or if one other party controls both. The related parties of the Bank are:

(i) Subsidiaries

Details of the subsidiaries are shown in Note 14.

(ii) Associates

Details of the associates are as disclosed in Note 15.

(iii) Joint Venture

Details of the joint venture are disclosed in Note 16.

(iv) Other related parties

Name

Relationship

CMS Capital Sdn Bhd

Substantial shareholder of the Bank

Cahya Mata Sarawak Berhad

Holding company of a substantial shareholder of the Bank

The directors are of the opinion that the above transactions were entered into in the normal course of business and have been established under terms that are no less favourable than those obtainable in transactions with unrelated parties.

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37. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	Group and Bank	
	2017	2016
	RM'000	RM'000
Outstanding credit exposures with connected parties	284,320	253,809
Percentage of outstanding credit exposures to connected parties:		
– as a proportion of total credit exposures	7.10%	6.91%
– which is impaired or in default	–	–

The disclosure on Credit Transactions and Exposures with Connected Parties above is presented in accordance with paragraph 9.1 of BNM's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which became effective on 1 January 2008.

Based on these guidelines, a connected party refers to the following:

- (i) Directors of the Bank and their close relatives;
- (ii) Controlling shareholder and his close relatives;
- (iii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;
- (iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
- (v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
- (vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

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38. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of Directors and other members of key management during the financial year was as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Group Managing Director				
– Short term employee benefits	2,772	2,059	2,772	252
– Post-employment benefits: EPF	408	335	408	35
Senior Management				
– Short term employee benefits	13,598	13,057	11,009	6,314
– Post-employment benefits: EPF	2,070	1,886	1,656	928
	18,848	17,337	15,845	7,529

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly including all executive directors and senior management.

39. DIRECTORS' REMUNERATION

Remuneration in aggregate for Directors for the financial year is as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Directors of the Bank:				
Non-executive directors' remuneration:				
– Fees	2,775	3,006	2,590	1,711
– Other remuneration, including meeting allowance	226	282	204	134
Total directors' remuneration	3,001	3,288	2,794	1,845
Estimated money value of benefits-in-kind	106	169	106	28
Total for directors of the Bank (Note 33)	3,107	3,457	2,900	1,873

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39. DIRECTORS' REMUNERATION (CONT'D.)

The total remuneration (including benefits-in-kind) of the directors of the Bank are as follows:

	Remuneration received from Group					Group Total RM'000
	Fees RM'000	Salaries RM'000	Other Emolument RM'000	Bonus RM'000	Benefits- in-kind RM'000	
31 December 2017						
Non-Executive Directors:						
Tan Sri Dato' Paduka Tengku Noor Zakiah						
Binti Tengku Ismail	37	–	2	–	3	42
Datuk Syed Ahmad Alwee Alsree	510	–	33	–	31	574
Dato' Richard Alexander John Curtis	273	–	24	–	–	297
Datuk Kevin How Kow	127	–	16	–	–	143
Luigi Fortunato Ghirardello	420	–	41	–	–	461
Ismail Harith Merican	320	–	31	–	–	351
Izlan Bin Izhab	521	–	36	–	72	629
Luk Wai Hong, William	352	–	29	–	–	381
Jeremy Bin Nasrulhaq	198	–	14	–	–	212
Norazian Binti Ahmad Tajuddin	13	–	–	–	–	13
Kanagaraj Lorenz	4	–	–	–	–	4
Total Directors' remuneration	2,775	–	226	–	106	3,107
31 December 2016						
Executive Director:						
Datuk Chay Wai Leong*	–	1,512	378	504	91	2,485
Non-Executive Directors:						
Tan Sri Dato' Paduka Tengku Noor Zakiah						
Binti Tengku Ismail	490	–	25	–	148	663
Datuk Syed Ahmad Alwee Alsree	510	–	37	–	21	568
Dato' Richard Alexander John Curtis	300	–	30	–	–	330
Datuk Kevin How Kow	373	–	39	–	–	412
Luigi Fortunato Ghirardello	390	–	43	–	–	433
Ismail Harith Merican	330	–	38	–	–	368
Izlan Bin Izhab	258	–	31	–	–	289
Luk Wai Hong, William	355	–	39	–	–	394
Total Directors' remuneration	3,006	1,512	660	504	260	5,942

* On 28 January 2017, Datuk Chay Wai Leong resigned as Director of the Bank however, remains as the Group Managing Director of KIBB. His remuneration for 2017 is disclosed in Note 38 under key management personnel.

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40. TAXATION AND ZAKAT

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current income tax:				
Tax expense for the financial year	17,263	12,706	17,050	11,812
(Over)/Under provision in prior financial years	(55)	819	11	690
	17,208	13,525	17,061	12,502
Deferred tax (Note 19):				
Relating to origination and reversal of temporary differences	(2,099)	(2,208)	(1,600)	(2,228)
Over provision of deferred tax assets in prior financial years	1,134	683	556	982
	(965)	(1,525)	(1,044)	(1,246)
Zakat	210	330	210	330
Total income tax expense	16,453	12,330	16,227	11,586

Domestic income tax is calculated at the statutory tax rate of 24% (2016: 24%) on the estimated chargeable profit for the financial year.

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

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit before taxation and zakat	40,619	32,537	61,608	33,613
Taxation at Malaysian statutory income tax rate of 24% (2016: 24%)	9,748	7,809	14,786	8,067
Effect of income not subject to tax	(2,148)	(1,309)	(1,709)	(624)
Effect of expenses not deductible for tax purposes	4,488	4,679	2,373	2,141
Loss not deductible for tax purposes	3,205	132	–	–
Utilisation of previously unrecognised tax loss and unabsorbed capital allowances	(366)	(1,569)	–	–
Deferred tax asset not recognised on unutilised business losses	–	640	–	–
Deferred tax asset not recognised on unabsorbed capital allowances	41	116	–	–
Deferred tax asset not recognised on balancing allowance	196	–	–	–
Over provision of deferred tax assets in prior financial years	1,134	683	556	982
(Over)/Under provision of income tax expense in prior financial years	(55)	819	11	690
Tax expense for the financial year	16,243	12,000	16,017	11,256
Zakat	210	330	210	330
Tax expense and zakat for the financial year	16,453	12,330	16,227	11,586

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40. TAXATION AND ZAKAT (CONT'D.)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Tax savings during the financial year arising from:				
Utilisation of current financial year losses	1,355	503	–	–
Utilisation of tax losses brought forward from previous financial year	–	6,498	–	–

41. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing profit for the financial year attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2017	2016
Profit for the financial year attributable to equity holders of the Bank (RM'000)	24,188	19,720
Weighted average number of ordinary shares in issue ('000)	722,547	762,091
Basic and diluted earnings per share (sen)	3.35	2.59

Diluted earnings per share is the same as basic earnings per share as there are no dilutive potential ordinary shares during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

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42. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank enter into various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

As at reporting date, the commitment and contingencies are as follows:

	Group		Bank	
	2017 Principal amount RM'000	2016 Principal amount RM'000	2017 Principal amount RM'000	2016 Principal amount RM'000
Obligations under underwriting agreements	–	9,380	–	9,380
Commitments to extend credit with maturity of less than 1 year:				
– share margin financing	1,662,114	1,656,405	1,662,114	1,656,405
– corporate loan	6,485	–	80,985	43,500
– foreign exchange related contract	50,111	44,858	50,111	44,858
– equity exchange related contract	157,823	127,966	157,823	127,966
Commitments to extend credit with maturity of more than 1 year:				
– corporate loan	26,000	347	56,000	25,347
– equity exchange related contract	1,460	1,145	1,460	1,145
Monies held in trust for client	728,134	665,738	728,134	665,738
Derivative financial assets (Note 9):				
– dual currency investment – options	18,114	17,407	18,114	17,407
– equity related contracts – options	111,305	93,636	111,305	93,636
– equity related contracts – swap	75,772	57,262	75,772	57,262
Derivative financial liabilities (Note 23):				
– dual currency investment – options	18,114	17,407	18,114	17,407
– equity related contracts – options	433,635	220,442	433,635	220,442
Capital commitment:				
– Authorised and contracted for	4,167	11,339	3,943	11,043
Investment in equity fund	–	–	13,792	–
	3,293,234	2,923,332	3,411,302	2,991,536

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43. CONTINGENT LIABILITIES

	Group and Bank	
	2017 RM'000	2016 RM'000
(a) Bank guarantee issued to Bursa Malaysia Securities Clearing Sdn Bhd in relation to the Bank's obligation to contribute to the clearing guarantee fund.	–	1,201
(b) On 17 August 2012, the Plaintiffs filed a claim against ECM Libra Investment Bank Berhad ("EIBB") (which had, on 14 December 2012, been merged with the Bank vide a vesting order) for the return of the balance amount in two (2) margin accounts held under the Plaintiffs' names. The said amount was used by EIBB towards satisfaction of a judgment debt owing by a judgment debtor ("Judgment Debtor"). The Judgment Debtor claimed that the monies held in the said margin accounts under the Plaintiffs' names belonged to him and represented to EIBB that the monies may be used towards satisfaction of his judgment debt to EIBB. EIBB had commenced third party proceedings against the Judgment Debtor and had applied to convert the Originating Summons into a writ action. The converted action is now known as Suit No. 22NCC-1315-08/2012) ("Writ Action") as described in paragraph (c) below.	–	2,050
(c) The Judgment Debtor remains a third party in the Writ Action. He also applied to intervene to be named as a Defendant. The High Court allowed his application. He has since filed his Defence and Counterclaim against the Plaintiffs. The trial commenced on 22 July 2013 with various continuation dates and concluded on 18 February 2014 and the High Court has dismissed the Plaintiffs claims on 16 May 2014. The Plaintiffs have filed an appeal on 11 June 2014 and the appeal had concluded on 20 June 2016. On 8 November 2016, the Court of Appeal dismissed the Appellants' appeal with costs of RM25,000 to EIBB. The Plaintiffs have filed a Notice of Motion for leave to appeal to the Federal Court. The Federal Court has on 4 October 2017 dismissed the Appellant's application.	–	1,054

The above shall not longer be regarded as contingent liabilities to the Group and the Bank and no provisions are necessary as at reporting date.

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44. OPERATING LEASE ARRANGEMENTS

Operating lease payments represent rentals payable for the use of office equipment and premises. A summary of the non-cancellable operating leases contracted for as at reporting date but not recognised as liabilities and sublease receipts expected to be received under non-cancellable sublease are as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Future minimum rental payable:				
Within one year	8,291	9,942	7,769	9,442
Between one and five years	6,660	3,418	6,423	3,058
	14,951	13,360	14,192	12,500
Future minimum sublease receipts:				
Subsidiaries	–	–	3,116	4,674
External parties	5,106	1,136	5,106	1,136
	5,106	1,136	8,222	5,810

45. DIVIDEND

During the financial year, a final single tier dividend of 2.25 sen per ordinary share on 722,546,999 ordinary shares in respect of the financial year ended 31 December 2016, which amounted to RM16,257,320 was paid on 9 June 2017.

The Directors recommend a final dividend in respect of the current financial year ended 31 December 2017 of 3.00 sen on 722,546,999 ordinary shares, amounting to a dividend payable of RM21,676,410 to be proposed for shareholders' approval at the forthcoming Annual General Meeting.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2018.

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46. OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

Group	Gross amounts of recognised financial asset/ liability RM'000	Gross amounts of recognised financial asset/liability set off in the statement of financial position RM'000	Net amounts of recognised financial assets presented in the statement of financial position RM'000	Related accounts not set off in the statement of financial position:		
				Financial instruments RM'000	Cash collateral received RM'000	Net amount RM'000
2017						
Balances due from clients and brokers (Note 11)	1,188,411	(693,528)	494,883	3,742,509	154,794	–
Balances due to clients and brokers (Note 22)	1,735,100	(1,110,488)	624,612	–	–	624,612
2016						
Balances due from clients and brokers (Note 11)	910,027	(465,022)	445,005	4,504,696	130,668	–
Balances due to clients and brokers (Note 22)	1,796,319	(939,254)	857,065	–	–	857,065
Bank						
2017						
Balances due from clients and brokers (Note 11)	1,188,411	(693,528)	494,883	3,742,509	154,794	–
Balances due to clients and brokers (Note 22)	1,527,448	(1,110,488)	416,960	–	–	416,960
2016						
Balances due from clients and brokers (Note 11)	910,027	(465,022)	445,005	4,504,696	130,668	–
Balances due to clients and brokers (Note 22)	1,413,485	(939,254)	474,231	–	–	474,231

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47. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

Capital management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by BNM in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with regulatory capital requirements and the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to its shareholders, return capital to its shareholder or issue capital securities. Nevertheless, it is under constant scrutiny of the Board.

Capital adequacy

The capital adequacy ratios of the Bank are computed in accordance with BNM's revised Risk-Weighted Capital Adequacy Framework ("RWCAF"). The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk (Basel II). The minimum regulatory capital adequacy requirements for Common Equity Tier 1 ("CET 1"), Tier 1 and Total Capital are 4.5%, 6.0% and 8.0% of total risk weighted assets.

(i) Components of Tier 1 and Tier 2 capital:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
The capital adequacy ratios of the Group and Bank are as follows:				
Before deducting proposed dividend:				
CET 1 capital ratio	29.898%	28.176%	28.390%	26.199%
Tier 1 capital ratio	29.898%	28.176%	28.390%	26.199%
Total capital ratio	30.102%	28.176%	28.390%	26.199%
After deducting proposed dividend:				
CET 1 capital ratio	28.677%	27.295%	27.052%	25.250%
Tier 1 capital ratio	28.677%	27.295%	27.052%	25.250%
Total capital ratio	28.881%	27.295%	27.052%	25.250%
CET 1 capital/Tier 1 capital				
Paid-up share capital	246,137	180,637	246,137	180,637
Share premium	–	65,500	–	65,500
Retained earnings	520,345	47,857	513,726	20,209
Other reserves	124,984	591,962	174,300	636,160
Less: Goodwill	(208,754)	(208,754)	(252,909)	(252,909)
Deferred tax assets	(10,006)	(9,841)	(7,798)	(7,554)
Other intangibles	(57,660)	(58,168)	(52,500)	(52,500)
Regulatory reserve	(25,277)	(23,929)	(25,277)	(23,929)
Deduction in excess of Tier 2*	(58,927)	(65,313)	(130,118)	(116,876)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

47. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY (CONT'D.)

Capital adequacy (cont'd.)

(i) Components of Tier 1 and Tier 2 capital: (cont'd.)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Total CET 1/Tier 1 capital	530,842	519,951	465,561	448,738
Tier 2 Capital				
Subordinated obligations capital	5,000	–	5,000	–
Collective allowance and regulatory reserve	13,353	14,320	13,081	13,809
Less: Regulatory adjustments applied to Tier 2 capital	(14,732)	(14,320)	(18,081)	(13,809)
Total Tier 2 capital	3,621	–	–	–
Total Capital	534,463	519,951	465,561	448,738

* The portion of regulatory adjustments not deducted from Tier 2 (as the Bank does not have enough Tier 2 to satisfy the deduction) is deducted from the next higher level of capital; as per paragraph 31.1 of the BNM's Capital Adequacy Framework (Capital Components).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

47. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY (CONT'D.)

Capital adequacy (cont'd.)

(i) Components of Tier 1 and Tier 2 capital: (cont'd.)

Breakdown of risk weighted assets in the various categories of risks are as follows:

	2017		2016	
	Notional RM'000	Risk- weighted RM'000	Notional RM'000	Risk- weighted RM'000
Group				
Credit risk	4,501,487	1,068,244	4,273,833	1,145,590
Market risk	–	152,115	–	154,586
Operational risk	–	548,768	–	545,211
Large exposure risk	–	6,400	–	–
Total Risk Weighted Assets	4,501,487	1,775,527	4,273,833	1,845,387
Bank				
Credit risk	4,300,880	1,046,479	3,933,702	1,104,692
Market risk	–	130,574	–	154,586
Operational risk	–	456,444	–	453,526
Large exposure risk	–	6,400	–	–
Total Risk Weighted Assets	4,300,880	1,639,897	3,933,702	1,712,804

NOTES TO THE FINANCIAL STATEMENTS

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48. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts and the fair values of the financial assets and liabilities of the Group and the Bank are as follows:

	2017		2016	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Group				
Financial assets				
Cash and bank balances	1,347,517	1,347,517	1,227,601	1,227,601
Financial assets at fair value through profit or loss	557,568	557,568	388,248	388,248
Financial investments available-for-sale	1,010,167	1,010,167	937,704	937,704
Financial investments held-to-maturity	38,001	38,214	40,000	40,026
Derivative financial assets	67,393	67,393	39,117	39,117
Loans, advances and financing	2,195,501	2,194,417	2,105,584	2,103,957
Balances due from clients and brokers	494,883	494,883	445,005	445,005
Other assets	99,718	99,718	209,872	209,872
Statutory deposit with Bank Negara Malaysia	116,186	116,186	99,504	99,504
Financial liabilities				
Deposits from customers	4,233,914	4,233,914	3,286,027	3,286,027
Deposits and placements of banks and other financial institutions	210,762	210,762	550,954	550,954
Other liabilities	256,570	256,570	174,211	174,211
Balances due to clients and brokers	624,612	624,612	857,065	857,065
Obligations on securities sold under repurchase agreements	74,993	74,993	27,253	27,253
Borrowings	90,000	90,379	165,700	168,906
Derivatives financial liabilities	36,174	36,174	47,406	47,406

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

48. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

	2017		2016	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Bank				
Financial assets				
Cash and bank balances	1,092,544	1,092,544	949,421	949,421
Financial assets at fair value through profit or loss	549,735	549,735	381,588	381,588
Financial investments available-for-sale	1,010,167	1,010,167	937,704	937,704
Financial investments held-to-maturity	38,001	38,214	40,000	40,026
Derivative financial assets	67,393	67,393	39,117	39,117
Loans, advances and financing	2,180,080	2,179,330	2,065,887	2,065,272
Balances due from clients and brokers	494,883	494,883	445,005	445,005
Other assets	49,147	49,147	54,537	54,537
Statutory deposit with Bank Negara Malaysia	116,186	116,186	99,504	99,504
Financial liabilities				
Deposits from customers	4,278,148	4,278,148	3,355,577	3,355,577
Deposits and placements of banks and other financial institutions	210,762	210,762	550,954	550,954
Balances due to clients and brokers	416,960	416,960	474,231	474,231
Other liabilities	184,997	184,997	142,993	142,993
Obligations on securities sold under repurchase agreements	74,993	74,993	27,253	27,253
Borrowings	69,000	69,380	115,200	118,334
Derivatives financial liabilities	36,174	36,174	47,406	47,406

Note: The fair values of the other assets and other liabilities, which are considered short term in nature, are estimated to approximate their carrying values.

The methods and assumptions used in estimating the fair values of financial instruments are as follows:

(i) Financial assets/liabilities for which fair value approximates carrying value

The carrying amounts of financial assets and financial liabilities that have a short-term maturity and deposits/accounts without a specific maturity, approximate fair values.

(ii) Deposits and placements with banks and other financial institutions

The fair values of these financial instruments with remaining maturity of less than one year approximate their carrying amounts due to the relatively short maturity of the financial instruments. For those financial instruments with maturity of more than one year, the fair values are estimated based on discounted cash flows using applicable prevailing market rates for placements of similar credit risk and similar remaining maturity as at the reporting date.

(iii) Financial assets at fair value through profit or loss, financial investments available-for-sale and held-to-maturity

The fair values are estimated based on quoted or observable market prices at the reporting date. Where such quoted or observable market prices are not available, the fair values are estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the expected future cash flows are discounted using prevailing market rates for a similar instrument at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

48. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

(iv) Derivatives

Fair values are estimated based on quoted or observable market prices at the reporting date.

Derivative products valued using a valuation technique are valued using the Black-Scholes model for options and discounted cash flow techniques for swap. The model incorporates various market and non-observable assumptions including market rate volatility.

(v) Loans, advances and financing

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with remaining maturity of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at applicable prevailing rates at the reporting date offered to new borrowers with similar credit profiles.

(vi) Deposits from customers

The fair values of deposit liabilities payable on demand (demand and savings deposits), or deposits with maturity of less than one year are estimated to approximate their carrying amounts. The fair values of fixed deposits with remaining maturities of more than one year are estimated based on expected future cash flows discounted at applicable prevailing rates offered for deposits of similar remaining maturities. The fair values of Islamic deposits are deemed to approximate their carrying amounts as profit rates are determined at the end of their holding periods based on the profit generated from the assets invested.

(vii) Deposits and placements of banks and other financial institutions

The carrying values of these financial instruments with remaining maturity of less than one year approximate their carrying amounts due to the relatively short maturity of the financial instruments. For deposits and placements with maturities of one year and above, the 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

49. SEGMENTAL REPORTING

The business segment results are prepared based on the Group's internal management reporting, which reflect the organisation's management reporting structure. The Group is organised into six major operating divisions. The division form the basis of which the Group reports its segment information.

- (i) Investment banking – Investment banking business, treasury and related financial services;
- (ii) Stockbroking – Dealings in securities and investment related services;
- (iii) Futures broking – Futures broker business;
- (iv) Money lending and financing – Money lending, islamic factoring and leasing;
- (v) Investment and wealth management – Management of funds and unit trusts; and
- (vi) Corporate and others – Support services comprise all middle and back office functions costs that are not allocated out to business segments and include business operations conducted by the Group's associates in the Kingdom of Saudi Arabia and Sri Lanka and joint venture company, Rakuten Trade Sdn Bhd.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which, in certain respects as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group income taxes are managed on group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Wealth Management was previously reported under the corporate and other segments. However with effect from this financial year, it has been reported as part of the investment management segment due to similar products and services rendered. This will enable decisions on allocation of resources to be handled more effectively and efficiently to improve the performance of this segment.

The comparative figures of the Group's segments have been restated to be consistent with the current year presentation due to reallocation of cost which was previously absorbed at corporate segment.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

49. SEGMENTAL REPORTING (CONT'D.)

The following table provides an analysis of the Group's revenue, results, assets, liabilities and other information by operating segments:

2017	Investment banking RM'000	Stock broking RM'000	Futures broking RM'000	Money lending and financing RM'000	Investment and wealth management RM'000	Corporate Others RM'000	Eliminations/and consolidation adjustments RM'000	Total RM'000
Revenue								
External sales	266,382	312,987	13,048	7,760	82,607	14,841	-	697,625
Inter segment sales	3,157	307	1,488	-	2,184	5,464	(12,600)	-
Total revenue	269,539	313,294	14,536	7,760	84,791	20,305	(12,600)	697,625
Result								
Net income	70,728	298,848	13,879	4,979	67,606	20,239	(10,221)	466,058
Other operating expenses	(50,891)	(261,144)	(14,936)	(4,577)	(69,542)	(14,857)	4,757	(411,190)
(Allowance for)/write back of impairment on loans, advances and financing	(13)	(101)	-	46	-	18	(242)	(292)
(Allowance for)/write back of impairment on balances due from clients and brokers and other receivables	(123)	13	-	-	3	(494)	-	(601)
Allowance for impairment on investment in an associate and subsidiaries	-	-	-	-	(727)	(727)	727	-
Share of results in associates and a joint venture company	-	-	-	-	-	(13,356)	-	(13,356)
Profit/(loss) before taxation and zakat	19,701	37,616	(1,057)	448	(1,933)	(9,177)	(4,979)	40,619
Taxation and zakat								(16,453)
Net profit for the financial year								24,166
Other information								
Net interest and finance income	29,571	48,373	5,557	2,700	730	8,449	-	95,380
Depreciation and amortisation	667	5,006	518	18	600	7,010	-	13,819
Non cash items								
- Unrealised gains/(losses) on revaluation of financial assets at fair value through profit or loss and derivatives	523	(8,155)	-	-	-	-	-	(7,632)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

49. SEGMENTAL REPORTING (CONT'D.)

2017 (cont'd.)	Investment banking and stockbroking RM'000	Futures broking RM'000	Money lending and financing RM'000	Investment and wealth management RM'000	Corporate Others RM'000	Eliminations/ and consolidation adjustments RM'000	Total RM'000
Assets							
Investment in associate companies	-	-	-	-	60,438	-	60,438
Investment in a joint venture company	-	-	-	-	13,220	-	13,220
Addition to non-current assets	15,101	575	109	1,867	-	-	17,652
Segment assets	6,264,554	246,689	74,392	90,350	23,571	(206,975)	6,492,581
Liabilities							
Segment liabilities	5,330,391	219,975	62,638	57,458	11,825	(81,172)	5,601,115

The following table provides an analysis of the Group's revenue, results, assets, liabilities and other information by operating segments:

	Investment banking RM'000	Stock broking RM'000	Futures broking RM'000	Money lending and financing RM'000	Investment and wealth management RM'000	Corporate Others RM'000	Eliminations/ and consolidation adjustments RM'000	Total RM'000
2016 (Restated)								
Revenue								
External sales	238,553	250,634	19,585	13,713	48,279	14,553	-	585,317
Inter segment sales	4,521	219	1,429	-	1,470	25,992	(33,631)	-
Total revenue	243,074	250,853	21,014	13,713	49,749	40,545	(33,631)	585,317
Result								
Net income	82,794	239,454	20,298	6,245	49,174	41,257	(29,864)	409,358
Other operating expenses	(47,539)	(224,007)	(17,689)	(4,743)	(57,298)	(55,646)	29,864	(377,058)
(Allowance for)/write back of impairment on loans, advances and financing Write back of/(allowance for) impairment on balances due from clients and brokers and other receivables	(600)	140	-	(869)	-	532	144	(653)
Share of results of associates and a joint venture company	30	582	-	-	(11)	838	-	1,439
Profit/(loss) before taxation and zakat	-	-	-	-	-	(549)	-	(549)
Taxation and zakat	34,685	16,169	2,609	633	(8,135)	(13,568)	144	32,537
Net profit for the financial year								(12,330)
								20,207

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

49. SEGMENTAL REPORTING (CONT'D.)

Notes

A Additions to non-current assets consist of:

	2017 RM'000	2016 RM'000
Property, plant and equipment		
– Additions during the financial year	17,452	176,484
Intangible assets		
– Additions during the financial year	200	1,061
	17,652	177,545

B The following items are deducted from/(added to) segment assets to arrive at total assets reported in the consolidated statement of financial position:

	2017 RM'000	2016 RM'000
Investment in subsidiaries	(81,755)	(76,741)
Investment in associates and joint venture	(3,536)	14,711
Intangible assets	(40,095)	(40,095)
Inter-segment assets	(81,589)	(142,387)
	(206,975)	(244,512)

C The following items are deducted from segment liabilities to arrive at total liabilities reported in the consolidated statement of financial position:

	2017 RM'000	2016 RM'000
Deposits accepted from subsidiaries	(44,234)	(69,550)
Inter-segment liabilities	(36,938)	(72,660)
	(81,172)	(142,210)

50. FINANCIAL RISK MANAGEMENT

The Group and the Bank adopt a proactive and continuous approach in managing risk and has established a risk management framework to ensure that adequate policies and processes are in place to identify and manage risk within defined policies and guidelines approved by the Board of Directors.

The Bank's financial risks are centrally managed by the various committees within the delegated authority by the Board of Directors. These committees formulate, review and approve policies and limits to monitor and manage risk exposures under their respective supervision. The major policy decisions and proposals approved by these committees are subject to further review by Group Board Risk Committee and Board of Directors.

The Risk Management Division assumes the independent oversight of risks undertaken by the Bank, and takes the lead in the formulation of risk policies, controls and processes. This is further enhanced by the periodic risk assessment audit carried out by the Bank's Internal Audit.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

The main risk areas faced by the Bank and the guidelines and policies adopted to manage them are as follows:

(a) Credit risk

Credit risk or the risk of counterparties defaulting, are minimised by the application of credit approvals, limits and monitoring procedures. Balance due from clients and brokers are monitored on an ongoing basis via periodic management reporting. The Group through its directors and management, reviews all significant exposures to individual customers and counterparties as well as any major concentration of credit risk related to any financial instrument.

The Group has risk management procedures in place to manage these risks to ensure that all the procedures and principles relating to risk management are adhered to.

Credit-related commitments risks

The Bank enters into various commitments which include commitments to extend credit lines and obligation under underwriting agreements. Such commitments expose the Bank to similar risks to loans and financing and are mitigated by the same processes and policies.

Risk concentration: maximum exposure to credit risk without taking account of any collateral and other credit enhancement

The Group's concentration risk is managed by counterparty and by industry sector. The Group applies single counterparty exposure limits ("SCEL") to protect against unacceptably large exposures to single counterparty risk.

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography before the effect of mitigation through the use of master netting and collateral agreements is not presented as the Group's activities are principally conducted in Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Industry analysis as at 31 December 2017

Group	Primary agriculture RM'000	Manufacturing (incl agri-based) RM'000	Electricity, gas & water supply RM'000	Wholesale & retail trade, and hotel & restaurant RM'000	Real estate RM'000	Transport, storage and communications RM'000	Finance and insurance RM'000	Others RM'000	Total RM'000
Financial assets									
Cash and bank balances	-	-	-	-	-	-	1,347,517	-	1,347,517
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	116,186	-	116,186
Balances due from clients and brokers	-	-	-	-	-	-	-	494,883	494,883
Financial assets at fair value through profit or loss									
Malaysian Government Securities	-	-	-	-	-	-	20,254	-	20,254
Malaysian Government Investment Certificates	-	-	-	-	-	-	50,171	-	50,171
Corporate Bills	-	-	-	-	-	-	89,733	-	89,733
Islamic Corporate Bills	-	-	-	-	65,946	-	93,995	-	159,941
Unquoted shares and unit trust funds in Malaysia	-	-	-	-	-	-	18,041	-	18,041
Derivative financial assets	29,545	-	-	25	-	1,694	-	36,129	67,393
Net loans, advances and financing									
Term loans	-	15,065	-	-	19,853	-	-	394,482	429,400
Islamic term loans	-	-	-	-	-	-	-	159,400	159,400
Share margin financing	-	25,310	-	-	59,706	-	-	1,471,062	1,556,078
Islamic share margin financing	-	-	-	-	-	-	-	130	130
Others	-	-	-	-	15,125	-	10,348	25,689	51,162
Financial investments available-for-sale									
Malaysian Government Securities	-	-	-	-	-	-	49,534	-	49,534
Malaysian Government Investment Certificates	-	-	-	-	-	-	155,357	-	155,357
Negotiable Instruments of Deposits	-	-	-	-	-	-	50,000	-	50,000
Corporate Bonds	-	-	15,018	-	65,013	-	14,694	135,359	230,084
Islamic Corporate Sukuk	4,977	-	110,362	-	44,527	74,018	146,555	134,187	514,626
Sukuk Perumahan Kerajaan	-	-	-	-	-	-	10,076	-	10,076
Unquoted equities	-	-	-	-	-	-	-	490	490
Financial investments held-to-maturity									
Islamic Corporate Sukuk	-	-	-	28,000	-	-	10,001	-	38,001
Other assets	-	-	-	-	-	-	-	99,718	99,718
	34,522	40,375	125,380	28,025	270,170	75,712	2,182,462	2,951,529	5,708,175

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Industry analysis as at 31 December 2016 (Restated)

Group	Primary agriculture RM'000	Manufacturing (incl agri-based) RM'000	Electricity, gas & water supply RM'000	Wholesale & retail trade, and hotel & restaurant RM'000	Real estate RM'000	Transport, storage and communications RM'000	Finance and insurance RM'000	Others RM'000	Total RM'000
Financial assets									
Cash and bank balances	-	-	-	-	-	-	1,227,601	-	1,227,601
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	99,504	-	99,504
Balances due from clients and brokers	-	-	-	-	-	-	-	445,005	445,005
Financial assets at fair value through profit or loss									
Corporate Bonds	-	-	-	-	45,035	-	-	-	45,035
Corporate Bills	-	-	-	-	-	-	84,639	-	84,639
Islamic Corporate Sukuk	-	-	-	-	-	-	-	14,668	14,668
Islamic Corporate Bills	-	-	-	-	24,969	-	-	-	24,969
Unquoted shares and unit trust funds in Malaysia	-	-	-	-	-	-	6,660	-	6,660
Unquoted private debt securities outside Malaysia	-	-	-	-	-	-	1,067	-	1,067
Derivative financial assets	-	-	-	-	-	-	-	39,117	39,117
Net loans, advances and financing									
Term loans	-	20,075	-	-	23,517	-	-	326,616	370,208
Islamic term loans	-	-	-	-	-	-	-	135,140	135,140
Share margin financing	-	23,674	-	-	59,285	-	-	1,406,496	1,489,455
Others	-	-	-	-	-	-	35,917	75,296	111,213
Financial investments available-for-sale									
Malaysian Government Securities	-	-	-	-	-	-	19,566	-	19,566
Malaysian Government Investment Certificates	-	-	-	-	-	-	58,428	-	58,428
Islamic Corporate Sukuk	64,948	-	69,946	-	44,226	128,372	138,131	79,129	524,752
Negotiable Instruments of Deposits	-	-	-	-	-	-	50,000	-	50,000
Islamic Negotiable Instruments of Deposits	-	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	149,890	-	149,890
Corporate Bonds	-	-	14,993	-	64,885	-	29,847	14,797	124,522
Sukuk Perumahan Kerajaan	-	-	-	-	-	-	10,056	-	10,056
Unquoted equities	-	-	-	-	-	-	490	-	490
Financial investments held-to-maturity									
Islamic Corporate Sukuk	-	-	-	30,000	-	-	10,000	-	40,000
Other assets	-	-	-	-	-	-	-	209,872	209,872
	64,948	43,749	84,939	30,000	261,917	128,372	1,921,796	2,746,136	5,281,857

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Industry analysis as at 31 December 2017

Bank	Primary agriculture RM'000	Manufacturing (incl agri-based) RM'000	Electricity, gas & water supply RM'000	Wholesale & retail trade, and hotel & restaurant RM'000	Real estate RM'000	Transport, storage and communications RM'000	Finance and insurance RM'000	Others RM'000	Total RM'000
Financial assets									
Cash and bank balances	-	-	-	-	-	-	1,092,544	-	1,092,544
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	116,186	-	116,186
Balances due from clients and brokers	-	-	-	-	-	-	-	494,883	494,883
Financial assets at fair value through profit or loss									
Malaysian Government Securities	-	-	-	-	-	-	20,254	-	20,254
Malaysian Government Investment Certificates	-	-	-	-	-	-	50,171	-	50,171
Corporate Bills	-	-	-	-	-	-	89,733	-	89,733
Islamic Corporate Bills	-	-	-	-	65,946	-	93,995	-	159,941
Unquoted shares and unit trust funds in Malaysia	-	-	-	-	-	1,694	10,208	-	10,208
Derivative financial assets	29,545	-	-	25	-	-	-	36,129	67,393
Net loans, advances and financing									
Term loans	-	15,065	-	-	19,853	-	13,025	404,743	452,686
Islamic term loans	-	-	-	-	-	-	12,653	159,400	172,053
Share margin financing	-	25,310	-	-	59,706	-	-	1,471,062	1,556,078
Islamic share margin financing	-	-	-	-	-	-	-	130	130
Financial investments available-for-sale									
Malaysian Government Securities	-	-	-	-	-	-	49,534	-	49,534
Malaysian Government Investment Certificates	-	-	-	-	-	-	155,357	-	155,357
Negotiable Instruments of Deposits	-	-	-	-	-	-	50,000	-	50,000
Corporate Bonds	-	-	15,018	-	65,013	-	14,694	135,359	230,084
Islamic Corporate Sukuk	4,977	-	110,362	-	44,527	74,018	146,555	134,187	514,626
Sukuk Perumahan Kerajaan	-	-	-	-	-	-	10,076	-	10,076
Unquoted equities	-	-	-	-	-	-	-	490	490
Financial investments held-to-maturity									
Islamic Corporate Sukuk	-	-	-	28,000	-	-	10,001	-	38,001
Other assets	-	-	-	-	-	-	-	49,147	49,147
	34,522	40,375	125,380	28,025	255,045	75,712	1,934,986	2,885,530	5,379,575

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Industry analysis as at 31 December 2016 (Restated)

Bank	Primary agriculture RM'000	Manufacturing (incl agri-based) RM'000	Electricity, gas & water supply RM'000	Wholesale & retail trade, and hotel & restaurant RM'000	Real estate RM'000	Transport, storage and communications RM'000	Finance and insurance RM'000	Others RM'000	Total RM'000
Financial assets									
Cash and bank balances	-	-	-	-	-	-	949,421	-	949,421
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	99,504	-	99,504
Balances due from clients and brokers	-	-	-	-	-	-	-	445,005	445,005
Financial assets at fair value through profit or loss									
Corporate Bonds	-	-	-	-	45,035	-	-	-	45,035
Corporate Bills	-	-	-	-	-	-	84,639	-	84,639
Islamic Corporate Sukuk	-	-	-	-	-	-	-	14,668	14,668
Islamic Corporate Bills	-	-	-	-	24,969	-	-	-	24,969
Unquoted private debt securities outside Malaysia	-	-	-	-	-	-	1,067	-	1,067
Derivative financial assets	-	-	-	-	-	-	-	39,117	39,117
Net loans, advances and financing									
Term loans	-	20,075	-	-	23,517	-	36,511	341,836	421,939
Islamic term loans	-	-	-	-	-	-	20,224	135,140	155,364
Share margin financing	-	23,674	-	-	59,285	-	-	1,406,496	1,489,455
Financial investments available-for-sale									
Malaysian Government Securities	-	-	-	-	-	-	19,566	-	19,566
Malaysian Government Investment Certificates	-	-	-	-	-	-	58,428	-	58,428
Islamic Corporate Sukuk	64,948	-	69,946	-	44,226	128,372	138,131	79,129	524,752
Negotiable Instruments of Deposits	-	-	-	-	-	-	50,000	-	50,000
Islamic Negotiable Instruments of Deposits	-	-	-	-	-	-	149,890	-	149,890
Corporate Bonds	-	-	14,993	-	64,885	-	29,847	14,797	124,522
Sukuk Perumahan Kerajaan	-	-	-	-	-	-	10,056	-	10,056
Unquoted equities	-	-	-	-	-	-	-	490	490
Financial investments held-to-maturity									
Islamic Corporate Sukuk	-	-	-	30,000	-	-	10,000	-	40,000
Other assets	-	-	-	-	-	-	-	54,537	54,537
	64,948	43,749	84,939	30,000	261,917	128,372	1,657,284	2,531,215	4,802,424

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- (i) Cash;
- (ii) Charges over financial instruments;
- (iii) Securities;
- (iv) Charges over real estate properties, inventory and trade receivables;
- (v) Mortgages over properties; or
- (vi) Financial guarantees.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

(i) Credit quality by class of financial assets as at 31 December 2017

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group's internal credit rating system.

Credit quality of financial assets neither past due nor impaired

The credit quality of financial assets is managed by the Bank using internal ratings which aim to reflect the relative ability of counterparties to fulfil, on time, their credit-related obligations, and is based on their current probability of default.

Internal rating

Strong credit profile	Customers that have demonstrated superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. This rating broadly corresponds to ratings "AAA" to "AA" of RAM Rating Services Berhad ("RAM") and Malaysian Rating Corporation Berhad ("MARC") respectively.
Satisfactory risk	Customers that have consistently demonstrated sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings. This rating broadly corresponds to ratings "A" to "BBB" of RAM and MARC respectively.
Substandard but not past due nor impaired	Customers that have demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. This rating broadly corresponds to ratings "BB" to "C" of RAM and MARC respectively.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(i) Credit quality by class of financial assets as at 31 December 2017 (cont'd.)

Group	Neither past due nor impaired				Default/ impaired RM'000	Past due but not impaired RM'000	*Individually impaired RM'000	Total RM'000
	Strong credit profile RM'000	Satisfactory risk RM'000	Sub- standard RM'000	Non rated RM'000				
Cash and bank balances	1,347,517	-	-	-	-	-	-	1,347,517
Statutory deposit with Bank Negara Malaysia	116,186	-	-	-	-	-	-	116,186
Financial assets at fair value through profit or loss								
Malaysian Government Securities	20,254	-	-	-	-	-	-	20,254
Malaysian Government Investment Certificates	50,171	-	-	-	-	-	-	50,171
Corporate Bills	89,733	-	-	-	-	-	-	89,733
Islamic Corporate Bills	159,941	-	-	-	-	-	-	159,941
Unquoted securities in Malaysia	-	-	-	18,041	-	-	-	18,041
Net loans, advances and financing								
Term loans	-	379,372	50,028	-	-	-	-	429,400
Islamic term loans	-	109,378	50,022	-	-	-	-	159,400
Share margin financing	485,238	803,473	135,614	131,284	1,910	-	(1,441)	1,556,078
Islamic share margin financing	-	66	64	-	-	-	-	130
Others	15,388	35,774	-	-	823	-	(823)	51,162
Financial investments available-for- sale								
Malaysian Government Securities	49,534	-	-	-	-	-	-	49,534
Malaysian Government Investment Certificates	155,357	-	-	-	-	-	-	155,357
Islamic Corporate Sukuk	514,626	-	-	-	-	-	-	514,626
Corporate Bonds	230,084	-	-	-	-	-	-	230,084
Negotiable Instruments of Deposits	50,000	-	-	-	-	-	-	50,000
Sukuk Perumahan Kerajaan	10,076	-	-	-	-	-	-	10,076
Unquoted equities	-	-	-	490	-	-	-	490
Financial investments held-to- maturity								
Islamic Corporate Sukuk	-	10,001	-	28,000	-	-	-	38,001
Derivative financial assets	-	-	-	67,393	-	-	-	67,393
Balances due from clients and brokers	-	490,000	-	-	26,250	-	(21,367)	494,883
Other assets	99,718	-	-	-	3,183	1,557	(4,740)	99,718
Total	3,393,823	1,828,064	235,728	245,208	32,166	1,557	(28,371)	5,708,175

* Impaired loan/financing and outstanding balance due from clients and brokers are loan/financing and balance due under contractual term which have been overdue or are judgementally triggered as impaired.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(i) Credit quality by class of financial assets as at 31 December 2016 (cont'd.)

Group	Neither past due nor impaired				Default/ impaired RM'000	Past due but not impaired RM'000	*Individually impaired RM'000	Total RM'000
	Strong credit profile RM'000	Satisfactory risk RM'000	Sub- standard RM'000	Non rated RM'000				
Cash and bank balances	1,227,601	–	–	–	–	–	–	1,227,601
Statutory deposit with Bank Negara Malaysia	99,504	–	–	–	–	–	–	99,504
Financial assets at fair value through profit or loss								
Corporate Bonds	45,035	–	–	–	–	–	–	45,035
Corporate Bills	84,639	–	–	–	–	–	–	84,639
Islamic Corporate Sukuk	14,668	–	–	–	–	–	–	14,668
Islamic Corporate Bills	24,969	–	–	–	–	–	–	24,969
Unit Trust	–	–	–	6,660	–	–	–	6,660
Unquoted private debt securities outside Malaysia	–	–	–	1,067	–	–	–	1,067
Net loans, advances and financing								
Term loans	–	320,181	50,027	–	–	–	–	370,208
Islamic term loans	–	85,125	50,015	–	–	–	–	135,140
Share margin financing	454,513	774,089	142,391	117,993	1,735	–	(1,266)	1,489,455
Others	12,773	60,827	–	37,613	869	–	(869)	111,213
Financial investments available-for- sale								
Malaysian Government Securities	19,566	–	–	–	–	–	–	19,566
Malaysian Government Investment Certificates	58,428	–	–	–	–	–	–	58,428
Islamic Corporate Sukuk	495,010	29,742	–	–	–	–	–	524,752
Corporate Bonds	124,522	–	–	–	–	–	–	124,522
Negotiable Instruments of Deposits	50,000	–	–	–	–	–	–	50,000
Islamic Negotiable Instruments of Deposits	149,890	–	–	–	–	–	–	149,890
Sukuk Perumahan Kerajaan	10,056	–	–	–	–	–	–	10,056
Unquoted equities	–	–	–	490	–	–	–	490
Financial investments held-to- maturity								
Islamic Corporate Sukuk	–	10,000	–	30,000	–	–	–	40,000
Derivative financial assets	–	–	–	39,117	–	–	–	39,117
Balances due from clients and brokers	–	439,455	–	–	31,728	557	(26,735)	445,005
Other assets	209,872	–	–	–	2,987	618	(3,605)	209,872
Total	3,081,046	1,719,419	242,433	232,940	37,319	1,175	(32,475)	5,281,857

* Impaired loan/financing and outstanding balance due from clients and brokers are loan/financing and balance due under contractual term which have been overdue or are judgementally triggered as impaired.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(i) Credit quality by class of financial assets as at 31 December 2017 (cont'd.)

Bank	Neither past due nor impaired				Default/ impaired RM'000	Past due but not impaired RM'000	*Individually impaired RM'000	Total RM'000
	Strong credit profile RM'000	Satisfactory risk RM'000	Sub- standard RM'000	Non rated RM'000				
Cash and bank balances	1,092,544	-	-	-	-	-	-	1,092,544
Statutory deposit with Bank Negara Malaysia	116,186	-	-	-	-	-	-	116,186
Financial assets at fair value through profit or loss Malaysian Government Securities Malaysian Government	20,254	-	-	-	-	-	-	20,254
Investment Certificates	50,171	-	-	-	-	-	-	50,171
Corporate Bills	89,733	-	-	-	-	-	-	89,733
Islamic Corporate Bills	159,941	-	-	-	-	-	-	159,941
Unquoted securities in Malaysia	-	-	-	10,208	-	-	-	10,208
Net loans, advances and financing								
Term loans	-	402,658	50,028	-	-	-	-	452,686
Islamic term loans	-	122,031	50,022	-	-	-	-	172,053
Share margin financing	485,238	803,473	135,614	131,284	1,910	-	(1,441)	1,556,078
Islamic share margin financing	-	66	64	-	-	-	-	130
Financial investments available-for- sale								
Malaysian Government Securities Malaysian Government	49,534	-	-	-	-	-	-	49,534
Investment Certificates	155,357	-	-	-	-	-	-	155,357
Islamic Corporate Sukuk	514,626	-	-	-	-	-	-	514,626
Corporate Bonds	230,084	-	-	-	-	-	-	230,084
Negotiable Instruments of Deposits	50,000	-	-	-	-	-	-	50,000
Sukuk Perumahan Kerajaan	10,076	-	-	-	-	-	-	10,076
Unquoted equities	-	-	-	490	-	-	-	490
Financial investments held-to- maturity								
Islamic Corporate Sukuk	-	10,001	-	28,000	-	-	-	38,001
Derivative financial assets	-	-	-	67,393	-	-	-	67,393
Balances due from clients and brokers	-	490,000	-	-	26,250	-	(21,367)	494,883
Other assets	49,147	-	-	-	1,795	1,557	(3,352)	49,147
Total	3,072,891	1,828,229	235,728	237,375	29,955	1,557	(26,160)	5,379,575

* Impaired loan/financing and outstanding balance due from clients and brokers are loan/financing and balance due under contractual term which have been overdue or are judgements triggered as impaired.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(i) Credit quality by class of financial assets as at 31 December 2016 (cont'd.)

Bank	Neither past due nor impaired				Default/ impaired RM'000	Past due but not impaired RM'000	*Individually impaired RM'000	Total RM'000
	Strong credit profile RM'000	Satisfactory risk RM'000	Sub- standard RM'000	Non rated RM'000				
Cash and bank balances	949,421	–	–	–	–	–	–	949,421
Statutory deposit with Bank Negara Malaysia	99,504	–	–	–	–	–	–	99,504
Financial assets at fair value through profit or loss								
Corporate Bills	84,639	–	–	–	–	–	–	84,639
Islamic Corporate Bills	24,969	–	–	–	–	–	–	24,969
Corporate Bonds	45,035	–	–	–	–	–	–	45,035
Islamic Corporate Sukuk	14,668	–	–	–	–	–	–	14,668
Unquoted private debt securities outside Malaysia	–	–	–	1,067	–	–	–	1,067
Net loans, advances and financing								
Term loans	15,219	356,693	50,027	–	–	–	–	421,939
Islamic term loans	–	105,349	50,015	–	–	–	–	155,364
Share margin financing	454,513	774,089	142,391	117,993	1,735	–	(1,266)	1,489,455
Financial investments available-for- sale								
Malaysian Government Securities	19,566	–	–	–	–	–	–	19,566
Certificates	58,428	–	–	–	–	–	–	58,428
Islamic Corporate Sukuk	495,010	29,742	–	–	–	–	–	524,752
Corporate Bonds	124,522	–	–	–	–	–	–	124,522
Negotiable Instruments of Deposits	50,000	–	–	–	–	–	–	50,000
Islamic Negotiable Instruments of Deposits	149,890	–	–	–	–	–	–	149,890
Sukuk Perumahan Kerajaan	10,056	–	–	–	–	–	–	10,056
Unquoted equities	–	–	–	490	–	–	–	490
Financial investments held-to- maturity								
Islamic Corporate Sukuk	–	10,000	–	30,000	–	–	–	40,000
Derivative financial assets	–	–	–	39,117	–	–	–	39,117
Balances due from clients and brokers	–	439,455	–	–	31,728	557	(26,735)	445,005
Other assets	54,537	–	–	–	2,987	618	(3,605)	54,537
Total	2,649,977	1,715,328	242,433	188,667	36,450	1,175	(31,606)	4,802,424

* Impaired loan/financing and outstanding balance due from clients and brokers are loan/financing and balance due under contractual term which have been overdue or are judgementally triggered as impaired.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(ii) Credit risk exposure for each internal credit risk rating

Internal credit rating	Group Total	Bank Total
	2017 RM'000	2017 RM'000
Strong		
AAA	2,546,871	2,291,898
AA	846,952	780,993
Satisfactory		
A	1,088,333	1,088,203
BBB	739,730	740,026
Substandard		
BB	100,051	100,050
B	129,991	129,991
C	5,687	5,687
Default		
D	5,352	5,352
Non-rated	245,208	237,375
	5,708,175	5,379,575

Internal credit rating	Group Total	Bank Total
	2016 RM'000	2016 RM'000
Strong		
AAA	2,440,095	2,023,272
AA	640,951	626,705
Satisfactory		
A	963,634	902,861
BBB	755,785	812,467
Substandard		
BB	100,042	100,042
B	132,001	132,001
C	10,390	10,390
Default		
D	6,019	6,019
Non-rated	232,940	188,667
	5,281,857	4,802,424

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(iii) Aging analysis of financial assets which are past due but not impaired

	Less than 1 month RM'000	1 to 12 months RM'000	>12 months RM'000	Total RM'000
Group				
2017				
Balances due from clients and brokers	–	–	–	–
Other assets	–	1,557	–	1,557
Total	–	1,557	–	1,557
2016				
Balances due from clients and brokers	–	557	–	557
Other assets	–	618	–	618
Total	–	1,175	–	1,175
Bank				
2017				
Balances due from clients and brokers	–	–	–	–
Other assets	–	1,557	–	1,557
Total	–	1,557	–	1,557
2016				
Balances due from clients and brokers	–	557	–	557
Other assets	–	618	–	618
Total	–	1,175	–	1,175

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(iv) Estimated value of collateral and other charges related to financial assets that are past due but not impaired

	Cash and securities RM'000	Real estate RM'000	Other RM'000	Total value of collateral RM'000	Credit exposure RM'000	Unsecured portion of credit exposure RM'000
Group and Bank						
2017						
Balances due from clients and brokers	-	-	-	-	-	-
Other assets	-	-	-	-	1,557	1,557
	-	-	-	-	1,557	1,557
2016						
Balances due from clients and brokers	36	-	-	36	593	557
Other assets	-	-	-	-	618	618
	36	-	-	36	1,211	1,175

(v) Estimated value of collateral and other charges related to financial assets that are past due and individually impaired

	Cash and securities RM'000	Real estate RM'000	Other RM'000	Total value of collateral RM'000	Credit exposure RM'000	Unsecured portion of credit exposure RM'000
Group						
2017						
Loans, advances and financing						
Share margin financing	469	-	-	469	1,910	1,441
Others	-	-	-	-	823	823
Balances due from clients and brokers	4,883	-	-	4,883	26,250	21,367
Other assets	-	-	-	-	4,740	4,740
	5,352	-	-	5,352	33,723	28,371
2016						
Loans, advances and financing						
Share margin financing	469	-	-	469	1,735	1,266
Others	-	-	-	-	869	869
Balances due from clients and brokers	4,993	-	-	4,993	31,728	26,735
Other assets	-	-	-	-	3,605	3,605
	5,462	-	-	5,462	37,937	32,475

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(v) Estimated value of collateral and other charges related to financial assets that are past due and individually impaired (cont'd.)

	Cash and securities RM'000	Real estate RM'000	Other RM'000	Total value of collateral RM'000	Credit exposure RM'000	Unsecured portion of credit exposure RM'000
Bank						
2017						
Loans, advances and financing share margin financing	469	–	–	469	1,910	1,441
Balances due from clients and brokers	4,883	–	–	4,883	26,250	21,367
Other assets	–	–	–	–	3,352	3,352
	5,352	–	–	5,352	31,512	26,160
2016						
Loans, advances and financing share margin financing	469	–	–	469	1,735	1,266
Balances due from clients and brokers	4,993	–	–	4,993	31,728	26,735
Other assets	–	–	–	–	3,605	3,605
	5,462	–	–	5,462	37,068	31,606

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk

Market risk is the risk of loss arising from changes in prices of equity instruments and other financial instruments in the markets in which the Group operates. The Group also engages in bond proprietary trading to generate revenue in anticipation of changes in prices that may occur in the debt capital market.

The Group manages the risk of unfavourable price changes by cautious reviews of investments and collaterals held with continuous monitoring of their performance and risk profiles by qualified personnel.

(i) Interest rate risk

In macro terms, interest rate risk refers to the overall sensitivity of the Group's and the Bank's earnings and/or economic values of the Group's and the Bank's portfolio to changes in interest rates. Interest rate risk is managed through various risk management techniques including re-pricing gap, net interest income simulation and stress testing.

The Group and the Bank are exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The effect of changes in the levels of interest rates on the market value of securities is monitored regularly and the outcome of mark-to-market valuations is escalated to Management regularly. The table below summarises the effective interest rates at the reporting date and the periods in which the financial instruments will reprice or mature, whichever is the earlier.

Interest rate sensitivity analysis

The Board has established limits on the trading and non-trading interest rate gaps activities. In accordance with the Group's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The sensitivity of interest rate to the statements of profit and loss and other comprehensive income and equity is the effect of the assumed changes in interest rates level on the profit and loss for the financial year, based on the financial assets and financial liabilities held as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk (cont'd.)

(i) Interest rate risk (cont'd.)

Group 2017	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and bank balances	1,116,959	230,558	-	-	-	-	-	1,347,517	3.09
Financial assets at fair value through profit or loss	-	-	-	-	-	-	557,568	557,568	4.03
Financial investments available-for-sale	115,013	-	116,671	418,160	359,833	490	-	1,010,167	4.05
Financial investments held-to-maturity	-	6,000	10,001	22,000	-	-	-	38,001	5.63
Derivative financial assets	-	-	-	-	-	67,393	-	67,393	
Loans, advances and financing	2,135,497	41,303	10,496	8,205	-	-	-	2,195,501	7.12
Balances due from clients and brokers	-	-	-	-	-	494,883	-	494,883	
Other assets	-	-	-	-	-	118,417	-	118,417	
Other non interest sensitive balances	-	-	-	-	-	663,134	-	663,134	
Total assets	3,367,469	277,861	137,168	448,365	359,833	1,344,317	557,568	6,492,581	
Liabilities									
Deposits from customers	2,448,389	1,400,080	385,445	-	-	-	-	4,233,914	3.54
Deposits and placement of banks and other financial institutions	210,762	-	-	-	-	-	-	210,762	3.54
Borrowings	82,000	3,000	-	-	5,000	-	-	90,000	4.56
Obligations on securities sold under repurchase agreements	74,993	-	-	-	-	-	-	74,993	
Derivative financial liabilities	-	-	-	-	-	36,174	-	36,174	
Balances due to clients and brokers	-	-	-	-	-	624,612	-	624,612	
Structured product	19,114	-	27,847	-	-	-	-	46,961	12.04
Other non interest sensitive balances	-	-	-	-	-	283,699	-	283,699	
Total liabilities	2,835,258	1,403,080	413,292	-	5,000	944,485	-	5,601,115	
Equity	-	-	-	-	-	891,466	-	891,466	
Non-controlling interest	-	-	-	-	-	-	-	-	
Total liabilities and shareholders' equity	2,835,258	1,403,080	413,292	-	5,000	1,835,951	-	6,492,581	
On-balance sheet interest sensitivity gap	532,211	(1,125,219)	(276,124)	448,365	354,833	(491,634)	557,568	-	
Cumulative interest sensitivity gap	532,211	(593,008)	(869,132)	(420,767)	(65,934)	(557,568)	-	-	

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk (cont'd.)

(i) Interest rate risk (cont'd.)

Group 2016	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and bank balances	1,087,208	140,393	–	–	–	–	–	1,227,601	3.00
Financial assets at fair value through profit or loss	–	–	–	–	–	–	388,248	388,248	4.04
Financial investments available-for-sale	235,165	14,796	70,871	267,431	348,951	490	–	937,704	4.16
Financial investments held-to-maturity	–	2,000	–	38,000	–	–	–	40,000	5.74
Derivative financial assets	–	–	–	–	–	39,117	–	39,117	
Loans, advances and financing	2,033,585	58,549	380	13,070	–	–	–	2,105,584	7.09
Balances due from clients and brokers	–	–	–	–	–	445,005	–	445,005	
Other assets	–	–	–	–	–	231,439	–	231,439	
Other non interest sensitive balances	–	–	–	–	–	655,082	–	655,082	
Total assets	3,355,958	215,738	71,251	318,501	348,951	1,371,133	388,248	6,069,780	
Liabilities									
Deposits from customers	1,844,526	970,635	470,866	–	–	–	–	3,286,027	3.64
Deposits and placement of banks and other financial institutions	530,861	20,093	–	–	–	–	–	550,954	3.64
Borrowings	125,700	40,000	–	–	–	–	–	165,700	4.67
Obligations on securities sold under repurchase agreements	27,253	–	–	–	–	–	–	27,253	
Derivative financial liabilities	–	–	–	–	–	47,406	–	47,406	
Balances due to clients and brokers	–	–	–	–	–	857,065	–	857,065	
Structured product	17,658	–	6,385	–	–	–	–	24,043	13.68
Other non interest sensitive balances	–	–	–	–	–	215,140	–	215,140	
Total liabilities	2,545,998	1,030,728	477,251	–	–	1,119,611	–	5,173,588	
Equity	–	–	–	–	–	885,956	–	885,956	
Non-controlling interest	–	–	–	–	–	10,236	–	10,236	
Total liabilities and shareholders' equity	2,545,998	1,030,728	477,251	–	–	2,015,803	–	6,069,780	
On-balance sheet interest sensitivity gap	809,960	(814,990)	(406,000)	318,501	348,951	(644,670)	388,248	–	
Cumulative interest sensitivity gap	809,960	(5,030)	(411,030)	(92,529)	256,422	(388,248)	–	–	

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk (cont'd.)

(i) Interest rate risk (cont'd.)

Bank 2017	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and bank balances	892,544	200,000	-	-	-	-	-	1,092,544	3.09
Financial assets at fair value through profit or loss	-	-	-	-	-	-	549,735	549,735	4.03
Financial investments available-for-sale	115,013	-	116,671	418,160	359,833	490	-	1,010,167	4.05
Financial investments held-to-maturity	-	6,000	10,001	22,000	-	-	-	38,001	5.63
Derivative financial assets	-	-	-	-	-	67,393	-	67,393	
Loans, advances and financing	2,139,979	40,101	-	-	-	-	-	2,180,080	7.12
Balances due from clients and brokers	-	-	-	-	-	494,883	-	494,883	
Other assets	-	-	-	-	-	66,582	-	66,582	
Other non interest sensitive balances	-	-	-	-	-	765,170	-	765,170	
Total assets	3,147,536	246,101	126,672	440,160	359,833	1,394,518	549,735	6,264,555	
Liabilities									
Deposits from customers	2,482,622	1,410,081	385,445	-	-	-	-	4,278,148	3.54
Deposits and placement of banks and other financial institutions	210,762	-	-	-	-	-	-	210,762	3.54
Borrowings	64,000	-	-	-	5,000	-	-	69,000	4.19
Obligations on securities sold under repurchase agreements	74,993	-	-	-	-	-	-	74,993	
Derivative financial liabilities	-	-	-	-	-	36,174	-	36,174	
Balances due to clients and brokers	-	-	-	-	-	416,960	-	416,960	
Structured product	19,114	-	27,847	-	-	-	-	46,961	12.04
Other non interest sensitive balances	-	-	-	-	-	197,394	-	197,394	
Total liabilities	2,851,491	1,410,081	413,292	-	5,000	650,528	-	5,330,392	
Equity	-	-	-	-	-	934,163	-	934,163	
Total liabilities and shareholders' equity	2,851,491	1,410,081	413,292	-	5,000	1,584,691	-	6,264,555	
On-balance sheet interest sensitivity gap	296,045	(1,163,980)	(286,620)	440,160	354,833	(190,173)	549,735	-	
Cumulative interest sensitivity gap	296,045	(867,935)	(1,154,555)	(714,395)	(359,562)	(549,735)	-	-	

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk (cont'd.)

(i) Interest rate risk (cont'd.)

Bank 2016	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and bank balances	949,421	–	–	–	–	–	–	949,421	3.00
Financial assets at fair value through profit or loss	–	–	–	–	–	–	381,588	381,588	4.04
Financial investments									
available-for-sale	235,165	14,796	70,871	267,431	348,951	490	–	937,704	4.16
Financial investments held-to-maturity	–	2,000	–	38,000	–	–	–	40,000	5.74
Derivative financial assets	–	–	–	–	–	39,117	–	39,117	
Loans, advances and financing	2,020,842	45,045	–	–	–	–	–	2,065,887	7.09
Balances due from clients and brokers	–	–	–	–	–	445,005	–	445,005	
Other assets	–	–	–	–	–	74,909	–	74,909	
Other non interest sensitive balances	–	–	–	–	–	735,377	–	735,377	
Total assets	3,205,428	61,841	70,871	305,431	348,951	1,294,898	381,588	5,669,008	
Liabilities									
Deposits from customers	1,914,075	970,635	470,867	–	–	–	–	3,355,577	3.64
Deposits and placement of banks and other financial institutions	530,861	20,093	–	–	–	–	–	550,954	3.64
Borrowings	75,200	40,000	–	–	–	–	–	115,200	4.25
Obligations on securities sold under repurchase agreements	27,253	–	–	–	–	–	–	27,253	
Derivative financial liabilities	–	–	–	–	–	47,406	–	47,406	
Balances due to clients and brokers	–	–	–	–	–	474,231	–	474,231	
Structured product	17,658	–	6,386	–	–	–	–	24,044	13.68
Other non interest sensitive balances	–	–	–	–	–	171,837	–	171,837	
Total liabilities	2,565,047	1,030,728	477,253	–	–	693,474	–	4,766,502	
Equity	–	–	–	–	–	902,506	–	902,506	
Total liabilities and shareholders' equity	2,565,047	1,030,728	477,253	–	–	1,595,980	–	5,669,008	
On-balance sheet interest sensitivity gap	640,381	(968,887)	(406,382)	305,431	348,951	(301,082)	381,588	–	
Cumulative interest sensitivity gap	640,381	(328,506)	(734,888)	(429,457)	(80,506)	(381,588)	–	–	

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk (cont'd.)

(i) Interest rate risk (cont'd.)

Interest rate sensitivity analysis

The following table demonstrates the impact of a +/- 100 basis points change in interest rates, ceteris paribus, on the Group's profit or loss and equity.

Change in Interest Rates 2017	Impact on Profit or Loss 2017 RM'000	Impact on Equity * 2017 RM'000	Change in Interest Rates 2016	Impact on Profit or Loss 2016 RM'000	Impact on Equity 2016 RM'000
+100	(10,153)	(35,453)	+100	(6,453)	(28,503)
-100	10,153	35,453	-100	6,453	28,503

* exclude tax impact

(ii) Foreign currency exchange risk

Foreign currency risk is the risk of financial loss due to adverse movements in foreign exchange rates.

The Group is exposed to currency risk primarily through trading activities that are governed by the Foreign Exchange Risk Management policy.

Currency rate sensitivity analysis

The following table shows the impact of a 5% movement of MYR, ceteris paribus, on the Group's profit/loss:

Currency	Changes in Foreign Exchange Rates	Impact on Profit or Loss 2017 RM'000	Impact on Equity 2017 RM'000	Changes in Foreign Exchange Rates	Profit or Loss 2016 RM'000	Impact on Equity 2016 RM'000
AUD	5%	3	-	5%	(4)	-
CHF	5%	1	-	5%	1	-
CNY	5%	8	-	5%	4	-
EUR	5%	(65)	-	5%	(21)	-
GBP	5%	(20)	-	5%	16	-
HKD	5%	170	-	5%	6	-
IDR	5%	-	-	5%	-	-
JPY	5%	(69)	-	5%	(15)	-
NZD	5%	13	-	5%	5	-
PHP	5%	-	-	5%	1	-
SGD	5%	(193)	-	5%	191	-
THB	5%	2	-	5%	9	-
USD	5%	287	-	5%	143	-

Arising from the Group's investment in the associate company in Saudi Arabia, there is a natural position held in foreign currency exposure in Riyal. The following shows the profit or loss impact of a 5% price movement on this position:

SAR	5%	-	(2,974)	5%	-	(3,578)
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NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk (cont'd.)

(iii) Equity price sensitivity analysis

Equity price risk is the risk of financial loss arising from adverse changes in prices of equities and equity derivatives.

The following table demonstrates the impact of a +/- 30% change in equity prices across the board on the Group's profit or loss and equity.

Percentage Change in Equity Price 2017	Impact on Profit or Loss 2017 RM'000	Impact on Equity 2017 RM'000	Percentage Change in Equity Price 2016	Impact on Profit or Loss 2016 RM'000	Impact on Equity 2016 RM'000
+30%	7,994	–	+30%	75,322	–
-30%	(31,198)	–	-30%	(98,725)	–

From risk management perspective, a risk limits framework governing the activities of equity and equity derivatives trading has been established, primarily intended to:

- 1) Prevent excessive exposures to a single risk factor or a group of risk factors.
- 2) Constrain the general level of risk taking for a business.

Additionally, other components of limit framework including loss trigger, issuance size, permitted products, management oversights etc. were put in place for better governance as well as to embrace best practices of market risk management. The risk framework was designed in accordance to the Bank's risk appetite and a closely controlled risk parameter, e.g. loss trigger, will ensure losses arising from the course of trading are limited.

In addition, the Group's associate company has made some equity investments in Saudi Arabia, with a total mark-to-market value of SAR 24.5 million.

The impact of a +/- 30% change in equity prices on the Group's profit or loss arising from these investments are shown as follows:

Percentage Change in Equity Price 2017	Impact on Profit or Loss 2017 RM'000	Impact on Equity 2017 RM'000	Percentage Change in Equity Price 2016	Impact on Profit or Loss 2016 RM'000	Impact on Equity 2016 RM'000
+30%	–	7,959	+30%	–	9,619
-30%	–	(7,959)	-30%	–	(9,619)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Liquidity risk

Liquidity risk is the risk of loss as a result of the Group's or the Bank's inability to meet cash flow obligations on a timely and cost effective manner. Liquidity risk is managed through the Liquidity Coverage Ratio Framework ("LCR") issued by BNM, internal policies and management oversight by Group Risk Committee. A 'Contingency Funding Plan ("CFP") has formulated covering across the policies, procedures, roles and responsibilities, funding strategies and notwithstanding, the deployment of such in a liquidity event.

The Group actively manages its operating cash flows and the availability of funding so as to ensure that all funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements in addition to maintaining available banking facilities, to meet any immediate operating cash flow requirements.

In accordance with BNM's Liquidity Coverage Ratio guideline, the Group maintains a portfolio of highly marketable and diverse assets which are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains a statutory deposit with BNM equal to 3.5% of its eligible liabilities.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Liquidity risk (cont'd.)

(i) Analysis of assets and liabilities by remaining contractual maturities

The table below summarises the contractual maturity profile of the Group's assets and liabilities as at 31 December 2017. The contractual maturity profile often may not reflect the actual behavioural patterns.

Group 2017	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Assets								
Cash and bank balances	279,972	836,986	230,559	-	-	-	-	1,347,517
Financial assets at fair value through profit or loss	-	65,946	89,733	93,995	-	70,425	237,469	557,568
Derivative financial assets	75	30,908	1,200	1,550	33,122	538	-	67,393
Financial investments available-for-sale	-	115,013	-	10,035	106,636	777,993	490	1,010,167
Financial investments held-to-maturity	-	-	6,000	-	10,001	22,000	-	38,001
Loans, advances and financing	140,278	1,564,284	1,201	43,424	8,032	438,282	-	2,195,501
Balances due from clients and brokers	-	494,883	-	-	-	-	-	494,883
Other assets	19,986	38,466	10,053	1,942	-	-	47,970	118,417
Others	-	-	-	-	-	-	663,134	663,134
Total assets	440,311	3,146,486	338,746	150,946	157,791	1,309,238	949,063	6,492,581
Liabilities								
Deposits from customers	41,650	2,406,739	1,400,081	244,426	141,018	-	-	4,233,914
Deposits and placements of banks and other financial institutions	-	210,762	-	-	-	-	-	210,762
Obligations on securities sold under repurchase agreements	-	74,993	-	-	-	-	-	74,993
Derivative financial liabilities	-	371	14,086	15,031	6,686	-	-	36,174
Balances due to clients and brokers	-	624,612	-	-	-	-	-	624,612
Borrowings	-	18,000	5,800	2,800	5,600	57,800	-	90,000
Other liabilities balances	500	109,403	12,924	10,181	19,881	-	177,771	330,660
Total liabilities	42,150	3,444,880	1,432,891	272,438	173,185	57,800	177,771	5,601,115
Net maturity mismatch	398,161	(298,394)	(1,094,145)	(121,492)	(15,394)	1,251,438	771,292	891,466

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

2017	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Miscellaneous commitments	728,134	-	-	-	-	-	-	728,134
Total commitments and guarantees	728,134	-	-	-	-	-	-	728,134

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Liquidity risk (cont'd.)

(i) Analysis of assets and liabilities by remaining contractual maturities (cont'd.)

The table below summarises the contractual maturity profile of the Group's assets and liabilities as at 31 December 2016. The contractual maturity profile often may not reflect the actual behavioural patterns.

Group 2016 (Restated)	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Assets								
Cash and bank balances	146,135	941,013	140,393	–	–	–	60	1,227,601
Financial assets at fair value through profit or loss	–	24,968	84,640	–	45,035	15,735	217,870	388,248
Derivative financial assets	–	81	–	–	36,839	2,197	–	39,117
Financial investments available-for-sale	–	199,890	–	–	70,870	666,454	490	937,704
Financial investments held-to-maturity	–	–	2,000	–	–	38,000	–	40,000
Loans, advances and financing Balances due from clients and brokers	92,560	1,600,667	23,517	–	10,155	378,685	–	2,105,584
Other assets	–	445,005	–	–	–	–	–	445,005
Others	259	143,033	66,734	–	–	–	21,413	231,439
	–	–	–	–	–	–	655,082	655,082
Total assets	238,954	3,354,657	317,284	–	162,899	1,101,071	894,915	6,069,780
Liabilities								
Deposits from customers	–	1,904,525	910,635	220,320	250,547	–	–	3,286,027
Deposits and placements of banks and other financial institutions	–	470,861	80,093	–	–	–	–	550,954
Obligations on securities sold under repurchase agreements	–	27,253	–	–	–	–	–	27,253
Derivative financial liabilities	–	1,780	5,924	1,140	38,562	–	–	47,406
Balances due to clients and brokers	–	857,065	–	–	–	–	–	857,065
Borrowings	–	50,500	42,800	2,800	5,600	64,000	–	165,700
Other liabilities balances	491	84,287	5,190	607	7,481	–	141,127	239,183
Total liabilities	491	3,396,271	1,044,642	224,867	302,190	64,000	141,127	5,173,588
Net maturity mismatch	238,463	(41,614)	(727,358)	(224,867)	(139,291)	1,037,071	753,788	896,192

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

2016 (Restated)	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Miscellaneous commitments	665,738	–	–	–	–	–	–	665,738
Total commitments and guarantees	665,738	–	–	–	–	–	–	665,738

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Liquidity risk (cont'd.)

(i) Analysis of assets and liabilities by remaining contractual maturities (cont'd.)

The table below summarises the contractual maturity profile of the Bank's assets and liabilities as at 31 December 2017. The contractual maturity profile often may not reflect the actual behavioural patterns.

Bank 2017	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Assets								
Cash and bank balances	126,640	765,904	200,000	-	-	-	-	1,092,544
Financial assets at fair value through profit or loss	-	65,946	89,733	93,995	-	70,425	229,636	549,735
Derivative financial assets	75	30,908	1,200	1,550	33,122	538	-	67,393
Financial investments available-for-sale	-	115,013	-	10,035	106,636	777,993	490	1,010,167
Financial investments held-to-maturity	-	-	6,000	-	10,001	22,000	-	38,001
Loans, advances and financing	165,756	1,556,208	-	28,036	-	430,080	-	2,180,080
Balance due from clients and brokers	-	494,883	-	-	-	-	-	494,883
Other assets	19,986	5,593	10,169	1,942	-	-	28,892	66,582
Others	-	-	-	-	-	-	765,170	765,170
Total assets	312,457	3,034,455	307,102	135,558	149,759	1,301,036	1,024,188	6,264,555
Liabilities								
Deposits from customers	41,650	2,440,973	1,410,081	244,426	141,018	-	-	4,278,148
Deposits and placements of banks and other financial institutions	-	210,762	-	-	-	-	-	210,762
Obligations on securities sold under repurchase agreements	-	74,993	-	-	-	-	-	74,993
Derivative financial liabilities	-	371	14,086	15,031	6,686	-	-	36,174
Balance due to clients and brokers	-	416,960	-	-	-	-	-	416,960
Borrowings	-	-	2,800	2,800	5,600	57,800	-	69,000
Other liabilities balances	500	86,909	12,924	10,181	19,881	-	113,960	244,355
Total liabilities	42,150	3,230,968	1,439,891	272,438	173,185	57,800	113,960	5,330,392
Net maturity mismatch	270,307	(196,513)	(1,132,789)	(136,880)	(23,426)	1,243,236	910,228	934,163

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

2017	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Miscellaneous commitments	728,134	-	-	-	-	-	-	728,134
Total commitments and guarantees	728,134	-	-	-	-	-	-	728,134

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Liquidity risk (cont'd.)

(i) Analysis of assets and liabilities by remaining contractual maturities (cont'd.)

The table below summarises the contractual maturity profile of the Bank's assets and liabilities as at 31 December 2016. The contractual maturity profile often may not reflect the actual behavioural patterns.

Bank 2016 (Restated)	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Assets								
Cash and bank balances	79,644	869,717	–	–	–	–	60	949,421
Financial assets at fair value through profit or loss	–	24,968	84,640	–	45,035	15,735	211,210	381,588
Derivative financial assets	–	81	–	–	36,839	2,197	–	39,117
Financial investments available-for-sale	–	199,890	–	–	70,870	666,454	490	937,704
Financial investments held-to-maturity	–	–	2,000	–	–	38,000	–	40,000
Loans, advances and financing	92,560	1,509,524	23,517	–	46,381	393,905	–	2,065,887
Balance due from clients and brokers	–	445,005	–	–	–	–	–	445,005
Other assets	259	4,887	48,350	–	–	–	21,413	74,909
Others	–	–	–	–	–	–	735,377	735,377
Total assets	172,463	3,054,072	158,507	–	199,125	1,116,291	968,550	5,669,008
Liabilities								
Deposits from customers	–	1,974,075	910,635	220,320	250,547	–	–	3,355,577
Deposits and placements of banks and other financial institutions	–	470,861	80,093	–	–	–	–	550,954
Obligations on securities sold under repurchase agreements	–	27,253	–	–	–	–	–	27,253
Derivative financial liabilities	–	1,780	5,924	1,140	38,562	–	–	47,406
Balance due to clients and brokers	–	474,231	–	–	–	–	–	474,231
Borrowings	–	–	42,800	2,800	5,600	64,000	–	115,200
Other liabilities balances	491	83,284	5,190	607	7,481	–	98,828	195,881
Total liabilities	491	3,031,484	1,044,642	224,867	302,190	64,000	98,828	4,766,502
Net maturity mismatch	171,972	22,588	(886,135)	(224,867)	(103,065)	1,052,291	869,722	902,506

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

2016 (Restated)	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Miscellaneous commitments	665,738	–	–	–	–	–	–	665,738
Total commitments and guarantees	665,738	–	–	–	–	–	–	665,738

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31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Liquidity risk (cont'd.)

(ii) Maturity analysis of financial liabilities on an undiscounted basis

The following tables show the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The financial liabilities in the tables below will not agree to the balances reported in the statements of financial position as the tables incorporate 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.

Group	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
2017							
Financial liabilities							
Deposits from customers	2,453,940	1,432,068	249,522	146,537	-	-	4,282,067
Deposits and placements of banks and other financial institutions	216,495	-	-	-	-	-	216,495
Obligations on securities sold under repurchase agreements	74,993	-	-	-	-	-	74,993
Derivative financial liabilities	371	14,086	15,031	6,686	-	-	36,174
Balances due to clients and brokers	624,612	-	-	-	-	-	624,612
Borrowings	18,088	5,870	2,828	5,657	61,461	-	93,904
Other liabilities balances	109,903	12,924	10,181	19,881	-	177,771	330,660
Total undiscounted financial liabilities	3,498,402	1,464,948	277,562	178,761	61,461	177,771	5,658,905
2016 (Restated)							
Financial liabilities							
Deposits from customers	1,167,950	1,019,280	835,205	317,085	159	-	3,339,679
Deposits and placements of banks and other financial institutions	267,800	236,813	60,695	-	-	-	565,308
Obligations on securities sold under repurchase agreements	27,940	-	-	-	-	-	27,940
Derivative financial liabilities	1,780	5,924	1,140	38,562	-	-	47,406
Balances due to clients and brokers	857,065	-	-	-	-	-	857,065
Borrowings	50,713	43,794	2,828	5,656	64,645	-	167,636
Other liabilities balances	84,778	5,190	607	7,481	-	141,127	239,183
Total undiscounted financial liabilities	2,458,026	1,311,001	900,475	368,784	64,804	141,127	5,244,217

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Liquidity risk (cont'd.)

(ii) Maturity analysis of financial liabilities on an undiscounted basis (cont'd.)

Bank	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
2017							
Financial liabilities							
Deposits from customers	2,486,230	1,432,068	249,522	146,537	–	–	4,314,357
Deposits and placements of banks and other financial institutions	216,495	–	–	–	–	–	216,495
Obligations on securities sold under repurchase agreements	77,890	–	–	–	–	–	77,890
Derivative financial liabilities	371	14,086	15,031	6,686	–	–	36,174
Balance due to clients and brokers	416,960	–	–	–	–	–	416,960
Borrowings	–	2,828	2,828	5,657	61,461	–	72,774
Other liabilities balances	87,409	12,924	10,181	19,881	–	113,960	244,355
Total undiscounted financial liabilities	3,285,355	1,461,906	277,562	178,761	61,461	113,960	5,379,005
2016 (Restated)							
Financial liabilities							
Deposits from customers	1,185,492	1,039,280	835,205	317,085	159	–	3,377,221
Deposits and placements of banks and other financial institutions	267,800	236,813	60,695	–	–	–	565,308
Obligations on securities sold under repurchase agreements	27,940	–	–	–	–	–	27,940
Derivative financial liabilities	1,780	5,924	1,140	38,562	–	–	47,406
Balance due to clients and brokers	474,231	–	–	–	–	–	474,231
Borrowings	75,203	40,010	–	–	–	–	115,213
Other liabilities balances	83,775	5,190	607	7,481	–	98,828	195,881
Total undiscounted financial liabilities	2,116,221	1,327,217	897,647	363,128	159	98,828	4,803,200

NOTES TO THE FINANCIAL STATEMENTS

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50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or resulting from external events.

Operational risk is managed through an effective operational risk management framework which include development of policies, processes and procedures for managing operational risk in the Group's and the Bank's products, activities, processes and system, effective internal audit function, monitoring and reporting by independent risk management function and oversight by the management and Board of Directors.

The operational risk management processes include identifying and assessing operational risks inherent in the Group's and the Bank's existing as well as new products, activities, processes and systems, monitoring of operational risk profiles and reporting of material exposures, documented policies, processes and procedures to control and mitigate material operational risks and contingency and business continuity plans.

51. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurement

The Group and the Bank use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 – quoted (unadjusted) market prices in active for identical assets or liabilities.

Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 – techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

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51. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

Fair value measurement (cont'd.)

Group 2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
– Debt securities	–	320,099	–	320,099
– Equity securities	219,428	7,833	10,208	237,469
Financial investments available-for-sale #				
– Debt securities	–	959,677	–	959,677
– Negotiable Instruments of Deposits	–	50,000	–	50,000
Derivative financial assets	–	67,393	–	67,393
Financial assets for which fair values are disclosed				
Financial investments held-to-maturity	–	38,214	–	38,214
Loans, advances and financing	–	–	2,194,417	2,194,417
	219,428	1,443,216	2,204,625	3,867,269
Financial liability measured at fair value				
Derivative financial liabilities	32,356	3,818	–	36,174
Financial liabilities for which fair values are disclosed				
Obligations on securities sold under repurchase agreements	–	74,993	–	74,993
Borrowings	–	90,379	–	90,379
	32,356	169,190	–	201,546

NOTES TO THE FINANCIAL STATEMENTS

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51. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

Fair value measurement (cont'd.)

Bank 2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
– Debt securities	–	320,099	–	320,099
– Equity securities	219,428	–	10,208	229,636
Financial investments available-for-sale #				
– Debt securities	–	959,677	–	959,677
– Negotiable Instruments of Deposits	–	50,000	–	50,000
Derivative financial assets	–	67,393	–	67,393
Financial assets for which fair values are disclosed				
Financial investments held-to-maturity	–	38,214	–	38,214
Loans, advances and financing	–	–	2,179,330	2,179,330
	219,428	1,435,383	2,189,538	3,844,349
Financial liability measured at fair value				
Derivative financial liabilities	32,356	3,818	–	36,174
Financial liabilities for which fair values are disclosed				
Obligations on securities sold under repurchase agreements	–	74,993	–	74,993
Borrowings	–	69,380	–	69,380
	32,356	148,191	–	180,547

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

51. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

Fair value measurement (cont'd.)

Group 2016	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
– Debt securities	–	169,311	–	169,311
– Equity securities	211,210	6,660	–	217,870
– Unquoted private debt securities	–	–	1,067	1,067
Financial investments available-for-sale #				
– Debt securities	–	737,324	–	737,324
– Negotiable Instruments of Deposits	–	50,000	–	50,000
– Islamic Negotiable Instruments of Deposits	–	149,890	–	149,890
Derivative financial assets	–	39,117	–	39,117
Financial assets for which fair values are disclosed				
Financial investments held-to-maturity	–	40,026	–	40,026
Loans, advances and financing	–	–	2,103,957	2,103,957
	211,210	1,192,328	2,105,024	3,508,562
Financial liability measured at fair value				
Derivative financial liabilities	13,613	33,793	–	47,406
Financial liabilities for which fair values are disclosed				
Obligations on securities sold under repurchase agreements	–	27,253	–	27,253
Borrowings	–	168,906	–	168,906
	13,613	229,952	–	243,565

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

51. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

Fair value measurement (cont'd.)

Bank 2016	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
– Debt securities	–	169,311	–	169,311
– Equity securities	211,210	–	–	211,210
– Unquoted private debt securities	–	–	1,067	1,067
Financial investments available-for-sale #				
– Debt securities	–	737,324	–	737,324
– Negotiable Instruments of Deposits	–	50,000	–	50,000
– Islamic Negotiable Instruments of Deposits	–	149,890	–	149,890
Derivative financial assets	–	39,117	–	39,117
Financial assets for which fair values are disclosed				
Financial investments held-to-maturity	–	40,026	–	40,026
Loans, advances and financing	–	–	2,065,272	2,065,272
	211,210	1,185,668	2,066,339	3,463,217
Financial liability measured at fair value				
Derivative financial liabilities	13,613	33,793	–	47,406
Financial liabilities for which fair values are disclosed				
Obligations on securities sold under repurchase agreements	–	27,253	–	27,253
Borrowings	–	118,334	–	118,334
	13,613	179,380	–	192,993

Excludes unquoted securities stated at cost of RM490,000 (2016: RM490,000).

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

The methods and assumptions used to estimate the fair value of the financial instruments not measured at fair value are as disclosed in Note 48.

Movements in Level 3 financial instruments measured at fair value

The level of the fair value hierarchy of financial instruments is determined at the beginning of each reporting period. The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	Group and Bank	
	2017 RM'000	2016 RM'000
Balance at the beginning of the financial year	1,067	–
Acquisition of investments during the financial year	10,208	1,067
Disposal of investments during the financial year	(1,067)	–
Balance at the end of the financial year	10,208	1,067

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

52. OPERATIONS OF ISLAMIC BANKING

The Islamic banking operations of the Bank are as follows:

(a) Statement of financial position as at 31 December 2017

		Group and Bank	
	Note	2017 RM'000	2016 RM'000
Assets			
Cash and bank balances	(e)	532,663	160,638
Financial assets at fair value through profit or loss	(f)	122,501	34,750
Financial investments available-for-sale	(g)	199,576	276,405
Financial investments held-to-maturity	(h)	5,001	5,000
Financing and advances	(i)	172,052	155,162
Balances due from clients and brokers		7,497	24
Other assets	(j)	22,788	1,322
Property, plant and equipment		104	138
Deferred tax assets		–	205
Total assets		1,062,182	633,644
Liabilities			
Deposits from customers	(k)	819,296	410,813
Balances due to clients and brokers		1,378	56
Other liabilities	(l)	97,802	84,378
Deferred tax liabilities		15	–
Provision for taxation and zakat		2,177	3,567
Total liabilities		920,668	498,814
Islamic banking capital funds			
Islamic banking funds		120,000	120,000
Reserves		21,514	14,830
Total Islamic banking capital funds		141,514	134,830
Total liabilities and Islamic banking capital funds		1,062,182	633,644

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(b) Statements of profit or loss and other comprehensive income

For the financial year ended 31 December 2017

	Note	Group and Bank	
		2017 RM'000	2016 RM'000
Income derived from investment of depositors funds	(m)	31,917	30,959
Income derived from investment of shareholders' funds	(n)	7,803	4,823
(Write back of)/Allowance for impairment		15	(210)
Total attributable income		39,735	35,572
Profit distributed to the depositors	(o)	(25,786)	(18,630)
Net Income		13,949	16,942
Finance cost		(2,852)	(1,219)
Personnel expenses	(p)	(591)	(541)
Other overhead expenses	(p)	(2,342)	(1,985)
Profit before taxation and zakat		8,164	13,197
Taxation and Zakat		(2,177)	(3,568)
Profit for the financial year		5,987	9,629

For consolidation with the conventional banking operations, income from Islamic Banking Window as shown on the face of the consolidated statements of profit or loss and statements of profit or loss, comprise the following items:

	Group and Bank	
	2017 RM'000	2016 RM'000
Income derived from investment of depositors funds and others	31,917	30,959
Income derived from investment of shareholders' funds	7,803	4,823
Total income before impairment allowances and overhead expenses	39,720	35,782
Profit distributed to depositors	(25,786)	(18,630)
Finance cost	(2,852)	(1,219)
Income from Islamic Banking Window operations reported in the statement of profit or loss of the Group and the Bank	11,082	15,933

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(c) Statement of cash flows

For the financial year ended 31 December 2017

	Group and Bank	
	2017 RM'000	2016 RM'000
Cash flows from operating activities		
Profit before tax expense and zakat	8,164	13,197
Adjustments for:		
Depreciation of plant and equipment (Note 52(p)(ii))	43	44
Fixed assets written off	–	7
(Reversal of)/Allowances for Impairment	(15)	210
Realised loss/(gain) from sale of financial assets at fair value through profit or loss	300	(2,739)
Realised gain from sale of financial investments available-for-sale	(1)	(6,337)
Unrealised (gain)/loss on revaluation of financial assets at fair value through profit or loss	(45)	59
Operating profit before working capital changes	8,446	4,441
Changes in operating assets:		
Financing and advances	(16,819)	(96,105)
Balances due from clients and brokers	(7,473)	(24)
Other assets	(21,511)	407
Changes in operating liabilities:		
Deposits from customers	408,483	138,446
Balances due to clients and brokers	1,322	56
Other liabilities	13,823	29,249
Cash generated from operating activities	386,271	76,470
Taxation and zakat paid	(3,567)	(2,163)
Net cash generated from operating activities	382,704	74,307
Cash flows from investing activity		
Purchase of plant and equipment	(10)	(174)
Net purchase of securities	(10,669)	(28,932)
Net cash flows used in investing activities	(10,679)	(29,106)
Net change in cash and cash equivalents	372,025	45,201
Cash and cash equivalents at beginning of the financial year	160,638	115,437
Cash and cash equivalents at end of the financial year	532,663	160,638

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(d) Statement of changes in Islamic banking funds

For the financial year ended 31 December 2017

Group and Bank	Non-distributable			Distributable		Total RM'000
	Islamic banking fund RM'000	Available for-sale reserve RM'000	Regula- tory reserve RM'000	Capital reserve* RM'000	Retained profits RM'000	
At 1 January 2017	120,000	(649)	1,663	5,248	8,568	134,830
Profit for the financial year	–	–	–	–	5,987	5,987
Other comprehensive income for the financial year	–	697	–	–	–	697
Transfer to regulatory reserve	–	–	265	–	(265)	–
At 31 December 2017	120,000	48	1,928	5,248	14,290	141,514
At 1 January 2016	120,000	(497)	602	–	5,248	125,353
Profit for the financial year	–	–	–	–	9,629	9,629
Other comprehensive loss for the financial year	–	(152)	–	–	–	(152)
Merger adjustment	–	–	–	5,248	(5,248)	–
Transfer to regulatory reserve	–	–	1,061	–	(1,061)	–
At 31 December 2016	120,000	(649)	1,663	5,248	8,568	134,830

* Capital reserve arised from the merger adjustment to reflect the capital restructuring as a result of the group internal reorganisation exercise.

(e) Cash and bank balances

	Group and Bank	
	2017 RM'000	2016 RM'000
Current account with BNM and banks	3,763	88
Money at call and deposit placements with:		
Licensed banks	388,900	80,550
Bank Negara Malaysia	140,000	80,000
	532,663	160,638

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

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

	Group and Bank	
	2017 RM'000	2016 RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Certificates	30,065	–
Unquoted securities:		
Corporate Bills	92,436	24,968
Corporate Sukuk	–	9,782
	122,501	34,750

(g) Financial investments available-for-sale

	Group and Bank	
	2017 RM'000	2016 RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Certificates	61,574	20,322
Negotiable Instruments of Deposits	–	149,890
Sukuk Perumahan Kerajaan	10,076	10,056
	71,650	180,268
Unquoted securities:		
Corporate Sukuk	127,926	96,137
	199,576	276,405

(h) Financial investments held-to-maturity

	Group and Bank	
	2017 RM'000	2016 RM'000
At amortised cost		
Unquoted debt securities in Malaysia		
– Corporate Sukuk	5,001	5,000

The maturity structure of above securities are as follows:

Within one year	5,001	–
One to three years	–	5,000

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(i) Financing and advances

	Group and Bank	
	2017 RM'000	2016 RM'000
Commodity Murabahah revolving credit		
– Shariah contract – others	12,653	20,224
Commodity Murabahah term financing		
– Shariah contract – others	159,400	135,139
Commodity Murabahah share margin financing		
– Shariah contract – others	130	–
Gross financing and advances	172,183	155,363
Allowance for impairment:		
– Collective allowance	(131)	(201)
Net financing and advances	172,052	155,162
(i) Gross financing and advances analysed by type of customer are as follows:		
Domestic business enterprises – others	136,947	115,255
Individuals	35,236	40,108
	172,183	155,363
(ii) Gross financing and advances analysed by geographical distribution are as follows:		
In Malaysia	172,183	155,363
(iii) Gross financing and advances analysed by profit rate sensitivity are as follows:		
Variable rate		
– Cost plus	172,183	155,363
(iv) Gross financing and advances analysed by economic purpose are as follows:		
Purchase of securities	94,169	50,014
Working capital	12,750	65,241
Others	65,264	40,108
	172,183	155,363
(v) Gross financing and advances analysed by residual contractual maturity are as follows:		
Within one year	12,750	20,224
More than one year	159,433	135,139
	172,183	155,363

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(j) Other assets

	Group and Bank	
	2017 RM'000	2016 RM'000
Income receivables	2,673	1,319
Prepayment	4	3
Other receivables	20,111	–
	22,788	1,322

(k) Deposits from customers

	Group and Bank	
	2017 RM'000	2016 RM'000
(i) By type of deposit:		
Tawarruq (Commodity Murabahah deposits)	819,296	410,813
(ii) By type of customers:		
Domestic non-bank institutions	422,164	315,032
Business enterprises	396,176	94,855
Individuals	956	926
	819,296	410,813
(iii) By maturity:		
Due within six months	776,296	394,813
More than six months	43,000	16,000
	819,296	410,813

(l) Other liabilities

	Group and Bank	
	2017 RM'000	2016 RM'000
Murabahah Specific Investment Account	55,500	62,500
Profit payables	2,534	1,023
Other payables	39,768	20,855
	97,802	84,378

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(m) Income derived from investment of depositors' funds and others

	Group and Bank	
	2017 RM'000	2016 RM'000
Finance income and hibah		
Financing and advances	4,880	3,200
Deposits placements with financial institutions	11,312	5,188
Financial assets at fair value through profit or loss	2,328	1,603
Financial investments available-for-sale	11,265	10,109
Financial investments held-to-maturity	238	238
Accretion of discount	(637)	(353)
	29,386	19,985
Other operating income		
Net (loss)/gain on sale of financial assets at fair value through profit or loss	(255)	2,680
Net gain on sale of financial investments available-for-sale	1	6,337
Fees on financing and advances	1,259	2,140
Brokerage fee	1,225	7
Advisory fee	500	19
Placement fee	35	–
Direct trading fees	(240)	(214)
Other non-operating income	6	5
	2,531	10,974
	31,917	30,959

(n) Income derived from investment of shareholders' funds

	Group and Bank	
	2017 RM'000	2016 RM'000
Finance income and hibah		
Financing and advances	7,243	2,459
Financial investments available-for-sale	616	2,557
Accretion of discount	(56)	(193)
	7,803	4,823

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(o) Income attributable to depositors

	Group and Bank	
	2017 RM'000	2016 RM'000
Deposits from customers and financial institutions		
– Murabahah Fund	21,528	13,898
Others	4,258	4,732
	25,786	18,630

(p) Other operating expenses

	Group and Bank	
	2017 RM'000	2016 RM'000
(i) Personnel costs		
– salaries, wages, allowances and bonus	465	437
– EPF	71	61
– other staff related expense	55	43
	591	541
(ii) Other overhead expenses:		
Establishment costs		
– depreciation	43	44
– office rental	57	45
– repair and maintenance	7	9
	107	98
Marketing and trading expenses		
– advertisement and promotions	41	27
– travelling and entertainment expenses	13	4
	54	31
Administration and general expenses		
– others	2,181	1,856
	2,342	1,985

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(q) Capital adequacy

	Group and Bank	
	2017 RM'000	2016 RM'000
CET 1/Tier 1 capital		
Islamic banking funds	120,000	120,000
Retained profits	14,290	8,568
Other reserves	7,224	6,262
Less: Deferred tax assets	–	(205)
Regulatory reserve	(1,928)	(1,663)
Total CET 1/Tier 1 capital	139,586	132,962
Tier 2 capital		
Collective allowance and regulatory reserve	1,862	1,696
Total Tier 2 capital	1,862	1,696
Total capital	141,448	134,658
	Group and Bank	
	2017	2016
CET 1 capital ratio	74.382%	83.230%
Tier 1 capital ratio	74.382%	83.230%
Total capital ratio	75.374%	84.292%

The breakdown of risk-weighted assets (excluding any deferred tax assets) in the various categories of risk-weights are as follows:

Group and Bank	2017		2016	
	Principal RM'000	Risk- weighted RM'000	Principal RM'000	Risk- weighted RM'000
Credit risk	809,866	148,960	508,000	135,691
Market risk	–	19,125	–	8,056
Operational risk	–	19,577	–	16,005
Total risk weighted assets	809,866	187,662	508,000	159,752

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

53. SIGNIFICANT EVENTS AND SUBSEQUENT EVENTS

The following are the significant events of the Group during the financial year ended 31 December 2017:

(1) Acquisition of the remaining 27% equity interests in Kenanga Futures Sdn. Bhd. (formerly known as Kenanga Deutsche Futures Sdn Bhd) ("KF")

On 27 July 2017, the Bank acquired the remaining 1,350,000 ordinary shares of issued shares of KF, representing 27% equity interests for a cash consideration of RM10.05 million from Deutsche Asia Pacific Holdings Pte Ltd. Subsequent to the said acquisition, KF became a wholly-owned subsidiary of the Bank.

Financial position of KF as at the date of acquisition:

	RM'000
Carrying value of net assets	37,830
Carrying value of the additional interests acquired	10,214

The difference between the consideration and the carrying value of the interest acquired has been recognised within retained profits:

	RM'000 DR/(CR)
Consideration paid for the acquisition of NCI	10,050
Decrease in equity attributable to NCI	(10,214)
Increase in equity attributable to equity holders of the Group	(164)

(2) The Companies Act 2016 ("New Act")

New Act was enacted to replace the Companies Act 1965 in Malaysia with the objectives of creating a legal and regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representative) and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the date on which the New Act comes into operation, except section 241 and Division 8 of Part III of the New Act, would be 31 January 2017.

The key changes introduced in the New Act which have affected the financial statements of the Group and of the Bank are:

- (a) Removal of the authorised share capital;
- (b) Shares of the Bank ceased to have par or nominal value; and
- (c) Share premium of the Bank became part of the share capital.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

53. SIGNIFICANT EVENTS AND SUBSEQUENT EVENTS (CONT'D.)

(3) Employees' Share Scheme ("ESS")

On 21 September 2017, the Bank has established and implemented an ESS of up to 10% of the Bank's total issued share capital (excluding Treasury shares) at any one time during the duration of the ESS scheme for the eligible employees and executive directors of KIBB and its non-dormant subsidiary companies which will be valid for a period of five (5) years from its commencement date, and may be extended for a further period of five (5) years.

On 2 January 2018, the Bank has made an offer of options under the Employees' Share Option Scheme ("ESOS") to the eligible employees of KIBB and its non-dormant subsidiaries to subscribe for new ordinary shares in KIBB under the ESS. The total number of options offered are 49,579,000 and the exercise price is RM0.575.

The Bank has not offered any employee share options as at 31 December 2017. In relation to options offered on 2 January 2018, any expenses incurred will be recognised in the income statement in the relevant period in the year subsequent to 31 December 2017 and any impact to the net asset and equity will be accounted for when the options are exercised.

The following is the subsequent event of the Group subsequent to the financial year ended 31 December 2017:

Issuance of Additional RM10,000,000 Subordinated Notes in January 2018

On 29 January 2018, the Bank issued second tranche of RM10 million Subordinated Notes under the RM250 million in nominal value Tier 2 Subordinated Note Programme which was established on 27 March 2017. The Subordinated Notes will pay a coupon of 6.6% per annum. The Subordinated Notes has a tenure of 10 years Non-Callable 5 years from the issue date and will mature on 29 January 2028 and a call date on 29 January 2023. The proceeds from the issuance of the Subordinated Notes will be utilised by the Bank as working capital.

54. DIRECTORS OF SUBSIDIARIES OF THE GROUP

The following is the list of Directors who served on the Boards of the subsidiaries of the Group since the beginning of the current financial year to the date of the directors' report:

No	Name of subsidiary	Name of Directors
1	Kenanga Futures Sdn Bhd (formerly known as Kenanga Deutsche Futures Sdn Bhd)	Luigi Fortunato Ghirardello Izlan Bin Izhab Emmanuel, Dominique, Martial, Georges, Faure (appointed on 18 September 2017) Sree Kumar A/L C K Nayar (appointed on 12 October 2017) Lum Chee Wah Azila Binti Abdul Aziz Lee Kok Khoo (resigned on 18 September 2017) Michael James Connolly (resigned on 27 July 2017)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

54. DIRECTORS OF SUBSIDIARIES OF THE GROUP (CONT'D.)

No	Name of subsidiary	Name of Directors
2	Kenanga Nominees (Asing) Sdn Bhd	Lee Kok Khee Lum Chee Wah Ng Yoke Mun Nuryasmin Lee Binti Abdullah Cheong Boon Kak (appointed on 2 January 2018) Wong Mee Hong (appointed on 2 January 2018) Ruslan Bin Md Nor (appointed on 2 January 2018) Tan Tong Nam (resigned on 2 January 2018) Chan Tuck Kiong (resigned on 2 January 2018)
3	Kenanga Nominees (Tempatan) Sdn Bhd	Lee Kok Khee Lum Chee Wah Ng Yoke Mun Nuryasmin Lee Binti Abdullah Cheong Boon Kak (appointed on 2 January 2018) Wong Mee Hong (appointed on 2 January 2018) Ruslan Bin Md Nor (appointed on 2 January 2018) Tan Tong Nam (resigned on 2 January 2018) Chan Tuck Kiong (resigned on 2 January 2018)
4	Kenanga Private Equity Sdn Bhd	Datuk Chay Wai Leong Megat Mizan Nicholas Denney Cheong Boon Kak Lum Chee Wah (appointed on 15 February 2018)
5	ECML Berhad	Lee Kok Khee Lum Chee Wah
6	ECML Nominees (Tempatan) Sdn Bhd	Lee Kok Khee Lum Chee Wah Ng Yoke Mun Tan Tong Nam Chan Tuck Kiong Nuryasmin Lee Binti Abdullah
7	Avenue Kestrel Sdn Bhd	Lee Kok Khee Lum Chee Wah
8	K & N Kenanga Holdings Berhad	Datuk Chay Wai Leong Datuk Roslan Bin Hj Tik Cheong Boon Kak
9	SSSB Management Services Sdn Bhd	Lem Siow Hui Megat Mizan Nicholas Denney
10	Kenanga Management & Services Sdn Bhd	Megat Mizan Nicholas Denney Lum Chee Wah

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

54. DIRECTORS OF SUBSIDIARIES OF THE GROUP (CONT'D.)

No	Name of subsidiary	Name of Directors
11	Kenanga Investors Berhad	Datuk Syed Ahmad Alwee Alsree Syed Zafilen Bin Syed Alwee Peter John Rayner Imran Devindran Bin Abdullah Dato' Kho Yaw Huat Ismitz Matthew De Alwis
12	Kenanga Islamic Investors Berhad	YM Tan Sri Dato' Paduka Tengku Noor Zakiah Binti Tengku Ismail Datuk Syed Ahmad Alwee Alsree Dato' Zuraidah Binti Atan Ismitz Matthew De Alwis Shahariah Binti Shahrudin Megat Mizan Nicholas Denney (Alternate Director to YM Tan Sri Dato' Paduka Tengku Noor Zakiah Binti Tengku Ismail)
13	KUT Nominees (Tempatan) Sdn Bhd	Lee Kok Khee Ismitz Matthew De Alwis
14	KUT Nominees (Asing) Sdn Bhd	Lee Kok Khee Ismitz Matthew De Alwis
15	Kenanga Funds Berhad	Cheong Boon Kak Ismitz Matthew De Alwis
16	Kenanga Capital Sdn Bhd	Megat Mizan Nicholas Denney Lee Kok Khee Azlan Bin Abu Rais @ A Rais Al Noah Datuk Roslan Bin Hj Tik (appointed on 11 September 2017)
17	Kenanga Capital Islamic Sdn Bhd	Datuk Roslan Bin Hj Tik Megat Mizan Nicholas Denney Azlan Bin Abu Rais @ A Rais Al Noah
18	Kenanga Singapore Pte. Ltd.	Luk Wai Hong, William Lee Kok Khee

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

55. PRIOR YEAR RECLASSIFICATION

- (i) In prior years, the cash and bank balances comprised clearing fund with Bursa Malaysia Derivatives Clearing House which was now reclassified to other assets due to the nature of the fund which is not readily convertible into cash.

There was a reclassification of financial assets available-for-sale to financial assets at fair value through profit or loss to make the classification of the assets to be consistent with the subsidiary's classification in the audited financial statements.

To be consistent with the classification and regulatory treatment for structured products, the principal amount of the structured products received has been reclassified from deposits from customers to other liabilities.

The impacts of the above reclassifications in the statements of financial position and statements of cash flow are as reconciled in Note (a) below.

- (ii) The interest income has been re-grossed to reflect the inclusion of interest-in-suspense in the provision of impairment on amounts due from clients and brokers. The impact in the statements of profit or loss and other comprehensive income and statements of cash flows are as reconciled in Note (b) below.

(a) Reconciliation for the statements of financial position

	Previously stated RM'000	Increase/ (decrease) RM'000	As restated RM'000
As at 31 December 2016			
Group			
Assets			
Cash and bank balances	1,229,928	(2,327)	1,227,601
Financial assets at fair value through profit or loss	381,588	6,660	388,248
Financial investments available-for-sale	944,364	(6,660)	937,704
Other assets	229,112	2,327	231,439
Liabilities			
Deposits from customers	3,310,070	(24,043)	3,286,027
Other liabilities	214,701	24,043	238,744
Bank			
Assets			
Cash and bank balances	951,748	(2,327)	949,421
Other assets	72,582	2,327	74,909
Liabilities			
Deposits from customers	3,379,620	(24,043)	3,355,577
Other liabilities	171,790	24,043	195,833

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

55. PRIOR YEAR RECLASSIFICATION (CONT'D.)

(b) Effects in the statements of profit or loss and other comprehensive income

For the financial year ended 31 December 2016	Previously stated RM'000	Increase/ (decrease) RM'000	As restated RM'000
Group			
Interest income	253,931	1,256	255,187
Write back of/(Allowance for) impairment on:			
– balances due from clients and brokers and other receivables	2,695	(1,256)	1,439
Bank			
Interest income	239,131	1,256	240,387
Write back of/(Allowance for) impairment on:			
– balances due from clients and brokers and other receivables	2,695	(1,256)	1,439

(c) Reconciliation for the statements of cash flows

For the financial year ended 31 December 2016	Previously stated RM'000	Increase/ (decrease) RM'000	As restated RM'000
Group			
Cash flows from operating activities			
Adjustments for:–			
(Write back of)/Allowance for of impairment on balances due from clients and brokers, and other receivables	(2,608)	1,256	(1,352)
(Increase)/Decrease in operating assets:			
Other assets	(20,219)	(111)	(20,330)
(Decrease)/Increase in operating liabilities:			
Other liabilities	(31,350)	11,517	(19,833)
Deposits from customers	81,005	(11,517)	69,488
Balances due from clients and brokers	14,145	(1,256)	12,889

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

55. PRIOR YEAR RECLASSIFICATION (CONT'D.)

(c) Reconciliation for the statements of cash flows (cont'd.)

For the financial year ended 31 December 2016	Previously stated RM'000	Increase/ (decrease) RM'000	As restated RM'000
Bank			
Cash flows from operating activities			
Adjustments for:-			
(Write back of)/ Allowance for impairment on balances due from clients and brokers, and other receivables	(2,608)	1,256	(1,352)
Decrease/(Increase) in operating assets:			
Other assets	25,934	(111)	25,823
(Decrease)/Increase in operating liabilities:			
Other liabilities	(30,236)	11,517	(18,719)
Deposits from customers	79,034	(11,517)	67,517
Balances due from clients and brokers	14,145	(1,256)	12,889

ANALYSIS OF SHAREHOLDINGS

As at 30 March 2018

SHARE CAPITAL

Total Number of Issued Shares : 722,612,999 ordinary shares

Voting Rights : One (1) vote per share

DISTRIBUTION OF SHAREHOLDINGS

Size of Holdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Shareholdings
Less than 100	6,873	28.58	184,251	0.02
100 to 1,000	5,445	22.64	2,451,825	0.34
1,001 to 10,000	9,624	40.02	32,101,329	4.44
10,001 to 100,000	1,865	7.76	55,118,475	7.63
100,001 to less than 5% of issued shares	238	0.99	340,532,550	47.13
5% and above of issued shares	3	0.01	292,224,569	40.44
Total	24,048	100.00	722,612,999	100.00

ANALYSIS OF SHAREHOLDINGS

As at 30 March 2018

LIST OF THIRTY (30) LARGEST SHAREHOLDERS

No.	Name	Holdings	%
1	CMS Capital Sdn Bhd	153,353,000	21.22
2	Tan Sri Dato' Paduka Tengku Noor Zakiah Tengku Ismail	102,356,770	14.16
3	HSBC Nominees (Asing) Sdn Bhd Exempt AN for Tokai Tokyo Securities Co., Ltd.	36,514,799	5.05
4	TMF Trustees Malaysia Berhad Naungan Efektif Sdn Bhd	32,360,000	4.48
5	HSBC Nominees (Asing) Sdn Bhd Exempt AN for Bank Julius Baer & Co. Ltd.	30,117,909	4.17
6	Cahaya Mata Sarawak Berhad	30,070,000	4.16
7	Infotech Mark Sdn Bhd	30,053,040	4.16
8	Abdul Aziz Bin Hashim	29,753,712	4.12
9	Aiza Binti Abdul Aziz	26,467,156	3.66
10	TMF Trustees Malaysia Berhad Channel Knowledge Sdn Bhd	21,404,301	2.96
11	HSBC Nominees (Asing) Sdn Bhd Exempt AN for Credit Suisse	10,623,952	1.47
12	Inter-Pacific Equity Nominees (Tempatan) Sdn Bhd Inter-Pacific Capital Sdn Bhd	10,000,000	1.38
13	Lim Kuan Gin	10,000,000	1.38
14	Kenanga Nominees (Tempatan) Sdn Bhd Libra Invest Berhad for ECM Libra Foundation	6,867,749	0.95
15	Rescom International Limited	4,292,000	0.59
16	CIMB Group Nominees (Asing) Sdn Bhd Exempt AN for DBS Bank Ltd	3,162,100	0.44
17	CIMSEC Nominees (Tempatan) Sdn Bhd Exempt AN for CIMB Securities (Singapore) Pte Ltd (Retail Clients)	3,143,416	0.44
18	Public Nominees (Asing) Sdn Bhd Pledged Securities Account for Syed Hizam Alsagoff	3,000,000	0.42
19	Raja Karib Shah Bin Shahrudin	2,637,642	0.37
20	Datuk Chay Wai Leong	2,500,000	0.35
21	Citigroup Nominees (Asing) Sdn Bhd CBNY for Dimensional Emerging Markets Value Fund	2,020,488	0.28
22	Citigroup Nominees (Asing) Sdn Bhd CBNY for DFA Emerging Markets Small Cap Series	1,871,361	0.26
23	Citigroup Nominees (Asing) Sdn Bhd CBNY for Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc	1,779,386	0.25
24	Ong Leong Huat	1,710,000	0.24
25	Lim Su Tong @ Lim Chee Tong	1,626,833	0.23
26	CIMSEC Nominees (Asing) Sdn Bhd CIMB for Ng Koh Lip	1,619,999	0.22
27	Khor Keng Saw @ Khaw Ah Soay	1,612,400	0.22
28	Ong Geok Hwa	1,611,100	0.22
29	Kim Poh Holdings Sdn Bhd	1,503,000	0.21
30	HSBC Nominees (Asing) Sdn Bhd White Tree Invest Corp.	1,500,000	0.21
Total		565,532,113	78.27

ANALYSIS OF SHAREHOLDINGS

As at 30 March 2018

SUBSTANTIAL SHAREHOLDERS AND DIRECTORS' INTEREST IN SHARES

Substantial Shareholders

Name of Substantial Shareholders	Direct Interest		Indirect Interest	
	No. of Shares	Percentage (%)	No. of Shares	Percentage (%)
CMS Capital Sdn Bhd	153,353,000	21.22	–	–
Cahaya Mata Sarawak Berhad	30,070,000	4.16	153,353,000 ^(a)	21.22
Tan Sri Dato' Paduka Tengku Noor Zakiah Tengku Ismail	102,356,770	14.16	43,500 ^(b)	0.01
Tokai Tokyo Financial Holdings, Inc.	36,514,799	5.05	–	–

Notes:

^(a) Deemed interest pursuant to Section 8(4) of the Companies Act, 2016 by virtue of shares held by CMS Capital Sdn Bhd.

^(b) Deemed interest by virtue of shares held by person connected.

Directors' Shareholdings

Name of Directors	Direct Interest		Indirect Interest	
	No. of Shares	Percentage (%)	No. of Shares	Percentage (%)
Dato' Richard Alexander John Curtis	1,100,000	0.15	–	–
Luigi Fortunato Ghirardello	581,700	0.08	–	–

NOTICE OF FORTY-FOURTH (44TH) ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Forty-Fourth (44th) Annual General Meeting ("**AGM**") of Kenanga Investment Bank Berhad ("**the Company**") will be held at Taming Sari Grand Ballroom, The Royale Chulan Kuala Lumpur, 5, Jalan Conlay, 50450 Kuala Lumpur, Wilayah Persekutuan, Malaysia on Wednesday, 23 May 2018 at 11.00 a.m. to transact the following businesses:

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2017 together with the Reports of the Directors and Auditors thereon.
2. To approve the payment of a final dividend of 3.0 sen per share in respect of the financial year ended 31 December 2017. **Ordinary Resolution 1**
3. To re-elect the following Directors who retire by rotation in accordance with Article 75 of the Company's Articles of Association and being eligible, offer themselves for re-election:
 - 3.1 Datuk Syed Ahmad Alwee Alsree; and **Ordinary Resolution 2**
 - 3.2 Luigi Fortunato Ghirardello. **Ordinary Resolution 3**
4. To re-elect the following Directors who retire in accordance with Article 81 of the Company's Articles of Association and being eligible, offer themselves for re-election:
 - 4.1 Jeremy Nasrulhaq; **Ordinary Resolution 4**
 - 4.2 Norazian Ahmad Tajuddin; and **Ordinary Resolution 5**
 - 4.3 Kanagaraj Lorenz. **Ordinary Resolution 6**
5. To approve the payment of Directors' fees totalling RM2,590,410.95 in respect of the financial year ended 31 December 2017. **Ordinary Resolution 7**
6. To approve the payment of benefits payable to the Non-Executive Chairman, Non-Executive Deputy Chairman and Non-Executive Directors up to an amount of RM1,100,000 from 24 May 2018 until the next AGM of the Company. **Ordinary Resolution 8**
7. To re-appoint Messrs. Ernst & Young as Auditors of the Company for the financial year ending 31 December 2018 and to authorise the Board of Directors to determine their remuneration. **Ordinary Resolution 9**

NOTICE OF FORTY-FOURTH (44TH) ANNUAL GENERAL MEETING

AS SPECIAL BUSINESS

To consider, and if thought fit, to pass the following Ordinary Resolutions:

8. **Proposed Allocation of Employees' Share Scheme ("ESS" or "the Scheme") Awards to Datuk Chay Wai Leong, Group Managing Director of Kenanga Investment Bank Berhad**

Ordinary Resolution 10

"THAT pursuant to the Scheme as approved by the shareholders under the Ordinary Resolution 1 at the Extraordinary General Meeting held on 25 May 2017, approval be and is hereby given to the Board of Directors to authorise the ESS Committee at any time and from time to time, to grant Datuk Chay Wai Leong, the Group Managing Director of the Company, (i) an option to subscribe for 10,000,000 new ordinary shares of the Company ("**Shares**") pursuant to the employees' share option scheme under the ESS ("**ESOS Options**"), to be vested over a period of three (3) years commencing from year 2019 until year 2021 and exercisable within three (3) years from the vesting date or till expiry of the ESS, whichever is earlier, at the exercise price of five percent (5%) premium to the five (5)-market days volume weighted average price prior to the granting of the ESOS Options; and (ii) an award of not more than 3,612,735 Shares, that is available (in aggregate) for the senior management of the Company who are eligible to participate, over a period of four (4) years from year 2018 until year 2021 pursuant to the employee share grant plan under the ESS ("**ESGP Awards**") in accordance with the provisions of the By-Laws of the ESS (the ESOS Options and the ESGP Awards are collectively referred to as the "**ESS Awards**"), provided always that not more than ten percent (10%) of the aggregate number of Shares to be issued under the Scheme shall be allocated to any individual eligible person who, either singly or collectively through persons connected with the eligible person, holds twenty percent (20%) or more of the issued share capital of the Company (excluding treasury shares), and subject always to such terms and conditions of the Scheme as may, from time to time, be modified, varied and/or amended in accordance with the provisions of the By-Laws of the ESS and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, or any prevailing guidelines issued by Bursa Malaysia Securities Berhad or any other relevant authorities, as amended from time to time.

THAT the Board of Directors be and is hereby authorised to allot and issue new Shares and/or transfer existing Shares to Datuk Chay Wai Leong pursuant to his exercise of the ESOS Options allocated to him, and/or vesting of the ESGP Awards granted to him, from time to time under the Scheme.

AND THAT the Board of Directors be and is hereby authorised to take such steps as are necessary or expedient to implement, finalise or to give full effect to the proposed allocation of ESS Awards to Datuk Chay Wai Leong with full power to assent to any terms, conditions, modifications, variations and/or amendments as may be imposed and/or permitted by the relevant authorities or otherwise thought fit by the Board of Directors to be in the best interest of the Company; to execute, sign and deliver on behalf of the Company all such agreements, arrangements and documents as may be necessary to give full effect to, complete and implement the proposed allocation of ESS Awards to Datuk Chay Wai Leong as well as to deal with all matters relating thereto and/or to do all such acts and things as the Board of Directors may deem fit and expedient in the best interest of the Company."

NOTICE OF FORTY-FOURTH (44TH) ANNUAL GENERAL MEETING

9. Authority to Directors to Issue Shares

Ordinary Resolution 11

“**THAT** subject always to the Companies Act, 2016, the Company’s Articles of Association and approvals of the relevant governmental/regulatory authorities, the Board of Directors be and is hereby authorised pursuant to Section 75 and Section 76 of the Companies Act, 2016, to issue shares in the Company at any time to such persons and upon such terms and conditions and for such purposes as the Board of Directors may, in its absolute discretion, deem fit, provided that the aggregate number of shares to be issued does not exceed ten percent (10%) of the total number of issued shares of the Company for the time being and the Board of Directors be and is also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing of and quotation for the additional shares so issued **AND THAT** such authority shall commence immediately upon the passing of this Resolution and continue to be in force until the conclusion of the next AGM of the Company.”

10. Proposed Share Buy-Back Authority

Ordinary Resolution 12

“**THAT** subject to the provisions of the Companies Act, 2016, the Memorandum and Articles of Association of the Company, Bursa Malaysia Securities Berhad’s Main Market Listing Requirements and the approvals of all relevant governmental and/or regulatory authorities, the Company be and is hereby authorised to purchase such number of ordinary shares of the Company (“**Proposed Share Buy-Back Authority**”) as may be determined by the Board of Directors of the Company from time to time through Bursa Malaysia Securities Berhad, upon such terms and conditions as the Board of Directors may deem fit in the interest of the Company, provided that:

- a. The aggregate number of shares to be purchased pursuant to this Resolution does not exceed ten percent (10%) of the total number of issued shares for the time being of the Company and the compliance with the public shareholding spread requirements as stipulated in Paragraph 8.02(1) of Bursa Malaysia Securities Berhad’s Main Market Listing Requirements or other requirements as may be determined by Bursa Malaysia Securities Berhad from time to time;
- b. The maximum funds to be allocated by the Company for the Proposed Share Buy-Back Authority shall not exceed the Company’s latest audited retained profits of RM513,725,004 as at 31 December 2017;
- c. The authority conferred by this Resolution shall commence immediately upon the passing of this Ordinary Resolution and shall continue to be in force until:
 - i. the conclusion of the next AGM of the Company at which time it will lapse, unless by Ordinary Resolution passed at the AGM, the authority is renewed either unconditionally or subject to conditions; or
 - ii. the expiration of the period within which the next AGM after that date is required by law to be held; or
 - iii. revoked or varied by Ordinary Resolution passed by the shareholders of the Company in a general meeting,

whichever occurs first; but not so as to prejudice the completion of the purchase of its own shares by the Company before the aforesaid expiry date and, in any event, in accordance with the provisions of Bursa Malaysia Securities Berhad’s Main Market Listing Requirements or any other relevant authorities;

NOTICE OF FORTY-FOURTH (44TH) ANNUAL GENERAL MEETING

- d. Upon the purchase by the Company of its own shares, the Board of Directors be and is hereby authorised to:
- i. cancel the shares so purchased;
 - ii. retain the shares so purchased as treasury shares;
 - iii. retain part of the shares so purchased as treasury shares and cancel the remainder;
 - iv. distribute the treasury shares as share dividends to shareholders;
 - v. resell the treasury shares or any of the said shares in accordance with Bursa Malaysia Securities Berhad's Main Market Listing Requirements;
 - vi. transfer the treasury shares, or any of the said shares for the purposes of or under an employee's share scheme;
 - vii. transfer the treasury shares, or any of the said shares as purchase consideration;
 - viii. cancel the treasury shares or any of the said shares; or
 - ix. sell, transfer or otherwise use the treasury shares for such other purposes as the Minister may by order prescribe.

AND THAT the Board of Directors of the Company be and is hereby authorised to take all steps as are necessary or expedient to implement or to effect the Proposed Share Buy-Back Authority with full power to assent to any condition, modification, variation and/or amendment as may be imposed by the relevant authorities and to take all such steps as may deem necessary or expedient in order to implement, finalise and give full effect in relation thereto."

11. To transact any other business of the Company for which due notice shall have been received in accordance with the Companies Act, 2016.

NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS ALSO HEREBY GIVEN THAT subject to the shareholders' approval for the payment of final dividend of 3.0 sen per share in respect of the financial year ended 31 December 2017 ("**Final Dividend**") under **Ordinary Resolution 1** at the Forty-Fourth (44th) AGM of the Company, the Final Dividend will be paid to shareholders on 31 May 2018. The entitlement date for the Final Dividend shall be 24 May 2018.

Shareholders of the Company will only be entitled to the Final Dividend in respect of:

- a. securities transferred into their securities account before 4.00 p.m. on 24 May 2018 for transfers; and
- b. securities bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

NORLIZA ABD SAMAD
MAICSA 7011089
Group Company Secretary

Kuala Lumpur
30 April 2018

NOTICE OF FORTY-FOURTH (44TH) ANNUAL GENERAL MEETING

Notes:

1. **Proxy**

- 1.1 Only members whose names appear in the Record of Depositors as at 17 May 2018 shall be entitled to attend, speak and vote at this AGM.
- 1.2 A member of the Company entitled to attend, speak and on a show of hands or on poll, to vote at this AGM is entitled to appoint up to two (2) proxies to attend, speak and vote in his place. There shall be no restriction as to the qualification of the proxy.
- 1.3 A member who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, may appoint at least one (1) proxy but not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
- 1.4 Where a member is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("**Omnibus Account**"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds.
- 1.5 Where a member appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.
- 1.6 The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
- 1.7 Duly completed Proxy Form must be deposited at the office of the Company's share registrar, Symphony Share Registrars Sdn Bhd at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia no later than Tuesday, 22 May 2018 at 11.00 a.m. (twenty-four (24) hours before the time appointed for holding the AGM).

2. **Audited Financial Statements for the Financial Year Ended 31 December 2017**

The Audited Financial Statements are laid in accordance with Section 340(1)(a) of the Companies Act, 2016 for discussion only under Agenda 1. They do not require shareholders' approval and hence, will not be put for voting.

3. **Final Dividend**

With reference to Section 131 of the Companies Act, 2016, a company may only make a distribution to the shareholders out of profits of the company available if the company is solvent. On 30 January 2018, the Board of Directors had considered the amount of final dividend of 3.0 sen per share in respect of financial year ended 31 December 2017 and decided to recommend the same for the shareholders' approval, subject to the same being approved by Bank Negara Malaysia ("**BNM**"). BNM had on 12 March 2018, approved the proposed declaration of final dividend of the Company.

The Directors of the Company are satisfied that the Company will be solvent as it will be able to pay its debts as and when the debts become due within twelve (12) months immediately after the disbursement is made on 31 May 2018 in accordance with the requirements under Section 132(2) and (3) of the Companies Act, 2016.

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4. **Re-election of Directors who retire in accordance with Article 75 of the Company's Articles of Association ("AA")**

Article 75 of the AA provides that one-third ($\frac{1}{3}$) of the Directors of the Company for the time being shall retire by rotation at an AGM of the Company. Pursuant thereto, two (2) Directors of the Company, namely Datuk Syed Ahmad Alwee Alsree and Luigi Fortunato Ghirardello, shall retire in accordance with Article 75 of the AA.

The profiles of Datuk Syed Ahmad Alwee Alsree and Luigi Fortunato Ghirardello can be found in the 2017 annual report of the Company.

5. **Re-election of Directors who retire in accordance with Article 81 of the Company's AA**

Article 81 of the AA provides amongst others, that the Board of Directors shall have the power to appoint any person to be a Director to fill a casual vacancy or as an addition to the existing Board of Directors, and that any Director so appointed shall hold office until the next following AGM and shall then be eligible for re-election.

Accordingly, Jeremy Nasrulhaq, Norazian Ahmad Tajuddin and Kanagaraj Lorenz who were appointed during the year as Independent Non-Executive Directors of the Company, shall hold office until the Forty-Fourth (44th) AGM and shall then be eligible for re-election pursuant to Article 81 of the AA.

The profiles of Jeremy Nasrulhaq, Norazian Ahmad Tajuddin and Kanagaraj Lorenz can be found in the 2017 annual report of the Company.

6. **Directors' Remuneration**

Section 230(1) of the Companies Act, 2016 provides amongst others, that "the fees" of the directors and "any benefits" payable to the directors of a listed company and its subsidiaries shall be approved at a general meeting. In this respect, the Board of Directors agreed that the shareholders' approval shall be sought at the Forty-Fourth (44th) AGM on the Directors' remuneration in two (2) separate resolutions as follows:

- a. **Ordinary Resolution 7** on payment of Directors' fees in respect of the preceding year 2017; and
- b. **Ordinary Resolution 8** on payment of Directors' benefits from 24 May 2018 to the next AGM in 2019 ("**Current Period**").

7. **Directors' Fees**

The payment of the fees to the Non-Executive Chairman, Non-Executive Deputy Chairman and Non-Executive Directors ("**NEDs**") in respect of the preceding year 2017 will only be paid if the proposed **Ordinary Resolution 7** is passed at the Forty-Fourth (44th) AGM pursuant to Section 230(1)(b) of the Companies Act, 2016.

8. **Benefits Payable to the NEDs**

- a. The benefits payable to the NEDs comprise the allowances and other emoluments payable to the Chairman, Deputy Chairman and members of the Board of Directors of the Company, the Board of Directors of subsidiaries and Board Committees.

NOTICE OF FORTY-FOURTH (44TH) ANNUAL GENERAL MEETING

- b. The current Directors' remuneration framework of the Company is as set out below.

Description	Chairman	Deputy Chairman	Board Members
Benefits (applicable to the Company only)	Club membership, leave passage, driver, vehicle and other claimable benefits	Club membership, vehicle and other claimable benefits	Nil

Type of Meeting Allowance (per meeting)	Chairman ⁽¹⁾	NED/Member
Board of Directors	RM2,000	RM2,000
General Meeting	RM2,000	RM2,000
Board Committees	RM2,000	RM2,000

Notes:

⁽¹⁾ In view of the increased complexity of the matters discussed at the meetings, length of meetings, as well as the fact that the meeting allowance of RM1,000 had not been reviewed for more than ten (10) years, the Board of Directors had at its meeting on 8 March 2018 approved the recommendation of the Group Nomination and Remuneration Committee ("NRC") on the increment of the meeting allowance for the Board meetings and Board Committee meetings of the Company from RM1,000 to RM2,000 effective from 1 January 2018. In approving the increase, the Board had also undertaken a benchmarking of the level of meeting allowance paid to the Directors vis-à-vis the other listed companies in Malaysia.

- c. Payment of the benefits to the NEDs of the Company and its subsidiaries is made on a monthly basis and/or as and when incurred if the proposed **Ordinary Resolution 8** is passed at the Forty-Fourth (44th) AGM. The Board of Directors is of the view that it is just and equitable for the NEDs to be paid the benefits on a monthly basis and/or as and when incurred, particularly after discharging their responsibilities and rendering their services to the Company and its subsidiaries throughout the Current Period.

9. Re-appointment of Auditors

The Board of Directors had at its meeting on 30 January 2018 approved the recommendation of the Audit Committee on the re-appointment of Messrs. Ernst & Young as Auditors of the Company to be further recommended to the shareholders for approval, after having considered several factors including the adequacy of experience and resources of the firm and the professional staff assigned to the audit.

Pursuant to Section 67(2) of the Financial Services Act, 2013, BNM had, on 8 March 2018, approved the Company's application for the re-appointment of Messrs. Ernst & Young as Auditors of the Company.

NOTICE OF FORTY-FOURTH (44TH) ANNUAL GENERAL MEETING

10. Special Business

10.1 **Ordinary Resolution 10 – Proposed Allocation of Employees' Share Scheme ("ESS" or "the Scheme") to Datuk Chay Wai Leong, Group Managing Director of Kenanga Investment Bank Berhad**

The Scheme was approved by the shareholders at the Extraordinary General Meeting of the Company held on 25 May 2017.

The proposed Ordinary Resolution 10, if passed, will give powers to the Board of Directors to authorise the ESS Committee at any time and from time to time, to grant Datuk Chay Wai Leong, the Group Managing Director of the Company, (i) an option to subscribe for 10,000,000 new ordinary shares of the Company ("**Shares**") pursuant to the employees' share option scheme under the ESS ("**ESOS Options**"), to be vested over a period of three (3) years commencing from year 2019 until year 2021 and exercisable within three (3) years from the vesting date or till expiry of the ESS, whichever is earlier, at the exercise price of five percent (5%) premium to the five (5)-market days volume weighted average price prior to the granting of the ESOS Options; and (ii) an award of not more than 3,612,735 Shares, that is available (in aggregate) for the senior management of the Company who are eligible to participate, over a period of four (4) years from year 2018 until year 2021 pursuant to the employee share grant plan under the ESS ("**ESGP Awards**") in accordance with the provisions of the By-Laws of the ESS (the ESOS Options and the ESGP Awards are collectively referred to as the "**ESS Awards**"), provided always that not more than ten percent (10%) of the aggregate number of Shares to be issued under the ESS shall be allocated to any individual eligible person who, either singly or collectively through persons connected with the eligible person, holds twenty percent (20%) or more of the issued share capital of the Company (excluding treasury shares), and subject always to such terms and conditions of the Scheme as may, from time to time, be modified, varied and/or amended in accordance with the provisions of the By-Laws of the ESS and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad or any other relevant authorities, as amended from time to time.

Further information on the Scheme (including the purpose and the terms and conditions of the allotment under the By-Laws) is set out in the Circular to Shareholders dated 28 April 2017 which is available on the Company's website at www.kenanga.com.my or Bursa Malaysia Securities Berhad's website at www.bursamalaysia.com.

10.2 **Ordinary Resolution 11 – Authority to Directors to Issue Shares**

The proposed Ordinary Resolution 11 is a renewal of the general mandate pursuant to Section 75 and Section 76 of the Companies Act, 2016 obtained from shareholders of the Company at the previous AGM held on 25 May 2017 and, if passed, will give powers to the Board of Directors to issue ordinary shares in the share capital of the Company up to an aggregate amount not exceeding ten percent (10%) of the total number of issued shares of the Company for the time being. This general mandate, unless revoked or varied at a general meeting, will expire at the next AGM.

The general mandate from shareholders is to provide the Company the flexibility to undertake any share issuance during the financial year without having to convene a general meeting. The rationale for this proposed mandate is to allow for possible share issue and/or fund raising exercises including placement of shares for the purpose of funding current and/or future investment project, working capital and/or acquisitions, as well as in the event of any strategic opportunities involving equity deals which may require the Company to allot and issue new shares on urgent basis and thereby reducing the administrative time and costs associated with the convening of additional shareholders' meeting(s). In any event, the exercise of the mandate is only to be undertaken if the Board of Directors considers it to be in the best interest of the Company.

The general mandate obtained from the shareholders of the Company at the previous AGM held on 25 May 2017 had not been utilised and hence, no proceed was raised therefrom.

NOTICE OF FORTY-FOURTH (44TH) ANNUAL GENERAL MEETING

10.3 **Ordinary Resolution 12 – Proposed Share Buy-Back Authority**

The proposed Ordinary Resolution 12, if passed, will empower the Board of Directors to allocate an amount not exceeding the retained profits of the Company for the purpose of and to purchase such amount of ordinary shares in the Company from time to time on the market of Bursa Malaysia Securities Berhad upon such terms and conditions as the Board of Directors may deem fit in the interest of the Company provided that the aggregate number of shares purchased pursuant to this Resolution does not exceed ten percent (10%) of the total number of issued shares of the Company for the time being.

The shareholders' mandate for the Proposed Share Buy-Back Authority is subject to renewal on an annual basis.

Further information on the Proposed Share Buy-Back Authority is set out in the Share Buy-Back Statement dated 30 April 2018 which is dispatched together with the annual report of the Company for the financial year ended 31 December 2017.

11. **Abstention From Voting**

11.1 Any NED referred to in Ordinary Resolutions 2, 3, 4, 5 and 6 who is a shareholder of the Company will abstain from voting on the resolution in respect of his re-election at the Forty-Fourth (44th) AGM. In this respect, Luigi Fortunato Ghirardello, who is a shareholder of the Company, will abstain from voting on Ordinary Resolution 3.

11.2 Any NEDs of the Company who are the shareholders of the Company will abstain from voting on Ordinary Resolution 7 and Ordinary Resolution 8 concerning the Directors' fees and Directors' benefits at the Forty-Fourth (44th) AGM. In this respect, Dato' Richard Alexander John Curtis and Luigi Fortunato Ghirardello, who are the shareholders of the Company, will abstain from voting on Ordinary Resolution 7 and Ordinary Resolution 8.

11.3 Datuk Chay Wai Leong and person connected to him will abstain from voting on Ordinary Resolution 10 in respect of the proposed allocation of ESS to him.

12. **Poll Voting**

Pursuant to Paragraph 8.29A (1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the resolutions set out in this Notice will be put to vote by poll.

13. **Publication of AGM Notice on the Company's Website**

Pursuant to Section 320 of the Companies Act, 2016, the Notice of the Company's Forty-Fourth (44th) AGM is also available on the Company's website at www.kenanga.com.my throughout the period beginning from the date of notice until the conclusion of the Forty-Fourth (44th) AGM.

STATEMENT ACCOMPANYING NOTICE OF FORTY-FOURTH (44TH) ANNUAL GENERAL MEETING

NAMES OF DIRECTORS STANDING FOR RE-ELECTION

The Directors who are retiring pursuant to Article 75 and Article 81 of the Articles of Association of the Company and seeking re-election at the forthcoming AGM are as follows:

Article 75

1. Datuk Syed Ahmad Alwee Alsree; and
2. Luigi Fortunato Ghirardello.

Article 81

1. Jeremy Nasrulhaq;
2. Norazian Ahmad Tajuddin; and
3. Kanagaraj Lorenz.

Details of the above Directors are set out in the Directors' Profiles section and their shareholdings in the Company, where applicable, are set out in the Analysis of Shareholdings section appearing on pages 231 of this annual report.

ORDINARY RESOLUTION ON AUTHORITY TO ISSUE NEW ORDINARY SHARES IN THE COMPANY

Details on the authority to issue shares pursuant to Section 75 and Section 76 of the Companies Act, 2016 are provided under the explanatory notes on special business in the Notice of the Forty-Fourth (44th) Annual General Meeting set out on page 239 of this Annual Report.

CORPORATE INFORMATION

BOARD OF DIRECTORS

► **Izlan Izhab**

Chairman/Independent Non-Executive Director

► **Datuk Syed Ahmad Alwee Alsree**

Deputy Chairman/Non-Independent Non-Executive Director

► **Luigi Fortunato Ghirardello**

Non-Independent Non-Executive Director

► **Dato' Richard Alexander John Curtis**

Non-Independent Non-Executive Director

► **Ismail Harith Merican**

Non-Independent Non-Executive Director

► **Luk Wai Hong, William**

Independent Non-Executive Director

► **Jeremy Nasrulhaq**

Independent Non-Executive Director

► **Norazian Ahmad Tajuddin**

Independent Non-Executive Director

► **Kanagaraj Lorenz**

Independent Non-Executive Director

► **AUDIT COMMITTEE**

Jeremy Nasrulhaq

Chairman

Izlan Izhab

Luk Wai Hong, William

Kanagaraj Lorenz

Ismail Harith Merican

Members

► **GROUP NOMINATION AND
REMUNERATION COMMITTEE**

Luk Wai Hong, William

Chairman

Jeremy Nasrulhaq

Norazian Ahmad Tajuddin

Datuk Syed Ahmad Alwee Alsree

Luigi Fortunato Ghirardello

Members

► **GROUP BOARD RISK COMMITTEE**

Luk Wai Hong, William

Chairman

Norazian Ahmad Tajuddin

Kanagaraj Lorenz

Luigi Fortunato Ghirardello

Dato' Richard Alexander John Curtis

Members

CORPORATE INFORMATION

► GROUP EXECUTIVE COMMITTEE

Datuk Chay Wai Leong

*Group Managing Director
Kenanga Investment Bank Berhad*

Lee Kok Khee

*Executive Director, Head of Group
Equity Broking Business
Kenanga Investment Bank Berhad*

Datuk Roslan Hj Tik

*Executive Director, Head of Group
Investment Banking and Islamic Banking
Kenanga Investment Bank Berhad*

Maheswari Kanniah

*Group Chief Regulatory and Compliance
Officer
Kenanga Investment Bank Berhad*

Cheong Boon Kak

*Group Chief Financial and Operations
Officer
Kenanga Investment Bank Berhad*

Tai Yan Fee

*Group Chief Risk Officer
Kenanga Investment Bank Berhad*

Lum Chee Wah

*Head, Group Operations
Kenanga Investment Bank Berhad*

Nik Hasniza Nik Ibrahim

*Head, Group Human Resource
Kenanga Investment Bank Berhad*

Cynthia Woon Cheng Yee

*Head, Group Treasury
Kenanga Investment Bank Berhad*

Ismitz Matthew De Alwis

*Chief Executive Officer
Kenanga Investors Berhad*

Azila Abdul Aziz

*Chief Executive Officer, Head of Listed
Derivatives
Kenanga Futures Sdn Bhd
(Formerly Known As Kenanga Deutsche
Futures Sdn Bhd)*

► GROUP COMPANY SECRETARY

Norliza Abd Samad

(MAICSA 7011089)

► REGISTERED OFFICE

Kenanga Investment Bank Berhad

Level 17, Kenanga Tower
237, Jalan Tun Razak
50400 Kuala Lumpur
Wilayah Persekutuan, Malaysia
Tel: +603-2172 2888
Fax: +603-2172 2999
URL: www.kenanga.com.my
E-mail: kenanga@kenanga.com.my

COMPANY NO.

15678-H

► SHARE REGISTRAR

Symphony Share Registrars Sdn Bhd

Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor
Tel: +603-7849 0777
Fax: +603-7841 8151/7841 8152
Help Desk: +603-7849 0777
E-mail: ssr.helpdesk@symphony.com.my

► AUDITORS

Ernst & Young (AF 0039)

Chartered Accountants
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur

► PRINCIPAL BANKERS

CIMB Bank Berhad
Malayan Banking Berhad
Public Bank Berhad
RHB Bank Berhad
Standard Chartered Bank (Malaysia)
Berhad

► STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad

Main Market: Finance
Stock Code: 6483

CORPORATE DIRECTORY

EQUITY BROKING BRANCHES

► KUALA LUMPUR

KIBB Kuala Lumpur

Level 15, Kenanga Tower
237, Jalan Tun Razak
50400 Kuala Lumpur
Tel: +603 2172 2249
Fax: +603 2172 2955

KIBB Pandan Indah

M3-A-7 & M3-A-8
Jalan Pandan Indah 4/3A
Pandan Indah
55100 Kuala Lumpur
Tel: +603 4297 8806
Fax: +603 4297 8809

KIBB Damansara Heights

1st Floor, West Wing
Bangunan ECM Libra
8, Jalan Damansara Endah
Damansara Heights
50490 Kuala Lumpur
Tel: +603 2089 2888
Fax: +603 2089 2801

► SELANGOR

KIBB Bandar Baru Klang

35, Ground & 1st Floor
Jalan Tiara 3
Bandar Baru Klang
41150 Klang, Selangor
Tel: +603 3348 8080
Fax: +603 3348 8880

KIBB USJ

55C (2nd Floor)
Jalan USJ 10/1F
47610 UEP
Subang Jaya, Selangor
Tel: +603 8024 1773
Fax: +603 8024 1787

KIBB The Curve

Lot 240, 2nd Floor
No. 6, Jalan PJU 7/3
The Curve, Mutiara Damansara
47800 Petaling Jaya, Selangor
Tel: +603 7725 9095
Fax: +603 7725 9079

KIBB Subang Jaya

Level 1, East Wing
Wisma Consplant 2
No 7, Jalan SS16/1
47500 Subang Jaya, Selangor
Tel: +603 5621 2118
Fax: +603 5621 1748

► PERAK

KIBB Ipoh

63, Persiaran Greenhill
30450 Ipoh, Perak
Tel: +605 242 2828
Fax: +605 242 2323

KIBB Sitiawan

Ground Floor, 25 & 25A
Jalan Jaya 2
Medan Jaya
32000 Sitiawan, Perak
Tel: +605 693 9828
Fax: +605 693 9822

KIBB Teluk Intan Electronic Access Facility

7B-1, Jalan Laman Intan
Bandar Baru Teluk Intan
36000 Teluk Intan, Perak
Tel: +605 622 2828
Fax: +605 622 7828

► MELAKA

KIBB Bandar Melaka

71 (A & B) and 73 (A & B)
Jalan Merdeka
Taman Melaka Raya
75000 Melaka
Tel: +606 288 1700
Fax: +606 288 1710

KIBB Batu Berendam

22A & 22A-1 and 26 & 26-1
Jalan MP 10
Taman Merdeka Permai, Batu Berendam
75350 Melaka
Tel: +606 337 2550
Fax: +606 337 2770

► PENANG

KIBB Penang – Menara Boustead

7th, 8th & 16th Floor
Menara Boustead Penang
39, Jalan Sultan Ahmad Shah
10050 Penang
Tel: +604 228 3355
Fax: +604 227 9634

► JOHOR

KIBB Johor Bahru – Menara Pelangi

Level 2, Menara Pelangi
Jalan Kuning, Taman Pelangi
80400 Johor Bahru, Johor
Tel: +607 333 3600
Fax: +607 334 3770

KIBB Kluang – Jalan Syed Abdul Hamid Sagaff

33 & 35 A & B
Ground Floor
Jalan Syed Abdul Hamid Sagaff
86000 Kluang, Johor
Tel: +607 777 1161
Fax: +607 777 1162

CORPORATE DIRECTORY

KIBB Muar – Jalan Ali

57, 59 & 61
Jalan Ali
84000 Muar, Johor
Tel: +606 953 1222
Fax: +606 951 6660

KIBB Segamat

34, Jalan Genuang
85000 Segamat, Johor
Tel: +607 933 3515
Fax: +607 933 3505

KIBB Tangkak

Ground Floor, No. 4
Jalan Dataran 1
Taman Bandar Tangkak
84900 Tangkak, Johor
Tel: +606 978 2292
Fax: +606 978 2322

KIBB Batu Pahat

24, 24A & 24B
Jalan Penjaja 3
Kim Park Centre
83000 Batu Pahat, Johor
Tel: +607 432 8188
Fax: +607 432 3388

KIBB Yong Peng

234, Jalan Besar
Taman Semberong Baru
83700 Yong Peng, Johor
Tel: +607 467 8885
Fax: +607 467 8884

KIBB Pontian

916, Ground Floor
Jalan Bakek
82000 Pontian, Johor
Tel: +607 686 1121
Fax: +607 686 1151

KIBB Labis Electronic

Access Facility
No. 35, Ground Floor
Jalan Hijau
Taman Bandar Jaya
85300 Labis, Johor
Tel: +607 925 2291
Fax: +607 925 2291

► PAHANG

KIBB Kuantan

A15, A17 & A19, Ground Floor
Jalan Tun Ismail 2, Sri Dagangan 2
25000 Kuantan, Pahang
Tel: +609 517 1698
Fax: +609 513 8996

KIBB Triang Electronic

Access Facility
1, Ground Floor
Jalan Dagangan 6
Pusat Dagangan Triang
28300 Triang, Pahang
Tel: +609 250 1282
Fax: +609 250 1086

► NEGERI SEMBILAN

KIBB Seremban

1C & 1D, Ground & 1st Floor
Jalan Tuanku Munawir
70000 Seremban, Negeri Sembilan
Tel: +606 765 5998
Fax: +606 765 5739

► SARAWAK

KIBB Kuching

Level 2-4, Wisma Mahmud
Jalan Sungai Sarawak
93100 Kuching, Sarawak
Tel: +6082 338 000
Fax: +6082 338 222

KIBB Miri

Lot 2465, Jalan Boulevard Utama
Boulevard Commercial Centre
98000 Miri, Sarawak
Tel: +6085 435 577
Fax: +6085 435 511

KIBB Sibul

11-12, Ground & 1st Floor
Lorong Kampung Datu 3
96000 Sibul, Sarawak
Tel: +6084 313 855
Fax: +6084 329 735

KIBB Bintulu

Ground Floor, Survey Lot No. 4203
Parkcity Commerce Square, Phase 6
Jalan Diwarta
97000 Bintulu Town District, Sarawak
Tel: +6086 337 588
Fax: +6086 338 166

► SABAH

KIBB Kota Kinabalu

Level 8, Wisma Great Eastern
68 Jalan Gaya
88000 Kota Kinabalu, Sabah
Tel: +6088 236 188
Fax: +6088 235 700

KIBB Sandakan

1st Floor, Lot 40 (Corner)
Taman Nasalim, Phase 7A, Batu 5
Jalan Lintas Utara
90000 Sandakan, Sabah
Tel: +6089 464 801
Fax: +6089 464 804

KIBB Tawau

Lot 66-0 [TBH15611-0]
Ground Floor, Kubota Road
91000 Tawau, Sabah
Tel: +6089 704 892
Fax: +6089 704 893

CORPORATE DIRECTORY

INVESTMENT MANAGEMENT BRANCHES

► KUALA LUMPUR

KIB Kuala Lumpur

Level 13, Kenanga Tower
237, Jalan Tun Razak
50400 Kuala Lumpur
Tel: 1 800 88 3737 (Toll Free)
+603 2172 3123
Fax: +603 2172 3133

► SELANGOR

KIB Klang

No. 12, Jalan Batai Laut 3
Taman Intan
41300 Klang, Selangor
Tel: +603 3341 8818
Fax: +603 3341 8816

KIB Petaling Jaya

44B, Jalan SS21/35
Damansara Utama
47400 Petaling Jaya
Selangor
Tel: +603 7710 8828
Fax: +603 7710 8830

► PERAK

KIB Ipoh

Suite 1, 2nd Floor
63, Persiaran Greenhill
30450 Ipoh, Perak
Tel: +605 254 7573/7570
Fax: +605 254 7606

► MELAKA

KIB Melaka

No. 25-1, Jalan Kota Laksamana 2/17
Taman Kota Laksamana Seksyen 2
75200 Melaka
Tel: +606 281 8913/
+606 282 0518
Fax: +606 281 4286

► PENANG

KIB Penang

5th Floor
Menara Boustead Penang
39, Jalan Sultan Ahmad Shah
10050 Penang
Tel: +604 210 6628
Fax: +604 210 6644

► JOHOR

KIB Johor Bahru

Lot 11.03, 11th Floor
Menara MSC Cyberport
5, Jalan Bukit Meldrum
80300 Johor Bahru, Johor
Tel: +607 223 7505/4798
Fax: +607 223 4802

► PAHANG

KIB Kuantan

Ground Floor
No. B8, Jalan Tun Ismail 1
25000 Kuantan, Pahang
Tel: +609 514 3688
Fax: +609 514 3838

► NEGERI SEMBILAN

KIB Seremban

2nd Floor, No. 1D-2
Jalan Tuanku Munawir
70000 Seremban
Negeri Sembilan
Tel: +606 761 5678
Fax: +606 761 2242

► SARAWAK

KIB Kuching

1st Floor, No. 71
Lot 10900, Jalan Tun Jugah
93350 Kuching, Sarawak
Tel: +6082 572 228
Fax: +6082 572 229

KIB Miri

2nd Floor, Lot 1264
Centre Point Commercial Centre
Jalan Melayu, 98000 Miri, Sarawak
Tel: +6085 416 866
Fax: +6085 322 340

► SABAH

KIB Kota Kinabalu

A-03-11, 3rd Floor
Block A, Warisan Square
Jalan Tun Fuad Stephens
88000 Kota Kinabalu, Sabah
Tel: +6088 447 089/
+6088 448 106
Fax: +6088 447 039

PROXY FORM

Kenanga

KENANGA INVESTMENT BANK BERHAD

Company No. 15678-H

(Incorporated in Malaysia)

CDS Account No.:

I/We _____ NRIC No./Passport No./Company No. _____
(FULL NAME IN BLOCK LETTERS)

of _____
(FULL ADDRESS)

being a member of **Kenanga Investment Bank Berhad** hereby appoint _____
(FULL NAME IN BLOCK LETTERS)

_____ NRIC No./Passport No. _____

of _____
(FULL ADDRESS)

and/or falling him _____ NRIC No./Passport No. _____
(FULL NAME IN BLOCK LETTERS)

of _____
(FULL ADDRESS)

or failing him, THE CHAIRMAN OF THE MEETING as my/our proxy to vote for me/us and on my/our behalf at the Forty-Fourth (44th) Annual General Meeting ("**AGM**") of the Company to be held at Taming Sari Grand Ballroom, The Royale Chulan Kuala Lumpur, 5, Jalan Conlay, 50450 Kuala Lumpur, Wilayah Persekutuan, Malaysia on Wednesday, 23 May 2018 at 11.00 a.m. and at any adjournment thereof.

My/Our proxy is to vote as indicated below.

NO.	RESOLUTIONS		FOR	AGAINST
1.	Payment of a final dividend of 3.0 sen per share in respect of the financial year ended 31 December 2017	RESOLUTION 1		
2.	Re-election of the following Directors pursuant to Article 75 of the Company's Articles of Association: 2.1 Dato' Syed Ahmad Alwee Alsree 2.2 Luigi Fortunato Ghirardello	RESOLUTION 2 RESOLUTION 3		
3.	Re-election of the following Directors pursuant to Article 81 of the Company's Articles of Association: 3.1 Jeremy Nasrulhaq 3.2 Norazian Ahmad Tajuddin 3.3 Kanagaraj Lorenz	RESOLUTION 4 RESOLUTION 5 RESOLUTION 6		
4.	Payment of Directors' fees totaling RM2,590,410.95	RESOLUTION 7		
5.	Payment of benefits to the Non-Executive Chairman, Non-Executive Deputy Chairman and Non-Executive Directors up to an amount of RM1,100,000 from 24 May 2018 until the next AGM of the Company	RESOLUTION 8		
6.	Re-appointment of Messrs. Ernst & Young as Auditors	RESOLUTION 9		
As Special Business				
7.	Proposed Allocation of Employees' Share Scheme Awards to Datuk Chay Wai Leong, Group Managing Director of Kenanga Investment Bank Berhad	RESOLUTION 10		
8.	Authority to Directors to Issue Shares	RESOLUTION 11		
9.	Proposed Share Buy-Back Authority	RESOLUTION 12		

Please indicate with an "X" in the spaces provided to indicate how you wish your vote to be cast. If you do not indicate how you wish your proxy to vote on any Resolution, the proxy may vote as he thinks fit, or at his discretion, abstain from voting.

Date this _____ day of _____ 2018

Signature/Common Seal of Member

Number of Shares Held

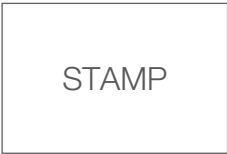
For appointment of two (2) proxies, percentage of shareholdings to be represented by the proxies:

	No. of Shares	Percentage
Proxy 1		
Proxy 2		
Total		100%

Notes:

- 1. Only members whose names appear in the Record of Depositors on 17 May 2018 shall be entitled to attend, speak and vote at this AGM.
- 2. A member of the Company entitled to attend, speak and on a show of hands or on poll, to vote at this AGM is entitled to appoint up to two (2) proxies to attend, speak and vote in his place. There shall be no restriction as to the qualification of the proxy.
- 3. A member who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, may appoint at least one (1) proxy but not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
- 4. Where a member is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("**Omnibus Account**"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds.
- 5. Where a member appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.
- 6. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
- 7. Duly completed Proxy Form must be deposited at the office of the Company's share registrar, Symphony Share Registrars Sdn Bhd at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia no later than Tuesday, 22 May 2018 at 11.00 a.m. (twenty-four (24) hours before the time appointed for holding the AGM).

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Symphony Share Registrars Sdn Bhd
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia

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Kenanga Group



Kenanga Channel