
kenanga

# INVESTING FOR THE FUTURE

ANNUAL REPORT 2016

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Izlan Izhab**
*Chairman/ Independent Non-Executive Director*

**Datuk Syed Ahmad Alwee Alsree**
*Deputy Chairman/
Non-Independent Non-Executive Director*

**Datuk Kevin How Kow**
*Non-Independent Non-Executive Director*

**Luigi Fortunato Ghirardello**
*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*

**Notes:**
1. Tengku Dato' Paduka Noor Zakiah Tengku Ismail relinquished her position as the Chairman and Non-Independent Non-Executive Director of Kenanga Investment Bank Berhad with effect from 28 January 2017.
2. Datuk Chay Wai Leong resigned as a Board member with effect from 28 January 2017. He, however, remains as the Group Managing Director of Kenanga Investment Bank Berhad.

### AUDIT COMMITTEE

**Luk Wai Hong, William**
*Chairman*

**Izlan Izhab**
**Datuk Kevin How Kow**
**Luigi Fortunato Ghirardello**
**Ismail Harith Merican**
*Members*

### GROUP NOMINATION & REMUNERATION COMMITTEE

**Luigi Fortunato Ghirardello**
*Chairman*

**Izlan Izhab**
**Datuk Syed Ahmad Alwee Alsree**
*Members*

### GROUP BOARD RISK COMMITTEE

**Luigi Fortunato Ghirardello**
*Chairman*

**Ismail Harith Merican**
**Luk Wai Hong, William**
*Members*

### 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 & Islamic Banking*
*Kenanga Investment Bank Berhad*

### GROUP EXECUTIVE COMMITTEE
CONTINUED

**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*

**Tan Lye Sim**
*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*

**Stantley James Tan Boon Teck**
*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 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 STRUCTURE

kenanga

**Kenanga Investment Bank Berhad**
Company No. 15678-H

**100%**
**Kenanga Capital Sdn Bhd**

**100%**
**Kenanga Capital Islamic Sdn Bhd**

**100%**
**Kenanga Private Equity Sdn Bhd**

**100%**
**Kenanga Management & Services Sdn Bhd**

**100%**
**Kenanga Nominees (Tempatan) Sdn Bhd**

**100%**
**Kenanga Nominees (Asing) Sdn Bhd**

**100%**
**ECML Berhad**

**100%**
**ECML Nominees (Tempatan) Sdn Bhd**

**100%**
**Kenanga Investors Berhad**

**100%**
**KUT Nominees (Asing) Sdn Bhd**

**100%**
**KUT Nominees (Tempatan) Sdn Bhd**

**100%**
**Kenanga Islamic Investors Berhad**

**100%**
**Kenanga Funds Berhad**

**73%**
**Kenanga Deutsche Futures Sdn Bhd**

**50%**
**Rakuten Trade Sdn Bhd**
(Formerly Known As EB Global JV Sdn Bhd)

**29.6%**
**Al Wasatah Al Maliah Company**
(Incorporated in the Kingdom of Saudi Arabia)

**100%**
**K & N Kenanga Holdings Berhad**

**100%**
**SSSB Management Services Sdn Bhd**

**49%**
**Kenanga Vietnam Securities Joint Stock Corporation**
(Incorporated in Vietnam)

**45%**
**Kenanga Investment Coporation Ltd**
(Incorporated in Sri Lanka)

**100%**
**Kenanga Singapore Pte Ltd**
(Incorporated in Singapore)

**100%**
**Avenue Kestrel Sdn Bhd**

**Note:**
*All the companies above 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.*

**Datuk Chay Wai Leong**
Group Managing Director

**Tengku Dato' Paduka Noor Zakiah Tengku Ismail**
Founder & Adviser

**Datuk Syed Ahmad Alwee Alsree**
Deputy Chairman of the Board

**Izlan Izhab**
Chairman of the Board

Tengku Dato' Paduka Noor Zakiah Tengku Ismail (Tengku Noor Zakiah), who co-founded Kenanga Investment Bank Berhad in 1973 has been the Chairman of the Company for more than twenty (20) years. Upon Tengku Noor Zakiah relinquishing her Chairmanship, Encik Izlan Izhab was appointed as the Chairman of the Board on 7 February 2017. Tengku Noor Zakiah now assumes the role of Adviser for Kenanga Group.

"I am extremely heartened to see Kenanga Group drive resilience through agility and resourcefulness, enabling the business to further set in place strong foundations for continued growth and progress."

# MESSAGE FROM OUR FOUNDER & ADVISER

Tengku Dato' Paduka Noor Zakiah Tengku Ismail

# MESSAGE FROM OUR FOUNDER & ADVISER

## DEAR SHAREHOLDERS,

**It gives me great pleasure to present to you the Annual Report of Kenanga Investment Bank Berhad (KIBB or the Company) for the Financial Year Ended 31 December 2016. I am delighted to report that Kenanga Investment Bank Berhad and its Group of Companies (Kenanga Group or the Group) registered positive results, meeting targets and expectations despite immense global political uncertainties, continuation of low oil and gas prices, as well as the weakening Ringgit.**

*(from left to right)* **Tengku Dato' Paduka Noor Zakiah Tengku Ismail**, Founder & Adviser
**Izlan Izhab**, Chairman

In the face of a challenging year, I am extremely heartened to see Kenanga Group drive resilience through agility and resourcefulness, enabling the business to further set in place strong foundations for continued growth and progress.

Testament to our commitment to effective leadership, I am proud to share with you that our Group Managing Director, Datuk Chay Wai Leong received international recognition from the UK-based International Finance Magazine's Leadership 100 Award for his Outstanding Contribution in the Investment Banking Sector in Malaysia.

Under his leadership, there has been tremendous focus on leveraging innovation and collaboration to harness new opportunities, expand our reach and evolve our product offerings. This was evident when we entered into a joint venture agreement in April 2016 with Rakuten Securities, Inc. (Rakuten Securities) to offer a new online stockbroking platform. As one of the most successful e-commerce businesses in Japan, this strategic partnership with Rakuten Securities is not only anticipated to deliver a new online broking experience for our Malaysian traders, but it also serves as a window for both Rakuten Securities and the Group to cross-share knowledge, and improve our ways of doing things – and that, I believe is invaluable.

One of the significant highlights of the year was the completion of the purchase of our new corporate office. Within a year of preparation and planning, we officially moved into our new place of work in December 2016. Our new building, Kenanga Tower, situated on Jalan Tun Razak, Kuala Lumpur, now houses not only our headquarters, but also three (3) of our Klang Valley branches which we have consolidated. In addition to delivering cost effectiveness and greater efficiencies, this coming together also allows for greater teamwork and cohesiveness amongst employees.

As you may already know, earlier this year, I had handed over the reins as Chairman to Encik Izlan Izhab, who has been with Kenanga Group since 2008. It has been a great privilege to have served as Chairman of the Company for more than twenty (20) years. Looking back at the forty-four (44) years which have passed since I co-founded the company as K & N Kenanga Sdn Bhd, I am filled with pride for all that we have achieved. From our humble beginnings as a stockbroking company, we have grown into a full-fledged investment bank and listed entity, which is now recognised as the largest independent investment bank in the country. I cannot be more proud of how far we have come.

I am confident that the Group is in good hands under the guidance of Encik Izlan Izhab. With his knowledge of the investment banking world, and wealth of experience having held leadership positions in various notable corporations including Bursa Malaysia Berhad (Bursa Malaysia), I am confident he will steer the Board of Directors (the Board) and the Group to greater heights.

On this note, I would like to thank the Board for their utmost support throughout the years, and their wisdom and insights in guiding the Group forward.

Taking this opportunity, I would also like to thank our talented pool of senior management and dedicated team of employees for all their efforts in working within a collaborative and supportive culture which has provided the impetus in driving the Group forward. I would also like to thank our remisiers and dealers at our branches nationwide for their hard work and dedication towards the Group.

I also extend my heartfelt gratitude to our business partners, clients, suppliers and all other stakeholders for their continued support, and my deepest appreciation goes to Bank Negara Malaysia, the Securities Commission Malaysia and Bursa Malaysia for their cooperation and guidance.

Finally, to our valued shareholders, thank you for your trust in Kenanga Group.

**Tengku Dato' Paduka Noor Zakiah Tengku Ismail**
Founder & Adviser

"We had envisioned a challenging year and braced ourselves for prolonged volatile market conditions. Our Stockbroking, Investment Banking and Treasury divisions delivered commendable results, despite the overall market slowdown."

# GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

Datuk Chay Wai Leong

# GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

## DEAR SHAREHOLDERS,

**The Financial Year 2016 (FY2016) proved to be yet another trying year, characterised by prevailing weak market conditions and economic uncertainties. Trading value and volume on Bursa Malaysia was on a declining trend with retail participation falling from 23% in 2015 to 21% in 2016. At the same time, capital market activities had significantly reduced. Consequently, funds raised in the capital market declined to RM74 billion in 2016 from RM110 billion the year before.**

Despite these uncertainties, Kenanga Investment Bank Berhad and its Group of Companies (Kenanga Group or the Group) remained resilient. Looking back on our expectations for 2016, we are pleased that as a Group, we have met targets set to further drive our growth agenda. We had envisioned a challenging year and braced ourselves for prolonged volatile market conditions. Our Stockbroking, Investment Banking and Treasury divisions delivered commendable results, despite the overall market slowdown.

## STRATEGIC OBJECTIVES

Our long-term goal has always been to deliver sustainable shareholder value by capitalising on our wide retail reach and unique position as the largest independent investment bank in the country.

Our growth agenda is underpinned by these strategic pillars and the updates in the following pages will reflect our drive towards them:

**01** Delivering Long-Term Profitability and Sustainable Growth

**02** Building A High Performance Culture

**03** Continuously Redefining Clients' Experience Through Innovations and Technology

*(from left to right)* **Sean Yap**, Kenanga Investors Berhad | **Shubahshine Ganapathy**, Group Regulatory & Corporate Services
**Isabelle Lim**, Equity Broking | **Azlan Zakaria**, Investment Banking

## OVERALL GROUP FINANCIAL PERFORMANCE

Despite the challenges, Kenanga Group closed the year with results that surpassed the year before. Profit Before Tax (PBT) stood at RM32.54 million, a 78% increase from last year, while Profit After Tax stood at RM20.21 million, a growth of 62% from Financial Year 2015 (FY2015). The Group registered a revenue of RM585.32 million, an increase from RM562.99 million in 2015.

Our higher profit margin was attributed to higher trading and investment income, interest income and investment banking fee income.

## DIVIDEND

The Board of Directors (the Board) will be recommending a final dividend of 2.25 sen for shareholders' approval at the forthcoming Annual General Meeting.

## CORPORATE HIGHLIGHTS

During the year, we saw a number of significant developments and milestones that shaped the Group.

### Acquisition of a Corporate Office

During the year under review, Kenanga Group acquired its own corporate office, Kenanga Tower, situated on Jalan Tun Razak, Kuala Lumpur for a consideration of RM140 million. With this, three (3) offices in Kuala Lumpur have been consolidated to the new location, resulting in greater efficiency and expected cost savings of around RM6 million a year, as well as potential capital gains from the appreciation of the property value in the future.

### Corporate Restructuring

On 1 November 2016, we successfully completed a corporate restructuring exercise which resulted in Kenanga Investment Bank Berhad (KIBB or the Company) being the apex holding company of the Group and subsequent listing of KIBB on Bursa Malaysia.

# GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS


*(from left to right)* **Serina Chow**, Corporate Banking
**Norfazrina Lydia Hassan**, Group Human Resource

Through this exercise, we have created a more efficient corporate structure eliminating duplicated functions, resulting in greater time and cost effectiveness, as well as tax efficiencies for the Group.

### Capitalising Fintech

In April 2016, we entered into a joint venture with Rakuten Securities, Inc. (Rakuten Securities), one of the largest and most successful e-commerce and Fintech companies in the world. Rated as one of the most innovative companies by Forbes, Japan-based Rakuten Securities is growing rapidly with operations throughout Asia, Europe, the Americas and Oceania. We are collaborating with Rakuten Securities, one of the main subsidiaries of Rakuten, Inc., to develop a seamless online broking platform, bringing new digital innovations to the Malaysian online broking scene.

In March 2017, KIBB signed a Memorandum of Understanding with MIMOS Berhad (MIMOS), Malaysia's Research and Development Centre in Information and Communications Technology, to promote and advance Fintech in Malaysia.

As the first (1st) investment bank in the country to collaborate with MIMOS, this partnership will spearhead efforts to design, develop and commercialise home-grown technology for the capital markets.

### Sustainability Reporting

Sustainability has always been a priority for us and we are pleased to support Bursa Malaysia's Sustainability Reporting Guide (the Guide) which was recently issued. While it is not mandatory for us until 2018, we have started reporting our efforts in accordance to the Economic, Environment and Social indicators set out in the Guide. Please refer to pages 58 to 63 of this Annual Report for our Sustainability Statement.

### Well Managed Liquidity and Capital Ratios

With Bank Negara Malaysia (BNM) gradually increasing the liquidity ratio requirements of banks, we have been able to meet those requirements despite not having access to retail savings and current accounts like commercial banks. Our Liquidity Coverage Ratio which stood at 108.95% as at 31 December 2016, sits comfortably above BNM's minimum of 80% which was effective 1 January 2017. In terms of our capital adequacy, we have remained steady with a total capital ratio of 26.20% following the completion of our corporate restructuring exercise, which presents a significant buffer against BNM's minimum requirement of 8.625%.

### Managing Financial and Operational Risks

During the year, we were exposed to financial risks attributed mainly to the slowdown in the stock market thus affecting our lending position in terms of share margin financing. With the declining FTSE Bursa Malaysia KLCI Index and sell-down of the market, we anticipated increased credit risks. Hence, we put in place systematic procedures and approaches to manage credit limit breaches in a timely manner to ensure remedial actions could be undertaken to prevent and minimise potential financial losses. In fact, we had net write-backs of RM2.04 million compared to a provision of RM998,000 in FY2015 and our Net Impaired Loan ratio is lower at 0.02% as compared to 0.34% in FY2015.

To manage our operational risks, we utilised risk management tools such as Loss Incident Reporting, Risk Control Self-Assessment and Key Risk Indicator to identify, evaluate and manage the significant operational risks of our businesses.

## SEGMENTAL REVIEW: EQUITY BROKING (EB)

In FY2016, our EB division registered PBT of RM19.55 million, a 17% increase from FY2015. This was mainly attributed to higher trading and investment income from warrants and derivatives activities. However, revenue for FY2016 slipped from RM269.66 million in 2015 to RM250.85 million, consistent with the lower trading value on Bursa Malaysia which recorded RM968.21 billion for the year ended 2016 compared to RM1.02 trillion for the corresponding period in 2015.

In December 2016, EB launched its first (1st) loyalty programme, the result of a co-branding initiative with Berjaya Corporation Berhad's lifestyle loyalty programme - B Infinite. As the first (1st) stock broker to partner with B Infinite, the Kenanga BCard programme rewards our online trading clients with loyalty points. This programme also opens up marketing opportunities for us to reach B Infinite's growing five (5) million member base, and over eighty (80) merchants nationwide.

In addition to that, NagaWarrants, our online warrants portal, ran an online game NagaWarrants Warrior Challenge, as part of its push to appeal to more investors to trade warrants, read financial reports and test different investment strategies.

The joint venture with Rakuten Securities to develop a new online broking platform is slated to be launched by middle of this year, having received an Approval-in-Principle from the Securities Commission Malaysia (SC) in November 2016.

In March this year, we released a new mobile application, Invesk, a one-stop information centre which hosts market insights, market news, research reports, market indices and forex rates for the convenience of our users. It also allows users to set triggers to help them keep track of market movements and to take advantage of opportunities that emerge.

As a testament to its business growth, the division continued to garner a host of awards and accolades reflecting its strong market position.

GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

Some of these awards include international recognitions such as Best Investment Bank Malaysia 2016 by Global Business Outlook and Best Investment Bank for Online Trading, Malaysia 2016 by International Finance Magazine.

**Outlook**

Throughout 2016, the EB division continued to secure recurring income despite volatile market conditions and we expect this trend to continue in 2017. Our venture into a new online trading platform with Rakuten Securities is expected to provide the impetus for us to capture new segments of online traders.

## SEGMENTAL REVIEW: INVESTMENT BANKING AND TREASURY

The Investment Banking and Treasury divisions recorded RM38.75 million in PBT, substantially higher as compared to previous year's RM14.13 million. Revenue also rose significantly by 21%, with RM243.07 million in FY2016 relative to RM201 million in FY2015.

### Investment Banking (IB)

Our IB division delivered exceptional performance for the year, recording RM23.11 million in PBT, more than double from previous year's RM11.23 million. This is mainly attributed to the completion of a few high revenue mandates in 2016 despite the soft market conditions.

One of the notable milestones during the year included the launch of Kenanga Private Equity Sdn Bhd (KPE), a new private equity venture of Kenanga Group. KPE had in the same year successfully closed its first ($1^{st}$) investment alongside another global private equity firm. KPE's maiden investment into one of Malaysia's largest total logistics solutions providers underscores the division's consistent endeavour to provide our clients with holistic investment solutions.

The softer equity market, as well as the volatile foreign exchange and interest rates in 2016 resulted in greater challenges especially for fundraising exercises. Against that backdrop, the division focused more on unconventional fundraising approaches for our clients such as issuances of unrated bonds/ sukuk, Redeemable Convertible Notes (RCN), providing a mix of private equity and raising debt via bank funding and unrated notes to support some of our deals.

*(from left to right)* **Leon Ng Jin Hean**, Kenanga Deutsche Futures Sdn Bhd | **Jihan Muhammad Hafidz**, Group Finance
**Muhammad Hyqal Mohd Yazip**, Equity Broking | **Eddie Tham**, Group Credit Management

In terms of fund raising through RCN, the division advised Tanco Holdings Berhad, Hubline Berhad and Damansara Realty Berhad on an aggregate RCN programme of up to RM330 million. On conventional bonds fund raising, the IB division was the Joint Lead Manager for the Government Guaranteed Sukuk Murabahah of RM5 billion which was issued by Prasarana Malaysia Berhad.

The division was also involved in the following deals as:

- Joint Underwriter for the Initial Public Offering of Serba Dinamik Berhad;
- Principal Adviser to the Group Re-organisation of Sabah State Government's wholly-owned Sabah Development Bank Berhad; and
- Placement Agent for:
  1. SAM Engineering & Equipment (M) Berhad;
  2. OCK Group Berhad; and
  3. SCGM Berhad.

In 2016, the division advised Mandatory General Offer for Kim Feng Capital Sdn Bhd on Emas Kiara Industries Berhad (now known as MB World Group Berhad) and for Vesta Lestari Development Sdn Bhd on Voir Holdings Berhad. Independent advisory services were provided to Malaysia Resources Corporation Berhad, NCB Holdings Berhad and Bumi Armada Berhad.

In addition, the division also collaborated with Credit Equity Broking to develop two (2) Islamic Margin Financing products and successfully obtained the regulatory clearance to offer these products to the market in the fourth ($4^{th}$) quarter of 2016.

The division's active participation in the industry garnered recognition when they won the Lead Manager Award (Sukuk) 2015 by Programme Value ($3^{rd}$ Place), at the RAM League Awards 2016, an annual event organised by RAM Ratings Services Berhad.

GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

**Outlook**

The IB division expects the 2017 market environment to remain challenging. We are committed to continue innovating and exploring various unconventional and conventional fund raising approaches for our clients, which we hope will help secure another year of healthy income levels.

**Treasury**

Driven by higher trading and investment income from its bond portfolio, our Treasury division recorded substantially higher revenue and PBT. Revenue rose by 86% to RM30.84 million, from RM16.59 million in 2015, while PBT rose over five (5) folds, from RM2.90 million in FY2015, to RM15.64 million in FY2016.

The division remained ahead of the curve through various strategies to minimise fundamental risks such as the United States Dollar (USD)/ Malaysian Ringgit (MYR) movements, foreign holdings of MYR sovereign debts, Fed rate hikes and policy changes arising from the United Stated (US) presidential election, the impact of Brexit, as well as the slowing down of the Chinese economy. It took steps to remain cautious when trading against these risks though some opportunistic calls had resulted in sterling performance for the year.

We also improved our rankings in terms of market share for total new issuance of Malaysian bonds in 2016. Kenanga Group ranked fifth (5th) out of fourteen (14) managers credited with 3.22% market share in 2016 compared to seventh (7th) out of seventeen (17) managers credited with 2.44% market share in 2015.

The Foreign Exchange sales desk generated an increase of 15% in transaction volume for FY2016. We continued with efforts to widen our client base and successfully recorded an increase of 15% in the number of active accounts. From the regulatory perspective, BNM issued new directives on foreign exchange dealings in December 2016 and we have implemented measures to ensure these new directives are adhered to.

We remained focused on managing our cash balance through various funding activities to reduce our overall cost of borrowing while meeting the regulatory Liquidity Coverage Ratio requirement and varying our High Quality Liquid Asset stocks. In addition, we traded on short-term capital gains basis for Fixed Income and liquidated long-end Available-for-Sale stocks to lock in profit arising from the cut in Overnight Policy Rate which softened the yield curve. We also embarked on the introduction of new structured investment products to enhance our sales presence in the market.

**Outlook**

In 2016, Treasury performed well despite volatile movements in the market. Our low bond position, the lowest in recent years, helped us avoid huge mark-to-market swings post-Trump victory. For 2017, we remain cautious on trading in view of market uncertainties as we harness the benefits of improvements in our systems and processes, as well as the introduction of more treasury products to our clients.

## SEGMENTAL REVIEW: INVESTMENT MANAGEMENT

As at 31 December 2016, Kenanga Investors Group (KIG), which consists of Kenanga Investors Berhad (KIB), and Kenanga Islamic Investors Berhad (KIIB), recorded a revenue of RM44.68 million, up from RM31.49 million the previous year, due to sales achieved and an increase in management fee income. With the increase in revenue, KIG recorded a lower loss relative to the year before, at RM4.68 million.

KIG had been making strong progress from 2014, the year it lost a major account. Since then, KIG has been on track in meeting its three (3)-year Mid-Term Plan, which focuses on diversifying the business across its various segments and distribution channels, in its quest to build a solid business foundation. KIG will continue with its three (3)-year plan, concentrating on three (3) pillars comprising Distribution Excellence, Operational Efficiency and Effectiveness, as well as Product and Service Innovation. KIG's persistent approach has resulted in its Asset Under Management (AUM) improving from RM6.43 billion in 2015 to RM7.48 billion in 2016, an increase of

RM1.05 billion, tripling its size over the past three (3) years.

Our consistent efforts have resulted in KIG's growth through Employees Provident Fund (EPF) and Private Retirement Schemes (PRS) sales, as well as our newly established Private Wealth business which has attracted high net-worth clients despite poor market sentiments in 2016.

PRS AUM growth increased by 71% while AUM growth through EPF sales increased by 54% in 2016. Our new product launches spurred on our AUM growth by offering our investors a larger suite of product offerings. These include unit trust fund, Kenanga Asia Pacific Income Fund; wholesale fund, Kenanga Yield Enhancement Fund as well as three (3) Syariah PRS Funds namely Kenanga Syariah OnePRS Conservative Fund, Kenanga Syariah OnePRS Moderate Fund and Kenanga Syariah OnePRS Growth Fund.

Our Islamic arm has shown steady progress and our continuous investment into the business is in line with the overall Malaysian capital market plans.

Despite the volatile investment year, in June 2016, KIG declared an unprecedented Income Distribution amounting to RM99.68 million for nine (9) funds. We continued to adhere to our stock-picking strategy and active asset allocation to take advantage of the ever-changing market conditions whilst identifying fundamentally attractive, off-benchmark stocks for growth.

GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

Throughout the year, KIG obtained a number of recognitions. KIG won The Edge/ Thomson Reuters Lipper Awards 2017 for Best Equity Group Award (Islamic) and both its flagships funds, Kenanga Growth Fund and Kenanga Syariah Growth Fund, received awards at the Fundsupermart.com Recommended Unit Trusts Award 2016/2017.

Kenanga Growth Fund was also awarded the 2016 Asia Investment Management Awards under Malaysia Equity Fund for three (3)-years and ten (10)-years by Institutional Investor, an international publication based in New York.

Testimony to their leadership and talent, KIG's Chief Investment Officer (CIO), Ms. Lee Sook Yee, was named Malaysia CIO of the Year by Asia Asset Management at the 2016 Best of the Best Awards for the second (2nd) year running and Chief Executive Officer (CEO), Mr. Ismitz Matthew De Alwis was chosen as 2016 Malaysia CEO of the Year. I would like to take this opportunity to congratulate them both. Simultaneously, KIG was named the Malaysia Best of the Best for 2016 Best Institutional House.

**Outlook**

For 2017, we expect our asset management business which recorded a lower loss in 2016 to be on track in meeting its three (3)-year Mid-Term Plan. We are optimistic that we will be able to ride on the momentum of our AUM growth and the increase of fee base income to achieve complete turnaround by the end of 2017.

## SEGMENTAL REVIEW: LISTED DERIVATIVES

Our Listed Derivatives business was affected by the lower levels of client activity emanating from challenging market conditions and a slowdown in derivatives growth globally. As a result, Kenanga Deutsche Futures Sdn Bhd (KDF) registered a PBT of RM2.61 million for FY2016 compared to RM5.71 million for FY2015, largely due to the moderation in commission income consequent to lower execution volumes.

Throughout the year, we have maintained our clients' needs at the centre of our sales-driven environment, while adapting to shifts in the technological and regulatory landscape. This has enabled us to increase the depth and breadth of our client relationships, and to respond rapidly to emerging opportunities.

With the intention of increasing market share of domestic retail clients, we launched a public awareness campaign, Back to the Futures, in June 2016. With endorsement from Bursa Malaysia Derivatives Berhad (BMD), the three (3)-month long campaign drew encouraging response from the market, promoting greater understanding of listed derivatives in the country.

In 2016, KDF was endorsed as an eligible Trading Participant and General Clearing Participant under the Green Lane policy by BMD and Bursa Malaysia Derivatives Clearing Berhad. Among the reasons for the eligibility was KDF's satisfactory compliance and governance culture. The eligibility allows KDF to undertake selected initiatives without Approval-in-Principle from BMD or the Clearing House.

**Outlook**

Our Listed Derivatives arm was most affected in 2016 by the volatility caused by foreign investors' perception of increased risk of the Malaysian market. Going forward, we will focus on diversifying our revenue stream by providing access for local retail clients to trade in global derivatives exchanges. In addition to expanding our retail reach, KDF will also continue to engage with domestic corporations and institutions to add vibrancy to our client base. We shall remain focused on our clients' needs and enhance our services which are highly sales and technology-driven, thus ensuring holistic and sustainable growth of the company.

GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

## SEGMENTAL REVIEW: STRUCTURED LENDING AND FINANCING

Kenanga Capital Group (KCG) is the structured lending and trade financing division of the Group which consists of Kenanga Capital Sdn Bhd (KC) and Kenanga Capital Islamic Sdn Bhd (KCI). In FY2016, KCG recorded a revenue of RM13.71 million, a RM2.13 million increase from FY2015. PBT of RM633,000 was registered after previous year's breakeven results, which was mainly due to higher loan disbursements particularly for KCI.

For the year under review, KC worked on developing Islamic trade financing products offered through its wholly-owned subsidiary, KCI. Its Islamic factoring business grew as disbursements increased from RM57.60 million in 2015 to RM115.96 million in 2016 as it continues to ramp up this new segment of business.

**Outlook**

Moving into 2017, we expect to continue seeing improvements in our money lending and financing division as we maintain our focus on factoring low risk government contracts and opportunities in structured lending.

## SEGMENTAL REVIEW: WEALTH MANAGEMENT (WM)

We saw improvements in WM during the year under review. Net income increased to RM2.44 million from RM1.83 million in 2015 due to a general increase in income from product lines such as Unit Trust, Insurance and Treasury products.

The division also underwent a reorganisation exercise to drive cost efficiencies and a leaner operating structure. We streamlined and restructured our business model to focus on Private Wealth, and considerably improved our operational efficiencies. This move lowered overheads, thus enabled WM to more than halve the losses incurred for the year relative to 2015. Loss Before Tax for 2016 was recorded at RM3.43 million compared to RM8.87 million the year before.

**Outlook**

Our WM division has proven to be a challenging business, but we are optimistic about the future. Going forward, we will continue to drive our WM business, focusing on both internal and third (3rd) party products to cater to the needs of our clients.

*(from left to right)* **Ranjit Singh Gill**, Investment Banking | **Raja Putra Iskandar Badlishah Raja Shahrudin**, Kenanga Capital Sdn Bhd
**Kenneth Teoh**, Equity Broking | **Tan Zi Lin**, Group Corporate Planning

## MOVING FORWARD

While global growth is expected to see a stronger pick up in 2017, uncertainties from global events ranging from Brexit to policy uncertainties under the new US President, may limit the upside to overall global recovery. Given rising global risks, global capital is likely to gravitate towards less risky assets and locations in developed economies, away from developing economies.

Despite these global uncertainties, Malaysia's growth momentum is expected to continue into the first (1st) half of 2017 with a slightly higher full year growth forecast of 4.5%, compared to 2016 growth of 4.3%. Meanwhile, inflation is expected to edge upwards into 2017 from cost-push factors, ranging from subsidy rationalisation and rising commodity prices.

We are cautiously optimistic that Kenanga Group will continue to improve on its financial performance. Our focus will be on expanding our reach in the retail market of our stockbroking and asset management businesses. As mentioned, we expect to launch our online broking business in partnership with Rakuten Securities in 2017 which will mark a key step forward towards digitalising customer experience.

We are also optimistic about our efforts in building our retail AUM, continuing with the strong momentum of growth over the last years. We believe that our investment banking division will continue to deliver to our bottom line in view of deals in the pipeline. We also expect to realise cost savings in 2017 arising from the relocation to our own corporate building.

## APPRECIATION

I would like to extend my appreciation to our Founder & Adviser, Chairman and the Board of Directors for their stewardship of Kenanga Group. To all our employees, thank you for your dedication and hard work in realising our growth agenda.

On behalf of the Group, I would also like to thank all our business partners, clients, suppliers and all other stakeholders for their continued support.

Our sincere gratitude is extended to Bank Negara Malaysia, Securities Commission and Bursa Malaysia Berhad for their guidance in helping us navigate the regulatory landscape.

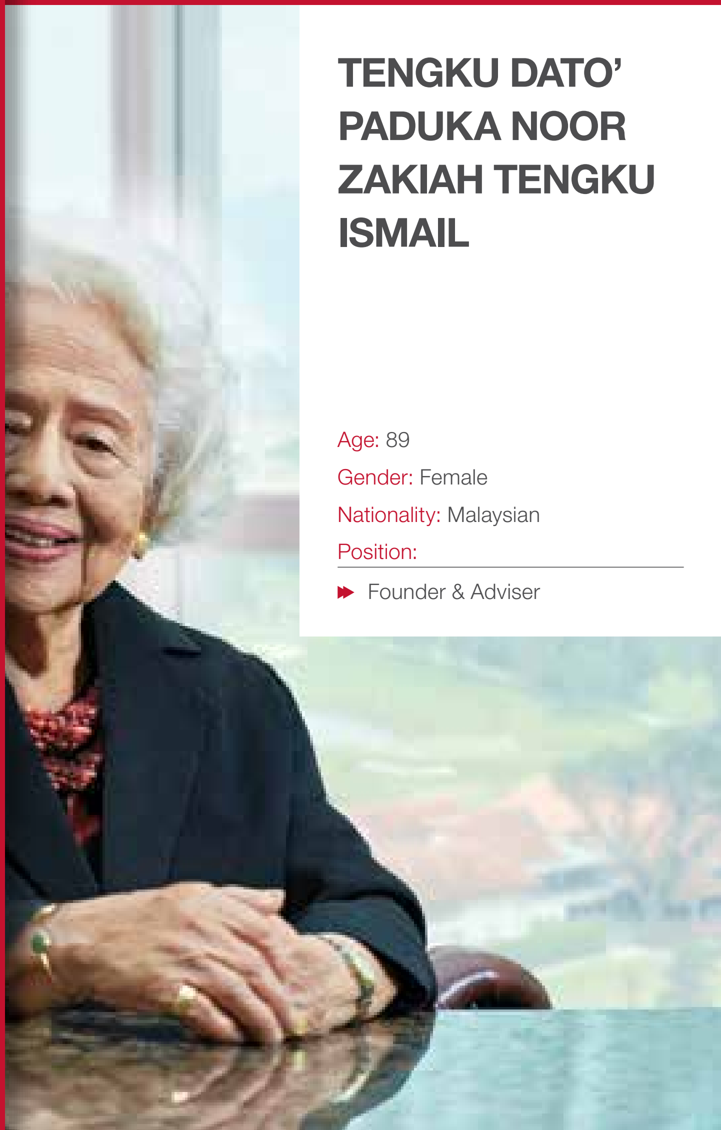
Finally, to all our valued shareholders, thank you for your continued trust and support towards Kenanga Group.

**Datuk Chay Wai Leong**
Group Managing Director

# FOUNDER & ADVISER'S PROFILE



ISER'S PROFILE



## TENGKU DATO' PADUKA NOOR ZAKIAH TENGKU ISMAIL

Age: 89

Gender: Female

Nationality: Malaysian

Position:

- Founder & Adviser

Tengku Dato' Paduka 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 ($1^{st}$) Bumiputera lady in the field of stockbroking in Malaysia, where she has served for more than five (5) decades, since 1964.

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

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*(from left to right)* **Ranjit Singh**

## MOVING FORWA

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which will mark a key
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# FOUNDER & ADVISER'S PROFILE

## TENGKU DATO' PADUKA NOOR ZAKIAH TENGKU ISMAIL

Age: 89

Gender: Female

Nationality: Malaysian

Position:

- Founder & Adviser

Tengku Dato' Paduka Noor Zakiah Tengku Ismail (Tengku Dato' Paduka Noor Zakiah) was appointed to the Board of Kenanga Investment Bank Berhad (KIBB or the Company) on 22 July 1996.

Tengku Dato' Paduka Noor Zakiah co-founded 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 (1$^{st}$) lady member of the Kuala Lumpur Stock Exchange, now known as Bursa Malaysia Securities Berhad (Bursa Malaysia) in 1964 and has over forty-eight (48) years of experience in the securities industry. She was one of the founders of the Association of Stockbroking Companies Malaysia (Association) 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.

Tengku Dato' Paduka 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 (1$^{st}$) Bumiputera lady in the field of stockbroking in Malaysia, where she has served for more than five (5) decades, since 1964.

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

# BOARD OF DIRECTORS



## ' PROFILES

## IZLAN IZHAB

Age: 71

Gender: Male

Nationality: Malaysian

Position:

- Chairman of the Board
- Independent Non-Executive Director
- Member of Audit Committee
- Member of Group Nomination & Remuneration Committee

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 Malaysia)) from 1985 until his retirement in 2000.

Izlan is also a Director of Sun Life Malaysia Takaful Berhad, Reach Energy Berhad and UOB Asset Management (Malaysia) Berhad. He is also an Independent Non-Executive Director of KIBB's subsidiary, 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 charged for any offence within the past five (5) years.

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# DIRECTORS' PROFILES

## IZLAN IZHAB

Age: 71

Gender: Male

Nationality: Malaysian

Position:

- Chairman of the Board
- Independent Non-Executive Director
- Member of Audit Committee
- Member of Group Nomination & Remuneration Committee

Izlan Izhab (Izlan)'s relationship with Kenanga Investment Bank Berhad 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 (UK) and attended the Advanced Management Program at the University of Hawaii, United States of America (USA).

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 Malaysia)) from 1985 until his retirement in 2000.

Izlan is also a Director of Sun Life Malaysia Takaful Berhad, Reach Energy Berhad and UOB Asset Management (Malaysia) Berhad. He is also an Independent Non-Executive Director of KIBB's subsidiary, 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 charged for any offence within the past five (5) years.

# DIRECTORS' PROFILES

## DATUK SYED AHMAD ALWEE ALSREE

Age: 51
Gender: Male
Nationality: Singaporean, Permanent Resident of Malaysia
Position:

- Deputy Chairman of the Board
- Non-Independent Non-Executive Director
- Member of Group Nomination & 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 Malaysia 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 charged for any offence within the past five (5) years.

DIRECTORS' PROFILES


## DATUK KEVIN HOW KOW

Age: 68

Gender: Male

Nationality: Malaysian

Position:

- Non-Independent Non-Executive Director
- Member of Audit Committee

Datuk Kevin How Kow (Datuk Kevin) was appointed to the Board of KIBB as an Independent Non-Executive Director on 15 April 2005. He was subsequently re-designated as Non-Independent Non-Executive Director on 7 February 2017.

He is a Fellow of the Institute of Chartered Accountants in England & Wales and the Institute of Singapore Chartered Accountants, as well as a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.

Datuk Kevin was made a partner of Messrs. Ernst & Young, Malaysia in 1984 and served as the partner-in-charge of its offices in Sabah and Sarawak, and from 1996 onwards, as the partner-in-charge of the firm's practice in Sabah and Labuan until his retirement on 31 December 2003.

Datuk Kevin is also a Director of Sabah Development Bank Berhad, Saham Sabah Berhad, Sarawak Cable Berhad, M3nergy 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 charged for any offence within the past five (5) years.

# DIRECTORS' PROFILES


## LUIGI FORTUNATO GHIRARDELLO

Age: 53
Gender: Male
Nationality: Australian
Position:

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

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.

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 in Japan and Australia. He was also responsible for the regional Global Exchange Services 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 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 charged for any offence within the past five (5) years.

# DIRECTORS' PROFILES

## DATO' RICHARD ALEXANDER JOHN CURTIS

Age: 65

Gender: Male

Nationality: British, Permanent Resident of Malaysia

Position:

- Non-Independent Non-Executive Director

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 currently the Group Managing Director of Cahya Mata Sarawak Berhad (CMS), a conglomerate listed on the Main Market of Bursa Malaysia with cement, construction materials, infrastructure and property development as its core businesses. He was appointed as the Group Managing Director of CMS in September 2006.

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 charged for any offence within the past five (5) years.

DIRECTORS' PROFILES

# ISMAIL HARITH MERICAN

Age: 66
Gender: Male
Nationality: Malaysian
Position:

- Non-Independent Non-Executive Director
- Member of Audit Committee
- Member of Group Board Risk Committee

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 Tengku Dato' Paduka Noor Zakiah, a major shareholder of KIBB. He has no conflict of interest with KIBB and has never been charged for any offence within the past five (5) years.

DIRECTORS' PROFILES

## LUK WAI HONG, WILLIAM

Age: 53
Gender: Male
Nationality: Hong Kong
Position:

- Independent Non-Executive Director
- Chairman of Audit Committee
- Member of Group Board Risk 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 charged for any offence within the past five (5) years.

# GROUP MANAGING DIRECTOR’S PROFILE

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IRECTOR’S PROFILE

## DATUK CHAY WAI LEONG

Age: 53
Gender: Male
Nationality: Singaporean, Permanent Resident of Malaysia
Position:

- Group Managing Director

Prior to his appointment as the Group Managing Director of KIBB, Datuk Chay was the Managing Director of RHB Investment Bank and Head of the Corporate & Investment Banking Division of RHB Banking Group. His previous employment includes Standard Bank, one of South Africa’s largest financial groups, Jardine Fleming Securities in Hong Kong and JP Morgan. Datuk Chay started his career in 1987 with Bankers Trust in Singapore.

He holds a Bachelor of Business Administration from the National University of Singapore.

As part of KIBB’s efforts to comply with the mandatory regulatory requirement for the Board to have a majority of Independent Directors, on 28 January 2017, Datuk Chay resigned as a Board member of KIBB. He, however, remains as the Group Managing Director of KIBB.

# GROUP MANAGING DIRECTOR'S PROFILE

## DATUK CHAY WAI LEONG

Age: 53
Gender: Male
Nationality: Singaporean, Permanent Resident of Malaysia
Position:

- Group Managing Director

Datuk Chay Wai Leong (Datuk Chay) was appointed as the Group Managing Director of Kenanga Investment Bank Berhad (KIBB or the Company) on 17 May 2011.

Currently, he also serves as a Director of the Securities Industry Development Corporation, a company sponsored by the Securities Commission Malaysia and Bursa Malaysia Berhad (Bursa Malaysia), which is involved in the development of capital markets. In March 2013, Datuk Chay was appointed as an Independent Non-Executive Director of Bursa Malaysia.

Since his appointment as the Group Managing Director of KIBB in May 2011, Kenanga Group has successfully clinched numerous awards locally and internationally in the equity broking, investment banking, asset management, futures broking as well as wealth management business segments. He also received recognition from the UK-based International Finance Magazine's Leadership 100 Award for his Outstanding Contribution in the Investment Banking sector in Malaysia.

Prior to his appointment as the Group Managing Director of KIBB, Datuk Chay was the Managing Director of RHB Investment Bank and Head of the Corporate & Investment Banking Division of RHB Banking Group. His previous employment includes Standard Bank, one of South Africa's largest financial groups, Jardine Fleming Securities in Hong Kong and JP Morgan. Datuk Chay started his career in 1987 with Bankers Trust in Singapore.

He holds a Bachelor of Business Administration from the National University of Singapore.

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# SENIOR MANAGEMENT TEAM'S PROFILES

**DATUK CHAY WAI LEONG**

*Group Managing Director,*
*Kenanga Investment Bank Berhad*

Age/ Gender: 53/ Male Permanent Resident (Singaporean)

**Date of Appointment**: 17 May 2011

**Qualifications**: Bachelor of Business Administration (Major in Finance) (1987) - National University of Singapore; Certificate in Computer Programming & Information Processing (1984) - City & Guilds of London Institute.

**Experiences**: He has almost three (3) decades of experience in investment banking, both regionally and locally. His career includes senior management positions at RHB Banking Group, Standard Bank Group, JP Morgan Chase Bank, Jardin Fleming in Hong Kong and Bankers Trust in Singapore.

**Present Directorships**: Bursa Malaysia Berhad, Bursa Malaysia Derivatives Berhad, Bursa Malaysia Derivatives Clearing Berhad, Kenanga Investment Bank Berhad and K & N Kenanga Holdings Berhad.

**WOO KING HUAT**

*Chief Credit Offcer,*
*Kenanga Investment Bank Berhad*

Age/ Gender: 47/ Male Malaysian

**Date of Appointment**: 1 July 2015

**Qualification**: Bachelor of Commerce (Economics) (1991) - The Flinder's University of South Australia.

**Experiences**: He has spent the majority of his career in corporate and investment banking. His extensive experience covers various roles in financial and banking institutions such as RHB Investment Bank Bhd, AmInvestment Bank Bhd, OCBC Bank (Malaysia) Bhd, BSN Merchant Bank Bhd and Malaysian Industrial Development Finance Bhd. He began his career with Diethelm Malaysia Sdn Bhd.

**Present Directorships**: Nil

**AZILA ABDUL AZIZ**

*Chief Executive Officer & Head of Listed Derivatives,*
*Kenanga Deutsche Futures Sdn Bhd*

Age/ Gender: 48/ Female Malaysian

**Date of Appointment**: 1 December 2012

**Qualifications**: Bachelor Degree (Hons) in Finance - University Institute of Technology (UiTM); Diploma in Investment Analysis (1993) from MARA University Institute of Technology (UiTM).

**Experiences**: Her experience in equities and derivatives sectors has seen her with securities companies such as Rashid Hussain Securities Sdn Bhd and RHB Futures Sdn Bhd. She started her career with SBB Securities Sdn Bhd.

**Present Directorships**: Nil

**STANTLEY JAMES TAN BOON TECK**

*Head, Group Treasury,*
*Kenanga Investment Bank Berhad*

Age/ Gender: 51/ Male Malaysian

**Date of Appointment**: 1 December 2014

**Qualification**: Bachelor of Science in Business Administration Majoring in Financial Management (1989) - University of Arkansas, Fayetteville, Arkansas, USA.

**Experiences**: Prior to joining KIBB, he was a Senior Manager at InvestKL Corporation. He has experiences working with established banking institutions such as Citibank Bhd, Citibank Japan Limited in Tokyo, Citibank N.A. Singapore, and Citibank Bhd in Malaysia. Prior to joining Citibank, Stantley was the Vice President, Head of Money Market at Multipurpose Bank Bhd.

**Present Directorships**: Nil


**CHEONG BOON KAK**

*Group Chief Financial and Operations Officer,*
*Kenanga Investment Bank Berhad*

Age/ Gender: 47/ Male Malaysian

**Date of Appointment**: 10 June 2011

**Qualifications**: Member of the Malaysian Institute of Accountants (MIA) and Certified Practising Accountants Australia (CPA).

**Experiences**: He brings with him years of experience in corporate, banking and finance sectors. He has contributed in various roles at RHB Group, Sapura Crest Petroleum Bhd, Dijaya Enterprise Bhd, Palmgold Corporation Sdn Bhd and Pricewaterhouse.

**Present Directorships**: K & N Kenanga Holdings Berhad.

**DATUK ROSLAN HJ TIK**

*Executive Director, Head of Group Investment Banking and Islamic Banking,*
*Kenanga Investment Bank Berhad*

Age/ Gender: 48/ Male Malaysian

**Date of Appointment**: 16 May 2011

**Qualifications**: Bachelor of Science in Combined Studies (Accounting with Law) (1992) - De Montfort University, Leicester, UK; Advanced Certificate in Management, Massachusetts Institute of Technology, Boston, USA.

**Experiences**: His career has been primarily in the investment banking sector with financial and banking institutions such as RHB Investment Bank Bhd, KAF Discounts Bhd, Rating Agency Malaysia Bhd and Mayban Finance Bhd. He began his career with Hewlett Packard Sales (M) Sdn Bhd.

**Present Directorships**: K & N Kenanga Holdings Berhad.

***Unless otherwise stated:***

- *With the exception of **Megat Mizan Nicholas Denney**, who is the son of Tengku Dato' Paduka Noor Zakiah Tengku Ismail and brother to 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 for any offence or have any public sanction/ penality imposed against them within the past five (5) years.*

# SENIOR MANAGEMENT TEAM'S PROFILES

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# SENIOR MANAGEMENT TEAM'S PROFILES

**TAN LYE SIM**

*Group Chief Risk Officer,*
*Kenanga Investment Bank Berhad*

| Age/ Gender: 59/ Female | Malaysian |
|---|---|

**Date of Appointment**: 8 July 2013

**Qualification**: Association of Chartered Certified Accountants (FCCA) (1990).

**Experiences**: She has extensive experience in risk management, having spent thirteen (13) years in London working with financial and banking institutions such as Fuji International Finance Ltd, Hill Samuel Merchant Bank Ltd, Nikko Securities Co. (Europe) Ltd. and the London branch of United Overseas Bank Ltd. Since her return to Malaysia, she has been the Chief Risk Officer in Hong Leong Bank Bhd and Alliance Financial Group.

**Present Directorships**: Nil

**SHAHARIAH SHAHARUDIN**

*Chief Executive Officer,*
*Kenanga Islamic Investors Berhad*

| Age/ Gender: 58/ Female | Malaysian |
|---|---|

**Date of Appointment**: 20 March 2014

**Qualifications**: Master of Arts, Economics (1983) - University of Illinois, Springfield, Illinois, USA; Bachelor of Arts Business Administration and Economics (1981) - Knox College, Illinois, USA.

**Experiences**: She has years of experience in securities and corporate banking. She has worked with banking and financial institutions such as RHB Investment Management Sdn Bhd, RHB Securities Sdn Bhd, SJ Securities Sdn Bhd and Kwong Yik Bank Bhd.

**Present Directorships**: Kenanga Islamic Investors Berhad

**TERENCE TAN KIAN MENG**

*Group Chief Internal Auditor,*
*Kenanga Investment Bank Berhad*

| Age/ Gender: 48/ Male | Malaysian |
|---|---|

**Date of Appointment**: 17 January 2011

**Qualifications**: Bachelor of Commerce (Accounting) with Merit (1993) - University of New South Wales; Certified Internal Auditor (CIA, US); Certified Practising Accountants Programme (CPA Australia); Chartered Accountant (CA), Malaysian Institute of Accountants.

**Experiences**: He brings with him more than twenty (20) years of experience in internal audit, compliance and IT securities, in various industries that include organisations such as MCIS Zurich Insurance Bhd, Digi Telecommunications Sdn Bhd and Astro Malaysia. He has also worked in Bank Simpanan Nasional and Citibank Malaysia, having started his career with Arthur Andersen & Co.

**Present Directorships**: Nil

**NIK HASNIZA NIK IBRAHIM**

*Head, Group Human Resource,*
*Kenanga Investment Bank Berhad*

| Age/ Gender: 52/ Female | Malaysian |
|---|---|

**Date of Appointment**: 1 July 2014

**Qualification**: Bachelor of Science In Computer Science (1987) - Indiana University, Indiana, USA.

**Experiences**: She has years of human resource management in her portfolio. She has worked in various capacities at organisations such as Kuwait Finance House Malaysia Bhd, Inti Education Group, Watson Wyatt (Malaysia) Sdn Bhd, RHB Banking Group, Mesiniaga-SCS Sdn Bhd, Mesiniaga-Tactics Sdn Bhd and Mesiniaga Sdn Bhd.

**Present Directorships**: Nil

**CHUAH SZE PHING**

*Head, Group Marketing and Communications,*
*Kenanga Investment Bank Berhad*

| Age/ Gender: 40/ Female | Malaysian |
|---|---|

**Date of Appointment**: 1 September 2012

**Qualification**: Bachelor of Commerce (Marketing) (1999) - University of Melbourne, Australia.

**Experiences**: She has extensive experience in corporate communications, public relations and branding both internationally and locally. The organisations she has worked for include British American Tobacco Plc (London & Malaysia), as well as, Hong Leong Financial Group, Weber Shandwick Worldwide and Accenture Sdn Bhd.

**Present Directorships**: Nil

**LEE KOK KHEE**

*Executive Director, Head of Group Equity Broking Business,*
*Kenanga Investment Bank Berhad*

| Age/ Gender: 49/ Male | Malaysian |
|---|---|

**Date of Appointment**: 16 June 2009

**Qualification**: Certified Public Accountant (1993) - The Malaysian Institute of Certified Public Accountants.

**Experiences**: He started his career as a Auditor with Ernst & Young. Since then he has gone on to work with established financial institutions such as Arab-Malaysian Merchant Bank Bhd and Tokyo Mitsubishi International (Singapore) Ltd.

**Present Directorships**: ECML Berhad.

# SENIOR MANAGEMENT TEAM'S PROFILES

**LUM CHEE WAH**

*Head, Group Operations,*
*Kenanga Investment Bank Berhad*

Age/ Gender: 52/ Male — Malaysian

**Date of Appointment**: 15 March 2012

**Qualifications**: Chartered Institute of Management Accountants, United Kingdom (1995); Malaysian Institute of Accountants (1995); Certified Information Systems Auditor, Information Systems Audit and Control Association (ISACA), USA (1999); The Institute of Internal Auditors Malaysia (2006).

**Experiences**: His working experience mainly covers regulatory supervision, risk management of finance, capital adequacy, technology, credit management and audit. He has been with organisations such as Bursa Malaysia Berhad, Reapfield Properties Sdn Bhd, Affin Bank Berhad and OCBC Bank (Malaysia) Berhad.

**Present Directorships**: ECML Berhad.

**MEGAT MIZAN NICHOLAS DENNEY**

*Executive Director, Head of Group Business Development*
*Kenanga Investment Bank Berhad*

Age/ Gender: 57/ Male — Malaysian

**Date of Appointment**: 1 January 2006

**Qualifications**: Master of Science, Engineering Management (2001) - Warwick University; Bachelor of Science (Hons) in Production Engineering & Management (1985) - Loughborough University of Technology, UK; Diploma of Marketing (1986) – The Chartered Institute of Marketing, UK; Certified Diploma in Accounting & Finance (1993) - The Association of Chartered Certified Accountants (ACCA).

**Experiences**: Prior to joining KIBB, he was an Engineer with OTIS Engineering Corporation from 1986 till 1989. He began his career as a Trainee Engineer at Dunlop Industries in 1982.

**Present Directorships**: Kenanga Islamic Investors Berhad (Alternate Director); Federation of Public Listed Companies Berhad (Alternate Director); Malaysian Institute of Corporate Governance.

**MAHESWARI KANNIAH**

*Group Chief Regulatory and Compliance Officer,*
*Kenanga Investment Bank Berhad*

Age/ Gender: 57/ Female — Malaysian

**Date of Appointment**: 1 June 2011

**Qualifications**: Certified Fraud Examiner (CFE); Fellow of the Institute of Chartered Secretaries and Administrators, UK (FCIS); Fellow of the Malaysian Association of the Institute of Chartered Secretaries and Administrators ; Specialist Diploma in Company Secretarial Practice.

**Experiences**: Prior to joining KIBB, she was with RHB Investment Bank Bhd from 2007 till 2011 as the Senior Vice President/ Head, Compliance. Her career path before that was primarily at Maybank Group, where she was the Vice President/ Head of Group Compliance at Maybank, Vice President/ Head of Compliance Supervision at Maybank Investment Bank Bhd and Company Secretary, Corporate Service Department at Maybank.

**Present Directorships**: Nil

**ISMITZ MATTHEW DE ALWIS**

*Chief Executive Officer,*
*Kenanga Investors Berhad*

Age/ Gender: 43/ Male — Malaysian

**Date of Appointment**: 10 February 2015

**Qualifications**: Advanced Business Management Program (2013) – International Institute of Management Development (IMD), Lausanne, Switzerland; Certified Financial Planner (CFP, US) (2002); Master in Business Administration (MBA) with Distinction (1999) – Southern Cross University Australia; Bachelor of Business Administration (majoring in Economics & Finance) (1996) – Royal Melbourne Institute of Technology; Graduate Diploma in Marketing (UK) (1995) – Chartered Institute of Marketing, UK.

**Experiences**: Prior to joining Kenanga Investors Berhad, he spent ten (10) years with ING Group, with his last role as Executive Director at ING Funds Bhd, after joining the group as Senior Manager - Business Development at ING Insurance Bhd. Previously, he was with MBF Unit Trust Management Bhd, MBF Cap/ MBF Asset Management, and ARA (Asia Research & Consultancy) Consultancy Ltd.

**Present Directorships**: Kenanga Investors Berhad; Kenanga Funds Berhad and Kenanga Islamic Investors Berhad.

**AZLAN ABU RAIS @ A RAIS AL NOAH**

*Chief Executive Officer,*
*Kenanga Capital Sdn Bhd &*
*Kenanga Capital Islamic Sdn Bhd*

Age/ Gender: 55/ Male — Malaysian

**Date of Appointment**: 1 September 2004 – CEO, Kenanga Capital Sdn Bhd & 1 January 2017 as CEO, Kenanga Capital Islamic Sdn Bhd.

**Qualifications**: Master of Business Administration (1995) - University of Bath, UK; BSc in Industrial Engineering (1987) - Louisiana State University, USA.

**Experiences**: His corporate experiences include holding various corporate roles at Woo Hing Brothers (M) Bhd, GBE International Group (PLC) in the UK and MMC Engineering Services Sdn Bhd. He started his career with Matsushita Industrial Corp. Sdn Bhd.

**Present Directorships**: Actinium Network Berhad.

**NORLIZA ABD SAMAD**

*Group Company Secretary,*
*Kenanga Investment Bank Berhad*

Age/ Gender: 51/ Female — Malaysian

**Date of Appointment**: 19 November 2012

**Qualifications**: Institute of Chartered Secretaries and Administrators (UK) (1992) - MARA University of Technology; Member of Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) (1997).

**Experiences**: She has worked within the areas of company secretarial and compliance in a number of financial institutions. These include RHB Investment Bank Bhd, Affin Investment Bank Bhd and Malayan Banking Berhad.

**Present Directorships**: Nil

**"Looking back at the forty-four (44) years which have passed since I co-founded the company as K & N Kenanga Sdn Bhd, I am filled with pride for all that we have achieved. From our humble beginning as a stockbroking company, we have grown into a full-fledged investment bank and listed entity, which is now recognised as the largest independent investment bank in the country. I cannot be more proud of how far we have come."**

**Tengku Dato' Paduka Noor Zakiah Tengku Ismail**
Founder & Adviser

*(from left to right)* **Rathakrishnan Sannacy**, Group Technology | **Karen Kan**, Treasury Operations | **Jerome Khor**, Kenanga Deutsche Futures Sdn Bhd
**Danial Abdul Rahman**, Kenanga Deutsche Futures Sdn Bhd | **Fara Alias**, Group Human Resource

# CORPORATE & COMPLIANCE GOVERNANCE

# 04



## ORATE GOVERNANCE

The Board reserves full decision-making powers notwithstanding any delegation of authority to Management or its 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 and disposition 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.

In discharging its roles and responsibilities, the Board has established specialised Board Committees to oversee critical or major functional areas and to address matters, which require detailed review or in-depth consideration. Although the Board has delegated certain duties to the Board Committees, it remains responsible for the decisions of the committees.

In supporting the overall operational management and businesses of the Company, the Board had also established the following Management Committees comprising Senior Management personnel within the Kenanga Investment Bank Berhad and its Group of Companies (Kenanga Group or the Group), with specific Terms of Reference outlining their roles and responsibilities within the Group Approving Authority Framework approved by the Board:

a. Group Executive Committee;
b. Group Risk Committee;
c. Group Credit Committee;
d. Group Products Committee;
e. Group Tender & Procurement Committee;
f. Group Information Technology Steering Committee;
g. Group Disciplinary Committee;
h. Group Talent Committee;
i. Business Continuity Management Committee;
j. Building Committee; and
k. Staff Outreach Committee.

**1.2 Clear Roles and Responsibilities of the Board**

**a. Review and Adoption of Strategies and Business Plans**

The Board approves KIBB's objectives, strategies and business plans, which take into account KIBB's risk appetite, risk management capabilities, financial resources, Management capabilities, as well as market conditions and ensure that performance against plans is regularly reviewed and monitored.

On 8 December 2016, the Board, upon detailed deliberations, had approved the strategies and business plans, as well as the budget for the financial year ended 31 December 2017 tabled by Management.

Based on the approved strategies and business plans, Key Performance Indicators (KPIs) were then set to define, measure and monitor Management's performance and progress towards achieving KIBB's goals.

**“Looking back at the forty-four (44) y**
**founded the company as K & N Kenang**
**all that we have achieved. From our h**
**company, we have grown into a full-f**
**entity, which is now recognised as t**
**bank in the country. I cannot be mor**

*(from left to right)* **Rathakrishnan Sannacy**, Group Technology | **Ka**
**Danial Abdul F**

MAHESWARI KANNIAH

GROUP CHIEF REGULATORY AND COMPLIANCE OFFICER

**Through a comprehensive approach in managing compliance risk through 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 high on our list.**

# STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors (the Board) regards corporate governance as vital to the success of Kenanga Investment Bank Berhad (KIBB or the Company)'s, business and is unreservedly committed to applying the principles necessary to ensure that the principles of good governance is 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 follow 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 Malaysia) 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 of Corporate Governance 2012 (MCCG 2012) into the Company's existing policies and procedures.

## 1. ESTABLISHMENT OF CLEAR ROLES AND RESPONSIBILITIES

### 1.1 Establishment of Clear Functions Reserved for Board and Management

The current composition of the Board enables it to have an effective oversight over Management and provides it with the ability to make decisions in the best interests of the shareholders, as it is free from interests or influences which may conflict with its duty.

The Board is independent of Management and is not involved in any business or other relationship or circumstances that could materially interfere with the exercise of objective, unfettered or independent judgment. The Board composition also includes significant representation of KIBB's major shareholders, with the appointment of their nominee Directors, who provide a balance in safeguarding the minority shareholders' interests.

The Non-Executive Directors are not employees of KIBB and they do not participate in the day-to-day management or the business activities of KIBB. They bring an external perspective; constructively challenge and help develop proposals on strategy; scrutinise the performance of Management in meeting approved goals and objectives; as well as monitor the risk profile of KIBB's business and the reporting of monthly business performance.

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 KIBB's values and standards and ensures that its obligations to its shareholders and stakeholders are clearly understood and met.

The Board reserves full decision-making powers notwithstanding any delegation of authority to Management or its 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 and disposition 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.

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STATEMENT ON CORPORATE GOVERNANCE

**b. Overseeing the Conduct of Business**

In facilitating the Board in the discharge of its responsibility of overseeing the conduct of business of Kenanga Group, the Board at its scheduled meetings were briefed by the Group Managing Director (GMD) on the financial performance of Kenanga Group, as well as associate companies. This enabled the Board to assess Management's performance against the budget set for the financial year.

In terms of the status of Kenanga Group's compliance with relevant regulatory requirements, the Board is updated at its scheduled meetings by the Group Chief Regulatory and Compliance Officer, on the status of any regulatory audit conducted by the relevant regulators on regulated entities within Kenanga Group namely KIBB, Kenanga Investors Berhad, Kenanga Islamic Investors Berhad and Kenanga Deutsche Futures Sdn Bhd.

During this update, the Board would deliberate on the recommendations issued by the regulators arising from their respective audits, as well as Management's response to those recommendations and endorse the action plans identified to address any gaps identified by the regulators during their audits.

**c. Risk Management and Internal Controls**

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 KIBB.

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.

In this respect, the Board is supported by the Group Board Risk Committee (GBRC).

The GBRC comprises two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director as follows:

- **Luigi Fortunato Ghirardello**
  Chairman, Independent Non-Executive Director

- **Ismail Harith Merican**
  Member, Non-Independent Non-Executive Director

- **Luk Wai Hong, William**
  Member, Independent Non-Executive Director

Under its Terms of Reference, the GBRC is responsible to:

i. review and recommend risk management strategies, policies and risk tolerance for the Board's approval;

ii. review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;

iii. ensure that the infrastructure, resources and systems are in place for risk management, that is, to ensure that the staff responsible for implementing risk management systems perform those duties independently of KIBB's risk taking activities;

iv. review Management's periodic reports on risk exposure, risk portfolio composition and risk management activities;

v. review significant changes to risk assessment methodologies;

vi. review high level risk exposures, risk portfolio composition and to advise the Board as to whether these are within the tolerance level of the Board;

vii. review periodically, the on-balance sheet and off-balance sheet risk exposure profiles (including derivatives, guarantees and settlement exposures), assess current and future risk environment, and set the short-term risk positioning strategy in response to changing events for credit risk;

viii. review periodically, KIBB's regulatory capital needs in the light of current and future business demands as well as potential erosion of capital for regulatory capital risk;

ix. review periodically, the environment, the key factors that may affect the outcome of the original strategy and set the medium-term risk positioning strategy in response to changing events for strategic risk; and

x. assess KIBB's ability to accommodate risks within the tolerance level under the normal and stress scenario, in particular, in view of future business, transaction volumes as well as to explore risk mitigating solutions.

During the financial year under review, the GBRC, which was scheduled to meet on a bi-monthly basis with ad-hoc meetings held as and when required, had met six (6) times. The details of members' attendance at these GBRC meetings are provided on page 43 of this Annual Report.

The key highlights of matters deliberated, and where appropriate recommended to the Board of KIBB for approval, include amongst others, the following:

i. Risk Management Reports;

ii. 2015 Performance Appraisal and 2016 Balanced Scorecard of the Group Chief Risk Officer;

iii. Review of Relevant Policies and Procedures of Group Risk Management;

iv. Pillar 3 Disclosure for 31 December 2015;

STATEMENT ON CORPORATE GOVERNANCE

v. Internal Capital Adequacy Assessment Process for 2015;

vi. Review of Contingency Funding Plan;

vii. Proposed Restructuring of Risk Committees;

viii. Internal Audit Report on Risk Management Function;

ix. Establishment of the IT Risk Management Framework; and

x. BNM's Semi-Annual Stress Testing Report for the Position as at 30 June 2016.

**d. Succession Planning**

**i. 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 the Board and new ones come on board.

**ii. 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 the 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.

**e. 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 Kenanga 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.

The Company disseminates its Annual Report in a CD-ROM format together with a summarised version of the Financial Statements, Notice of Annual General Meeting (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 Malaysia 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 Independent Non-Executive Chairman who takes heed of their concerns on matters related to corporate governance and the Group's performance.

Encik Izlan Izhab, who was appointed as the Independent Non-Executive Chairman of the Company effective from 7 February 2017, shall be the liaison to whom shareholders and stakeholders may convey their concerns regarding Kenanga Group. He is also a member of the NRC and the AC.

He can be reached via email at: izlanizhab@kenanga.com.my

**f. Adequacy and Integrity of Management Information and Internal Control**

The Board recognises the fact 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.

The details of the Company's internal control system and framework are set out in the Statement on Risk Management and Internal Control appearing on pages 56 and 57 of this Annual Report.

**1.3 Establishment and Implementation of Code of Ethics and Conduct**

**a. Conflict of Interest Situation**

The Board had established the Group Policy and Procedures on Related Party Transactions to govern related party transactions and the Group Conflict Management Policy to govern conflicts of interest situations that prohibit activities and relationships that diminish the quality of corporate governance, such as conflicts of interest situations, corruption and bribery, as well as providing preferential treatment to related parties and other favoured entities.

STATEMENT ON CORPORATE GOVERNANCE

**b. Code of Ethics and Conduct**

In view of the increasing complexity of business environment and stricter regulatory landscape, as well as the greater demand for reasonable competence amongst its Directors and employees, the Board had formalised its own Code of Ethics and Conduct for Directors of Kenanga Group (Directors' Code of Conduct) in accordance with the code of conduct expected of Directors as set out in BNM's Policy Document on Corporate Governance, the Companies Act, 2016, as well as the Code of Ethics for Directors issued by the Companies Commission of Malaysia.

The Board has also established the Group Code of Ethics and Conduct for Employees (Employees' Code of Conduct) which has been communicated to all employees and posted onto Kenanga Group's intranet for easy reference by the Employees.

Both the Directors' Code of Conduct and the Employees' Code of Conduct (collectively referred to as the Codes), were formulated to enhance the standard of corporate governance and corporate behaviour with the intention of establishing a standard of ethical behaviour for Directors and employees based on trustworthiness and values that can be accepted, are held or upheld by any one person; and upholding the spirit of responsibility and social responsibility in line with the legislation, regulations and guidelines for administering the Company.

The primary purpose of the Codes are to aid the identification of the areas and situations where public trust and confidence might be compromised or a law might be violated and to reiterate the high standards of conduct that are associated with ethical business practices, as well as to set forth policies and guidelines governing such situations.

The policies and guidelines enumerated therein are principled on promoting best ethical conduct as follows:

i. Avoiding conflicts of interest, or potential conflicts, between Director's or employee's personal interests and the interests of Kenanga Group, its shareholders or Clients;

ii. Avoiding misuse of position of Director/ employees;

iii. Keeping Material Non-Public and Price Sensitive Information confidential and secure;

iv. Avoiding misuse of Material Non-Public and Price Sensitive Information relating to securities or other financial instruments;

v. Ensuring completeness and accuracy of the relevant records of Kenanga Group;

vi. Properly caring for and protecting the properties and assets of Kenanga Group; and

vii. Prompting reporting of any knowledge or information about unethical business conduct and suspected commission of crimes.

On an annual basis, each Director, as well as employee will be required to execute a declaration on compliance with the Codes to indicate that they have read and fully understand the requirements of the Codes and undertake to comply by the terms of the Codes and the terms of other policies and procedures of Kenanga Group for the time being in force and as may be adopted from time to time, which shall constitute as condition of their appointment and employment with Kenanga Group, respectively.

The Directors' Code of Conduct has also been posted on Kenanga Group's corporate website www.kenanga.com.my.

**c. Group Whistleblowing Policy**

Arising from the enforcement of the Whistleblower Protection Act 2010, furnishing an external reporting system to all employees to make a disclosure of any malpractice to any enforcement agency while being accorded the necessary protection, and the recommendation of the Second (2$^{nd}$) Edition of the Corporate Governance Guide issued by Bursa Malaysia Berhad urging listed companies to have in place a "Whistleblowing Mechanism" as a form of internal system to ensure compliance with the organisation's Code of Ethics, the Group Whistleblowing Policy & Guidance Notes (Group Whistleblowing Policy) has been developed.

The Group Whistleblowing Policy serves as an essential part of Kenanga Group's internal control system setting out a framework for all Employees of Kenanga Group to report any concerns about any malpractice within Kenanga Group.

The successful implementation of the Group Whistleblowing Policy would tantamount to an early warning system to Kenanga Group to eradicate improper conduct before causing major losses or exposing Kenanga Group to devastating negative publicity.

It also helps to nurture a good organisational culture within Kenanga Group and develop a culture of openness, transparency, accountability and integrity, which ultimately formulates standards of corporate behaviour creating an ethical corporate climate. A transparent management system within Kenanga Group shall indirectly result in the upgrading of the Management's standard of discipline and hence, instill confidence in investors.

STATEMENT ON CORPORATE GOVERNANCE

A summary of the Group Whistleblowing Policy is available on Kenanga Group's corporate website www.kenanga.com.my.

**1.4 Access to Information and Advice**

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.

To facilitate productive and meaningful deliberation, the proceedings of the Board meetings are conducted in accordance with a structured agenda. The agenda and the Board papers are circulated to the Directors five (5) business days prior to the Board meeting to allow time for Directors to review the Board papers from Management or Company Secretary or if deemed necessary to take up independent professional advice at KIBB's expenses.

In order to maintain confidentiality, meeting papers on issues or corporate proposals which are deemed highly confidential and top secret, will only be distributed to Directors at the Board meeting itself or put in a sealed envelopes with strict instruction to be opened only by the Directors themselves. In addition, the Directors have a duty to declare immediately to the Board should they have interest in any transaction to be entered into directly or indirectly. They are required to abstain from getting involved in the deliberations and decisions of the Board on the transaction in question, and to ensure that they do not exercise any influence over the Board in respect of that transaction.

In the event a corporate proposal is required to be approved by shareholders, interested Directors are required to abstain from voting in respect of their shareholdings in KIBB on resolutions pertaining to the corporate proposal. They are to further ensure that any persons connected to them, similarly abstain from voting on such resolutions.

The Board has direct access to the Senior Management and has unrestricted and immediate access to any information relating to the Group's business and affairs in the discharge of their duties. The Executive Director, Head of Group Equity Broking Business and the Group Chief Financial and Operations Officer are invited to attend the Board meetings to report to the Board on matters relating to their areas of responsibility, and to brief and provide details to the Directors on recommendations or reports submitted to the Board.

With the advancement of technologies and as part of Kenanga Group's efforts in continuous enhancements of its processes for efficiency, the Board had, since April 2015, implemented the paperless meeting solution on iPad for Board, Board Committee and Management Committee meetings of Kenanga Group.

The solution was designed with the environment in mind. The amount of papers and ink that are wasted, causing excess waste and pollution to the environment could be averted by moving digital. It will also contribute towards reducing Kenanga Group's carbon footprint, and increase Kenanga Group's green image.

**1.5 Qualified and Competent Company Secretary**

The Board is supported by a fully qualified and competent Company Secretary who is a Chartered Secretary and an Associate Member of the Malaysian Association of the Institute of Chartered Secretaries and Administrators, with more than twenty-three (23) years of experience in company secretarial practice.

The Company Secretary attends all Board meetings and ensures that such meetings are appropriately convened, and that accurate and proper records of the proceedings and resolutions passed are taken and maintained in the statutory register at the registered office of KIBB. The Company Secretary also facilitates timely communication of the decisions made and policies set by the Board at Board meetings to the Senior Management for action. The Company Secretary works closely with Management to ensure that there is timely and appropriate information flows not only within KIBB but also to the Board and Board Committees, and between the Non-Executive Directors and Management.

The Directors have ready and unrestricted access to the advice and services of the Company Secretary who act as a primary point of contact and source of advice/ information for Non-Executive Directors with regard to the Company and its activities in order to assist them in their decision making process and enable them to discharge their duties effectively. The Board is also regularly updated on new statutes and directives issued by the regulatory authorities.

**1.6 Board Charter**

Being a public listed company on Bursa Malaysia and a licensed financial institution under the purview of BNM, the Board is committed to ensuring the full implementation of corporate governance principles and recommendations as encapsulated in the MCCG 2012, Bursa Malaysia's Main Market Listing Requirements (Listing Requirements), Corporate Governance Guide, Second ($2^{nd}$) Edition and Practice Notes, as well as Financial Services Act 2013 and BNM's Policy Document on Corporate Governance.

Taking cognisance of the importance of corporate governance, the Board had established the Board Charter to ensure that all Board members acting on behalf of KIBB are aware of their duties and responsibilities as Board members and the various legislations and regulations affecting their conduct and that the principles and practices of good corporate governance are applied in all their dealings in respect, and on behalf of KIBB.

In pursuit of the ideals in the Board Charter, the intention is to exceed "minimum legal requirements" with due consideration to recognised standards of best practices locally and internationally.

The Board Charter is reviewed on a regular basis to ensure its relevance with the latest statutory and regulatory requirements, as well as Kenanga Group's operational and business direction. The last review of the Board Charter was conducted in December 2016 with the aim of streamlining and aligning it with BNM's Policy Document on Corporate Governance issued by BNM on 3 August 2016.

The Board Charter, which was first approved by the Board on 30 October 2013, can be found on Kenanga Group's corporate website www.kenanga.com.my.

## 2. STRENGTHENING COMPOSITION

### 2.1 Establishment of the Group Nomination & Remuneration Committee (NRC)

#### a. Composition of the NRC

The Board has established the NRC comprising the following two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director with specific Terms of Reference outlining its roles and responsibilities, as well as authority:

- **Luigi Fortunato Ghirardello**
  Chairman, Independent Non-Executive Director
  *(Re-designated from Member to Chairman of NRC on 7 February 2017)*

- **Izlan Izhab**
  Member, Independent Non-Executive Director
  *(Re-designated from Chairman to Member of NRC on 7 February 2017)*

- **Datuk Syed Ahmad Alwee Alsree**
  Member, Non-Independent Non-Executive Director

In line with the requirement of BNM's Policy Document on Corporate Governance for the Board Committee to be chaired by an Independent Director who is not Chairman of the Board, the Board had, upon the NRC's recommendation, revised the composition of the NRC by appointing Mr. Luigi Fortunato Ghirardello as the Chairman of the NRC and re-designating Encik Izlan Izhab's status from Chairman to member of the NRC, in view of his appointment as the Chairman of the Board on 7 February 2017.

In addition, to comply with the mandatory regulatory requirement for a Board Committee to comprise majority Independent Directors, two (2) members of the NRC namely, Dato' Richard Alexander John Curtis and Datuk Kevin How Kow, tendered their resignations as NRC members effective 7 February 2017.

#### b. NRC's Roles and Responsibilities

With regard to the nomination and appointment of Directors, Board Committees members, the GMD and Management Key Responsible Persons (Management KRPs) of Kenanga Group, the NRC's responsibilities as stipulated in its Terms of Reference include the establishment of minimum requirements for the Boards, the GMD and Management KRPs, such as the required mix of skills, experience, qualifications and other core competencies required of them. The requirements and criteria shall be approved by the Board.

In terms of the remuneration of Directors, Board Committee members, the GMD and Management KRPs, it is the responsibility of the NRC to recommend to the Board for approval, a remuneration framework for Directors, Board Committee members, the GMD and Management KRPs which supports the Group's culture, objectives and strategy and reflects the responsibility and commitment, which goes hand-in-hand with membership of the Boards of entities within the Group and responsibilities of the GMD and Management KRPs.

#### c. Summary of NRC's Activities in 2016

During the financial year under review, in discharging its responsibilities as encapsulated in its Terms of Reference, the NRC had deliberated and where appropriate, recommended to the Board for approval, proposals relating to, amongst others, the following matters:

- Review of Directors' Fees and Meeting Allowances;
- Retirement and Re-Appointments/ Re-Elections of Directors for Shareholders' Approval at AGMs of Companies within Kenanga Group;
- Re-appointments of Non-Executive Directors of KIBB for submission to BNM upon expiry of tenure imposed by BNM;
- Renewal of Contracts of Employments of Chief Executive Officers (CEO) of Subsidiaries and Management KRPs;
- Annual KPIs Setting and Performance Appraisals for GMD and His Direct Reports, as well as for the Direct Reports of the Board and Board Committees;
- Performance Bonus and Annual Salary Increment;
- Annual Assessment of Fit and Proper Criteria for GMD, Management KRPs and Company Secretary, as well as Direct Reports to the Board and Board Committees;
- Key Responsible Persons Succession Plan;
- Fit and Proper Assessment for Shariah Committee of KIBB;

STATEMENT ON CORPORATE GOVERNANCE

- Nomination and Remuneration of Shariah Committee of KIBB;
- Review of KIBB's Organisation Structure;
- Appointment of Encik Izlan Izhab as Independent Non-Executive Director and Chairman of KIBB;
- Re-designation of Datuk Kevin How Kow's Status from Independent Non-Executive Director to Non-Independent Non-Executive Director;
- Roadmap Towards Compliance with BNM's Policy Document on Corporate Governance Relating to Board Composition;
- Review of Non-Executive Directors' Remuneration;
- Proposed Template of Letter of Appointment of Non-Executive Director;
- Performance Evaluation of Board, Board Committees and Individual Directors;
- Review of Composition of Board and Board Committees;
- Quarterly Report of Training Programmes Attended by Directors;
- Annual Training Calendar for Directors; and
- Talent and Succession Management Review and Successor Development Updates.

The effectiveness of the NRC was assessed by the Board on an annual basis in accordance with the Board Evaluation Framework approved by the Board. Based on the assessment conducted in 2016, the Board was satisfied that the NRC had performed its function and discharged its roles and responsibilities in accordance with its Terms of Reference.

During the financial year under review, the NRC which was scheduled to meet on a quarterly basis, with ad-hoc meetings held as and when required, had met eight (8) times. The details of members' attendance at these NRC meetings are as stated on page 43 of this Annual Report.

**d. Policy on Board Composition**

Under the Board Appointment Framework, the NRC will review the length of service, expiration of term, as well as, Board Committee positions held by Directors to provide the NRC and the Board with a clear picture of any upcoming vacancies which will need to be filled.

As some vacancies will require recruiting from outside the Board, an up-to-date skills matrix helps identify the skills of the current Board members, as well as, those of departing members which will need to be replaced.

In relation thereof, a skills matrix of the Board and an 'evergreen' list of potential Board members of all entities within Kenanga Group shall be established, maintained and reviewed regularly to facilitate the recruitment process.

**e. Policy on Tenure of Independent Director**

As stipulated in the Board Charter, the tenure of an Independent Director shall not exceed a cumulative term of nine (9) years.

Notwithstanding the above, upon completion of the nine (9) years, an Independent Director may continue to serve on the Board if the NRC has concurred and the Board has approved, after the annual assessment, that the services of the Independent Director are still required by KIBB and further, that the Director concerned remains free of any business or other relationship with KIBB which could be reasonably perceived as to materially interfere with his/ her exercise of unfettered and independent judgement.

The re-election of a long serving Independent Director who has served in that capacity for more than nine (9) years, upon retirement by rotation or re-appointment pursuant to Section 129(6) of the Companies Act, 1965 at the AGM of KIBB, shall be subject to strong justification being provided and presented to the shareholders.

Notwithstanding the above, being a licensed financial institution under the purview of BNM, KIBB's recommendation to retain an Independent Director who has exceeded the nine (9) year limit, will still be subject to BNM's approval.

Based on the current Board composition, the tenure of all Independent Non-Executive Directors of the Company have not exceeded nine (9) years.

**f. Boardroom Diversity**

The Board, through the NRC, shall take appropriate measures to ensure that Boardroom diversity, including gender diversity, forms part of the selection and recruitment for new directors and shall explicitly disclose in KIBB's Annual Report its gender diversity policies and targets and the measures taken to meet those targets.

**2.2 Develop, Maintain and Review Criteria for Recruitment**

**a. 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.

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The procedures in relation to Board appointment which are embedded in the Board Succession Planning Framework, starts with the review by the NRC of the status of the Board composition. The NRC will then report its findings and recommend the appropriate action to be taken to the Board.

If the NRC anticipates that a Director/ Board Committee member position shall become vacant within the next twelve (12) months (whether by reason of an announced intent to retire or otherwise), or if a Director/ Board Committee member position shall suddenly become vacant (whether by death or otherwise), the NRC shall as soon as reasonably practicable, recommend to the Board, nominees for election as Director/ Board Committee member.

When identifying potential candidates for nomination as Director, the NRC may consult whatever sources it deems appropriate, including, but not limited to, referrals from existing Directors, recommendations from a third (3rd)-party search firm, or suggestions from major shareholders.

The NRC shall make an initial assessment of each candidate. It shall select from a pool of potential candidates, one (1) or more candidates for an initial interview by at least one (1) member of the NRC.

When the NRC identifies an individual that it believes meet the criteria set forth below and should be elected Director, it will notify the Board and arrange for the individual to be interviewed by the rest of the Board members who are not members of the NRC, if necessary.

The criteria considered during the selection of new Director include, inter alia, the following:

i. Technical know-how, diverse skills or professional experience in the financial services industry or to some extent, understanding of the nature of the business that KIBB is involved in, to create a more conducive environment for informed decision-making;

ii. Mix of skills and experiences of current Board members whilst taking into consideration the current and future needs of KIBB, and boardroom diversity (including gender diversity);

iii. Board size and balance of executive versus Non-Executive Directors as well as independent versus Non-Independent Directors;

iv. Current composition of the Board and Board Committees, taking into consideration the independence requirements for Board and Board Committee membership in accordance with the relevant regulatory requirements;

v. Probity, personal integrity and reputation as well as personal qualities such as honesty, integrity, diligence, independence of mind and fairness;

vi. Demonstration of competence and capability in relation to the necessary skills, experience, ability and commitment to carry out the role as a director;

vii. Financial integrity – the candidate's demonstration of prudent management of his/ her debts or financial affairs; and

viii. In the case of an Independent Director, additionally, the fulfilment of the independence criteria as stipulated in the Listing Requirements and BNM's Policy Document on Corporate Governance.

For re-appointments of Directors, besides the results of performance evaluation of the Director's concerned, the outcome on the assessment of his/ her independence (for Independent Director only) as well as fitness and propriety would be taken into consideration by the NRC during its deliberation, prior to appropriate recommendations being made to the Board for approval.

Upon the Board's approval, the proposed appointments of directors would then be submitted to BNM for approval as required under the Financial Services Act 2013 and BNM's Policy Document on Corporate Governance.

In addition to the appointment of new Directors, the Terms of Reference of the NRC also requires that the NRC make recommendations to the Board on the re-appointments and re-elections for shareholders' approval at the AGM of the Company of any Directors who are retiring by rotation or who have reached the age limit provisions as stipulated in the respective entity's Articles of Association, having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required.

The Directors who are due for re-election/ re-appointment at the forthcoming AGM have been duly assessed by the NRC and recommended for re-election based on their constructive contributions and valuable insights in fulfilling their roles and responsibilities.

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In the event a Director position should suddenly become vacant by reason of death or other unanticipated occurrence, and if such vacancy results in the entity concerned breaching any of the regulatory requirements pertaining to the Board or Board Committee composition, the NRC shall convene a special meeting soonest possible to implement the process described herein.

During the year under review, there was no change to the Board composition save for the appointment of Encik Izlan Izhab as KIBB's Independent Non-Executive Director on 8 September 2016 as part of the Internal Reorganisation of Kenanga Group which resulted in K & N Kenanga Holdings Berhad (KNKH), previously the holding company of KIBB, becoming KIBB's wholly-owned subsidiary on 1 November 2016 and the transfer of KNKH's listing status on the Main Board of Bursa Malaysia to KIBB on 2 November 2016.

As part of its efforts to ensure full compliance with the mandatory regulatory requirement for the Board to comprise majority Independent Directors, the Board had on 28 January 2017, effected certain changes to its composition, wherein the Board's size was reduced from nine (9) to seven (7) as a result of Tengku Dato' Paduka Noor Zakiah Tengku Ismail's relinquishing her position as the Chairman/ Non-Independent Non-Executive Director of KIBB upon expiry of her term on 28 January 2017, as well as the resignation of Datuk Chay Wai Leong as a Board member of KIBB effective from 28 January 2017. Datuk Chay Wai Leong, however, remains as the GMD of KIBB.

In March 2017, the Board had approved the recommendation of the NRC that two (2) Directors namely Dato' Richard Alexander John Curtis and Mr. Luk Wai Hong, William, both of whom are due to retire in accordance with Article 75 of the Company's Articles of Association, at the Forty-Third (43rd) AGM of Kenanga, be eligible to stand for re-election. Both Directors have expressed their intentions to seek re-election at the Forty-Third (43rd) AGM.

The Board had also approved the NRC's recommendation that Encik Izlan Izhab who is due to retire in accordance with Article 81 of the Company's Articles of Association, at the Forty-Third (43rd) AGM of KIBB, be eligible for re-election. Encik Izlan Izhab has expressed his intention to seek re-election at the Forty-Third (43rd) AGM.

The above approval by the Board had taken into consideration the outcome of the performance evaluations of the respective Directors for the year 2016.

### 2.3 Criteria for Board Assessment

In line with the requirements of the Listing Requirements, BNM's Policy Document on Corporate Governance and the recommendations of MCCG 2012, the performance and contribution of the Board, Board Committees and individual Directors is 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 the key areas in line with the Board Charter, as well as 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.

The effectiveness of the Board Committees, on the other hand, were assessed based on the fulfilment of the Board Committee's functions as stipulated in their respective Terms of References, as well as composition, processes and procedures, interaction with Management; and roles and responsibilities.

For individual Directors, the assessment was based on pre-determined criteria relating to personal integrity and competency; contribution and performance; as well as calibre and personality.

The report on the outcome of the performance evaluation of the Board, Board Committees as well as individual Directors for the financial year ended 31 December 2016 compiled by the Company Secretary was tabled to the NRC in April 2017 respectively, wherein the NRC had recommended the identified action plans for areas of improvement to the Board for approval.

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The results obtained from the individual Directors evaluation also served as one of the criteria to be considered by the NRC and the Board when recommending and approving the re-appointment of Directors upon expiry of their term of office as stipulated by BNM, as well as the re-election of Directors under the retirement by rotation provisions in accordance with the respective Articles of Association of the companies within Kenanga Group.

The Board, upon recommendations by the NRC, would act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board, Board Committee and individual Directors and, where appropriate, implement certain action plans to address any weaknesses identified.

Based on the feedback received from the Directors from the performance evaluation conducted in 2016, it was concluded that the Board and its Committees as a whole, as well as the individual Directors had, operated effectively and possessed all the necessary skills, experience and qualities required of them.

**2.4 Formal and Transparent Remuneration Procedures**

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 other Management KRPs is determined by the NRC after giving due consideration to compensation levels of comparable positions among other similar companies in Malaysia.

The NRC carries out the annual review of the overall remuneration policy for Directors, the GMD and Management KRPs whereupon recommendations are submitted to the Board for approval.

The NRC also reviews annually the performance of the GMD and CEOs of the subsidiaries of the Company, as well as the Management KRPs and submits recommendations to the Board for approval accordingly.

On 1 November 2016, Kenanga Group had completed an internal reorganisation of its corporate structure where certain identified assets and liabilities, as well as the businesses were transferred to KIBB. On 2 November 2016, KNKH transferred its listing status of the Main Market of Bursa Malaysia to KIBB and hence, KIBB became the primary operating and listed entity of Kenanga Group.

Pursuant to the above, the NRC had deliberated on the need to review KIBB's Non-Executive Directors remuneration framework given the additional accountability, as well as responsibility of the Directors in view of the highly regulated operating environment of KIBB, being a listed investment bank upon completion of the Internal Reorganisation in November 2016.

Further, the NRC was also of the view that the remuneration framework should be enhanced to make it more attractive for purposes of attracting future talents to be on the Board of KIBB.

In view of the above, the NRC had recommended and the Board had approved for the proposed revision in the Directors' Fees for financial year ended 2016 to be tabled to the shareholders for approval at the forthcoming AGM of KIBB:

| | **Current (RM)** | **Revised (RM)** |
|---|---|---|
| Chairman | 220,000 | 440,000 ~ |
| Deputy Chairman | 195,000 | 390,000 ^ |
| Director | 170,000 | 270,000 * |
| Board Committee Chairman | 40,000 | 40,000 |
| Board Committee Member | 30,000 | 30,000 |

***Notes:***

~ *consolidating the fees paid under KNKH of RM220,000*
^ *consolidating the fees paid under KNKH of RM195,000*
* *consolidating fees paid under KNKH of RM100,000*

With regard to meeting allowance, each Director will be paid an allowance of RM1,000 for each Board and Board Committee meeting attended.

## STATEMENT ON CORPORATE GOVERNANCE

A summary of the total remuneration of the Directors, distinguishing between Executive and Non-Executive Directors, in aggregate with categorisation into appropriate components for the financial year ended 31 December 2016 is tabulated below.

**Remuneration Received from Group**

| | Fees # RM | Salaries RM | Other Emoluments RM | Bonus RM | Benefits-in-Kind RM | Total RM |
|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | |
| Datuk Chay Wai Leong | - | 1,512,000.00 | 378,000.00 | 504,000.00 | 91,209.49 | 2,485,209.49 |
| **TOTAL** | **-** | **1,512,000.00** | **378,000.00** | **504,000.00** | **91,209.49** | **2,485,209.49** |
| **Non-Executive Directors** | | | | | | |
| Tengku Dato' Paduka Noor Zakiah Tengku Ismail | 490,000.11 | - | 25,000.00 | - | 148,142.20 | 663,142.31 |
| Datuk Syed Ahmad Alwee Alsree | 510,000.01 | - | 37,000.00 | - | 20,605.15 | 567,605.16 |
| Dato' Richard Alexander John Curtis | 300,000.01 | - | 30,000.00 | - | - | 330,000.01 |
| Datuk Kevin How Kow | 373,442.63 | - | 39,000.00 | - | - | 412,442.63 |
| Luigi Fortunato Ghirardello | 390,000.01 | - | 43,000.00 | - | - | 433,000.01 |
| Izlan Izhab (Appointed as Director of KIBB on 8 September 2016) | 258,497.28 | - | 31,000.00 | - | - | 289,497.28 |
| Ismail Harith Merican | 330,000.01 | - | 38,000.00 | - | - | 368,000.01 |
| Luk Wai Hong, William | 355,081.98 | - | 39,000.00 | - | - | 394,081.98 |
| **TOTAL** | **3,007,022.04** | **-** | **282,000.00** | **-** | **168,747.35** | **3,457,769.39** |
| **GRAND TOTAL** | **3,007,022.04** | **1,512,000.00** | **660,000.00** | **504,000.00** | **259,956.84** | **5,942,978.88** |

# *Subject to shareholders' approval at the forthcoming Annual General Meeting*

**Remuneration Received from Company**

| | Fees # RM | Salaries RM | Other Emoluments RM | Bonus RM | Benefits-in-Kind RM | Total RM |
|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | |
| Datuk Chay Wai Leong | - | 252,000.00 | - | - | 5,191.67 | 257,191.67 |
| **TOTAL** | **-** | **252,000.00** | **-** | **-** | **5,191.67** | **257,191.67** |
| **Non-Executive Directors** | | | | | | |
| Tengku Dato' Paduka Noor Zakiah Tengku Ismail | 256,065.68 | - | 12,000.00 | - | 22,989.25 | 291,054.93 |
| Datuk Syed Ahmad Alwee Alsree | 231,885.25 | - | 13,000.00 | - | 4,716.68 | 249,601.93 |
| Dato' Richard Alexander John Curtis | 191,311.48 | - | 15,000.00 | - | - | 206,311.48 |
| Datuk Kevin How Kow | 231,311.48 | - | 19,000.00 | - | - | 250,311.48 |
| Luigi Fortunato Ghirardello | 231,311.48 | - | 22,000.00 | - | - | 253,311.48 |
| Izlan Izhab (Appointed as Director of KIBB on 8 September 2016) | 76,366.13 | - | 5,000.00 | - | - | 81,366.13 |
| Ismail Harith Merican | 246,393.45 | - | 24,000.00 | - | - | 270,393.45 |
| Luk Wai Hong, William | 246,393.45 | - | 24,000.00 | - | - | 270,393.45 |
| **TOTAL** | **1,711,038.40** | **-** | **134,000.00** | **-** | **27,705.93** | **1,872,744.33** |
| **GRAND TOTAL** | **1,711,038.40** | **252,000.00** | **134,000.00** | **-** | **32,897.60** | **2,129,936.00** |

# *Subject to shareholders' approval at the forthcoming Annual General Meeting*

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| Group | Executive Director | Non- Executive Directors | Total |
|---|---|---|---|
| RM250,001 – RM300,000 | - | 1 | 1 |
| RM300,001 – RM350,000 | - | 1 | 1 |
| RM350,001 – RM400,000 | - | 2 | 2 |
| RM400,001 – RM450,000 | - | 2 | 2 |
| RM450,001 – RM500,000 | - | - | - |
| RM550,001 – RM600,000 | - | 1 | 1 |
| RM650,001 – RM700,000 | - | 1 | 1 |
| RM2,450,001 – RM2,500,000 | 1 | - | 1 |

| Company | Executive Director | Non- Executive Directors | Total |
|---|---|---|---|
| Below RM50,000 | - | - | - |
| RM50,001 – RM100,000 | - | 1 | 1 |
| RM100,001 – RM150,000 | - | - | - |
| RM150,001 – RM200,000 | - | - | - |
| RM200,001 – RM250,000 | - | 2 | 2 |
| RM250,001 – RM300,000 | 1 | 5 | 6 |

## 3. REINFORCE INDEPENDENT

### 3.1 Annual Assessment of Independent Director

In addition to the annual performance evaluation of the Board, Board Committees and individual Directors, the Board Performance Evaluation Framework also includes the requirement for annual assessments on the independence of Independent Directors, as well as Director's fitness and propriety, as required under the relevant regulatory requirements.

The results of these assessments would then be considered during the NRC's and Board's deliberation on the proposed re-appointments of Directors upon expiry of their terms as stipulated by BNM or for purposes of re-election at the AGM under the retirement by rotation clause of the Company's Articles of Association.

Based on the assessment conducted in 2016, all of the Independent Non-Executive Directors of the Company comply with the criteria of Independent Directors set out in the Listing Requirements and BNM's Policy Document on Corporate Governance.

### 3.2 Tenure of Independent Director

As stipulated in the Board Charter, the tenure of an Independent Director shall not exceed a cumulative term of nine (9) years.

Notwithstanding the above, upon completion of the nine (9) years, an Independent Director may continue to serve on the Board if the NRC has concurred and the Board has approved, after the annual assessment, that the services of the Independent Director are still required by KIBB and further, that the Director concerned remains free of any business or other relationship with KIBB which could be reasonably perceived as to materially interfere with his/ her exercise of unfettered and independent judgement.

The re-election of a long serving Independent Director who has served in that capacity for more than nine (9) years, upon retirement by rotation or re-appointment pursuant to the Articles of Association of the Company or the relevant provison of the Companies Act, 2016, at the AGM of KIBB, shall be subject to strong justification being provided and presented to the shareholders.

### 3.2 Separation of Role of Chairman and Chief Executive Officer

The Company aims to ensure balance of power and authority between the Chairman and the GMD with a clear division of responsibility between the running of the Board and the Company's business respectively. The positions of the Chairman and the GMD are separated and clearly defined in the Board Charter. This clear division of responsibilities ensures a balance of power and authority, such that no one (1) individual is entrusted with unfettered power of decision-making.

**Role of Chairman**

The Chairman of the Board is an Independent Non-Executive Director of the Company and does not have an executive position or responsibility in the Company or its related corporations.

The Chairman is responsible for leading the Board in setting the values and standards of the Company, as well as maintaining a relationship of trust with, and between Management and Non-Executive Directors. In addition, the Chairman also ensures the provision of accurate, timely and clear information to the Directors to enable effective and informed decision making.

The Chairman, in consultation with the GMD and the Company Secretary, sets the agenda for Board meetings and ensures that all relevant issues are on the agenda.

The Chairman is responsible for managing the business of the Board to ensure that all Directors are appropriately briefed on issues arising at Board meetings; sufficient time is allowed for discussion of complex or contentious issues and, where appropriate, arranging for informal meetings beforehand to enable thorough preparation for Board discussion; and the issues discussed are mainly forward looking and concentrates on adoption of strategies.

The Chairman ensures that every Board resolution is put to vote to ensure the will of the majority prevails and that the Management look beyond their executive functions and accept their full share of responsibility on governance. The Chairman may be assisted in his role by the Deputy Chairman as deemed appropriate.

With regard to the balance between Independent and Non-Independent Directors, based on its current composition, the percentage of Independent Directors on the Board of KIBB is 43%. Nevertheless, KIBB is committed to source for more Independent Directors with appropriate skills and expertise to complement the current skills set of the Board and ensure that it is in compliance with the requirement of BNM's Policy Document on Corporate Governance for the Board to comprise a majority of Independent Directors.

**Role of Group Managing Director**

The GMD has been delegated certain key authority which includes developing the strategic direction of the Company and ensuring that the Company's strategies and corporate policies approved by the Board are effectively implemented.

The GMD is the conduit between the Board and the Management in ensuring the success of the Company's governance and management functions and has the executive responsibility for the day-to-day operation of the Company's business.

## 4. FOSTER COMMITMENT

### 4.1 Time Commitment

Board and Board Committee meetings for the ensuing financial year are scheduled in advance before the end of the current financial year so that the Directors are able to plan ahead and accommodate the next year's Board and Board Committee meetings into their respective schedules and ensure the Directors' time commitment to the Company.

During the financial year under review, twelve (12) Board meetings were held and all Directors complied with the requirement of at least 50% attendance as prescribed in the Listing Requirements.

The Directors' commitment to carrying out their duties and responsibilities is affirmed by their attendance at the Board and Board Committee meetings held during the financial year ended 31 December 2016, as reflected below.

| BOARD | 27 January 2016 | 25 February 2016 | 18 March 2016 | 30 March 2016 | 28 April 2016 | 25 May 2016 | 28 June 2016 | 27 July 2016 | 8 September 2016 | 22 September 2016 | 27 October 2016 | 8 December 2016 | Number of Meetings Attended | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Tengku Dato' Paduka Noor Zakiah Tengku Ismail | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 12 out of 12 | 100 |
| Datuk Syed Ahmad Alwee Alsree | ✓ | ✓ | × | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | × | ✓ | 10 out of 12 | 83 |
| Datuk Chay Wai Leong | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 12 out of 12 | 100 |
| Datuk Kevin How Kow | ✓ | ✓ | × | ✓ | ✓ | × | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 10 out of 12 | 83 |
| Luigi Fortunato Ghirardello | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 12 out of 12 | 100 |
| Dato' Richard Alexander John Curtis | ✓ | ✓ | ✓ | ✓ | ✓ | × | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 11 out of 12 | 92 |
| Izlan Izhab (Appointed with effect from 8 September 2016) | NA | NA | NA | NA | NA | NA | NA | NA | ✓ | ✓ | ✓ | ✓ | 4 out of 4 | 100 |
| Ismail Harith Merican | ✓ | ✓ | ✓ | ✓ | ✓ | × | ✓ | × | ✓ | ✓ | ✓ | ✓ | 10 out of 12 | 83 |
| Luk Wai Hong, William | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | × | × | ✓ | ✓ | 10 out of 12 | 83 |

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| NRC | 21 January 2016 | 24 February 2016 | 24 March 2016 | 21 April 2016 | 20 July 2016 | 8 September 2016 | 21 October 2016 | 8 December 2016 | Number of Meetings Attended | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Izlan Izhab | ✓ | ✓ | ✓ | × | ✓ | ✓ | ✓ | ✓ | 7 out of 8 | 88 |
| Datuk Syed Ahmad Alwee Alsree | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 8 out of 8 | 100 |
| Datuk Kevin How Kow | × | ✓ | × | ✓ | ✓ | ✓ | ✓ | ✓ | 6 out of 8 | 75 |
| Dato' Richard Alexander John Curtis | ✓ | ✓ | ✓ | ✓ | × | ✓ | ✓ | ✓ | 7 out of 8 | 88 |
| Luigi Fortunato Ghirardello | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 8 out of 8 | 100 |

| AC | 20 January 2016 | 23 February 2016 | 21 April 2016 | 27 June 2016 | 20 July 2016 | 25 August 2016 | 20 October 2016 | 30 November 2016 | Number of Meetings Attended | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Datuk Kevin How Kow | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 8 out of 8 | 100 |
| Ismail Harith Merican | ✓ | ✓ | ✓ | ✓ | ✓ | × | ✓ | ✓ | 7 out of 8 | 88 |
| Luk Wai Hong, William | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 8 out of 8 | 100 |

| GBRC | 19 January 2016 | 23 March 2016 | 24 May 2016 | 3 August 2016 | 21 October 2016 | 23 November 2016 | Number of Meetings Attended | % |
|---|---|---|---|---|---|---|---|---|
| Luigi Fortunato Ghirardello | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 out of 6 | 100 |
| Ismail Harith Merican | ✓ | ✓ | × | × | ✓ | ✓ | 4 out of 6 | 67 |
| Luk Wai Hong, William | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 out of 6 | 100 |

In order to ensure a Director's commitment to the Company, the Board Charter stipulates that Directors should devote sufficient time to carry out their responsibilities.

Directors are required to 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 shall include an indication of time that will be spent on the new appointment.

In relation thereof, the directorships held by a Director in listed companies at any one (1) time has been limited to five (5).

**4.2 Directors' Education and Development**

**a. Induction Programme for Newly Appointed Director**

KIBB has developed an induction programme for its 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 are facilitated by the Company Secretary's Office, is conducted 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 Kenanga 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 and financial overview of KIBB, as well as the expectations of KIBB with regard to contributions from the Directors towards the Company's achievement of its goals.

Newly appointed Non-Executive 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.

**b. Continuous Education and Development**

The Company, via the 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 Malaysia, 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 ($1^{st}$) 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.

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During the financial year 2016, all Directors attended various training programmes covering areas relevant to their duties and responsibilities which included, amongst others, corporate governance, leadership, information technology, risk management, compliance and regulatory developments as tabulated below.

| Title of Training Programme | Attendee(s) |
|---|---|
| **Corporate Governance** | |
| Role of Chairman & Independent Directors' Seminar 2016 – Malaysian Institute of Corporate Governance | Encik Izlan Izhab |
| Independent Directors Programme: The Essence of Independence – The ICLIF Leadership and Governance Centre (ICLIF) | Encik Izlan Izhab |
| Special Invitation to Industry Briefing on Directors Register Implementation – FIDE Forum | Encik Izlan Izhab |
| Course for Directors of State Statutory Bodies & Agencies Year 2016 – Towards Board Excellence – Ministry of Finance | Datuk Kevin How Kow |
| Nominating Committee Programme Part 2: Effective Board Evaluations – Bursa Malaysia | Encik Izlan Izhab |
| Board Chairman Series Part 2: Leadership Excellence From The Chair – ICLIF | Encik Izlan Izhab |
| Dialogue with BNM's Deputy Governor on the Corporate Governance Concept Paper – BNM and FIDE Forum | Encik Izlan Izhab |
| **Information Technology** | |
| Cyber Security for Financial Services Industry – FireEye Inc. | Datuk Chay Wai Leong |
| Understanding the Evolving Cybersecurity Landscape – ICLIF | Mr. Luigi Fortunato Ghirardello |
| Cyber-Security Update – In-house by KIBB's Group Technology | Tengku Dato' Paduka Noor Zakiah Tengku Ismail, Datuk Syed Ahmad Alwee Alsree, Dato' Richard Alexander John Curtis, Datuk Kevin How Kow, Mr. Luigi Fortunato Ghirardello, Encik Ismail Harith Merican, Encik Izlan Izhab and Datuk Chay Wai Leong |
| Global Symposium on Innovative Finance Inclusion: Harnessing Technology for Inclusive Finance – BNM | Datuk Chay Wai Leong |
| Rakuten Fintech Conference 2016 – Rakuten Securities, Inc., Japan | Datuk Chay Wai Leong |
| Digital Finance Conference 2016: Capitalising Entrepreneurship – SC | Datuk Chay Wai Leong |
| Regtech and Fintech Contact Day 2016 – Securities and Futures Commission, Hong Kong | Datuk Chay Wai Leong |
| Leading Digital Business Transformation Digital Program – IMD SE Asia Pte Ltd, Singapore | Datuk Chay Wai Leong |

STATEMENT ON CORPORATE GOVERNANCE

| Title of Training Programme | Attendee(s) |
|---|---|
| **Risk Management** | |
| Project Risk Scorecard – Cahya Mata Sarawak Berhad | Mr. Luigi Fortunato Ghirardello, Encik Ismail Harith Merican and Mr. Luk Wai Hong, William |
| CMDP Module 3: Risk Oversight and Compliance – Action Plan for Board of Directors – Securities Industry Development Corporation (SIDC) | Dato' Richard Alexander John Curtis, Datuk Syed Ahmad Alwee Alsree and Mr. Luk Wai Hong, William |
| Board Risk Intelligence Workshop 2016: Risk Governance into Practice – Asian World Summit | Datuk Chay Wai Leong |
| Luncheon Talk: The Region's Opportunities & Risk in 2016 and Beyond | Datuk Chay Wai Leong |
| **Regulatory/ Statutory Updates** | |
| CMDP Alumni Programme on Companies Bill 2015: Changes and Impact on Company Directors – SIDC | Datuk Kevin How Kow, Encik Izlan Izhab and Encik Ismail Harith Merican |
| Amendments to Bursa Malaysia Securities Berhad's Listing Requirements – Malaysian Institute of Corporate Governance | Encik Izlan Izhab and Datuk Kevin How Kow |
| Company Secretarial Practice & Regulations 2016 – Tengis Corporate Services Sdn Bhd | Datuk Kevin How Kow |
| New Companies Bill 2015: New Obligations – Tengis Corporate Services Sdn Bhd | Datuk Kevin How Kow |
| Advocacy Sessions on Management Discussion & Analysis for Chief Executive Officers and Chief Financial Officers – Bursa Malaysia | Dato' Richard Alexander John Curtis |
| **Capital Markets** | |
| Issues and Challenges of the Malaysian Capital Market's Ecosystem – Bursa Malaysia | Datuk Chay Wai Leong |
| Capital Market Forum 2016: Renmimbi Qualitifed Foreign Institutional Investor – SC | Datuk Chay Wai Leong |
| CMDP – Module 1: Directors as Gatekeepers of Market Participants - SIDC | Datuk Syed Ahmad Alwee Alsree |
| CMDP Module 2A: Business Challenges and Regulatory Expectations – What Directors Need to Know (Equities and Futures Broking) – SIDC | Datuk Syed Ahmad Alwee Alsree and Encik Ismail Harith Merican |
| CMDP Module 2B: Business Challenges and Regulatory Expectations – What Directors Need to Know (Fund Management) – SIDC | Datuk Syed Ahmad Alwee Alsree |
| CMDP Module 4: Current and Emerging Regulatory Issues in the Capital Market – SIDC | Tengku Dato' Paduka Noor Zakiah Tengku Ismail, Datuk Syed Ahmad Alwee Alsree, Datuk Chay Wai Leong, Encik Ismail Harith Merican and Mr. Luk Wai Hong, William |
| Invest Malaysia – Bursa Malaysia | Datuk Chay Wai Leong |
| Thirty-third (33rd) IOMA: WFE's Clearing & Derivatives Conference – World Federation of Exchanges/ Bursa Malaysia Berhad/ International Options Market Association (IOMA) | Datuk Chay Wai Leong |

STATEMENT ON CORPORATE GOVERNANCE

| Title of Training Programme | Attendee(s) |
|---|---|
| **Leadership** | |
| Leadership in Crisis Situations: Preparation for and Response to Rapidly-Evolving Events – Charles River Centre Sdn Bhd | Dato' Richard Alexander John Curtis |
| **Others** | |
| BNM's Annual Report 2015 Financial Stability and Payment Systems Report 2015 | Datuk Chay Wai Leong |
| Briefing on Trans-Pacific Partnership Agreement – Bursa Malaysia | Datuk Chay Wai Leong |
| UBS Mid-Year Economic Outlook – UBS AG | Datuk Chay Wai Leong |
| Future Finance Conference – BNM | Datuk Chay Wai Leong |
| Renmimbi Conference – BNM | Datuk Chay Wai Leong |

## 5. UPHOLDING OF INTEGRITY IN FINANCIAL REPORTING

### 5.1 Audit Committee (AC) 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 Listing Requirements.

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.

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

Details on the AC's composition, Terms of Reference and summary of its activities during the year under review, as well as the Statement of Responsibility by Directors in respect of the preparation of the annual audited financial statements of the Company are provided on page 48 of this Annual Report, respectively.

**Internal Control**

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 the Company's internal control system and framework are set out in the Statement on Risk Management and Internal Control appearing on pages 56 and 57 of this Annual Report.

### 5.2 Suitability and Independence of External Auditors

It is a policy of the AC to meet with the External Auditors of KIBB, at least twice a year to discuss their audit plan, audit findings and the Company's financial statements. In addition, the AC also holds separate meetings with the External Auditors without the presence of Management to ensure full disclosure and transparent report on relevant issues affecting the Company.

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The External Auditors are also invited to attend the AGMs of the Company and are available to answer shareholders' queries on the conduct of the statutory audit and the preparation and contents of their audit report.

In relation to the re-appointment of Messrs. Ernst & Young as KIBB' auditors for the financial year ended 31 December 2016, the Board had at its meeting on 26 January 2017, concurred with the AC's recommendation for Messrs. Ernst & Young to be re-appointed as the Company's External Auditors after having satisfied with the outcome of the assessment conducted on Messrs. Ernst & Young's performance and independence, in accordance with Section 67(1) of the Financial Services Act 2013 as well as BNM's letter dated 3 May 2012 on "Supervisory Expectations on Audit Committee Pertaining to the Appointment/ Re-Appointment of External Auditors".

The current Engagement Partner of Messrs. Ernst & Young, Mr. Chan Hooi Lam has been with Kenanga Group for the past three (3) years, upon retirement of the previous Engagement Partner.

The AC's roles in relation to the internal and external audit functions are outlined in the Audit Committee Report appearing on pages 53 to 55 of this Annual Report.

## 6. RECOGNITION AND MANAGEMENT OF RISK

The main features of Kenanga Group's risk management framework, as well as internal control system are provided in detail in the Statement of Risk Management and Internal Control appearing on pages 56 and 57 of this Annual Report.

## DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF THE AUDITED FINANCIAL STATEMENTS

(Pursuant to Paragraph 15.26(a) of the Listing Requirements)

The Board is fully accountable for ensuring the Audited Financial Statements are prepared in accordance with the Companies Act, 1965 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.

**Non-Audit Fees**

The details on the non-audit fees payable to the External Auditors, Messrs. Ernst & Young, for the financial year ended 31 December 2016 is as tabulated below.

| FY2016 | Group RM | KIBB RM |
|---|---|---|
| Statutory Audit | 473,500 | 275,000 |
| Audit/ Assurance Related | 56,500 | 25,000 |
| Non-Audit Fees – EY Assurance Team | 38,000 | 6,500 |
| Non-Audit Fees – EY Tax Team | 122,200 | 43,800 |
| **Total Non-Audit Fees** | **160,200** | **50,300** |
| **Total Fees** | **690,200** | **350,300** |

**Material Contracts**

There were no material contracts entered into by the Company or its subsidiary companies involving Directors' and major shareholders' interests, which subsisted at the end of the financial year ended 31 December 2016.

**Related Party Transactions**

All related party transactions are reviewed by GIA on a quarterly basis and a report is submitted to the AC for their review.

Details of these transactions are set out under Note 36 of the Financial Statements section appearing on page 153 of this Annual Report.

**Recurrent Related Party Transactions of a Revenue or Trading Nature**

There were no recurrent related party transactions entered into by the Company and its subsidiary companies during the financial year, except as disclosed on page 153 under the Financial Statements section of this Annual Report.

This Statement on Corporate Governance is made in accordance with a resolution of the Board of Directors dated 29 March 2017.

**IZLAN IZHAB**
Chairman of the Board

# COMPLIANCE AND GOVERNANCE STATEMENT

## OUR COMPLIANCE PHILOSOPHY

Kenanga Investment Bank Berhad (KIBB or the Company)'s Compliance function strives to promote a culture of compliance that harmonises with KIBB's business and stakeholder needs. We believe that a successful compliance culture is achieved when the business adopts compliance practices that build stakeholder confidence, client trust and reduces risk exposure. It is our objective to continue to foster such a compliance culture in order to conduct business in a way that is ethical and transparent.

We believe that working towards compliance is a mutual communication process in which our business, Compliance team and clients, work together to form the most effective methods to achieve and maintain regulatory compliance. Through our commitment to excellence, we expect to achieve the highest level of regulatory compliance for our business and clients in order to assist them in maximising their business opportunities.

## OUR COMPLIANCE MISSION

The mission of KIBB's Compliance Function is to:

- Support KIBB and its management in upholding its compliance philosophy by compliance management practices which contribute to sound and responsible business practices and integrity of the products and services delivered; and

- Support the business with incorporating the principles above in the day-to-day operations of KIBB's businesses.

## GROUP REGULATORY & CORPORATE SERVICES (GRCS)

Given the need for strong governance and control, GRCS (which comprises Group Compliance, Group Corporate Crime Prevention, Group Prudential Supervision and Regulatory Affairs, Group Legal and Group Company Secretarial) is an independent division which reports directly to KIBB's Board of Directors (the Board).

GRCS' main role is to advise and guide KIBB's business units to ensure that they adhere to the relevant laws, regulations and guidelines issued by regulators and other agencies, internal rules, policies and procedures, codes of conduct and standards of good practice.

GRCS works to reduce the risk of legal or regulatory sanctions, material financial loss and reputational loss that KIBB may suffer for non-compliance with those regulations. While the Board sets the risk strategy and culture for KIBB, as an independent compliance risk manager, GRCS escalates compliance risk exposures and non-compliance to the Board.

## GROUP COMPLIANCE CHARTER

KIBB's Group Compliance Charter sets out the fundamental principles for managing compliance across the Group.

In terms of Compliance Governance, the Compliance Charter spells out the governance structure across KIBB, including between the Compliance function and that of other internal control functions, as well as governance within the Compliance function. This includes establishing clear ownership of compliance risks and the roles and responsibilities of the Board, Management, Employees and Compliance Officers for managing compliance risks.

While GRCS has global oversight responsibility for KIBB's Compliance Framework, each business unit/ division has the responsibility for embedding the framework into its business operations, identifying applicable regulatory compliance obligations, and escalating breaches when they occur. KIBB's Compliance Framework fosters an integrated approach where staff are responsible and accountable for compliance, either within their job role, or within their area of influence.

## CONTINUOUS DEVELOPMENT OF OUR COMPLIANCE FRAMEWORK AND PROGRAMME

As it is vital to have a robust and effective compliance framework in place to safeguard the interest of Kenanga Investment Bank Berhad and its Group of Companies (Kenanga Group or the Group), stakeholders, clients and employees, Kenanga Group has in place a Compliance Framework whereby the setting of compliance policies and standards with appropriate mechanisms and tools are driven at the group level to ensure consistency in managing compliance risk within the Group.

The Compliance Framework requires that entities within the Group adopt and implement the regulatory and compliance Policies and Procedures including:

- Group Chinese Wall Policy;
- Group Conflict Management Policy;
- Group Anti-Money Laundering and Counter Financing of Terrorism (AML/ CFT) Policy and Procedure;
- Personal Data Protection Framework;
- Competition Act Compliance Policy;
- Group Fraud Reporting Policy;
- Group Whistleblowing Policy & Guidance Notes; and
- Group Cross Border Policy.

These policies are reviewed on a periodic basis or as and when required to reflect current practices and the applicable legal/ regulatory requirements. Training is also conducted regularly to create compliance awareness of the frameworks and policies and to facilitate their implementation within the Group.

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Compliance requirements and standards are also facilitated through establishment and implementation of compliance tools and frameworks such as:

- Compliance Matrix: A dynamic document that encompasses relevant laws, regulations and guidelines which are applicable to the business units aimed to facilitate compliance through self-assessment/ self-testing of the adequacy of internal controls and risk level;
- Corporate Regulatory Compliance Calendar: A regulatory calendar to ensure statutory reporting obligations imposed by Regulators are complied with; and
- Departmental Self-Assessment: A bi-annual self-assessment and reporting mechanism against a set of regulatory, as well as internal requirements specific to the business unit which promotes the self-regulation and governance culture.

In recent years and particularly in 2016, the industry has experienced heightened scrutiny from its regulators of its compliance with regulations, and with respect to its internal controls and operational processes. With the expectation that such regulatory scrutiny will continue, our Compliance Framework and programme is continuously being refined and enhanced to be more effective in identifying and mitigating compliance risk. In 2016, we achieved this through:

(1) **Re-aligning KIBB's Compliance Framework to key industry and regional standards and benchmarks**

The Compliance Framework was refined to strengthen its utilisation of a 'risk-based' approach to compliance management, enabling the Compliance function to support business units in taking a standardised approach to compliance management tasks. This allows KIBB to be consistent in proactively identifying, assessing, managing, reporting and escalating compliance-related risk exposures, considering the specific obligations of each business which we operate.

Vis-à-vis the detection, monitoring and reporting of any suspicious money laundering and terrorism financing activities, the regulators have placed emphasis on the importance for financial institutions to have an effective AML/ CFT system in place. Towards achieving this end, Kenanga Group is in the process of deploying an AML/ CFT System moving towards the adoption of a "System Based Approach" for a higher level of vigilance to stay ahead of money launderers and terrorist financiers.

All our revamped and updated compliance programmes has to be current and aligned to regulatory focus and regulations. Risk based methodology has also been applied in assessing our compliance risk areas in a holistic manner by factoring in not only our regulatory findings but also our risk and audit issues in our assessment of compliance risk areas.

(2) **Developing/ implementing/ updating policies**

- **Group AML/ CFT Policy & Procedure**

  The AML/ CFT Policy & Procedure have been established and formulated to address requirements that must be compiled in line with the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 to effectively combat money laundering and terrorism financing activities. Our Group AML/ CFT Policy & Procedure set out the ground rules towards building a stronger and robust AML/ CFT compliance framework for Kenanga Group. It informs and mandates all employees and representatives on their respective roles and responsibilities focusing on the detection and reporting of suspicious transactions and minimising the risk of Group Entities being used, directly/ indirectly by money launderers for money laundering and/or terrorists for terrorist financing activities. It is also updated regularly to ensure that all the latest regulatory updates are incorporated therein towards ensuring adherence thereto.

- Policies in relation to managing unusual trading activities through development of Unusual Trading Activity Policy and Orderly and Fair Market Policy. These policies seek to enhance our framework for monitoring, detection and escalation of irregular trading behaviours, as well as imposing clear obligations and parameters on our dealer's representatives with respect to standards of trading behaviours expected.

- **Group Whistleblowing Policy and Guidance Notes**

  We continue to promote a culture of constructive challenge, encouraging employees to speak up. Our Group Whistleblowing Policy and Guidance Notes provides a formal framework and multiple channels for all employees to raise concerns about suspected breaches of laws, regulations, rules and other legal requirements to which KIBB is subject, or our Code of Business Conduct and Ethics, policies, or any relevant professional standards. Towards a stronger governance and supervision culture, the Chairman of the Audit Committee has taken on the role to be responsible for the oversight of Kenanga's Whistleblowing Framework hence is being notified accordingly on all pertinent decisions made in the various stages involved.

# COMPLIANCE AND GOVERNANCE STATEMENT

3) **Compliance Reviews and Off-Site Surveillance**

To enable business and operating units to comply with various laws and regulations, Group Compliance also conducts off-site surveillance and reviews on a regular basis. Weaknesses noted are conveyed to the respective business and operating units so that immediate remedial and corrective actions can be taken.

Group Compliance provides monthly Compliance Report to the respective Boards based on their compliance reviews. These reports also facilitate the Boards in having a holistic view of all compliance matters across the group. Such reports are also copied to Bank Negara Malaysia (BNM), Bursa Malaysia Securities Berhad and the Securities Commission Malaysia.

## MAINTAINING A HIGH LEVEL OF CORPORATE GOVERNANCE

In August 2016, BNM issued a Policy Document on Corporate Governance which sets out its expectations for financial institutions to have in place effective corporate governance arrangements consistent with the long-term viability of a financial institution.

In meeting the expectations of BNM for financial institutions to implement the minimum standards set out in the Policy Document on Corporate Governance and demonstrate that their governance arrangements are operating effectively and remain appropriate given their size, nature of business, complexity of activities, structure and systemic importance, GRCS in collaboration with Group Company Secretarial and Group Human Resource, had conducted a gap analysis on KIBB's corporate governance standards and practices, Board operations, as well as remuneration framework.

The objective of the gap analysis was to identify whether there are any gaps in KIBB's current policies and procedures, as well as process relating to its governance. Upon detection of any gap, relevant action plan will then be developed to ensure KIBB's full compliance with the standards set out in the Policy Document on Corporate Governance.

Based on the review, KIBB had complied with 84% of the eighty-one (81) standards stipulated in the Policy Document on Corporate Governance. Arising therefrom, relevant action plans had been duly identified to address the standards which KIBB had either partially-complied or not complied with to ensure full compliance of BNM's requirements.

## HIGH STANDARDS OF BUSINESS CONDUCT

Regulators and other agencies have increased their focus on "conduct" relating to the financial institutions conduct in an orderly and transparent manner, as well as its business conduct in treating is clients fairly. Taking heed of the focus in conduct-related matters, in 2016, Financial Crime Supervision has enhanced the reports for the monitoring of clients transactions, tightened the approving authority for high risk clients and introduced additional monthly reporting on High Risk Clients to the Chairman of the Audit Committee and the Group Managing Director for awareness of money-laundering/ terrorism financing risk within the organisation.

In the space of trading conduct, we have developed a clear penalty matrix to reinforce and enforce the right trading behaviours where we find such behaviours have clearly breached the regulatory requirements and rules. We have enhanced our surveillance capabilities by having a dedicated team within compliance to monitor the trading activities. We have also reviewed the controls embedded in the relevant policies and procedures to ensure that the controls are sound and of high standards in addressing conduct issues. Together with that we also carry out engagements and have established points of contact to communicate concerns and emerging trends in the company on conduct risk and behaviours.

## EDUCATION AND AWARENESS TO REINFORCE OUR STANDARDS

Raising employee awareness through training and communication is an integral part of our approach. We have a mandatory training programme in place for all employees covering a range of compliance and regulatory related topics, including AML/ CFT.

In 2016, we conducted a one (1)-day GRCS Workshop comprising modules on AML/ CFT, Competition Act, Data Protection Framework, Foreign Account Tax Compliance Act, Group Chinese Wall Policy, Group Conflict Management Policy, Group Whistleblowing Framework and Compliance Matters affecting Kenanga Group. This was in addition to the mandatory training on AML/CFT, as well as two (2) Compliance e-Tests on AML/ CFT and Ethics and Governance. These training sessions and e-tests are valuable learning experiences that also help us meet our regulatory commitments. As a rule, failure to complete mandatory training sessions satisfactorily within the given deadline results in consequences during performance appraisals and disciplinary action.

# COMPLIANCE AND GOVERNANCE STATEMENT

GRCS' personnel play an important role in providing compliance training to the relevant business, operational and support units of Kenanga Group. In 2016, we carried out two (2) one-on-one engagements with the heads of departments, branches and remisiers. The purpose of this engagement was to provide awareness and insights into areas that require greater scrutiny from the compliance perspective. On-boarding programmes for new staff included a segment on key compliance requirements and AML/ CFT requirements to be complied with by staff.

## INTERNAL REGULATORY SUPPORT

With the regulatory landscape continuing to develop, posing risks, as well as challenges to the banking and finance industry, it is imperative that we continue to track international and domestic developments to ensure that we remain on top of trends and changes impacting our business.

In this regard, new regulatory and legislative requirements are promptly analysed and disseminated to the respective action parties. We provide practical perspectives on how regulations translate into specific operational requirements and where applicable, embedded into our processes and systems. In 2016, GRCS reviewed, communicated and advised on two hundred and four (204) pieces of regulatory instruments including Acts, Rules, Regulations, Policies and Guidelines. GRCS also keeps KIBB well informed through Weekly Regulatory Updates and has in place a comprehensive database of all regulatory decisions.

GRCS is also one of the three (3) Independent Reviewers of Kenanga Group's Policies and Procedures. This is consistent with our role of ensuring that policies and procedures are in compliance with governing laws and regulations, as well as to ensure good corporate governance. In 2016, GRCS reviewed a total of forty-nine (49) internal policies and procedures, nine (9) of which were GRCS' own policies and procedures.

## STAKEHOLDER ENGAGEMENT AIMED AT OPTIMAL OUTCOMES

We strive to be a good corporate citizen and a long-term participant in our key markets by providing input to regulators and other agencies through their consultative process and forums. Led by our Group Managing Director and supported by GRCS, we seek to develop and maintain strong relationships with regulators, government agencies and other public policy agencies. In addition to frequent meetings and consultations, we provide data and thought leadership to help support them in meeting their policy objectives.

During the financial year 2016, KIBB participated in twenty-six (26) industry and public consultations by responding in writing with our views and positions on a multitude of subject matters, as well as many face-to-face consultations through our membership of various industry consultations and committees. Proactive stakeholder engagement by GRCS together with our Senior Management, Business and Support units allows us to bring to the fore our challenges and to share ideas in raising the standards of regulatory compliance in the industry.

## CONCLUSION

Recognising that compliance is the collective responsibility of the Board, senior management and every employee of Kenanga Group and through our commitment to excellence, we expect that each individual promotes self-regulation and is accountable for his/ her own activities as well as maintains ethical principles and behaviour in everything that he/ she does. This is aimed at achieving the highest level of regulatory compliance for all our stakeholders. Through a comprehensive approach in managing compliance risk through 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 high on our list.

# AUDIT COMMITTEE REPORT

## COMPOSITION

The Audit Committee (AC) presently comprises five (5) members of the Board, three (3) of who are Independent Non-Executive Directors and two (2) are Non-Independent Non-Executive Directors as follows:

1. **Luk Wai Hong, William**
   Chairman, Independent Non-Executive Director
   *(Change of designation from Member to Chairman of the AC on 7 February 2017)*

2. **Izlan Izhab**
   Member, Independent Non-Executive Director
   *(Appointed as Member of the AC on 7 February 2017)*

3. **Luigi Fortunato Ghirardello**
   Member, Independent Non-Executive Director
   *(Appointed as Member of the AC on 7 February 2017)*

4. **Datuk Kevin How Kow**
   Member, Non-Independent Non-Executive Director
   *(Change of designation from Chairman to Member of the AC on 7 February 2017)*

5. **Ismail Harith Merican**
   Member, Non-Independent Non-Executive Director

The composition of the AC is in line with Paragraph 15.09(1)(b) of Bursa Malaysia Securities Berhad (Bursa Malaysia)'s Main Market Listing Requirements (Listing Requirements) which requires all members of the AC to be Non-Executive Directors, with a majority of them being Independent Directors.

The Chairmanship of the AC was changed on 7 February 2017 with the appointment of Mr. Luk Wai Hong, William as the new Chairman, following the re-designation of the status of Datuk Kevin How Kow, who was the Chairman of the AC, from an Independent Non-Executive Director to a Non-Independent Non-Executive Director.

In addition, to further enhance the independence of the AC, on 7 February 2017, two (2) Independent Non-Executive Directors were appointed as members of the AC, namely Encik Izlan Izhab and Mr. Luigi Fortunato Ghirardello.

Under the current composition, one of the AC members, namely Datuk Kevin How Kow, is a member of the Malaysian Institute of Accountants. He is also a Fellow of the Institute of Chartered Accountants in England & Wales and a member of the Malaysian Institute of Certified Public Accountants and the Institute of Singapore Chartered Accountants.

He was made a partner of Messrs. Ernst & Young, Malaysia in 1984 and served as the partner-in-charge of its offices in Sabah and Sarawak and later from 1996 onwards, as the partner-in-charge of the firm's practice in Sabah and Labuan until his retirement on 31 December 2003.

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 2016, 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.

## AC MEETINGS HELD DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

During the financial year ended 31 December 2016, the AC had convened eight (8) 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 emerging issues.

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

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 Group Internal Audit (GIA) reports.

The Group Chief Financial and Operations Officer (GCFOO) on the other hand, attended the AC meeting 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.

In addition, separate private discussions were also held between the AC Chairman 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 20 January 2016 and 20 October 2016 after the tabling of the Company's annual audited financial statements for the financial year ended 31 December 2015 and the External Auditors' 2016 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 their 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.

After each meeting, the Chairman of the AC reported the AC's deliberations and recommendations to the Board.

# AUDIT COMMITTEE REPORT

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

Details of the AC members' attendance at its meetings held during the financial year ended 31 December 2016 are as stated below.

| | 20 January 2016 | 23 February 2016 | 21 April 2016 | 27 June 2016 | 20 July 2016 | 25 August 2016 | 20 October 2016 | 30 November 2016 | Number of Meetings Attended | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Datuk Kevin How Kow | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 8 out of 8 | 100 |
| Luk Wai Hong, William | ✓ | ✓ | ✓ | ✓ | ✓ | × | ✓ | ✓ | 7 out of 8 | 88 |
| Ismail Harith Merican | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 8 out of 8 | 100 |

## SUMMARY OF ACTIVITIES OF THE AC DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

1. **Financial Reporting**

In discharging its role and responsibility pertaining to the Company's financial reporting, the AC had at its meeting held on 20 January 2016, reviewed the quarterly financial statements for the quarter ended 31 December 2015, as well as the annual audited financial statements for the financial year ended 31 December 2015.

The subsequent quarterly financial statements for the quarters ended 31 March 2016, 30 June 2016 and 30 September 2016 were tabled and reviewed by the AC at its quarterly meetings held on 21 April 2016, 20 July 2016 and 20 October 2016 respectively, upon which the AC had recommended the quarterly financial statements to the Board for approval.

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 raised by the External Auditors and the action plans required to address those issues.

At its meeting on 20 July 2016, the AC was updated by Management on the Company's plan vis-à-vis the implementation of the Malaysian Financial Reporting Standard 9 - Financial Instrument (MFRS 9) wherein the AC was also informed of the outcome of a gap and impact analysis conducted by Management with regard to the MFRS 9.

2. **External Audit**

2.1 The report by the External Auditors on the statutory audit of the financial statements of the Company for the financial year ended 31 December 2015 was reviewed and deliberated by the AC at its meeting held on 20 January 2016.

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.

2.2 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 audit-related services; issuance of a written communication to Management and the AC describing significant deficiencies and material weaknesses identified during the External Auditors' audit; and issuance of a management letter 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.

2.3 The AC was subsequently at its meeting on 23 February 2016 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.

2.4 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, Bank Negara Malaysia (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 was 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 2016, 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 By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants, throughout their audit engagement for 2016.

AUDIT COMMITTEE REPORT

This written assurance by the External Auditors was contained in the External Auditors' report which was presented to the AC on 25 January 2017.

Based on the assessment conducted, the AC had concluded that the External Auditors had fulfilled all the qualification 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 2017.

2.5 At its meeting held on 20 October 2016, the AC reviewed and recommended to the Board for approval, the External Auditors' 2016 Audit Plan outlining their scope of work and proposed fees covering their recurring audit assignments, as well as other regulatory-related services.

2.6 On 25 January 2017, 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 2016 were RM321,354 or 64% of the audit fees for the financial year ended 31 December 2016.

3. **Internal Audit**

3.1 The AC at its meeting on 20 January 2016 had reviewed and approved the 2016 Audit Plan tabled by GIA after considering the adequacy of scope and comprehensiveness of the coverage of activities within the Group, as well as the adequacy of resources in the internal audit department.

3.2 In 2016, the AC had reviewed and deliberated on a total of twenty-six (26) internal audit reports issued by GIA, including the audit recommendations made by GIA and Management's responses to those recommendations. Where appropriate, the AC directed Management to rectify and improve 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.

3.3 With a view of continuously enhancing the processes of the internal audit department, the AC had on 20 October 2016 reviewed and approved the Revised Internal Audit Charter.

3.4 For purposes of evaluating the performance of the GCIA, the AC had at its meeting on 20 January 2016, reviewed and deliberated on the GCIA's 2016 Balanced Scorecard. On 25 January 2017, the AC had deliberated on the 2016 Performance Appraisal of the GCIA prior to submission of the same to the Group Nomination & Remuneration Committee (NRC) for its further recommendation to the Board for approval. The AC's recommendation was subsequently approved by the Board on 26 January 2017.

4. **Regulatory Examinations/ Inspection Reports**

As stipulated in its Terms of Reference, 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.

During the year, at its meeting on 27 June 2016, the AC had deliberated on two (2) regulatory examinations/ inspection reports issued by BNM and the Securities Commission Malaysia respectively.

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

5. **Related Party Transactions**

During its quarterly meetings, the AC also reviewed and recommended the related party transactions entered into by the Company and/or its group of companies. The AC also reviewed and deliberated on the draft Circular to Shareholders on the Related Party Transactions and Recurrent Related Party Transactions.

## INTERNAL AUDIT FUNCTION

GIA's vision is to be a well-regarded assurance and advisory function and a valued business partner to Management to support the achievement of Kenanga Group's business goals and objectives.

The Company has an in-house internal 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.

During the year under review, GIA carried out internal audit reviews based on its 2016 Audit Plan as approved by the AC. This Audit Plan was developed using a risk-based methodology. The audit reviews conducted by GIA included operational audits, IT and 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.

GIA also conducted special reviews at the request of the AC, Management or regulators. For the financial year ended 31 December 2016, GIA had conducted eighteen (18) 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.

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 the Group. Follow-up reviews were performed on the implementation status of the audit recommendations and reported to the AC accordingly.

The total costs incurred by GIA in discharging its functions and responsibilities in 2016 amounted to RM2.28 million compared to RM1.77 million incurred in 2015.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## INTRODUCTION

Pursuant to Paragraph 15.26(b) of the Main Market Listing Requirements (Listing Requirements) of Bursa Malaysia Securities Berhad (Bursa Malaysia), a listed issuer must ensure that its Board of Directors (the Board) includes in its annual report a statement about the state of its risk management and internal controls. In addition, the Revised Malaysian Code on Corporate Governance (MCCG 2012) also stipulates that the Board should maintain a sound system of internal controls, including a review of its effectiveness to safeguard shareholders' investments and Kenanga Investment Bank Berhad and its Group of Companies' (Kenanga Group or the Group) assets.

Set out below is the Board's Statement on Risk Management and Internal Control in compliance with the Listing Requirements of Bursa Malaysia.

## 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, 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 the requirements/guildelines of Bank Negara Malaysia (BNM), Bursa Malaysia and the Securities Commission Malaysia (SC), as well as on the importance of corporate governance, 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 (1st) 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 (2nd) 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 (3rd) 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, 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;

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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 & 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 in 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 2016 the Group complied with the principles and recommendations of the Corporate Governance Guide (Second (2$^{nd}$) Edition) 2013 and MCCG 2012;

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 (AC) and has no responsibilities or authority over any of the activities it reviews.

    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;

15. Quarterly meetings are held by the AC 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 Malaysia and BNM, in particular the actions taken to address issues. If required, the internal auditors will also assist the AC to periodically review the measures taken to address the AC'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 AC, 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 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 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 associated companies. The representation also enables the Group to influence the financial and operating policies of associate-companies; and

18. Management is responsible for, among others:

    - reviewing the actual performance against expectations and budget on a quarterly basis;
    - addressing any internal control issues with the AC and the GIA; and
    - addressing any matters arising from the meetings of the Board and AC 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 risk 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 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 Listing Requirements of Bursa Malaysia, 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), 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 29 March 2017.

# SUSTAINABILITY STATEMENT

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TY STATEMENT

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Investment Bank Berhad and its Group of Companies (Kenanga
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hrough various channels as indicated below. The input and feedback
products and services, as well as anticipate future market demands.

**Shareholders**
- Corporate website
- Financial reports
- Annual general meetings
- Meetings & briefings
- Phone calls

**Regulators**
- Corporate website
- Policies & procedures
- Meetings, briefings, seminars & round-table discussions

**Vendors**
- e-Procurement system
- Meetings & briefings
- Corporate website

s

**Communities**
- Corporate website
- Community outreach programmes
- Employee volunteerism programmes
- Facebook

STATEMENT ON RISK MANAGE

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 & 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 in 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 2016 the Group complied with the principles and recommendations of the Corporate Governance Guide (Second (2nd) Edition) 2013 and MCCG 2012;

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 (AC) and has no responsibilities or authority over any of the activities it reviews.

    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;

15. Quarterly meetings are held by the AC 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 Malaysia and BNM, in particular the actions taken to address issues. If required, the internal auditors will also assist the AC to periodically review the measures taken to address the AC'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 AC, GIA, Group Regulatory, regulators and External Auditors so as to seek resolution of those matters;

## CHUAH SZE PHING

HEAD OF GROUP MARKETING & COMMUNICATIONS

**At Kenanga Group, we recognise the importance of embedding sustainability in all that we do. Our inherent emphasis on listening and responding to the ever-changing financial landscape, safeguarding the interests of our different stakeholder groups, and balancing commercial priorities while giving back to the community, have served as the bedrock of the Group's operations throughout our journey. Testimony to all of that is our growth and progress over the last four (4) decades - from a humble stockbroking company to becoming one of the largest independent investment banks in the country today.**

# SUSTAINABILITY STATEMENT

## SUSTAINABILITY GOVERNANCE

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

| | |
|---|---|
| **Group Managing Director** | Oversees overall sustainability management, which includes strategies, progress updates and performance, as well as to highlight relevant key issues to the Board of Directors. |
| **Group Executive Committee** | Reviews and approves all key sustainability related matters. |
| **Tengku Noor Zakiah Staff Outreach Fund Committee** | Oversees, assesses and approves requests to utilise fund in aid of employees. |
| **Group Risk Management** | Reviews and advises on ongoing business and reputational risks and opportunities within Kenanga Investment Bank Berhad and its Group of Companies (Kenanga Group or the Group). |
| **Group Regulatory & 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 & Communications** | Develops community outreach and engagement programmes. |
| **Business Units** | Implement sustainable measures in their respective business and operational areas. |

## STAKEHOLDER ENGAGEMENT

Throughout the year, we actively engage with different stakeholders through various channels as indicated below. The input and feedback garnered helps the Group formulate improvement plans, innovate its products and services, as well as anticipate future market demands.

**Employees**
- Team meetings
- Surveys
- Training & development programmes
- Bulletin & updates
- Employee volunteerism programmes
- Employee events & campaigns
- Policies & procedures
- Performance assessment
- On-boarding sessions

**Customers**
- Corporate website
- Customer service helpline & email
- Facebook
- Media
- Road shows
- Workshops
- Meetings, briefings, seminars & conferences
- Surveys

**Shareholders**
- Corporate website
- Financial reports
- Annual general meetings
- Meetings & briefings
- Phone calls

**Regulators**
- Corporate website
- Policies & procedures
- Meetings, briefings, seminars & round-table discussions

**Vendors**
- e-Procurement system
- Meetings & briefings
- Corporate website

**Communities**
- Corporate website
- Community outreach programmes
- Employee volunteerism programmes
- Facebook

SUSTAINABILITY STATEMENT

## SUSTAINABILITY REPORTING

In line with the Sustainability Reporting Guide issued by Bursa Malaysia Berhad, the Group is transitioning its reporting from the four (4) Corporate Responsibility pillars of Marketplace, Workplace, Environment and Community, to disclosures governed by material Economic, Environmental and Social matters.

## ECONOMIC

Throughout 2016, various efforts were made to drive growth and sustainability of the business. Below are several key highlights detailing the activities.

### *Innovating the stockbroking landscape*

Continuous innovations to remain relevant is critical to the longer term sustainability of the business. In April 2016, Kenanga Investment Bank Berhad (KIBB or the Company) embarked on a joint venture with Rakuten Securities, Inc. to offer a new online broking platform for the securities business. This strategic partnership is anticipated to enhance Malaysian traders' digital experience and to take it to a different level.

Early this year, the Group introduced Invesk, an app that serves as a one-stop investment information centre where our clients have exclusive access to the latest news, research calls, as well as the ability to monitor individual watchlists instantaneously on their mobile devices, anytime and anywhere.

*Signing of the joint venture agreement with Rakuten Securities, Inc.*

### *Cultivating financial literacy*

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

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

a. continuation of the *Global Market Outlook 2016* annual series with an attendance of close to six hundred and fifty (650) retail clients;
b. participation in the *Take Charge of Your Retirement Now* seminar series jointly organised by the Private Pension Administrator Malaysia and The Star publication;
c. participation at the *InvestSmart Fest* organised by the Securities Commission Malaysia; and
d. participation at the *Karnival Kewangan* organised by Bank Negara Malaysia.


On a monthly basis, Kenanga Group's Research team shares our views on Malaysia's market outlook via phone interviews. This radio programme called *Good Morning Bursa Malaysia* is broadcasted in Thailand.

Responding to focus groups with non-traders who cited stock trading as "complex and daunting", we produced a series of friendly and concise market research videos channelled through YouTube (Kenanga Channel) and Facebook (Kenanga Group), making technical content easy to digest and accessible, even to novice and non-traders. These videos are available on www.youtube.com/KenangaGroup and reached close to 130,000 viewers.

SUSTAINABILITY STATEMENT

***Vigilant risk management***

Risk management is a crucial component in sustaining the Group's continued growth. We are committed to taking the necessary measures to manage risks that could potentially affect our long-term business viability. Please refer to the Statement on Risk Management and Internal Control on pages 56 and 57 for detailed information.

**RELATED POLICIES & GUIDELINES INCLUDE:**

- **Group Anti-Money Laundering and Counter Financing of Terrorism Policy & Procedure**
- **Group Chinese Wall Policy**
- **Group Conflict Management Policy**
- **Related Party Transactions Policy & Procedure**
- **Group Data Protection Framework**
- **Group Competition Act Compliance Policy**

## ENVIRONMENTAL

Throughout the years, Kenanga Group has been consistently promoting environmental awareness amongst our employees, vendors and other stakeholders. In 2016, 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 from 8.30 p.m. - 9.30 p.m. on 19 March 2016. Leading up to the day, environmental conservation tips were disseminated to all our employees, encouraging them to be green advocates.


We carried on our Reduce, Reuse and Recycling efforts and the introduction of digital platforms such as the e-Procurement and the Employee Self Service (ESSNet) systems, as well as the digitisation of board papers from the year before continued to drive our agenda of going paper-less at our workplace.

During the relocation exercise to the new corporate office on Jalan Tun Razak, Kuala Lumpur at the end of last year, waste generated were segregated and disposed responsibly by the appointed vendors. We maintained this waste segregation practice at our new place of work, Kenanga Tower.

We have started to provide employees with shuttle facilities from Kenanga Tower, to and from several key public transport stations, including KL Sentral, a major public transport hub. The shuttle service not only serves to promote accessibility of our new office but also encourages the use of public transport which reduces impact on carbon footprint.

SUSTAINABILITY STATEMENT

## SOCIAL

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

### 1. Diversity is Key

The Group is a melting pot of one thousand one hundred and twenty-four (1,124) employees from diverse backgrounds, age groups, races and cultures. The Group has a healthy gender diverse workforce with 48% female and 52% male.

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


### 2. Long Service

45% of our employees have been with Kenanga Group for over five (5) years, with 10% who have been with the Group for over twenty (20) years. In 2016, we gave out twelve (12) Long Service Awards to employees who have served twenty (20) years with Kenanga Group. We appreciate the contribution and commitment from our employees and will continue to put in place programmes to retain, nurture and grow our talents.

*Long Service Award presentation*

### 3. Employee Engagement Activities

**Tengku Noor Zakiah Staff Outreach Fund**

In 2016, the Fund provided cash aid to six (6) employees that were personally or whose family members were affected by serious illnesses and disasters such as fire or flood. During the year, a jumble sale event was organised to raise additional resources for the Fund. Majority of the items on sale at the event were contributed by employees themselves.

**Tengku Noor Zakiah's Cup**

In its third (3rd) year, our employees were divided into five (5) teams to compete in thirteen (13) sporting activities which ran throughout the year. This well-received initiative which promotes healthy lifestyle, friendly competition and team work culminated in a prize presentation ceremony during the *Kenanga Awards Day.*

*Proud winners of the Tengku Noor Zakiah's Cup sporting activities*

# SUSTAINABILITY STATEMENT

## Health & Wellness Programme

Under this programme, a total of seventeen (17) health activities were conducted throughout the year. One of the highlights included pre- and post-health screenings attended by over five hundred (500) employees. In addition, monthly health talks, as well as one-on-one counselling sessions with certified nutritionists to provide employees with better insights and guidance on healthy living were held.

## Family Activities

Promoting the value of family inclusiveness, two (2) annual events which encouraged the participation of family members were organised. More than eight hundred (800) employees and their families attended the movie screening *Captain America: Civil War*, while close to one thousand (1,000) employees and their families joined in the Kenanga Family Day held at District 21, IOI City Mall, Putrajaya.

*Family Day 2016*

## Talent Development

We provide our employees opportunities for continuous learning and development, and encourage them to grow with the Group. In 2016, 94.5% of our employees attended training programmes and courses, which resulted in an average training hours of 29.7 hours (or 3.7 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 were able to ensure that employees attend the relevant and impactful courses that contribute to the Group's progress, as well as fulfill their professional and personal development needs.

*An in-house training programme*

Programmes and courses are categorised as follows:

| Category | Description |
|---|---|
| **Regulatory** | A compulsory course that individuals have 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 competencies. This includes accredited courses where individuals obtain certifications or professional qualifications 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

## 4. Community Outreach & Employee Volunteerism Programmes

Kenanga Group recognises the importance of contributing towards the betterment of the communities we operate in. Throughout 2016, we continued to inculcate employee volunteerism in our community outreach programmes. Some of the highlights are as below.

- Supported *Pusat Jagaan Anak Yatim An-Najjah*, a home for underprivileged children, through various programmes and activities such as painting the home, building a brand new roof, hosting the children to a musical theatre experience and contributing food and household items towards the home.
- Donated sixty-three (63) bags of blood via seventy-one (71) employee volunteers through a nationwide blood donation drive.
- Participated 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 raised through these charity runs were channelled towards deserving charitable bodies.
- Supported *Dialogue in the Dark*, a social enterprise that aims to elevate the lives of the visually impaired by equipping them with relevant skills through our participation in the fundraising event, *Cuisine Theatre in the Dark* featuring The Harvard Krokodiloes.
- Ten (10) employees from our Melaka and Batu Berendam branches took part in the National Cancer Society of Malaysia's *Relay for Life Melaka*.

*Community engagement initiative at the Pusat Jagaan Anak Yatim An-Najjah*

*Participants at the Bursa Bull Charge charity run*


*Our employees at the Relay for Life Melaka*

**RELATED POLICIES & GUIDELINES INCLUDE:**

**Group Code of Ethics & Conduct for Employees**

**Group Whistleblowing Policy & Guidance Notes**

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

**Community Outreach Policy**

# FINANCIALS



06

SUSTAINABILIT

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**RELATED POLICIES & GUIDELINES INCLUDE:**

**Group Code of Ethics & Conduct for Employees**

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

## CHEONG BOON KAK

GROUP CHIEF FINANCIAL AND OPERATIONS OFFICER

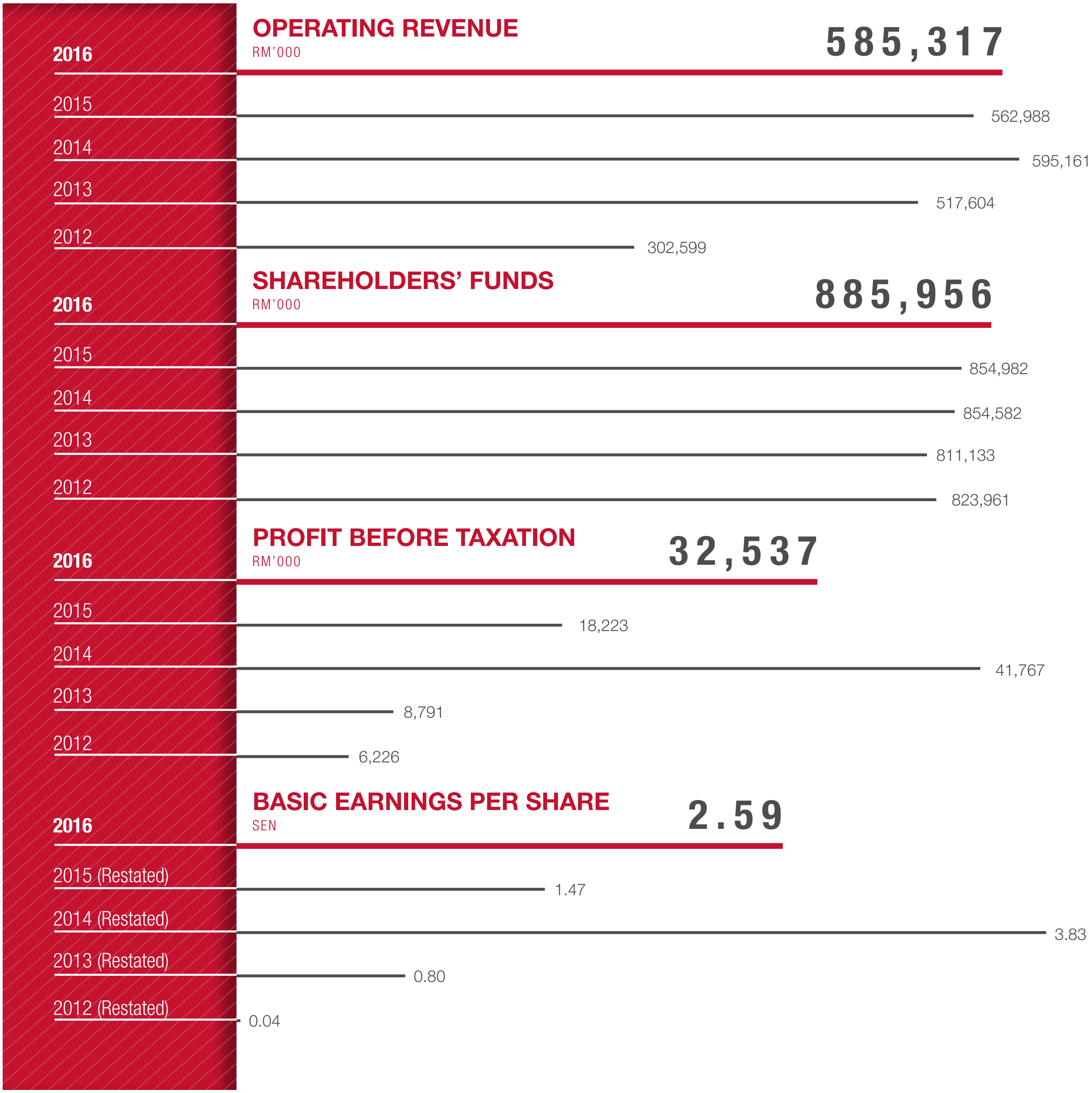
**While Kenanga Group's revenue registered a growth of 4% from RM562.99 million to RM585.32 million, I am pleased to say that we have surpassed our 2015 results with a 78% increase in our Profit Before Tax to RM32.54 million. The increase was primarily driven by higher trading, investment income and net interest income, as well as lower overheads, which declined from RM381.65 million to RM377.06 million due to lower fees and brokerage expenses.**

# FINANCIAL STATEMENTS

# FIVE (5) YEARS GROUP FINANCIAL SUMMARY

| | 2016 RM'000 | 2015 RM'000 Restated | 2014 RM'000 Restated | 2013 RM'000 Restated | 2012 RM'000 Restated |
|---|---|---|---|---|---|
| **RESULTS** | | | | | |
| Operating Revenue | **585,317** | 562,988 | 595,161 | 517,604 | 302,599 |
| Profit before Taxation | | | | | |
| - continuing operations | **32,537** | 18,223 | 41,767 | 8,791 | 6,266 |
| Profit after for the financial year attributable to equity holders of KIBB | **19,720** | 11,304 | 29,506 | 6,191 | 220 |
| **ASSETS** | | | | | |
| Total Assets | **6,069,780** | 6,120,955 | 5,730,045 | 5,669,038 | 5,471,116 |
| **SHAREHOLDERS' FUNDS** | | | | | |
| Paid-up share capital | **180,637** | 770,000 | 770,000 | 770,000 | 770,000 |
| Shareholders' funds attributable to equity holders of KIBB | **885,956** | 854,982 | 854,582 | 811,133 | 823,961 |
| **FINANCIAL RATIOS** | | | | | |
| Net return on average' shareholders funds (%) | **2.27** | 1.32 | 3.54 | 0.76 | 0.03 |
| Net return on average assets (%) | **0.32** | 0.19 | 0.52 | 0.11 | 0.01 |
| **SHARE INFORMATION** | | | | | |
| Basic earnings per share (sen) | **2.59** | 1.47 | 3.83 | 0.80 | 0.04 |
| Net assets backing per share (RM) | **1.2** | 1.1 | 1.1 | 1.1 | 1.1 |
| Dividend cover (times) | **1.21** | 1.56 | - | - | 0.05 |
| Net dividend per share (sen) | **2.25** | 1 | - | - | 0.75 |

# FIVE (5) YEARS GROUP FINANCIAL SUMMARY



# 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 2016.

## 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.

Prior to 1 November 2016, the Bank was a wholly-owned subsidiary of K & N Kenanga Holdings Berhad ("KNKH") that was listed on the Main Market of Bursa Malaysia Securities Berhad. Upon the completion of the internal reorganisation exercise on 1 November 2016 ("Group Internal Reorganisation"), the Bank has become the parent company of KNKH. On 2 November 2016, the Bank has taken over the listing status of KNKH on the Main Board of Bursa Malaysia Securities Berhad.

## RESULTS

| | Group RM'000 | Bank RM'000 |
|---|---|---|
| Profit after taxation and zakat | 20,756 | 22,027 |
| Share of results in associates and joint venture | (549) | - |
| Profit for the financial year | 20,207 | 22,027 |
| Attributable to: | | |
| Equity holders of the Bank | 19,720 | 22,027 |
| Non-controlling interests | 487 | - |
| Profit for the financial year | 20,207 | 22,027 |

There were no material transfers to or from reserves or provisions during the financial year, other than those arising from the significant events on the Group Internal Reorganisation as disclosed in Note 54 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 Group Internal Reorganisation as disclosed in Note 54 to the financial statements.

## DIVIDENDS

During the year, the Bank did not pay any dividend in respect of the previous financial year.

Subject to Bank Negara Malaysia's approval, the Directors recommend a final dividend in respect of the current financial year ended 31 December 2016 of 2.25 sen on 722,546,999 ordinary shares, amounting to a dividend payable of RM16,257,307 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 2017.

DIRECTORS' REPORT

## CHANGES IN ISSUED AND AUTHORISED SHARE CAPITAL

During the financial year, the Bank:

(a) completed the capital reduction of RM47,453,001 via cancellation of 47,453,001 ordinary shares of RM1.00 each to facilitate the KNKH capital reduction and repayment under the Group Internal Reorganisation as disclosed in Note 54 to the financial statements. Arising therefrom, the issued share capital of the Bank had been reduced from RM770,000,000 comprising 770,000,000 ordinary shares of RM1.00 each to RM722,546,999 comprising 722,546,999 ordinary shares of RM1.00 each;

(b) completed the par value adjustment from RM1.00 to RM0.25 per share under the Group Internal Reorganisation. Pursuant to the par value adjustment, the issued share capital of the Bank had been reduced from RM722,546,999 after the capital reduction comprising 722,546,999 ordinary shares of RM1.00 each to RM180,636,750 comprising 722,546,999 ordinary shares of RM0.25 each; and

(c) increased its authorised share capital from RM800,000,000 comprising 800,000,000 ordinary shares of RM1.00 each to RM1,250,000,000 by the creation of additional 4,200,000,000 new ordinary shares which resulted to a total of 5,000,000,000 ordinary shares of RM0.25 each.

There were no other changes in the authorised, issued and paid-up capital of the Bank during the financial year.

## BUSINESS REVIEW FOR 2016

The pre-tax profit ("PBT") of the Group and the Bank for the financial year ended 31 December 2016 ("FYE16") are RM32.5 million and RM33.6 million as compared to PBT of RM18.2 million and RM14.3 million respectively in the previous financial year ("FYE15").

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

**Stockbroking:**
Stockbroking division registered a higher PBT of RM19.5 million in FYE16 (FYE15: PBT of RM16.7 million) mainly due to higher interest income and trading and investment income.

**Investment banking:**
Investment Banking registered a higher PBT of RM38.7 million in FYE16 (FYE15: PBT of RM14.1 million) mainly due to higher trading and investment income from bond securities, interest income and advisory fees recorded for FYE16.

**Investment management:**
Investment management registered a lower loss before tax ("LBT") of RM4.7 million (FYE15: LBT of RM6.2 million) as a result of higher management fee income contributed by higher assets under management (FYE16: RM7.4 billion; FYE15: RM6.3 billion).

**Futures:**
Futures segment recorded lower PBT of RM2.6 million in FYE16 as compared to PBT of RM5.7 million in FYE15 mainly due to lower commission income earned. Income decreased mainly due to lower levels of client activities amid the sluggish market conditions.

**Money lending and financing:**
This segment reported a PBT of RM0.6 million in FYE16 compared to PBT of RM9 thousand in FYE15 due to higher financing activities resulting in higher fee income and interest income.

The Group and the Bank remain on strong financial footing with total capital ratios (before deducting proposed dividends) of 28.176% and 26.199% respectively, and total capital ratios (after deducting proposed dividends) of 27.295% and 25.250% respectively, well above the minimum 8% as prescribed by Bank Negara Malaysia.

DIRECTORS' REPORT

## OUTLOOK AND PROSPECT FOR 2017

Global growth is expected to see a stronger pick up in 2017, particularly in the advanced economies. However, uncertainties from global events, ranging from the progression of Brexit, policy uncertainties under US President Donald Trump and rising regional tensions in East Asia, may limit upside to overall global recovery. Further concerns over the overall health of the Chinese and Japanese economies act as a further dampener on regional growth. Given rising global risks, global capital is likely to gravitate towards less risky assets and away from developing economies, including Malaysia. Adding to this is that the U.S. Federal Reserve has signalled and possibly committed to at least three more rate hikes this year. Despite Malaysia's relative resilience to capital outflows, we expect capital flights and speculative pressures to be a predominant theme in the ringgit valuation for 2017.

Despite global uncertainties, Malaysia's growth momentum is expected to continue into the first half year of 2017 with a slightly higher forecast full year growth at 4.5%, compared to 2016's 4.3%. Meanwhile, inflation is expected to edge upwards into 2017 from cost-push factors, ranging from subsidy rationalisation and rising commodity prices.

In 2016, the Group's core businesses in Equity Broking and Investment Banking had continued to produce recurring income despite volatile market conditions and this is expected to continue in 2017. Meanwhile, our asset management business which had showed lower loss in 2016 is expected to turnaround in 2017, riding on the momentum of its Assets Under Management growth. We also expect to realise cost savings in 2017 arising from the relocation to our own corporate building. Notwithstanding the challenging environment, the Group is cautiously optimistic that it will continue to improve on its financial performance based on the above.

## 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 (appointed on 8 September 2016) * | (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 | (Independent Non-Executive Director) |
| Datuk Kevin How Kow * | (Non-Independent Non-Executive Director) |
| Ismail Harith Merican | (Non-Independent Non-Executive Director) |
| Luk Wai Hong, William | (Independent Non-Executive Director) |
| Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail (ceased on 28 January 2017) | (Non-Independent Non-Executive Director/Chairman) |
| Datuk Chay Wai Leong (resigned on 28 January 2017) # | (Group Managing Director) |

* On 7 February 2017, Izlan Bin Izhab has been re-designated as the Chairman/Independent Non-Executive Director of KIBB while Datuk Kevin How Kow who was previously an Independent Non-Executive Director, has been re-designated as Non-Independent Non-Executive Director of KIBB.

# Datuk Chay Wai Leong however, remains as the Group Managing Director of KIBB.

## 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.

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 KNKH and KIBB, are as follow:

**K & N Kenanga Holdings Berhad**

| | Number of ordinary shares of RM1.00 each | | | | |
|---|---|---|---|---|---|
| | **At 1.1.2016** | **Addition** | **Disposal** | **Capital Repayment*** | **At 31.12.2016** |
| **Direct interest:** | | | | | |
| Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail | 100,969,770 | - | - | (100,969,770) | - |
| Luigi Fortunato Ghirardello | 140,000 | - | - | (140,000) | - |
| Datuk Chay Wai Leong | 1,000,000 | 1,000,000 | - | (2,000,000) | - |
| Dato' Richard Alexander John Curtis | 800,000 | - | - | (800,000) | - |
| **Deemed interest:** | | | | | |
| Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail** | 43,500 | - | - | (43,500) | - |

**Kenanga Investment Bank Berhad**

| | Number of ordinary shares of RM0.25 each | | | | |
|---|---|---|---|---|---|
| | **At 1.1.2016** | **Addition** | **Distribution*** | **Disposal** | **At 31.12.2016** |
| **Direct interest:** | | | | | |
| Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail | - | - | 100,969,770 | - | 100,969,770 |
| Luigi Fortunato Ghirardello | - | - | 140,000 | - | 140,000 |
| Datuk Chay Wai Leong | - | - | 2,000,000 | - | 2,000,000 |
| Dato' Richard Alexander John Curtis | - | - | 800,000 | - | 800,000 |
| **Deemed interest:** | | | | | |
| Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail** | - | - | 43,500 | - | 43,500 |

## DIRECTORS' INTERESTS (CONT'D.)

* In conjunction with the implementation of a capital repayment exercise by KNKH, KNKH distributed its entire shareholding in KIBB on the basis of one (1) new KIBB share of RM0.25 each for every one (1) KNKH share of RM1.00 each held to the entitled shareholders. Hence, Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail, Luigi Fortunato Ghirardello, Datuk Chay Wai Leong and Dato' Richard Alexander John Curtis ceased to be shareholders of KNKH but instead, became the shareholders of KIBB.

** Deemed interest by virtue of shares held by person connected.

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.

(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.

# DIRECTORS' REPORT

## 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 Bank Negara Malaysia's policy document on Financial Reporting and the Guidelines on Classification and Impairment Provisions for Loan/Financing.

## SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

On 1 November 2016, the Group has completed the merger between KNKH and KIBB under the Group Internal Reorganisation via transfer of KNKH's identified assets and liabilities to KIBB, as well as capital reduction and repayment of all the ordinary shares of RM1.00 each in KNKH.

KIBB has also undergone a capital restructuring involving a capital reduction and subsequent par value adjustment of each KIBB share from RM1.00 to RM0.25.

On 2 November 2016, KNKH was delisted from the Main Market of Bursa Malaysia Securities Berhad and KIBB assumed the listing status of KNKH.

More details of significant events during the year are disclosed in Note 54 to the financial statements.

## AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

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

Izlan Bin Izhab

Luk Wai Hong, William

Kuala Lumpur, Malaysia
28 February 2017

# STATEMENT BY DIRECTORS
## PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Izlan Bin Izhab and Luk Wai Hong, William, being two 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 80 to 232 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 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 2016 and of their financial performance and cash flows for the financial year then ended.

The information set out in Note 56 to the financial statements on page 233 have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

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

Izlan Bin Izhab

Luk Wai Hong, William

Kuala Lumpur, Malaysia
28 February 2017

# STATUTORY DECLARATION
## PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

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 80 to 232 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 28 February 2017

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 2016 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 80 to 232.

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 2016, 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 1965 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** | **Our response** |
|---|---|
| *Merger of K & N Kenanga Holdings Berhad ("KNKH") and Kenanga Investment Bank Berhad* | |
| The former holding company of the Bank i.e. KNKH announced on 30 October 2015 the Proposed Internal Reorganisation which comprised the proposed transfer of identified assets and liabilities from KNKH to the Bank, the proposed capital reduction and repayment of KNKH, the proposed transfer of listing status from KNKH to the Bank and the proposed capital restructuring of the Bank. The Internal Reorganisation has completed during the year and the Bank has assumed the listing status in the Main Market of Bursa Malaysia Securities Berhad on 2 November 2016.<br><br>The Internal Reorganisation has been accounted for using merger accounting in the consolidated financial statements of the Bank.<br><br>Relevant details have been disclosed in Note 3.4 (a)(1)(ii) (Summary of significant accounting policies), Note 54 (Significant events and subsequent events) and Note 55 (Comparative figures) to the financial statements. | Our audit procedures included the assessment of whether the proposed transactions under the Internal Reorganisation have been accounted for appropriately in the consolidated and separate financial statements of the Bank using merger accounting, with sufficient disclosures made in the financial statements. |
| *Impairment assessment of loans, advances and financing* | |
| The impairment allowances of loans, advances and financing are estimated by management through the application of judgement 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.<br><br>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.<br><br>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. | 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 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.<br><br>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 judgement as to whether that was appropriate.<br><br>For the collective impairment model used by the Group, 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. |

## INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF KENANGA INVESTMENT BANK BERHAD (INCORPORATED IN MALAYSIA)

*Key audit matters (cont'd.)*

| Risk area and rationale | Our response |
|---|---|
| *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, judgement is required to establish fair values. Judgements 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.<br><br>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 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.<br><br>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. |
| *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.<br><br>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 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.<br><br>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. |

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF KENANGA INVESTMENT BANK BERHAD (INCORPORATED IN MALAYSIA)

*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 1965 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.

*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 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.

# 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.)*

- 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.

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.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

(c) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

## OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 56 on page 233 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

## OTHER MATTERS

This report is made solely to the members of the Bank, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Chan Hooi Lam
No. 2844/02/18(J)
Chartered Accountant

Kuala Lumpur, Malaysia
28 February 2017

# 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 2016. 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 2016 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 2016 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee:

Dr. Kamaruzaman Noordin

Shariah Committee Member:

Dr. Muhammad Arzim Naim

Kuala Lumpur, Malaysia

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2016

| Group | Note | 2016 RM'000 | 2015 RM'000 Restated (Note 55) |
|---|---|---|---|
| **Assets** | | | |
| Cash and bank balances | 5 | **1,229,928** | 1,367,926 |
| Financial assets at fair value through profit or loss | 6 | **381,588** | 338,573 |
| Financial investments available-for-sale | 7 | **944,364** | 1,249,661 |
| Financial investments held-to-maturity | 8 | **40,000** | 40,003 |
| Derivative financial assets | 9 | **39,117** | 2,910 |
| Loans, advances and financing | 10 | **2,105,584** | 1,930,064 |
| Balances due from clients and brokers | 11 | **445,005** | 457,327 |
| Other assets | 12 | **229,112** | 226,116 |
| Statutory deposit with Bank Negara Malaysia | 13 | **99,504** | 120,753 |
| Tax recoverable | | **7,465** | 8,229 |
| Investments in associates | 15 | **72,671** | 66,838 |
| Investment in a joint venture company | 16 | **6,962** | - |
| Property, plant and equipment | 17 | **191,717** | 35,698 |
| Intangible assets | 18 | **266,922** | 266,832 |
| Deferred tax assets | 19 | **9,841** | 10,025 |
| **Total assets** | | **6,069,780** | 6,120,955 |
| **Liabilities** | | | |
| Deposits from customers | 20 | **3,310,070** | 3,229,065 |
| Deposits and placements of banks and other financial institutions | 21 | **550,954** | 575,159 |
| Balances due to clients and brokers | 22 | **857,065** | 896,302 |
| Derivative financial liabilities | 23 | **47,406** | 72,278 |
| Other liabilities | 24 | **214,701** | 246,378 |
| Obligations on securities sold under repurchase agreements | 25 | **27,253** | 95,310 |
| Borrowings | 26 | **165,700** | 141,000 |
| Provision for taxation and zakat | | **439** | 732 |
| **Total liabilities** | | **5,173,588** | 5,256,224 |
| **Equity** | | | |
| Share capital | 27 | **180,637** | 770,000 |
| Reserves | 28 | **705,319** | 84,982 |
| Equity attributable to equity holders of the Bank | | **885,956** | 854,982 |
| Non-controlling interests | | **10,236** | 9,749 |
| **Total equity** | | **896,192** | 864,731 |
| **Total liabilities and shareholders' equity** | | **6,069,780** | 6,120,955 |
| **Commitments and contingencies** | 42 | **2,911,993** | 3,280,327 |

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

# STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2016

| Bank | Note | 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and bank balances | 5 | **951,748** | 854,360 |
| Financial assets at fair value through profit or loss | 6 | **381,588** | 318,742 |
| Financial investments available-for-sale | 7 | **937,704** | 1,249,661 |
| Financial investments held-to-maturity | 8 | **40,000** | 40,003 |
| Derivative financial assets | 9 | **39,117** | 2,910 |
| Loans, advances and financing | 10 | **2,065,887** | 1,878,665 |
| Balances due from clients and brokers | 11 | **445,005** | 457,327 |
| Other assets | 12 | **72,582** | 100,297 |
| Statutory deposit with Bank Negara Malaysia | 13 | **99,504** | 120,753 |
| Tax recoverable | | **894** | 2,381 |
| Investments in subsidiaries | 14 | **67,550** | 59,860 |
| Investment in an associate | 15 | **56,235** | 56,235 |
| Investment in a joint venture company | 16 | **7,500** | - |
| Property, plant and equipment | 17 | **190,731** | 31,728 |
| Intangible assets | 18 | **305,409** | 305,409 |
| Deferred tax assets | 19 | **7,554** | 7,758 |
| **Total assets** | | **5,669,008** | 5,486,089 |
| **Liabilities** | | | |
| Deposits from customers | 20 | **3,379,620** | 3,300,586 |
| Deposits and placements of banks and other financial institutions | 21 | **550,954** | 575,159 |
| Balances due to clients and brokers | 22 | **474,231** | 354,333 |
| Derivative financial liabilities | 23 | **47,406** | 72,278 |
| Other liabilities | 24 | **171,790** | 196,694 |
| Obligations on securities sold under repurchase agreements | 25 | **27,253** | 95,310 |
| Borrowings | 26 | **115,200** | - |
| Provision for taxation and zakat | | **48** | 176 |
| **Total liabilities** | | **4,766,502** | 4,594,536 |
| **Equity** | | | |
| Share capital | 27 | **180,637** | 770,000 |
| Reserves | 28 | **721,869** | 121,553 |
| **Total equity** | | **902,506** | 891,553 |
| **Total liabilities and shareholders' equity** | | **5,669,008** | 5,486,089 |
| **Commitments and contingencies** | 42 | **2,980,493** | 3,310,327 |

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 2016

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | 2016 RM'000 | 2015 RM'000 Restated (Note 55) | 2016 RM'000 | 2015 RM'000 |
| **Operating revenue** | 29 | **585,317** | 562,988 | **513,498** | 490,987 |
| Interest income | 30 | **253,931** | 237,095 | **239,131** | 218,255 |
| Interest expense | 31 | **(166,458)** | (154,640) | **(163,095)** | (144,908) |
| Net interest income | | **87,473** | 82,455 | **76,036** | 73,347 |
| Net income from Islamic banking operations | 52(b) | **15,933** | 9,443 | **15,933** | 9,443 |
| Other operating income | 32 | **304,696** | 307,425 | **250,283** | 257,106 |
| Net income | | **408,102** | 399,323 | **342,252** | 339,896 |
| Other operating expenses | 33 | **(377,058)** | (381,648) | **(311,406)** | (324,563) |
| Operating profit | | **31,044** | 17,675 | **30,846** | 15,333 |
| (Allowance for)/Write back of impairment on: | | | | | |
| - loans, advances and financing | 34 | **(653)** | 1,335 | **72** | 1,289 |
| - balances due from clients and brokers and other receivables | 35 | **2,695** | (2,333) | **2,695** | (2,333) |
| | | **33,086** | 16,677 | **33,613** | 14,289 |
| Share of results of associates and joint venture | | **(549)** | 1,546 | **-** | - |
| Profit before taxation and zakat | | **32,537** | 18,223 | **33,613** | 14,289 |
| Taxation and zakat | 40 | **(12,330)** | (5,762) | **(11,586)** | (2,673) |
| **Profit for the financial year** | | **20,207** | 12,461 | **22,027** | 11,616 |
| **Other comprehensive income/(loss):** | | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | | |
| Foreign exchange differences on consolidation | | **2,735** | 14,226 | **-** | - |
| Share of other comprehensive gain/(loss) in associates | | **3,106** | (8,156) | **-** | - |
| Net gain/(loss) on fair value changes of financial investments available-for-sale | | **7,122** | (3,937) | **7,122** | (3,937) |
| Income tax relating to the components of other comprehensive income | 19 | **(1,709)** | 816 | **(1,709)** | 816 |
| Other comprehensive income/(loss) for the financial year, net of tax | | **11,254** | 2,949 | **5,413** | (3,121) |
| **Total comprehensive income for the financial year, net of tax** | | **31,461** | 15,410 | **27,440** | 8,495 |

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | 2016 RM'000 | 2015 RM'000 Restated (Note 55) | 2016 RM'000 | 2015 RM'000 |
| **Profit for the financial year attributable to:** | | | | | |
| Equity holders of the Bank | | **19,720** | 11,304 | **22,027** | 11,616 |
| Non-controlling interests | | **487** | 1,157 | **-** | - |
| | | **20,207** | 12,461 | **22,027** | 11,616 |
| **Total comprehensive income attributable to:** | | | | | |
| Equity holders of the Bank | | **30,974** | 14,253 | **27,440** | 8,495 |
| Non-controlling interests | | **487** | 1,157 | **-** | - |
| | | **31,461** | 15,410 | **27,440** | 8,495 |
| **Earnings per share attributable to equity holders of the Bank:** | | | | | |
| Basic (sen) | 41 | **2.59** | 1.47 | | |
| Fully diluted (sen) | 41 | **2.59** | 1.47 | | |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | ← Attributable to equity holders of the Bank → | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | ← Non-distributable → | | | | | | | | | | |
| Group | Ordinary shares (Note 27) RM'000 | Reorga-nisation reserve (Note 28) 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 | (Accumulated losses)/ Retained profits (Note 28) RM'000 | Total attributable to equity holders RM'000 | Non-controlling interests RM'000 | Total equity RM'000 |
| **At 1 January 2016** | | | | | | | | | | | | |
| 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 (Note 55) | - | (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 | - | 3,106 |
| Other comprehensive income | - | - | - | - | - | 5,413 | - | 2,735 | - | 8,148 | - | 8,148 |
| Total comprehensive income for the financial year | - | - | - | - | - | 8,519 | - | 2,735 | 19,720 | 30,974 | 487 | 31,461 |
| Transfer to regulatory reserve | - | - | - | - | - | - | 1,818 | - | (1,818) | - | - | - |
| Capital restructuring exercise (Note 54) involving: | | | | | | | | | | | | |
| Capital reduction and repayment | (47,453) | 64,817 | - | - | - | - | - | - | (17,364) | - | - | - |
| Par value adjustment | (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 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | Attributable to equity holders of the Bank | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Non-distributable | | | | | | | | | | |
| Group | Ordinary shares (Note 27) RM'000 | Reorganisation reserve (Note 28) 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 | (Accumulated losses)/ Retained profits (Note 28) RM'000 | Total attributable to equity holders RM'000 | Non-controlling interests RM'000 | Total equity RM'000 |
| **At 1 January 2015** | | | | | | | | | | | | |
| As previously reported | 770,000 | - | - | 65,500 | 88,815 | (8,276) | - | 7,662 | (22,950) | 900,751 | 8,592 | 909,343 |
| Effects of merger accounting | - | (103,666) | 15,548 | - | - | - | - | (235) | 35,580 | (52,773) | - | (52,773) |
| As restated | 770,000 | (103,666) | 15,548 | 65,500 | 88,815 | (8,276) | - | 7,427 | 12,630 | 847,978 | 8,592 | 856,570 |
| Net profit for the financial year | - | - | - | - | - | - | - | - | 11,304 | 11,304 | 1,157 | 12,461 |
| Share of other comprehensive loss of associates | - | - | - | - | - | (8,156) | - | - | - | (8,156) | - | (8,156) |
| Other comprehensive (loss)/income | - | - | - | - | - | (3,121) | - | 14,226 | - | 11,105 | - | 11,105 |
| Total comprehensive (loss)/income for the financial year | - | - | - | - | - | (11,277) | - | 14,226 | 11,304 | 14,253 | 1,157 | 15,410 |
| Transfer to statutory reserve | - | - | - | - | 5,808 | - | - | - | (5,808) | - | - | - |
| Transfer to regulatory reserve | - | - | - | - | - | - | 22,111 | - | (22,111) | - | - | - |
| Dividend paid (Note 53) | - | - | - | - | - | - | - | - | (7,249) | (7,249) | - | (7,249) |
| **At 31 December 2015** | 770,000 | (103,666) | 15,548 | 65,500 | 94,623 | (19,553) | 22,111 | 21,653 | (11,234) | 854,982 | 9,749 | 864,731 |

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

# STATEMENT OF CHANGES IN EQUITY
## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | ← Non-distributable | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Bank | Ordinary shares (Note 27) RM'000 | Reorga-nisation 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 | Available-for-sale deficit (Note 28) RM'000 | (Accumulated losses)/ Retained profits (Note 28) RM'000 | Total equity 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 (Note 54) involving: | | | | | | | | | |
| Capital reduction | (47,453) | - | - | - | - | - | - | 47,453 | - |
| Par value adjustment | (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 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | ← | | | Non-distributable | | → | | |
|---|---|---|---|---|---|---|---|---|
| Bank | Ordinary shares (Note 27) 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 | Available-for-sale deficit (Note 28) RM'000 | Accumulated losses (Note 28) RM'000 | Total equity RM'000 |
| **At 1 January 2015** | 770,000 | - | 65,500 | - | 88,815 | (9,665) | (31,592) | 883,058 |
| Net profit for the financial year | - | - | - | - | - | - | 11,616 | 11,616 |
| Other comprehensive loss | - | - | - | - | - | (3,121) | - | (3,121) |
| Total comprehensive (loss)/income for the financial year | - | - | - | - | - | (3,121) | 11,616 | 8,495 |
| Transfer to statutory reserve | - | - | - | - | 5,808 | - | (5,808) | - |
| Transfer to regulatory reserve | - | - | - | 22,111 | - | - | (22,111) | - |
| **At 31 December 2015** | 770,000 | - | 65,500 | 22,111 | 94,623 | (12,786) | (47,895) | 891,553 |

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

# STATEMENTS OF CASH FLOWS

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | 2016 RM'000 | 2015 RM'000 Restated (Note 55) | 2016 RM'000 | 2015 RM'000 |
| **Cash flows from operating activities** | | | | | |
| Profit before taxation and zakat | | **32,537** | 18,223 | **33,613** | 14,289 |
| Adjustments for: | | | | | |
| Allowance for/(Write back of) impairment on loans, advances and financing | 34 | **1,029** | (353) | **304** | 307 |
| Depreciation of property, plant and equipment | 33 | **12,390** | 8,963 | **11,319** | 7,754 |
| Amortisation of intangible assets | | | | | |
| - software licence | 33 | **970** | 456 | **-** | - |
| Allowance for impairment on balances due from clients and brokers, and other receivables | 35 | **(2,608)** | 2,387 | **(2,608)** | 2,387 |
| Property, plant and equipment written off | 33 | **4,844** | 657 | **2,988** | 657 |
| Gross dividend income from investments | 32(b) | **(2,406)** | (3,801) | **(1,772)** | (1,976) |
| Gain on disposal of property, plant and equipment | 32(c) | **-** | (168) | **-** | (106) |
| Net gain from sale of financial assets at fair value through profit or loss and derivatives | | **(59,574)** | (3,700) | **(60,814)** | (3,700) |
| Net gain from sale of financial investments available-for-sale | | **(21,620)** | (7,236) | **(21,620)** | (7,236) |
| Unrealised loss/(gain) on revaluation of financial assets at fair value through profit or loss and derivatives | | **18,650** | (17,940) | **18,650** | (16,483) |
| Loss from dissolution of subsidiaries | 32(c) | **-** | (50) | **-** | - |
| Share of results of associates and joint venture | | **549** | (1,546) | **-** | - |
| Operating loss before working capital changes | | **(15,239)** | (4,108) | **(19,940)** | (4,107) |
| (Increase)/decrease in operating assets: | | | | | |
| Loans, advances and financing | | **(176,549)** | (97,825) | **(187,525)** | (14,663) |
| Other assets | | **(20,219)** | (24,213) | **25,934** | (20,654) |
| Statutory deposit with Bank Negara Malaysia | | **21,249** | 6,823 | **21,249** | 6,823 |
| Balances due from clients and brokers | | **14,145** | (80,212) | **14,145** | (80,212) |
| Trust monies and deposits | 5 | **223,206** | 38,332 | **6,196** | 4,426 |
| Increase/(decrease) in operating liabilities: | | | | | |
| Other liabilities | | **(31,350)** | 65,117 | **(30,236)** | 50,877 |
| Balances due to clients and brokers | | **(39,237)** | 151,540 | **119,898** | 17,966 |
| Deposits from customers | | **81,005** | 136,454 | **79,034** | 124,960 |
| Deposits and placements of banks and other financial institutions | | **(24,205)** | (112,895) | **(24,205)** | (112,895) |
| Obligations on securities sold under repurchase agreements | | **(68,057)** | 95,310 | **(68,057)** | 95,310 |
| Cash (used in)/generated from operations | | **(35,251)** | 174,323 | **(63,507)** | 67,831 |
| Taxation and zakat paid | | **(11,497)** | (11,226) | **(11,277)** | (4,984) |
| Net cash (used in)/generated from operating activities | | **(46,748)** | 163,097 | **(74,784)** | 62,847 |

# STATEMENTS OF CASH FLOWS
## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | Note | Group 2016 RM'000 | Group 2015 RM'000 Restated (Note 55) | Bank 2016 RM'000 | Bank 2015 RM'000 |
|---|---|---|---|---|---|
| **Cash flows from investing activities** | | | | | |
| Dividend income from investments | 32(b) | **2,406** | 3,801 | **1,772** | 1,976 |
| Purchase of property, plant and equipment | | **(158,627)** | (5,972) | **(157,455)** | (4,362) |
| Purchase of intangible assets | | **(718)** | (521) | **-** | - |
| Proceeds from disposal of property, plant and equipment | | **2,888** | 748 | **2,958** | 1,391 |
| Acquisition of a joint venture | | **(7,500)** | - | **(7,500)** | - |
| Proceeds from disposal of a subsidiary | | **-** | - | **60** | - |
| Net sales of securities | | **268,807** | 251,367 | **258,698** | 252,850 |
| Net cash generated from investing activities | | **107,256** | 249,423 | **98,533** | 251,855 |
| **Cash flows from financing activity** | | | | | |
| Dividend paid | | **-** | (7,249) | **-** | - |
| Repayment of hire purchase and finance lease | | **-** | (38) | **-** | - |
| Net drawdown/(repayment) of borrowings | | **24,700** | (11,500) | **70,200** | - |
| Buy-back of shares | | **-** | (6,604) | **-** | - |
| Net cash generated from/(used in) financing activities | | **24,700** | (25,391) | **70,200** | - |
| **Net increase in cash and cash equivalents** | | **85,208** | 387,129 | **93,949** | 314,702 |
| **Cash transferred in due to merger** | | **-** | - | **9,635** | - |
| **Cash and cash equivalents at beginning of financial year** | | **958,803** | 571,674 | **790,157** | 475,455 |
| **Cash and cash equivalents at end of financial year** | 5 | **1,044,011** | 958,803 | **893,741** | 790,157 |

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

# NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 1. CORPORATE INFORMATION

Kenanga Investment Bank Berhad ("the Bank") is principally engaged in the investment banking business, provision of stockbroking and related financial services.

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

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, except for Kenanga Private Equity Sdn Bhd, KUT Nominees (Tempatan) Sdn Bhd and KUT Nominees (Asing) Sdn Bhd.

Prior to 1 November 2016, the Bank was a wholly-owned subsidiary of KNKH that was listed on the Main Market of Bursa Malaysia Securities Berhad. Upon the completion of the Group Internal Reorganisation exercise (Note 54) on 1 November 2016, the Bank has become the parent company of KNKH. On 2 November 2016, the Bank has assumed the listing status of KNKH. All of these companies are incorporated in Malaysia.

The financial statements of the Bank have been approved and authorised for issue in accordance with a resolution of the Board of Directors on 28 February 2017.

## 2. CHANGES IN ACCOUNTING POLICIES

### 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 new and amended MFRSs, which became effective for the Group and the Bank on 1 January 2016.

- Amendments to MFRSs contained in the documents entitled "Annual Improvements to MFRSs 2012-2014 Cycle"
- Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception
- Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- MFRS 14: Regulatory Deferral Accounts
- Amendments to MFRS 101: Disclosure Initiative
- Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants
- Amendments to MFRS 127: Equity Method in Separate Financial Statements

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") Interpretation 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.

## 2. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

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

| Description | Effective for annual periods beginning on or after |
|---|---|
| Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 |
| Amendments to MFRS 107: Disclosure Initiative | 1 January 2017 |
| Amendments to MFRS 12: Disclosure of Interests in Other Entities Contained in the documents entitled "Annual Improvements to MFRS Standards 2014-2016 Cycle" | 1 January 2017 |
| MFRS 15: Revenue from Contracts with Customers | 1 January 2018 |
| Clarifications to MFRS 15: Revenue from Contracts with Customers | 1 January 2018 |
| MFRS 9: Financial Instruments (2014) | 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 Ventures contained in the documents entitled "Annual Improvements to MFRS Standards 2014-2016 Cycle" | 1 January 2018 |
| Amendments to MFRS 4: Applying MFRS 9 Financial 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 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:

**MFRS 9 Financial Instruments**

MFRS 9 replaces MFRS 139. MFRS 9 requires financial assets to be classified on the basis of the business model within which they are held and their contractual cash flow characteristic. The requirements related to the fair value option for financial liabilities were also changed to address own credit risk. 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.

MFRS 9 also requires impairment assessments to be based on an expected credit loss model, replacing the MFRS 139 incurred loss model. Finally, MFRS 9 aligns hedge accounting more closely with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies and weaknesses in the previous model.

The Group and the Bank are currently assessing the effects of the adoption of this standard.

The new standard will come into effect on 1 January 2018 with early application permitted.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 2. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

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

**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 is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

**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 liabilites 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. The financial effects arising from the adoption of this standard are still being assessed by the Group.

## 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, 1965 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. ACCOUNTING POLICIES (CONT'D.)

### 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; and
(iii) The ability to use its power over the investee to affect its returns.

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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 3. ACCOUNTING POLICIES (CONT'D.)

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

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

##### (1) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 3. ACCOUNTING POLICIES (CONT'D.)

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

#### (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.

#### (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
AS AT 31 DECEMBER 2016

## 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 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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 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

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.

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 | 10% to 33.33% |

#### (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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 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.)

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.

#### (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).

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 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")**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 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.)**

**(3) Financial investments held-to-maturity (cont'd.)**

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.

**(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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 3. ACCOUNTING POLICIES (CONT'D.)

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

#### (f) Financial assets (cont'd.)

##### (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
AS AT 31 DECEMBER 2016

## 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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 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

**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.

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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 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.)

**Collective assessment (cont'd.)**

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
AS AT 31 DECEMBER 2016

## 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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 3. ACCOUNTING POLICIES (CONT'D.)

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

#### (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.

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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 3. ACCOUNTING POLICIES (CONT'D.)

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

#### (k) Financial liabilities (cont'd.)

##### (ii) Other financial liabilities (cont'd.)

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.

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).

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 3. ACCOUNTING POLICIES (CONT'D.)

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

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

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 | 16% to 25% |
| Computer equipment | 14% to 33.33% |
| Office equipment | 10% to 33.33% |
| Furniture and fittings | 10% to 20% |
| Research library | 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).

##### (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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 3. ACCOUNTING POLICIES (CONT'D.)

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

#### (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.

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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 3. ACCOUNTING POLICIES (CONT'D.)

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

#### (p) Income recognition (cont'd.)

**(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
AS AT 31 DECEMBER 2016

## 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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 3. ACCOUNTING POLICIES (CONT'D.)

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

#### (s) Income taxes (cont'd.)

##### (iii) Deferred tax (cont'd.)

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:

- 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.

## 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 discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Bank. The Group and the Bank do not recognise any contingent asset but discloses 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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D.)

(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.

(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 market bid price. 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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D.)

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 | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Cash and balances with banks and other financial institutions | **146,195** | 284,973 | **79,704** | 144,284 |
| Money at call and deposit placements maturing: | | | | |
| - within one month | **943,340** | 968,120 | **872,044** | 710,076 |
| - after one month | **140,393** | 114,833 | **-** | - |
| | **1,229,928** | 1,367,926 | **951,748** | 854,360 |
| Included in cash and bank balances are: | | | | |
| Cash and cash equivalents | **1,044,011** | 958,803 | **893,741** | 790,157 |
| Monies held in trust on behalf of dealer's representatives and segregated funds for customers | **185,917** | 409,123 | **58,007** | 64,203 |
| | **1,229,928** | 1,367,926 | **951,748** | 854,360 |

Monies held in trust on behalf of clients of RM665,738,000 (2015: RM597,665,000) 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
AS AT 31 DECEMBER 2016

## 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| **At fair value** | | | | |
| **Money market instruments:** | | | | |
| Malaysian Government Investment Certificates | **-** | 57,373 | **-** | 57,373 |
| **Quoted securities:** | | | | |
| Shares and unit trusts funds in Malaysia | **191,578** | 231,311 | **191,578** | 211,480 |
| Shares outside Malaysia | **19,632** | - | **19,632** | - |
| **Unquoted private debt securities in Malaysia:** | | | | |
| Corporate Bonds | **45,035** | - | **45,035** | - |
| Corporate Bills | **84,639** | - | **84,639** | - |
| Islamic Corporate Bonds | **14,668** | 49,889 | **14,668** | 49,889 |
| Islamic Corporate Bills | **24,969** | - | **24,969** | - |
| | **380,521** | 338,573 | **380,521** | 318,742 |
| **Unquoted private debt securities outside Malaysia:** | | | | |
| Redeemable Corporate Notes* | **1,067** | - | **1,067** | - |
| | **381,588** | 338,573 | **381,588** | 318,742 |

* The Redeemable Corporate Notes contain embedded derivatives including early redemption options. As the embedded derivatives cannot be measured separately on a reliable basis, the entire hybrid instruments are designated to be carried at fair value through profit or loss in accordance with MFRS 139. The Notes will mature in 2021.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 7. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| **At fair value** | | | | |
| **Money market instruments:** | | | | |
| Malaysian Government Securities | **19,566** | 131,390 | **19,566** | 131,390 |
| Malaysian Government Investment Certificates | **58,428** | 284,262 | **58,428** | 284,262 |
| Sukuk Perumahan Kerajaan | **10,056** | 9,996 | **10,056** | 9,996 |
| Negotiable Instruments of Deposits | **50,000** | - | **50,000** | - |
| Islamic Negotiable Instruments of Deposits | **149,890** | - | **149,890** | - |
| | **287,940** | 425,648 | **287,940** | 425,648 |
| **Unquoted securities:** | | | | |
| Shares and unit trust funds in Malaysia | **7,150** | 490 | **490** | 490 |
| **Unquoted private debt securities:** | | | | |
| Islamic Corporate Bonds | **524,752** | 574,451 | **524,752** | 574,451 |
| Islamic Corporate Bills | **-** | 49,756 | **-** | 49,756 |
| Corporate Bonds | **124,522** | 199,316 | **124,522** | 199,316 |
| | **649,274** | 823,523 | **649,274** | 823,523 |
| | **944,364** | 1,249,661 | **937,704** | 1,249,661 |

Included in financial investments available-for-sale are financial assets sold under repurchase agreements as follows:

| | Group and Bank | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| Malaysian Government Investment Certificates (Note 25) | **27,253** | 95,310 |

## 8. FINANCIAL INVESTMENTS HELD-TO-MATURITY

| | Group and Bank | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| **At amortised cost** | | |
| **Unquoted private debt securities:** | | |
| Islamic Corporate Bonds | **40,000** | 40,003 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 9. DERIVATIVE FINANCIAL ASSETS

| | Group and Bank | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| **At fair value** | | |
| Dual currency investment - Options | **45** | 2 |
| Equity related contracts - Options | **33,498** | 2,908 |
| Equity related contracts - Swap | **5,574** | - |
| | **39,117** | 2,910 |
| **Contract/Notional amount** | | |
| Dual currency investment - Options | **17,407** | 1,588 |
| Equity related contracts - Options | **93,636** | 13,762 |
| Equity related contracts - Swap | **57,262** | - |
| | **168,305** | 15,350 |

## 10. LOANS, ADVANCES AND FINANCING

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Term loans | **505,348** | 424,483 | **562,084** | 462,645 |
| Share margin financing | **1,490,721** | 1,399,394 | **1,490,721** | 1,399,394 |
| Others | **112,082** | 107,725 | **-** | - |
| Subordinated term loan* | **-** | - | **15,219** | 18,459 |
| Gross loans, advances and financing | **2,108,151** | 1,931,602 | **2,068,024** | 1,880,498 |
| Allowance for impairment on loans, advances and financing | | | | |
| - Individual allowance | **(2,135)** | (1,395) | **(1,266)** | (1,395) |
| - Collective allowance | **(432)** | (143) | **(871)** | (438) |
| | **(2,567)** | (1,538) | **(2,137)** | (1,833) |
| Net loans, advances and financing | **2,105,584** | 1,930,064 | **2,065,887** | 1,878,665 |

* **Subordinated term loan to a subsidiary**

The subordinated loan granted to a subsidiary company, Kenanga Deutsche Futures Sdn Bhd, is unsecured with effective interest rate of 5.88% per annum and is repayable by November 2021. In the prior year, the subordinated loan granted to the same subsidiary company was unsecured with effective interest rate of 6.12% per annum and was repayable in the current financial year.

# NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 10. LOANS, ADVANCES AND FINANCING (CONT'D.)

(i) Gross loans, advances and financing analysed by type of customer are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Domestic business enterprises | | | | |
| - Others | **894,834** | 896,820 | **900,953** | 845,738 |
| Individuals | **1,158,958** | 1,002,660 | **1,112,712** | 1,002,638 |
| Foreign enterprises | **54,359** | 32,122 | **54,359** | 32,122 |
| | **2,108,151** | 1,931,602 | **2,068,024** | 1,880,498 |

(ii) Gross loans, advances and financing analysed by geographical distribution are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| In Malaysia | **2,042,417** | 1,898,570 | **2,002,290** | 1,847,466 |
| Outside Malaysia | **65,734** | 33,032 | **65,734** | 33,032 |
| | **2,108,151** | 1,931,602 | **2,068,024** | 1,880,498 |

(iii) Gross loans, advances and financing analysed by interest rate/profit rate sensitivity are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Fixed rate | | | | |
| - Other fixed rate loans | **1,602,786** | 1,519,169 | **1,490,704** | 1,411,444 |
| Variable rate | | | | |
| - Cost plus | **464,882** | 317,198 | **536,837** | 373,819 |
| - Other variable rates | **40,483** | 95,235 | **40,483** | 95,235 |
| | **2,108,151** | 1,931,602 | **2,068,024** | 1,880,498 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 10. LOANS, ADVANCES AND FINANCING (CONT'D.)

(iv) Gross loans, advances and financing analysed by economic purpose are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Purchase of securities | **1,720,409** | 1,609,915 | **1,703,996** | 1,598,275 |
| Working capital | **243,792** | 113,787 | **254,056** | 155,110 |
| Others | **143,950** | 207,900 | **109,972** | 127,113 |
| | **2,108,151** | 1,931,602 | **2,068,024** | 1,880,498 |

(v) Gross loans, advances and financing analysed by residual contractual maturity are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Within one year | **1,785,930** | 1,643,632 | **1,673,848** | 1,681,793 |
| More than one year | **322,221** | 287,970 | **394,176** | 198,705 |
| | **2,108,151** | 1,931,602 | **2,068,024** | 1,880,498 |

(vi) Movements in impaired loans, advances and financing are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| At beginning of the financial year | **7,942** | 2,790 | **1,954** | 2,786 |
| Impaired during the financial year | **1,824** | 6,157 | **160** | 173 |
| Amount written off | **(379)** | - | **(379)** | - |
| Amount recovered | **(6,779)** | (1,005) | **-** | (1,005) |
| At end of the financial year | **2,608** | 7,942 | **1,735** | 1,954 |
| Individual allowance | **(2,135)** | (1,395) | **(1,266)** | (1,395) |
| | **473** | 6,547 | **469** | 559 |
| Net impaired loans as % of gross loans, advances and financing less individual allowance | **0.02%** | 0.34% | **0.02%** | 0.03% |

Impaired loans, advances and financing consist of all the past due accounts regardless of any recognition of allowances for impairment.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 10. LOANS, ADVANCES AND FINANCING (CONT'D.)

(vii) Impaired loans, advances and financing analysed by geographical distribution are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| In Malaysia | **2,608** | 7,942 | **1,735** | 1,954 |

(viii) Impaired loans, advances and financing analysed by economic purpose are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Working capital | **869** | 5,986 | **-** | - |
| Purchase of securities | **1,739** | 1,956 | **1,735** | 1,954 |
| | **2,608** | 7,942 | **1,735** | 1,954 |

(ix) Movements in allowances for loans, advances and financing are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| **Individual allowance** | | | | |
| At beginning of the financial ear | **1,395** | 1,725 | **1,395** | 1,725 |
| Allowance made (Note 34) | **932** | 259 | **63** | 259 |
| Allowance written back (Note 34) | **(192)** | (589) | **(192)** | (589) |
| At end of the financial year | **2,135** | 1,395 | **1,266** | 1,395 |
| **Collective allowance** | | | | |
| At beginning of the financial year | **143** | 166 | **438** | 415 |
| Allowance made/(written back) (Note 34) | **289** | (23) | **433** | 23 |
| At end of the financial year | **432** | 143 | **871** | 438 |
| Collective allowance as % of gross loans, advances and financing less individual allowance | **0.02%** | 0.01% | **0.04%** | 0.02% |

# NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 11. BALANCES DUE FROM CLIENTS AND BROKERS

| | Group and Bank | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| Balances due from clients and brokers | **460,413** | 474,558 |
| Less: allowance for impairment | **(15,408)** | (17,231) |
| | **445,005** | 457,327 |
| **Movements of allowance for impairment** | | |
| At beginning of the financial year | **17,231** | 24,815 |
| Allowance made for the financial year (Note 35) | **3,288** | 7,763 |
| Allowance for impairment written back (Note 35) | **(5,111)** | (6,574) |
| Allowance for impairment losses written off against balances due from clients and brokers | **-** | (8,773) |
| At end of the financial year | **15,408** | 17,231 |

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 | |
|---|---|---|---|---|---|
| | Note | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Assets segregated for customers | (a) | **138,146** | 110,635 | **-** | - |
| Interest/income receivable | | **9,463** | 15,181 | **8,966** | 14,528 |
| Amounts due from subsidiary companies | | **-** | - | **872** | 1,288 |
| Amounts due from related parties | (b) | **104** | 15 | **104** | 17 |
| Prepayments and deposits | | **21,567** | 18,119 | **20,372** | 15,959 |
| Other debtors | (c) | **63,437** | 86,832 | **45,873** | 73,171 |
| | | **232,717** | 230,782 | **76,187** | 104,963 |
| Allowance for impairment | | **(3,605)** | (4,666) | **(3,605)** | (4,666) |
| | | **229,112** | 226,116 | **72,582** | 100,297 |

**Movements of allowance for impairment**

| | Group and Bank | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| At beginning of the financial year | **4,666** | 4,713 |
| Allowance made for the financial year (Note 35) | **3,134** | 5,320 |
| Allowance for impairment written back (Note 35) | **(3,919)** | (4,122) |
| Allowance for impairment losses written off against other assets | **(276)** | (1,245) |
| At end of the financial year | **3,605** | 4,666 |

**(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 (2015: 90 day) terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 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 | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Unquoted shares, at cost | | |
| At beginning of the financial year | **59,860** | 59,860 |
| Add: Subscription of new shares in a subsidiary (Note (i)) | **-** | - |
| Less: Disposal of a subsidiary (Note (ii)) | **(60)** | - |
| Add: Effect of merger accounting (Note (iii)) | **7,750** | - |
| At end of the financial year | **67,550** | 59,860 |

(i) Denotes the subscription of new shares in KNKH amounting to RM2.00.

(ii) Being deemed disposal of a wholly-owned subsidiary, Rakuten Trade Sdn Bhd (formerly known as ECML Nominees (Asing) Sdn Bhd) ("Rakuten Trade"), to Rakuten Securities Inc. which acquired 50% equity interest of Rakuten Trade. As a result of loss of control over Rakuten Trade, the investment in subsidiary was derecognised and reclassified to investment in a joint venture/ jointly controlled company. The dilution of the equity interest in Rakuten Trade constituted a deemed disposal of the Bank's equity interest in subsidiary.

On 4 April 2016, ECML Nominees (Asing) Sdn Bhd has changed its name to EB Global JV Sdn Bhd. Subsequently on 16 February 2017, EB Global JV Sdn Bhd changed its name to Rakuten Trade Sdn Bhd.

(iii) Based on merger/common control accounting, 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 | |
|---|---|---|---|---|---|
| | | **2016 %** | **2015 %** | **2016 %** | **2015 %** |
| **Local subsidiary companies** | | | | | |
| Kenanga Deutsche Futures Sdn Bhd ("KDF") | Futures broker | **73** | 73 | **27** | 27 |
| Kenanga Nominees (Asing) Sdn Bhd | Provision of nominee services | **100** | 100 | **-** | - |
| Kenanga Nominees (Tempatan) Sdn Bhd | Provision of nominee services | **100** | 100 | **-** | - |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 14. INVESTMENT IN SUBSIDIARIES (CONT'D.)

| Name | Principal activities | Effective equity interest | | Non-controlling interest | |
|---|---|---|---|---|---|
| | | 2016 % | 2015 % | 2016 % | 2015 % |
| **Local Subsidiary Companies (cont'd.)** | | | | | |
| Kenanga Private Equity Sdn Bhd | Private equity | **100** | - | **-** | - |
| ECML Berhad | Dormant | **100** | 100 | **-** | - |
| ECML Nominees (Tempatan) Sdn Bhd | Dormant | **100** | 100 | **-** | - |
| Rakuten Trade Sdn Bhd (formerly known as ECML Nominees (Asing) Sdn Bhd) (Note 14 (ii)) | Dormant | **-** | 100 | **-** | - |
| Avenue Kestrel Sdn Bhd | Dormant | **100** | 100 | **-** | - |
| K & N Kenanga Holdings Berhad | Investment holding | **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** | - | **-** | - |
| Kenanga Investors Berhad | Promotion and management of collective investment schemes and management of investment funds | **100** | 100 | **-** | - |

# NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 14. INVESTMENT IN SUBSIDIARIES (CONT'D.)

| Name | Principal activities | Effective equity interest | | Non-controlling interest | |
|---|---|---|---|---|---|
| | | **2016 %** | **2015 %** | **2016 %** | **2015 %** |
| **The subsidiary companies of Kenanga Investors Berhad are:** | | | | | |
| Kenanga Islamic Investors Berhad | Managing Islamic collective investment schemes and Islamic investment funds | **100** | 100 | **-** | - |
| KUT Nominees (Tempatan) Sdn Bhd | Inactive | **100** | 100 | **-** | - |
| KUT Nominees (Asing) Sdn Bhd | Inactive | **100** | 100 | **-** | - |
| Kenanga Funds Berhad | Dormant | **100** | 100 | **-** | - |
| Kenanga Capital Sdn Bhd | Licensed money lender | **100** | - | **-** | - |
| **The subsidiary company of Kenanga Capital Sdn Bhd is:** | | | | | |
| Kenanga Capital Islamic Sdn Bhd | Islamic factoring and leasing | **100** | - | **-** | - |
| **Overseas subsidiary** | | | | | |
| Kenanga Singapore Pte. Ltd. * | Dormant | **100** | 100 | **-** | - |

* Audited by affiliate of Ernst & Young.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 14. INVESTMENT IN SUBSIDIARIES (CONT'D.)

### (a) Summarised financial statements

The summarised financial information of KDF which has non-controlling interests that are material to the Group is set out below. The summarised financial information presented below is the amount before inter-company elimination.

#### (i) Non-controlling interests ("NCI") in KDF

The Group's subsidiary that has material NCI are as follows:

| | KDF | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| **NCI percentage of ownership interest and voting interest** | **27%** | 27% |
| Carrying amount of NCI | **9,749** | 8,592 |
| Profit allocated to NCI | **487** | 1,157 |
| | **10,236** | 9,749 |
| Non-current assets | **2,255** | 2,070 |
| Current assets | **436,030** | 598,190 |
| Total assets | **438,285** | 600,260 |
| Current liabilities | **385,374** | 546,154 |
| Non-current liabilities | **15,000** | 18,000 |
| Total liabilities | **400,374** | 564,154 |
| Net assets | **37,911** | 36,106 |
| Equity attributable to the Bank | **27,675** | 26,357 |
| NCI | **10,236** | 9,749 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 14. INVESTMENT IN SUBSIDIARIES (CONT'D.)

### (a) Summarised financial statements (cont'd.)

#### (ii) Summarised statements of profit or loss and other comprehensive income

| | KDF | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Revenue | **19,491** | 24,382 |
| Profit for the financial year | **1,805** | 4,285 |
| Attributable to: | | |
| The Bank | **1,318** | 3,128 |
| NCI | **487** | 1,157 |
| Dividend paid to NCI | **-** | - |

#### (iii) Summarised statements of cash flows

| | KDF | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Operating activities | **5,321** | 3,634 |
| Investing activities | **(1,064)** | (41) |
| Financing activities | **(3,970)** | (6,110) |
| Net increase/(decrease) in cash and cash equivalents | **287** | (2,517) |

NOTES TO THE FINANCIAL STATEMENTS
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## 15. INVESTMENT IN ASSOCIATES

| | Group | | Bank | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000 Restated** | **2016 RM'000** | **2015 RM'000** |
| Unquoted shares at cost | **88,644** | 88,644 | **68,435** | 68,435 |
| Share of post acquisition losses | **(16,990)** | (16,981) | **-** | - |
| Share of changes in other comprehensive income | **(3,660)** | (6,768) | **-** | - |
| Dividends received | **(102)** | (100) | **-** | - |
| Foreign exchange differences | **24,389** | 21,653 | **-** | - |
| | **92,281** | 86,448 | **68,435** | 68,435 |
| Less: Accumulated impairment losses | **(19,610)** | (19,610) | **(12,200)** | (12,200) |
| | **72,671** | 66,838 | **56,235** | 56,235 |
| Represented by: | | | | |
| Share of net tangible assets | **72,671** | 66,838 | | |

(a) **Details of the associates are as follows:**

| Name | Place of incorporation | Principal activities | Effective equity interest 2016 % | Effective equity interest 2015 % |
|---|---|---|---|---|
| Kenanga Investment Corporation Ltd * | Sri Lanka | Investment banking related activities business | **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

\# Audited by member firms of Ernst & Young Global

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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 15. INVESTMENT IN ASSOCIATES (CONT'D.)

**(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 | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Current assets | **73,569** | 58,829 |
| Non-current assets | **171,182** | 165,119 |
| Total assets | **244,751** | 223,948 |
| Current liabilities * | **2,973** | 2,281 |
| Non-current liabilities | **-** | - |
| Total liabilities | **2,973** | 2,281 |
| Net assets | **241,778** | 221,667 |

* 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.

# NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 15. INVESTMENT IN ASSOCIATES (CONT'D.)

**(b) Summarised financial information of the material associate is as follows: (cont'd.)**

**(ii) Summarised statement of profit or loss and other comprehensive income**

| | Wasatah Capital | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Revenue | **18,019** | 29,011 |
| Profit for the financial year | **301** | 5,673 |
| Other comprehensive income | **10,550** | (27,556) |
| Total comprehensive income | **10,851** | (21,883) |

**(iii) Reconciliation of the summarised financial information presented above to the carrying amount of the Group's interest in the material associate**

| | Wasatah Capital | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Net assets at 1 January | **221,667** | 195,876 |
| Profit for the financial year | **301** | 5,673 |
| Other comprehensive income | **10,550** | (27,556) |
| Movement of foreign exchange reserve | **9,260** | 47,674 |
| Net assets at 31 December | **241,778** | 221,667 |
| Interest in associate | **29.60%** | 29.60% |
| Carrying value of Group's interest in associate | **71,566** | 65,613 |

**(c) Aggregate information of associates that are not individually material**

| | **2016 RM'000** | **2015 RM'000** |
|---|---|---|
| The Group's share of results in associates, representing share of total comprehensive loss | **(100)** | (133) |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 16. INVESTMENT IN A JOINT VENTURE COMPANY

| | Group 2016 RM'000 | Group 2015 RM'000 | Bank 2016 RM'000 | Bank 2015 RM'000 |
|---|---|---|---|---|
| Unquoted shares, at cost | | | | |
| At beginning of the financial year | - | - | - | - |
| Add: Acqusition of shares in a joint venture company | 7,500 | - | 7,500 | - |
| | 7,500 | - | 7,500 | - |
| Cumulative share of results | (538) | - | - | - |
| At the end of financial year | 6,962 | - | 7,500 | - |

**(a) Details of the joint venture company held by the Bank are as follows:**

| Name | Percentage (%) of equity held 2016 | Percentage (%) of equity held 2015 | Principal activities |
|---|---|---|---|
| Rakuten Trade Sdn Bhd (formerly known as ECML Nominees (Asing) Sdn Bhd) * | 50 | - | Dealing in listed securities, online brokerage services and providing investment advice |

* On 4 April 2016, ECML Nominees (Asing) Sdn Bhd has changed its name to EB Global JV Sdn Bhd. Subsequently on 16 February 2017, EB Global JV Sdn Bhd changed its name to Rakuten Trade Sdn Bhd.

**(b) The summarised assets and liabilities of the joint venture company are as follows:**

| | Group 2016 RM'000 | Group 2015 RM'000 |
|---|---|---|
| Total assets | 14,683 | - |
| Total liabilities | 760 | - |

**(c) The summarised income and expenses of the joint venture company are as follows:**

| | Group 2016 RM'000 | Group 2015 RM'000 |
|---|---|---|
| Revenue | - | - |
| Loss after taxation | (1,076) | - |

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 |
|---|---|---|---|---|---|---|---|---|---|
| **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
AS AT 31 DECEMBER 2016

## 17. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

| Group | 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 |
|---|---|---|---|---|---|---|---|---|
| **2015 (Restated)** | | | | | | | | |
| **Cost** | | | | | | | | |
| At 1 January 2015 | 500 | 8,544 | 97,531 | 43,849 | 703 | 31,067 | 9,591 | 191,785 |
| Adjustment | - | 4 | (3,304) | 555 | - | (11) | (90) | (2,846) |
| Additions | - | 567 | 1,651 | 833 | - | 852 | 2,069 | 5,972 |
| Reclassification | - | - | 5,908 | 220 | - | 370 | (6,498) | - |
| Disposals/write-off | - | (1,074) | (55,514) | (3,932) | - | (2,103) | - | (62,623) |
| Transfers | - | - | 90 | - | - | 68 | (158) | - |
| At 31 December 2015 | 500 | 8,041 | 46,362 | 41,525 | 703 | 30,243 | 4,914 | 132,288 |
| **Accumulated depreciation** | | | | | | | | |
| At 1 January 2015 | 131 | 6,955 | 75,436 | 34,604 | 703 | 14,027 | - | 131,856 |
| Adjustment | - | 4 | (2,550) | 543 | - | - | - | (2,003) |
| Depreciation charge for the financial year (Note 33) | 10 | 745 | 3,078 | 2,216 | - | 2,914 | - | 8,963 |
| Disposals/write-off | - | (1,011) | (37,316) | (2,946) | - | (953) | - | (42,226) |
| At 31 December 2015 | 141 | 6,693 | 38,648 | 34,417 | 703 | 15,988 | - | 96,590 |
| **Net carrying amount** | | | | | | | | |
| At 31 December 2015 | 359 | 1,348 | 7,714 | 7,108 | - | 14,255 | 4,914 | 35,698 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 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
AS AT 31 DECEMBER 2016

## 17. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

| Bank | 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 |
|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | |
| **Cost** | | | | | | | | |
| At 1 January 2015 | 500 | 6,526 | 89,688 | 42,997 | 703 | 26,295 | 9,270 | 175,979 |
| Additions | - | 202 | 1,399 | 247 | - | 485 | 2,029 | 4,362 |
| Reclassification | - | - | 5,908 | 220 | - | 297 | (6,425) | - |
| Disposals/write-off | - | (550) | (54,542) | (3,891) | - | (2,103) | - | (61,086) |
| At 31 December 2015 | 500 | 6,178 | 42,453 | 39,573 | 703 | 24,974 | 4,874 | 119,255 |
| **Accumulated depreciation** | | | | | | | | |
| At 1 January 2015 | 131 | 5,383 | 69,508 | 34,013 | 703 | 11,323 | - | 121,061 |
| Depreciation charge for the financial year (Note 33) | 10 | 524 | 2,786 | 2,084 | - | 2,350 | - | 7,754 |
| Disposals/write-off | - | (550) | (36,839) | (2,946) | - | (953) | - | (41,288) |
| At 31 December 2015 | 141 | 5,357 | 35,455 | 33,151 | 703 | 12,720 | - | 87,527 |
| **Net carrying amount** | | | | | | | | |
| At 31 December 2015 | 359 | 821 | 6,998 | 6,422 | - | 12,254 | 4,874 | 31,728 |

# NOTES TO THE FINANCIAL STATEMENTS
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## 18. INTANGIBLE ASSETS

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 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) | **1,083** | 993 | **-** | - |
| Trading and clearing rights for derivatives broking | (e) | **416** | 416 | **-** | - |
| At end of the financial year | | **266,922** | 266,832 | **305,409** | 305,409 |

### (a) Goodwill

| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At beginning/end 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

| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At beginning/end of the financial year | **52,500** | 52,500 | **52,500** | 52,500 |

### (c) Fund management contracts

| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At beginning/end of the financial year | **4,169** | 4,169 | **-** | - |

### (d) Computer software

| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At beginning of the financial year | **4,659** | 5,330 | **1,920** | 1,920 |
| Adjustment | **-** | 3,521 | **-** | - |
| Additions | **1,061** | 521 | **-** | - |
| Addition due to merger | **-** | - | **361** | - |
| Disposals/write-off | **(3)** | (4,713) | **-** | - |
| At end of the financial year | **5,717** | 4,659 | **2,281** | 1,920 |

## NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

### 18. INTANGIBLE ASSETS (CONT'D.)

**(d) Computer software (cont'd.)**

| | Group 2016 RM'000 | Group 2015 RM'000 Restated | Bank 2016 RM'000 | Bank 2015 RM'000 |
|---|---|---|---|---|
| **Accumulated amortisation** | | | | |
| At beginning of the financial year | **3,666** | 3,861 | **1,920** | 1,920 |
| Adjustment | **-** | 2,676 | **-** | - |
| Addition due to merger | **-** | - | **361** | - |
| Amortisation (Note 33) | **970** | 456 | **-** | - |
| Disposals/write-off | **(2)** | (3,327) | **-** | - |
| At end of the financial year | **4,634** | 3,666 | **2,281** | 1,920 |
| Net carrying amount | **1,083** | 993 | **-** | - |

**(e) Trading and clearing rights for derivatives broking**

| | Group 2016 RM'000 | Group 2015 RM'000 Restated | Bank 2016 RM'000 | Bank 2015 RM'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At beginning/end of the financial year | 416 | 416 | - | - |

**(f) Impairment test on intangible assets**

The intangible assets consist of:

Goodwill

Goodwill have been allocated to the following CGUs:

| | Group 2016 RM'000 | Group 2015 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 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 18. INTANGIBLE ASSETS (CONT'D.)

**(f) Impairment test on intangible assets (cont'd.)**

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.

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 do not exceed 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 9% (2015: 8%) 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 | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| At beginning of the financial year | **10,025** | 6,225 | **7,758** | 3,483 |
| Recognised in profit or loss (Note 40) | **1,525** | 2,984 | **1,246** | 3,459 |
| Recognised in other comprehensive income | **(1,709)** | 816 | **(1,709)** | 816 |
| Transfer from KNKH | **-** | - | **259** | - |
| At end of the financial year | **9,841** | 10,025 | **7,554** | 7,758 |
| Deferred tax assets | **9,841** | 10,025 | **7,554** | 7,758 |
| Deferred tax liabilities | **-** | - | **-** | - |
| | **9,841** | 10,025 | **7,554** | 7,758 |

Deferred tax assets and liabilities prior to offsetting are summarised as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Deferred tax assets | **12,910** | 11,824 | **10,686** | 9,157 |
| Deferred tax liabilities | **(3,069)** | (1,799) | **(3,132)** | (1,399) |
| | **9,841** | 10,025 | **7,554** | 7,758 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 19. DEFERRED TAXATION (CONT'D.)

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:**

| | Excess of capital allowances over depreciation RM'000 | Total RM'000 |
|---|---|---|
| At 1 January 2016 | **(1,799)** | **(1,799)** |
| Recognised in profit or loss | **(1,270)** | **(1,270)** |
| At 31 December 2016 | **(3,069)** | **(3,069)** |
| At 1 January 2015 | (5,248) | (5,248) |
| Recognised in profit or loss | 3,449 | 3,449 |
| At 31 December 2015 | (1,799) | (1,799) |

**Deferred tax assets of the Group:**

| | 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 2016 | **4,188** | **7,443** | **193** | **11,824** |
| Recognised in profit or loss | **-** | **2,795** | **-** | **2,795** |
| Recognised in other comprehensive income | **(1,709)** | **-** | **-** | **(1,709)** |
| At 31 December 2016 | **2,479** | **10,238** | **193** | **12,910** |
| At 1 January 2015 | 3,372 | 7,465 | 636 | 11,473 |
| Recognised in profit or loss | - | (22) | (443) | (465) |
| Recognised in other comprehensive income | 816 | - | - | 816 |
| At 31 December 2015 | 4,188 | 7,443 | 193 | 11,824 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 19. DEFERRED TAXATION (CONT'D.)

**Deferred tax liabilities of the Bank:**

| | Excess of capital allowances over depreciation RM'000 | Total RM'000 |
|---|---|---|
| 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)** |
| At 1 January 2015 | (5,297) | (5,297) |
| Recognised in profit or loss | 3,898 | 3,898 |
| At 31 December 2015 | (1,399) | (1,399) |

**Deferred tax assets of the Bank:**

| | 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 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** |
| At 1 January 2015 | 3,220 | 5,560 | - | 8,780 |
| Recognised in profit or loss | - | (439) | - | (439) |
| Recognised in other comprehensive income | 816 | - | - | 816 |
| At 31 December 2015 | 4,036 | 5,121 | - | 9,157 |

# NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 19. DEFERRED TAXATION (CONT'D.)

Deferred tax assets have not been recognised in respect of the following items:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Unutilised tax losses carried forward | **13,946** | 18,389 | **-** | - |
| Unutilised capital allowances carried forward | **883** | 652 | **-** | - |
| | **14,829** | 19,041 | **-** | - |

## 20. DEPOSITS FROM CUSTOMERS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Fixed term deposits | **2,295,897** | 327,501 | **2,300,906** | 327,501 |
| Short term money deposits | **996,415** | 2,893,940 | **1,060,606** | 2,965,123 |
| Negotiable instruments of deposits | **17,758** | 7,624 | **18,108** | 7,962 |
| | **3,310,070** | 3,229,065 | **3,379,620** | 3,300,586 |
| (i) The maturity structure is as follows: | | | | |
| Due within six months | **2,648,168** | 3,213,115 | **2,717,718** | 3,284,636 |
| Six months to one year | **661,902** | 15,950 | **661,902** | 15,950 |
| | **3,310,070** | 3,229,065 | **3,379,620** | 3,300,586 |
| (ii) The deposits are sourced from the following types of customers: | | | | |
| Government and statutory bodies | **119,396** | 262,791 | **119,396** | 262,791 |
| Individuals | **116,950** | 77,320 | **116,950** | 77,320 |
| Business enterprises | **941,713** | 680,073 | **961,713** | 700,073 |
| Non-bank financial institutions | **2,132,011** | 2,208,881 | **2,132,011** | 2,208,881 |
| Related companies | **-** | - | **49,550** | 51,521 |
| | **3,310,070** | 3,229,065 | **3,379,620** | 3,300,586 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 21. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

| | Group and Bank | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| Licensed banks | **210,000** | 140,000 |
| Licensed Islamic banks | **60,000** | - |
| Other financial institutions | **280,954** | 435,159 |
| | **550,954** | 575,159 |

## 22. BALANCES DUE TO CLIENTS AND BROKERS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Balances due to clients and brokers | **857,065** | 896,302 | **474,231** | 354,333 |

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 | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| **At fair value** | | |
| Dual currency investment - Options | **45** | 2 |
| Equity related contracts - Options | **47,361** | 72,276 |
| | **47,406** | 72,278 |
| **Contract/Notional amount** | | |
| Dual currency investment - Options | **17,407** | 1,588 |
| Equity related contracts - Options | **220,442** | 1,042,190 |
| | **237,849** | 1,043,778 |

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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 24. OTHER LIABILITIES

| | Note | Group 2016 RM'000 | Group 2015 RM'000 Restated | Bank 2016 RM'000 | Bank 2015 RM'000 |
|---|---|---|---|---|---|
| Hire purchase creditors | (a) | **-** | 28 | **-** | - |
| Interest/income payable | | **15,518** | 11,087 | **14,515** | 9,531 |
| Retention for contra losses | | **487** | 602 | **487** | 602 |
| Treasury trade payables | | **-** | 49,818 | **-** | 49,818 |
| Accruals and provisions | | **70,355** | 54,662 | **40,402** | 32,144 |
| Amount held in trust on behalf of: | | | | | |
| - Dealer's representatives | | **58,007** | 64,204 | **58,007** | 64,204 |
| Deposits and other creditors | | **66,227** | 56,681 | **58,378** | 38,233 |
| Amount due to trustee | | **4,107** | 9,296 | **-** | - |
| Amount due to: | | | | | |
| - subsidiaries | | **-** | - | **1** | 2,162 |
| | | **214,701** | 246,378 | **171,790** | 196,694 |

Amount due to all related parties comprise payments of expenses made on behalf of these related parties and are unsecured, non-interest bearing and repayable on demand.

### (a) Hire purchase creditors

| | Group 2016 RM'000 | Group 2015 RM'000 |
|---|---|---|
| **Future minimum finance lease payments:** | | |
| Not later than 1 year | **-** | 29 |
| | **-** | 29 |
| Less: Future finance charges | **-** | (1) |
| Present value of finance lease liabilities | **-** | 28 |
| **Analysis of present value of finance lease payments:** | | |
| Not later than 1 year | **-** | 28 |
| **Analysis as:** | | |
| Due within 12 months | **-** | 28 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 25. OBLIGATIONS ON SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

| | Group and Bank | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Financial investments available-for-sale (Note 7) | **27,253** | 95,310 |

## 26. BORROWINGS

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | **Note** | **2016 RM'000** | **2015 RM'000 Restated** | **2016 RM'000** | **2015 RM'000** |
| **Short term borrowings** | | | | | |
| Secured: | | | | | |
| Revolving bank loan | (a) | **75,200** | - | **75,200** | - |
| Unsecured: | | | | | |
| Revolving bank loans | (b) | **50,500** | 31,000 | **-** | - |
| Medium term notes | (c) | **40,000** | 110,000 | **40,000** | - |
| | | **165,700** | 141,000 | **115,200** | - |

(a) The revolving bank loan amounting to RM75.2 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 1.65% to 2.00% over KLIBOR (2015: 1.65% to 2.00% over KLIBOR) plus cost of maintaining statutory reserve and liquidity requirements and is payable on maturity of the loans. The maximum tenure for the loans is 30 days.

(c) On 13 August 2014, KNKH 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 transfered to KIBB. KIBB may from time to time issue debt under the Programme subject to availability of funds from the market.

The outstanding MTN under this programme as at 31 December 2016 are as follows:

| Issue Date | Series | RM'000 | Rate | Tenure |
|---|---|---|---|---|
| 29 June 2016 | 009 | 5,000 | 4.30% p.a. | 273 days |
| 26 August 2016 | 010 | 5,000 | 4.30% p.a. | 185 days |
| 19 September 2016 | 011 | 30,000 | 4.65% p.a. | 182 days |
| | | 40,000 | | |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 27. SHARE CAPITAL

| | Group and Bank | | | |
|---|---|---|---|---|
| | Number of Ordinary Shares | | Amount | |
| | 2016 '000 | 2015 '000 | 2016 RM'000 | 2015 RM'000 |
| **Authorised:** | | | | |
| Ordinary shares of RM1.00 | | | | |
| At 1 January | **800,000** | 800,000 | **800,000** | 800,000 |
| Par value adjustment | **-** | - | **(600,000)** | - |
| Ordinary shares of RM0.25* | **800,000** | 800,000 | **200,000** | 800,000 |
| Created during the financial year | **4,200,000** | - | **1,050,000** | - |
| | **5,000,000** | 800,000 | **1,250,000** | 800,000 |
| **Issued and fully paid:** | | | | |
| Ordinary shares of RM1.00 | | | | |
| At 1 January | **770,000** | 770,000 | **770,000** | 770,000 |
| Capital reduction | **(47,453)** | - | **(47,453)** | - |
| Par value adjustment | **-** | - | **(541,910)** | - |
| At 31 December, ordinary shares of RM0.25* | **722,547** | 770,000 | **180,637** | 770,000 |

* The ordinary shares for the financial year ended 31 December 2015 refers to ordinary shares of RM1.00 each.

The capital reduction, par value adjustment and increase in authorised share capital were in pursuant to KIBB's Capital Restructuring under the Group Internal Reorganisation. Subsequent to the par value adjustment, the Bank increased its authorised share capital from RM800,000,000 to RM1,250,000,000 by creation of additional 4,200,000,000 new ordinary shares which resulted to a total of 5,000,000,000 ordinary shares of RM0.25 each.

## NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

### 28. RESERVES

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| **Non-distributable:** | | | | | |
| Capital reserve | | **88,938** | 15,548 | **153,863** | - |
| Share premium | (a) | **65,500** | 65,500 | **65,500** | 65,500 |
| Statutory reserve | (b) | **465,741** | 94,623 | **465,741** | 94,623 |
| Available-for-sale deficit | (c) | **(11,034)** | (19,553) | **(7,373)** | (12,786) |
| Exchange reserve | (d) | **24,388** | 21,653 | **-** | - |
| Regulatory reserve | (e) | **23,929** | 22,111 | **23,929** | 22,111 |
| Reorganisation reserve | (f) | **-** | (103,666) | **-** | - |
| | | **657,462** | 96,216 | **701,660** | 169,448 |
| Retained profits/(Accumulated losses) | | **47,857** | (11,234) | **20,209** | (47, 895) |
| | | **705,319** | 84,982 | **721,869** | 121,553 |

The nature and purpose of each category of reserves are as follows:

(a) 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.

(b) 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.

(c) Available-for-sale reserve/(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.

(f) Reorganisation reserve arose from the effect of merger accounting whereby KIBB became the ultimate parent company after the Group Internal Reorganisation instead of K & N Kenanga Holdings Berhad.

### 29. OPERATING REVENUE

Revenue of the Bank comprises all types of revenue derived from brokerage income, 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 income, lending, treasury, investment and trading and other banking activities undertaken by the Bank, handling charges earned as nominee and agent for clients, fund management and sales of unit trust.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 30. INTEREST INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000 Restated** | **2016 RM'000** | **2015 RM'000** |
| Loans, advances and financing | | | | |
| - Interest income other than from recoveries from impaired loans | **144,550** | 135,014 | **137,286** | 129,178 |
| - Impaired loans, advances and financing | **-** | 259 | **-** | 259 |
| Money at call and deposit placements with financial institutions | **43,001** | 41,573 | **35,465** | 28,569 |
| Financial assets at fair value through profit or loss | **4,677** | 6,957 | **4,677** | 6,957 |
| Financial investments available-for-sale | **37,493** | 42,675 | **37,493** | 42,675 |
| Financial investments held-to-maturity | **2,102** | 1,605 | **2,102** | 1,605 |
| Others | **22,108** | 9,012 | **22,108** | 9,012 |
| | **253,931** | 237,095 | **239,131** | 218,255 |

## 31. INTEREST EXPENSE

| | Group | | Bank | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000 Restated** | **2016 RM'000** | **2015 RM'000** |
| Deposits from customers | **150,618** | 134,892 | **153,713** | 132,454 |
| Deposits and placements from banks and other financial institutions | **7,189** | 12,454 | **7,189** | 12,454 |
| Borrowings | **8,651** | 7,294 | **2,193** | - |
| | **166,458** | 154,640 | **163,095** | 144,908 |

# NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 32. OTHER OPERATING INCOME

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| (a) | Fee income: | | | | |
| | Brokerage fees | **143,049** | 186,387 | **143,049** | 186,346 |
| | Corporate advisory fees | **14,714** | 10,373 | **14,853** | 10,373 |
| | Processing fees on loans, advances and financing | **5,956** | 5,085 | **4,337** | 4,766 |
| | Underwriting commission | **-** | 3,258 | **-** | 3,258 |
| | Placement fees | **9,212** | 6,635 | **9,212** | 6,635 |
| | Guarantee fees | **-** | 9 | **-** | - |
| | Commissions | **12,436** | 17,421 | **-** | - |
| | Management fee income | **43,413** | 30,609 | **1,780** | 1,039 |
| | Other fee income | **11,280** | 11,837 | **8,626** | 8,416 |
| | | **240,060** | 271,614 | **181,857** | 220,833 |
| (b) | Investment and trading income/(loss): | | | | |
| | Net gain from sale of financial assets at fair value through profit or loss and derivatives | **56,835** | 3,194 | **58,075** | 3,194 |
| | Net gain from sale of financial investments available-for-sale | **15,283** | 2,207 | **15,283** | 2,207 |
| | Unrealised (loss)/gain on revaluation of financial assets at fair value through profit or loss and derivatives | **(18,591)** | 18,110 | **(18,591)** | 16,653 |
| | Gross dividend income from: | | | | |
| | - Financial assets at fair value through profit or loss | **1,653** | 3,233 | **957** | 1,408 |
| | - Financial investments available-for-sale | **753** | 568 | **753** | 568 |
| | - Subsidiary | **-** | - | **62** | - |
| | | **55,933** | 27,312 | **56,539** | 24,030 |
| (c) | Other income: | | | | |
| | Foreign exchange gain, net | **4,222** | 4,448 | **4,202** | 4,389 |
| | Gain on disposal of property, plant and equipment | **-** | 168 | **-** | 106 |
| | Other operating income | **197** | 45 | **416** | 594 |
| | Loss on dissolution of subsidiaries | **-** | (50) | **-** | - |
| | Loss on deemed disposal of a subsidiary | **-** | - | **(60)** | - |
| | Other non-operating income | | | | |
| | - Rental income | **2,790** | 1,112 | **5,686** | 4,283 |
| | - Others | **1,494** | 2,776 | **1,643** | 2,871 |
| | | **8,703** | 8,499 | **11,887** | 12,243 |
| | Total other operating income | **304,696** | 307,425 | **250,283** | 257,106 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 33. OTHER OPERATING EXPENSES

| | Group | | Bank | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000 Restated** | **2016 RM'000** | **2015 RM'000** |
| Personnel costs | | | | |
| - Salaries, allowances and bonuses | **116,244** | 111,365 | **87,702** | 80,473 |
| - EPF | **14,396** | 14,348 | **10,832** | 10,591 |
| - Others | **17,370** | 14,392 | **29,645** | 32,970 |
| | **148,010** | 140,105 | **128,179** | 124,034 |
| Establishment costs | | | | |
| - Depreciation of property, plant and equipment (Note 17) | **12,390** | 8,963 | **11,319** | 7,754 |
| - Amortisation of intangible assets (Note 18(d)) | **970** | 456 | **-** | - |
| - Rental of premises | **23,892** | 23,171 | **23,302** | 22,781 |
| - Rental of equipment | **616** | 588 | **272** | 294 |
| - Repairs and maintenance | **3,290** | 2,401 | **2,485** | 1,517 |
| - Information technology expenses | **11,740** | 10,952 | **11,321** | 10,717 |
| - Others | **7,662** | 5,284 | **5,290** | 3,136 |
| | **60,560** | 51,815 | **53,989** | 46,199 |
| Marketing expenses | | | | |
| - Promotion and advertisement | **8,525** | 8,596 | **4,186** | 3,968 |
| - Travel and entertainment | **3,578** | 4,014 | **2,320** | 2,777 |
| - Others | **1,378** | 1,149 | **853** | 689 |
| | **13,481** | 13,759 | **7,359** | 7,434 |
| Administration and general expenses | | | | |
| - Communication expenses | **6,030** | 6,748 | **5,281** | 5,935 |
| - Regulatory charges | **19,376** | 20,441 | **16,118** | 17,768 |
| - Printing and stationery | **1,827** | 1,803 | **1,361** | 1,293 |
| - Administrative expenses | **24,568** | 17,235 | **18,288** | 10,390 |
| - Professional fees and legal fees | **4,471** | 12,754 | **3,069** | 10,587 |
| - Fees and brokerage | **98,735** | 116,988 | **77,762** | 100,923 |
| | **155,007** | 175,969 | **121,879** | 146,896 |
| Total other operating expenses | **377,058** | 381,648 | **311,406** | 324,563 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 33. OTHER OPERATING EXPENSES (CONT'D.)

Included in the other operating expenses are the following:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Auditors' remuneration | | | | |
| - Statutory audit | **473** | 494 | **275** | 297 |
| - Assurance related | **57** | 73 | **25** | 21 |
| - Other services | **38** | 228 | **7** | 104 |
| Directors' remuneration (Note 39) | **5,942** | 5,840 | **2,125** | 1,588 |
| Rental of equipment | **616** | 588 | **272** | 294 |
| Property, plant and equipment written off | **4,844** | 657 | **2,988** | 657 |

## 34. (ALLOWANCE FOR)/WRITE BACK OF IMPAIRMENT ON LOANS, ADVANCES AND FINANCING

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| (Allowance for)/write back of impairment on loans, advances and financing: | | | | |
| - Collective allowance, net (Note 10 (ix)) | **(289)** | 23 | **(433)** | (23) |
| - Individual allowance, net (Note 10 (ix)) | **(740)** | 330 | **129** | 330 |
| Bad debts and financing recovered | **376** | 982 | **376** | 982 |
| | **(653)** | 1,335 | **72** | 1,289 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 35. WRITE BACK/(ALLOWANCE FOR) OF IMPAIRMENT ON BALANCES DUE FROM CLIENTS AND BROKERS AND OTHER RECEIVABLES

| | Group and Bank | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Individual allowance on clients and brokers | | |
| - Made during the financial year (Note 11) | **(3,288)** | (7,763) |
| - Written back during the financial year (Note 11) | **5,111** | 6,574 |
| | **1,823** | (1,189) |
| Impaired debts: | | |
| - Recovered on other receivables | **453** | 54 |
| - Write off during the financial years | **(366)** | - |
| Impairment allowance on other receivables | | |
| - Made during the financial year (Note 12) | **(3,134)** | (5,320) |
| - Written back during the financial year (Note 12) | **3,919** | 4,122 |
| | **785** | (1,198) |
| | **2,695** | (2,333) |

## 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 | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000 Restated** | **2016 RM'000** | **2015 RM'000** |
| **Transactions** | | | | |
| **Income earned:** | | | | |
| Brokerage fees | | | | |
| - Key management personnel | **4** | 25 | **4** | 25 |
| Corporate advisory fees: | | | | |
| - Subsidiaries | **-** | - | **169** | - |
| - Other related parties | **-** | 600 | **-** | 600 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 36. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D.)

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| **Transactions (cont'd.)** | | | | |
| **Income earned: (cont'd.)** | | | | |
| Fees on loans, advances and financing: | | | | |
| - Subsidiaries | **-** | - | **207** | 283 |
| Placement income: | | | | |
| - Subsidiaries | **-** | - | **278** | 159 |
| - Other related party | **-** | 90 | **-** | 90 |
| Management fee income: | | | | |
| - Subsidiary | **-** | - | **5** | 268 |
| Other income: | | | | |
| - Subsidiaries | **-** | - | **76** | 134 |
| Interest on loans, advances and financing: | | | | |
| - Subsidiaries | **-** | - | **4,058** | 2,968 |
| - Other related party | **-** | 368 | **-** | 368 |
| Group support services charged: | | | | |
| - Subsidiaries | **-** | - | **5,625** | 6,191 |
| Dividend income: | | | | |
| - Subsidiary | **-** | - | **62** | - |
| Rental of office premises: | | | | |
| - Subsidiaries | **-** | - | **3,070** | 3,171 |
| Rental of equipment: | | | | |
| - Subsidiary | **-** | - | **13** | 60 |
| Service charge: | | | | |
| - Subsidiary | **-** | - | **219** | 217 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

### 36. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D.)

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| **Expenditure incurred:** | | | | |
| Interest on deposits and placements: | | | | |
| - Subsidiaries | **-** | - | **1,878** | 1,653 |
| - Other related parties | **-** | 275 | **-** | 275 |
| Group support services incurred: | | | | |
| - Subsidiaries | **-** | - | **22,922** | 28,597 |
| Service charge: | | | | |
| - Related company | **-** | - | **-** | 41 |
| **Balances** | | | | |
| Amount due from: | | | | |
| Loans, advances and financing: | | | | |
| - Subsidiaries | **-** | - | **71,500** | 56,621 |
| Amount due to: | | | | |
| Deposits and placements: | | | | |
| - Subsidiary | **-** | - | **49,550** | 51,521 |
| - Key management personnel | **-** | 455 | **-** | 455 |
| Balances due to clients and brokers | | | | |
| - Key management personnel | **145** | 4 | **-** | 4 |
| Interest payable on deposits: | | | | |
| - Subsidiaries | **-** | - | **84** | 59 |

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## 36. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D.)

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) Other related parties

| Name | Relationship |
|---|---|
| CMS Capital Sdn Bhd | Substantial shareholder of the Bank |
| Cahya Mata Sarawak Berhad | Holding company of CMS Capital Sdn Bhd, a substantial shareholder of the Bank |

KNKH became a wholly-owned subsidiary of the Bank effective from 1 November 2016 as disclosed in Note 1 of the financial statements.

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.

## 37. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

| | Group and Bank | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Outstanding credit exposures with connected parties | **253,809** | 179,071 |
| Percentage of outstanding credit exposures to connected parties: | | |
| - as a proportion of total credit exposures | **6.91%** | 5.18% |
| - 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.

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## 37. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES (CONT'D.)

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.

## 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 | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Short term employee benefits | **15,451** | 16,481 | **6,566** | 5,823 |
| Post-employment benefits: | | | | |
| EPF | **2,221** | 2,274 | **963** | 845 |
| | **17,672** | 18,755 | **7,529** | 6,668 |

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. The key management personnel of the Group and of the Bank include all executive Directors and certain members of senior management.

NOTES TO THE FINANCIAL STATEMENTS
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## 39. DIRECTORS' REMUNERATION

Remuneration in aggregate for Directors charged to profit or loss for the financial year is as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| **Directors of the Bank:** | | | | |
| Executive directors' remuneration: | | | | |
| - Other emoluments | **2,394** | 2,585 | **252** | - |
| Non-executive directors' remuneration: | | | | |
| - Fees | **3,006** | 2,826 | **1,711** | 1,499 |
| - Other remuneration, including meeting allowance | **282** | 208 | **134** | 89 |
| Total directors' remuneration | **5,682** | 5,619 | **2,097** | 1,588 |
| Estimated money value of benefits-in-kind | **260** | 221 | **28** | - |
| Total for directors of the Bank (Note 33) | **5,942** | 5,840 | **2,125** | 1,588 |

The total remuneration (including benefits-in-kind) of the directors of the Company are as follows:

| | Remuneration received from Group | | | | | |
|---|---|---|---|---|---|---|
| | Fees RM'000 | Salaries RM'000 | Other Emolument RM'000 | Bonus RM'000 | Benefits-in-kind RM'000 | Group Total RM'000 |
| **31 December 2016** | | | | | | |
| **Executive Director:** | | | | | | |
| Datuk Chay Wai Leong | - | 1,512 | 378 | 504 | 91 | 2,485 |
| **Non-Executive Directors:** | | | | | | |
| Tengku Dato' Paduka 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 |

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## 39. DIRECTORS' REMUNERATION (CONT'D.)

The total remuneration (including benefits-in-kind) of the directors of the Company are as follows: (cont'd.)

| | Remuneration received from Group | | | | | |
|---|---|---|---|---|---|---|
| | Fees RM'000 | Salaries RM'000 | Other Emolument RM'000 | Bonus RM'000 | Benefits-in-kind RM'000 | Group Total RM'000 |
| **31 December 2015** | | | | | | |
| **Executive Director:** | | | | | | |
| Datuk Chay Wai Leong | - | 1,512 | 317 | 756 | 93 | 2,678 |
| **Non-Executive Directors:** | | | | | | |
| Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail | 490 | - | 19 | - | 97 | 606 |
| Datuk Syed Ahmad Alwee Alsree | 510 | - | 29 | - | 31 | 570 |
| The Late Raja Dato' Seri Abdul Aziz Bin Raja Salim | 77 | - | 7 | - | - | 84 |
| Dato' Richard Alexander John Curtis | 300 | - | 24 | - | - | 324 |
| Datuk Kevin How Kow | 378 | - | 31 | - | - | 409 |
| Luigi Fortunato Ghirardello | 388 | - | 36 | - | - | 424 |
| Ismail Harith Merican | 330 | - | 32 | - | - | 362 |
| Luk Wai Hong, William | 353 | - | 30 | - | - | 383 |
| **Total Directors' remuneration** | 2,826 | 1,512 | 525 | 756 | 221 | 5,840 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 40. TAXATION AND ZAKAT

| | Group | | Bank | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Current income tax: | | | | |
| Tax expense for the financial year | **12,706** | 7,870 | **11,812** | 5,933 |
| Under provision in prior financial years | **819** | 700 | **690** | 23 |
| | **13,525** | 8,570 | **12,502** | 5,956 |
| Deferred tax (Note 19): | | | | |
| Relating to origination and reversal of temporary differences | **(2,208)** | (1,948) | **(2,228)** | (1,668) |
| Effect of changes in tax rate | **-** | 97 | **-** | 46 |
| Over/(under) provision of deferred tax assets in prior financial years | **683** | (1,133) | **982** | (1,837) |
| | **(1,525)** | (2,984) | **(1,246)** | (3,459) |
| Zakat | **330** | 176 | **330** | 176 |
| Total income tax expense | **12,330** | 5,762 | **11,586** | 2,673 |

Domestic income tax is calculated at the statutory tax rate of 24% (2015: 25%) on the estimated chargeable profit for the financial year.

## 40. TAXATION AND ZAKAT (CONT'D.)

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 | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| Profit before taxation and zakat | **32,537** | 18,223 | **33,613** | 14,289 |
| Taxation at Malaysian statutory income tax rate of 24% (2015: 25%) | **7,809** | 4,556 | **8,067** | 3,572 |
| Effect of income not subject to tax | **(1,309)** | (1,428) | **(624)** | (753) |
| Effect of changes in tax rate | **-** | 97 | **-** | 46 |
| Effect of expenses not deductible for tax purposes | **4,811** | 2,592 | **2,141** | 1,446 |
| Utilisation of previously unrecognised tax loss and unabsorbed capital allowances | **(1,569)** | (845) | **-** | - |
| Deferred tax asset not recognised on unutilised business losses | **640** | 940 | **-** | - |
| Deferred tax asset not recognised on unabsorbed capital allowances | **116** | 107 | **-** | - |
| Over/(under) provision of deferred tax assets in prior financial years | **683** | (1,133) | **982** | (1,837) |
| Under provision of income tax expense in prior financial years | **819** | 700 | **690** | 23 |
| Tax expense for the financial year | **12,000** | 5,586 | **11,256** | 2,497 |
| Zakat | **330** | 176 | **330** | 176 |
| Tax expense and zakat for the financial year | **12,330** | 5,762 | **11,586** | 2,673 |
| Tax savings during the financial year arising from: | | | | |
| Utilisation of current financial year losses | **503** | 684 | **-** | - |
| Utilisation of tax losses brought forward from previous financial year | **6,498** | 778 | **-** | - |

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## 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 | |
|---|---|---|
| | **2016** | **2015** |
| Profit for the financial year attributable to equity holders of the Bank (RM'000) | **19,720** | 11,304 |
| Weighted average number of ordinary shares in issue ('000) | **762,091** | 770,000 |
| Basic and diluted earnings per share (sen) | **2.59** | 1.47 |

Diluted earnings per share is the same as basic earnings per share as there are no dilutive potential ordinary shares during the financial year.

## 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 | |
|---|---|---|---|---|
| | **2016 Principal amount RM'000** | **2015 Principal amount RM'000** | **2016 Principal amount RM'000** | **2015 Principal amount RM'000** |
| Obligations under underwriting agreements | **9,380** | - | **9,380** | - |
| Commitments to extend credit with maturity of less than 1 year: | | | | |
| - margin | **1,656,405** | 1,400,821 | **1,656,405** | 1,400,821 |
| - corporate loan | **-** | 57,000 | **43,500** | 57,000 |
| - foreign exchange related contract | **44,858** | 123,114 | **44,858** | 123,114 |
| - equity exchange related contract | **127,966** | 35,350 | **127,966** | 35,350 |
| Commitments to extend credit with maturity of more than 1 year: | | | | |
| - term loan | **347** | 7,249 | **25,347** | 37,249 |
| - equity exchange related contract | **1,145** | - | **1,145** | - |
| Miscellaneous commitments | **665,738** | 597,665 | **665,738** | 597,665 |

NOTES TO THE FINANCIAL STATEMENTS
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## 42. COMMITMENTS AND CONTINGENCIES (CONT'D.)

As at reporting date, the commitment and contingencies are as follows: (cont'd.)

| | Group | | Bank | |
|---|---|---|---|---|
| | **2016 Principal amount RM'000** | **2015 Principal amount RM'000** | **2016 Principal amount RM'000** | **2015 Principal amount RM'000** |
| Derivative financial assets (Note 9): | | | | |
| - dual currency investment - options | **17,407** | 1,588 | **17,407** | 1,588 |
| - equity related contracts - options | **93,636** | 13,762 | **93,636** | 13,762 |
| - equity related contracts - swap | **57,262** | - | **57,262** | - |
| Derivative financial liabilities (Note 23): | | | | |
| - dual currency investment - options | **17,407** | 1,588 | **17,407** | 1,588 |
| - equity related contracts - options | **220,442** | 1,042,190 | **220,442** | 1,042,190 |
| | **2,911,993** | 3,280,327 | **2,980,493** | 3,310,327 |

## 43. CONTINGENT LIABILITIES

| | Group and Bank | |
|---|---|---|
| | **2016 RM'000** | **2015 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** | 1,407 |
| (b) On 24 December 2008, the Bank was served with a writ of summons from an individual alleging that the Bank's nominated agent in trust represented that the Bank was the placement agent for the IPO shares of five listed companies. Payments for the shares were purportedly made to the nominated agent in trust. The Bank was never appointed as placement agent for the five mentioned IPOs. The individual alleges non-receipt of the IPO shares or any sales proceeds therefrom. The trial for this matter has been concluded with the High Court's Judgment against the Bank on 1 February 2015. On 15 February 2015, the Bank lodged an appeal to the Court of Appeal against the said Judgment. On 6 March 2015, the High Court Judge granted a conditional stay of the effect of the Judgment pending the outcome of the Bank's appeal to the Court of Appeal. On 30 June 2016, the Court of Appeal granted the Bank's appeal with costs. On 30 July 2016, the Plaintiff filed a Notice of Motion for leave to appeal to the Federal Court against the decision of the Court of Appeal. The Federal Court has on 28 September 2016, dismissed the client's appeal against the High Court's decision to dismiss his counterclaim against the Bank. Thus, this case shall no longer be regarded as a contingent liability to the Bank. | **-** | 4,220 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 43. CONTINGENT LIABILITIES (CONT'D.)

| | Group and Bank 2016 RM'000 | Group and Bank 2015 RM'000 |
|---|---|---|
| (c) 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 (d) below. | **2,050** | 2,050 |
| (d) 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 and the matter is fixed for hearing on 11 May 2017. | **1,054** | 1,054 |

Based on legal advice obtained, the Board of Directors are of the opinion that the Bank has good grounds to defend these claims and that no provisions are necessary as at reporting date.

## 44. CAPITAL AND OTHER COMMITMENTS

Capital expenditure approved by directors but not provided for in the financial statements amounted to:

| | Group 2016 RM'000 | Group 2015 RM'000 Restated | Bank 2016 RM'000 | Bank 2015 RM'000 |
|---|---|---|---|---|
| Capital expenditure: | | | | |
| Authorised and contracted for | **11,339** | 4,470 | **11,043** | 4,426 |

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## 45. 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 | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| **Future minimum rental payable:** | | | | |
| Within one year | **9,442** | 23,241 | **9,442** | 23,241 |
| Between one and five years | **3,058** | 17,271 | **3,058** | 17,271 |
| | **12,500** | 40,512 | **12,500** | 40,512 |
| **Future minimum sublease receipts:** | | | | |
| K & N Kenanga Holdings Berhad * | **-** | - | **-** | 4,405 |
| Subsidiaries | **-** | - | **4,674** | - |
| Related companies | **-** | - | **-** | 352 |
| External parties | **1,136** | 3,156 | **1,136** | 3,156 |
| | **1,136** | 3,156 | **5,810** | 7,913 |

The operating lease of the Group's and the Bank's principal office premises is for an initial period of 10 years with an option to renew for another 5 years and subject to rates revision every 3 years. The lease will expire on 10 June 2017.

* KNKH became a wholly-owned subsidiary of KIBB effective from 1 November 2016 as disclosed in Note 1 of the financial statements.

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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:

| | 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 | Related accounts not set off in the statement of financial position: Cash collateral received RM'000 | Net amount RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **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** |
| **2015** | | | | | | |
| Balances due from clients and brokers (Note 11) | 956,700 | (499,373) | 457,327 | 5,461,827 | 144,004 | - |
| Balances due to clients and brokers (Note 22) | 1,750,007 | (853,705) | 896,302 | - | - | 896,302 |
| **Bank** | | | | | | |
| **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** |
| **2015** | | | | | | |
| Balances due from clients and brokers (Note 11) | 956,700 | (499,373) | 457,327 | 5,461,827 | 144,004 | - |
| Balances due to clients and brokers (Note 22) | 1,208,038 | (853,705) | 354,333 | - | - | 354,333 |

NOTES TO THE FINANCIAL STATEMENTS
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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 | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000 Restated** | **2016 RM'000** | **2015 RM'000** |
| The capital adequacy ratios of the Group and Bank are as follows: | | | | |
| **Before deducting proposed dividend:** | | | | |
| CET 1 capital ratio | **28.176%** | 27.351% | **26.199%** | 28.359% |
| Tier 1 capital ratio | **28.176%** | 27.351% | **26.199%** | 28.359% |
| Total capital ratio | **28.176%** | 27.351% | **26.199%** | 28.359% |
| **After deducting proposed dividend:** | | | | |
| CET 1 capital ratio | **27.295%** | n/a | **25.250%** | n/a |
| Tier 1 capital ratio | **27.295%** | n/a | **25.250%** | n/a |
| Total capital ratio | **27.295%** | n/a | **25.250%** | n/a |

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## 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 | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 Restated | 2016 RM'000 | 2015 RM'000 |
| **CET 1 capital/Tier 1 capital** | | | | |
| Paid-up share capital | **180,637** | 770,000 | **180,637** | 770,000 |
| Share premium | **65,500** | 65,500 | **65,500** | 65,500 |
| Retained earnings/(accumulated losses) | **47,857** | (11,234) | **20,209** | (47,895) |
| Other reserves | **591,962** | 30,716 | **636,160** | 103,948 |
| Less: Goodwill | **(208,754)** | (208,754) | **(252,909)** | (252,909) |
| Deferred tax assets | **(9,841)** | (10,025) | **(7,554)** | (7,758) |
| Other intangibles | **(58,168)** | (58,078) | **(52,500)** | (52,500) |
| Regulatory reserve | **(23,929)** | (22,111) | **(23,929)** | (22,111) |
| Deduction in excess of Tier 2 * | **(65,313)** | (54,664) | **(116,876)** | (104,990) |
| Total CET 1/Tier 1 capital | **519,951** | 501,350 | **448,738** | 451,285 |
| **Tier 2 Capital** | | | | |
| Collective allowance and regulatory reserve | **14,320** | 12,174 | **13,809** | 11,105 |
| Less: Regulatory adjustments applied to Tier 2 capital | **(14,320)** | (12,174) | **(13,809)** | (11,105) |
| Total Tier 2 capital | **-** | - | **-** | - |
| **Total Capital** | **519,951** | 501,350 | **448,738** | 451,285 |

* 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).

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## 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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Notional RM'000 | Risk-weighted RM'000 | Notional RM'000 | Risk-weighted RM'000 |
| **Group** | | | | |
| Credit risk | **4,273,833** | **1,145,590** | 4,434,090 | 973,890 |
| Market risk | **-** | **154,586** | - | 318,741 |
| Operational risk | **-** | **545,211** | - | 540,421 |
| **Total Risk Weighted Assets** | **4,273,833** | **1,845,387** | 4,434,090 | 1,833,052 |
| **Bank** | | | | |
| Credit risk | **3,933,702** | **1,104,691** | 3,906,967 | 888,384 |
| Market risk | **-** | **154,586** | - | 264,206 |
| Operational risk | **-** | **453,526** | - | 438,746 |
| **Total Risk Weighted Assets** | **3,933,702** | **1,712,804** | 3,906,967 | 1,591,336 |

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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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **Group** | **Carrying amount RM'000** | **Fair value RM'000** | **Carrying amount RM'000 Restated** | **Fair value RM'000 Restated** |
| **Financial assets** | | | | |
| Cash and bank balances | **1,229,928** | **1,229,928** | 1,367,926 | 1,367,926 |
| Financial assets at fair value through profit or loss | **381,588** | **381,588** | 338,573 | 338,573 |
| Financial investments available-for-sale | **944,364** | **944,364** | 1,249,661 | 1,249,661 |
| Financial investments held-to-maturity | **40,000** | **40,026** | 40,003 | 39,922 |
| Derivative financial assets | **39,117** | **39,117** | 2,910 | 2,910 |
| Loans, advances and financing | **2,105,584** | **2,102,439** | 1,930,064 | 1,856,969 |
| Balances due from clients and brokers | **445,005** | **445,005** | 457,327 | 457,327 |
| Other assets | **229,112** | **229,112** | 146,360 | 146,360 |
| Statutory deposit with Bank Negara Malaysia | **99,504** | **99,504** | 120,753 | 120,753 |
| **Financial liabilities** | | | | |
| Deposits from customers | **3,310,070** | **3,310,070** | 3,229,065 | 3,229,065 |
| Deposits and placements of banks and other financial institutions | **550,954** | **550,954** | 575,159 | 575,159 |
| Other liabilities | **15,518** | **15,518** | 11,087 | 11,087 |
| Balances due to clients and brokers | **857,065** | **857,065** | 896,302 | 896,302 |
| Obligations on securities sold under repurchase agreements | **27,253** | **27,253** | 95,310 | 95,310 |
| Borrowings | **165,700** | **168,906** | 141,000 | 140,963 |
| Derivatives financial liabilities | **47,406** | **47,406** | 72,278 | 72,278 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 48. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **Bank** | **Carrying amount RM'000** | **Fair value RM'000** | **Carrying amount RM'000** | **Fair value RM'000** |
| **Financial assets** | | | | |
| Cash and bank balances | **951,748** | **951,748** | 854,360 | 854,360 |
| Financial assets at fair value through profit or loss | **381,588** | **381,588** | 318,742 | 318,742 |
| Financial investments available-for-sale | **937,704** | **937,704** | 1,249,661 | 1,249,661 |
| Financial investments held-to-maturity | **40,000** | **40,026** | 40,003 | 39,922 |
| Derivative financial assets | **39,117** | **39,117** | 2,910 | 2,910 |
| Loans, advances and financing | **2,065,886** | **2,062,740** | 1,878,665 | 1,875,428 |
| Balances due from clients and brokers | **445,005** | **445,005** | 457,327 | 457,327 |
| Other assets | **72,582** | **72,582** | 32,384 | 32,384 |
| Statutory deposit with Bank Negara Malaysia | **99,504** | **99,504** | 120,753 | 120,753 |
| **Financial liabilities** | | | | |
| Deposits from customers | **3,379,620** | **3,379,620** | 3,300,586 | 3,300,586 |
| Deposits and placements of banks and other financial institutions | **550,954** | **550,954** | 575,159 | 575,159 |
| Balances due to clients and brokers | **474,231** | **474,231** | 354,333 | 354,333 |
| Other liabilities | **14,515** | **14,515** | 9,531 | 9,531 |
| Obligations on securities sold under repurchase agreements | **27,253** | **27,253** | 95,310 | 95,310 |
| Borrowings | **115,200** | **118,334** | - | - |
| Derivatives financial liabilities | **47,406** | **47,406** | 72,278 | 72,278 |

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.

# NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 48. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

The methods and assumptions used in estimating the fair values of financial instruments are as follows: (cont'd.)

**(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.

**(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
AS AT 31 DECEMBER 2016

## 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.

As a result of an internal re-organisation, there is a change in business segment reporting. The Group has been re-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 management - Management of funds and unit trusts; and

(vi) Corporate and others - Support services comprise all middle and back office functions those costs are not allocated out to business segments and include business operations conducted by the Group's associates in the Kingdom of Saudi Arabia, Vietnam and Sri Lanka.

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 a 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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 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:

| | Investment banking RM'000 | Stock broking RM'000 | Futures broking RM'000 | Money lending and financing RM'000 | Investment management RM'000 | Corporate and Others RM'000 | Eliminations/ consolidation adjustments RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | |
| **Revenue** | | | | | | | | |
| External sales | 238,553 | 250,634 | 19,585 | 13,713 | 43,209 | 19,623 | - | 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 | 44,679 | 45,615 | (33,631) | 585,317 |
| **Result** | | | | | | | | |
| Net income | 82,794 | 238,198 | 20,298 | 6,245 | 45,992 | 44,439 | (29,864) | 408,102 |
| Other operating expenses | (43,477) | (220,629) | (17,689) | (4,743) | (50,669) | (69,715) | 29,864 | (377,058) |
| (Allowance for)/write back of impairment on loans, advances and financing | (600) | 140 | - | (869) | - | 532 | 144 | (653) |
| Write back of/(allowance for) impairment on balances due from clients and brokers and other receivables | 30 | 1,838 | - | - | - | 827 | - | 2,695 |
| Share of results of associates and joint ventures | - | - | - | - | - | (549) | - | (549) |
| Profit/(loss) before taxation and zakat | 38,747 | 19,547 | 2,609 | 633 | (4,677) | (24,466) | 144 | 32,537 |
| Taxation and zakat | | | | | | | | (12,330) |
| **Net profit for the financial year** | | | | | | | | 20,207 |
| **Other information** | | | | | | | | |
| Net interest and finance income | 23,225 | 44,463 | 7,847 | 3,979 | 1,057 | 11,862 | - | 92,433 |
| Depreciation and amortisation | 820 | 5,639 | 692 | 15 | 845 | 5,349 | - | 13,360 |
| Non cash expenses | | | | | | | | |
| - Unrealised gains/(losses) on revaluation of financial assets at fair value through profit or loss and derivatives | 295 | (17,181) | - | - | - | (1,764) | - | (18,650) |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 49. SEGMENTAL REPORTING (CONT'D.)

| | Investment banking and stockbroking RM'000 | Futures broking RM'000 | Money lending and financing RM'000 | Investment management RM'000 | Corporate and Others RM'000 | Eliminations RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | |
| **Assets** | | | | | | | |
| Investment in an associate | - | - | - | - | 72,671 | - | 72,671 |
| Investment in joint venture | - | - | - | - | 6,962 | - | 6,962 |
| Addition to non-current assets | 47,070 | 1,089 | 21 | 495 | 128,871 | - | 177,545 |
| Segments assets | 5,669,008 | 438,285 | 125,515 | 61,345 | 20,139 | (244,512) | 6,069,780 |
| **Liabilities** | | | | | | | |
| Segment liabilities | 4,766,502 | 400,374 | 114,420 | 27,491 | 7,011 | (142,210) | 5,173,588 |

| | Investment banking RM'000 | Stock broking RM'000 | Futures broking RM'000 | Money lending and financing RM'000 | Investment management RM'000 | Corporate and Others RM'000 | Eliminations RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | |
| **Revenue** | | | | | | | | |
| External sales | 197,700 | 269,245 | 29,924 | 11,623 | 30,317 | 24,179 | - | 562,988 |
| Inter segment sales | 3,296 | 418 | 1,387 | (42) | 1,176 | 35,107 | (41,342) | - |
| **Total revenue** | 200,996 | 269,663 | 31,311 | 11,581 | 31,493 | 59,286 | (41,342) | 562,988 |
| **Result** | | | | | | | | |
| Net income | 57,210 | 257,265 | 25,021 | 4,700 | 32,804 | 59,390 | (37,067) | 399,323 |
| Other operating expenses | (43,421) | (240,228) | (19,307) | (4,691) | (39,034) | (71,145) | 36,178 | (381,648) |
| (Allowance for)/write back of impairment on loans, advances and financing | (23) | 812 | - | - | - | 499 | 47 | 1,335 |
| Write back of/(allowance for) impairment on balances due from clients and brokers and other receivables | 367 | (1,134) | - | - | - | (1,566) | - | (2,333) |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 49. SEGMENTAL REPORTING (CONT'D.)

| | Investment banking RM'000 | Stock broking RM'000 | Futures broking RM'000 | Money lending and financing RM'000 | Investment management RM'000 | Corporate and Others RM'000 | Eliminations RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2015 (cont'd.)** | | | | | | | | |
| **Result (cont'd.)** | | | | | | | | |
| Share of results of associates | - | - | - | - | - | 1,546 | - | 1,546 |
| Profit/(loss) before taxation and zakat | 14,133 | 16,715 | 5,714 | 9 | (6,230) | (11,276) | (842) | 18,223 |
| Taxation and zakat | | | | | | | | (5,762) |
| **Net profit for the financial year** | | | | | | | | 12,461 |
| **Other information** | | | | | | | | |
| Net interest and finance income | 18,882 | 42,186 | 7,548 | 1,886 | 1,203 | 14,408 | - | 86,113 |
| Depreciation and amortisation | 652 | 5,226 | 144 | 19 | 970 | 2,408 | - | 9,419 |
| Non cash expenses | | | | | | | | |
| - Unrealised (losses)/gains on revaluation of financial assets at fair value through profit or loss and derivatives | (189) | 15,099 | - | - | - | 3,030 | - | 17,940 |

| | Investment banking and stockbroking RM'000 | Futures broking RM'000 | Money lending and financing RM'000 | Investment management RM'000 | Corporate and Others RM'000 | Eliminations RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Investment in an associate | - | - | - | - | 66,838 | - | 66,838 |
| Addition to non-current assets | 4,362 | 15 | 15 | 770 | 1,331 | - | 6,493 |
| Segments assets | 5,486,089 | 600,260 | 146,160 | 63,496 | 884,362 | (1,059,412) | 6,120,955 |
| **Liabilities** | | | | | | | |
| Segment liabilities | 4,594,535 | 564,154 | 135,570 | 25,592 | 131,998 | (195,625) | 5,256,224 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 49. SEGMENTAL REPORTING (CONT'D.)

**Notes**

**A** Additions to non-current assets consist of:

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Property, plant and equipment | | |
| - Additions during the financial year | **176,484** | 5,972 |
| Intangible assets | | |
| - Additions during the financial year | **1,061** | 521 |
| | **177,545** | 6,493 |

**B** The following items are (added to)/deducted from segment assets to arrive at total assets reported in the consolidated statement of financial position:

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Investment in subsidiaries | **(76,741)** | (832,789) |
| Investment in associates and joint venture | **14,711** | 9,416 |
| Intangible assets | **(40,095)** | (40,095) |
| Inter-segment assets | **(142,387)** | (195,944) |
| | **(244,512)** | (1,059,412) |

**C** The following items are deducted from segment liabilities to arrive at total liabilities reported in the consolidated statement of financial position:

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Deposits accepted from subsidiaries | **(69,550)** | (71,521) |
| Inter-segment liabilities | **(72,660)** | (124,104) |
| | **(142,210)** | (195,625) |

## 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 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.

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 controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Group's associations to customers with creditworthiness. Balance due from clients and brokers are monitored on an ongoing basis via Group's management reporting procedures. The Group through its directors and management, reviews all significant exposure to individual customers and counterparties and reviews 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 exposures 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
AS AT 31 DECEMBER 2016

## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (a) Credit risk (cont'd.)

**Industry analysis as at 31 December 2016**

| 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 | - | - | - | - | - | - | 1,229,928 | - | 1,229,928 |
| 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 bonds | - | - | - | - | - | - | - | 14,668 | 14,668 |
| Islamic corporate bills | - | - | - | - | 24,969 | - | - | - | 24,969 |
| Securities quoted in Malaysia | 14,232 | 9,526 | 32,500 | - | 52 | 70,121 | 10,653 | 54,494 | 191,578 |
| Securities quoted outside Malaysia | - | - | - | - | - | - | - | 19,632 | 19,632 |
| 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 | - | - | 326,617 | 370,209 |
| Islamic term loans | - | - | - | - | - | - | - | 135,139 | 135,139 |
| Share margin financing | - | 23,674 | - | - | 59,285 | - | - | 1,406,496 | 1,489,455 |
| Others | - | - | - | - | - | - | 35,917 | 75,292 | 111,209 |
| Financial investments available-for-sale | | | | | | | | | |
| Malaysian Government Securities | - | - | - | - | - | - | 19,566 | - | 19,566 |
| Malaysian Government Investment Certificates | - | - | - | - | - | - | 58,428 | - | 58,428 |
| Islamic corporate bonds | 64,948 | - | 105,444 | - | - | 161,071 | 149,063 | 44,226 | 524,752 |
| Negotiable Instruments of Deposits | - | - | - | - | - | - | 50,000 | - | 50,000 |
| Islamic Negotiable Instruments of Deposits | - | - | - | - | - | - | 149,890 | - | 149,890 |
| Corporate bonds | - | - | 14,993 | - | - | - | 29,847 | 79,682 | 124,522 |
| Sukuk Perumahan Kerajaan | - | - | - | - | - | - | 10,056 | - | 10,056 |
| Unit Trust | - | - | - | - | - | - | 6,660 | - | 6,660 |
| Unquoted equities | - | - | - | - | - | - | 490 | - | 490 |
| Financial investments held-to-maturity | | | | | | | | | |
| Islamic corporate bonds | - | - | - | - | - | - | 10,000 | 30,000 | 40,000 |
| Other assets | - | - | - | - | - | - | - | 147,609 | 147,609 |
| | 79,180 | 53,275 | 152,937 | - | 152,858 | 231,192 | 2,390,713 | 2,372,972 | 5,433,127 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (a) Credit risk (cont'd.)

**Industry analysis as at 31 December 2015**

| Group (Restated) | 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 Restated |
|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | |
| Cash and bank balances | - | - | - | - | - | - | 1,367,926 | - | 1,367,926 |
| Statutory deposit with Bank Negara Malaysia | - | - | - | - | - | - | 120,753 | - | 120,753 |
| Balances due from clients and brokers | - | - | - | - | - | - | 457,327 | - | 457,327 |
| Financial assets at fair value through profit or loss | | | | | | | | | |
| Malaysian Government Investment Certificates | - | - | - | - | - | - | 57,373 | - | 57,373 |
| Islamic corporate bonds | - | - | - | - | - | 49,889 | - | - | 49,889 |
| Securities quoted in Malaysia | 74,390 | 8,853 | 608 | 7 | 133 | 13 | 23,152 | 124,155 | 231,311 |
| Derivative financial assets | - | - | - | - | - | - | - | 2,910 | 2,910 |
| Net loans, advances and financing | | | | | | | | | |
| Term loans | - | - | - | - | 53,071 | - | - | 326,275 | 379,346 |
| Islamic term loans | - | - | - | - | - | - | - | 45,137 | 45,137 |
| Share margin financing | - | 25,851 | - | - | 108,966 | 1,164 | - | 1,262,018 | 1,397,999 |
| Others | - | - | - | - | - | - | - | 107,725 | 107,725 |
| Financial investments available-for-sale | | | | | | | | | |
| Malaysian Government Securities | - | - | - | - | - | - | 131,390 | - | 131,390 |
| Malaysian Government Investment Certificates | - | - | - | - | - | - | 284,262 | - | 284,262 |
| Islamic corporate bonds | 28,919 | 29,991 | 89,295 | - | 53,890 | 119,084 | 48,795 | 204,477 | 574,451 |
| Islamic corporate bills | - | - | - | - | 49,756 | - | - | - | 49,756 |
| Corporate bonds | - | 15,431 | 14,988 | - | 64,652 | - | 89,551 | 14,694 | 199,316 |
| Sukuk Perumahan Kerajaan | - | - | - | - | - | - | 9,996 | - | 9,996 |
| Unquoted equities | - | - | - | - | - | - | - | 490 | 490 |
| Financial investments held-to-maturity | | | | | | | | | |
| Islamic corporate bonds | 10,002 | - | - | - | - | - | - | 30,001 | 40,003 |
| Other assets | - | - | - | - | - | - | - | 146,360 | 146,360 |
| | 113,311 | 80,126 | 104,891 | 7 | 330,468 | 170,150 | 2,590,525 | 2,264,242 | 5,653,720 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (a) Credit risk (cont'd.)

#### Industry analysis as at 31 December 2016

| 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 | - | - | - | - | - | - | 951,748 | - | 951,748 |
| 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 bonds | - | - | - | - | - | - | - | 14,668 | 14,668 |
| Islamic corporate bills | - | - | - | - | 24,969 | - | - | - | 24,969 |
| Securities quoted in Malaysia | 14,232 | 9,526 | 32,500 | - | 52 | 70,121 | 10,653 | 54,494 | 191,578 |
| Securities quoted outside Malaysia | - | - | - | - | - | - | - | 19,632 | 19,632 |
| 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 bonds | 64,948 | - | 105,444 | - | - | 161,071 | 149,063 | 44,226 | 524,752 |
| Negotiable Instruments of Deposits | - | - | - | - | - | - | 50,000 | - | 50,000 |
| Islamic Negotiable Instruments of | | | | | | | | | |
| Deposits | - | - | - | - | - | - | 149,890 | - | 149,890 |
| Corporate bonds | - | - | 14,993 | - | - | - | 29,847 | 79,682 | 124,522 |
| Sukuk Perumahan Kerajaan | - | - | - | - | - | - | 10,056 | - | 10,056 |
| Unquoted equities | - | - | - | - | - | - | - | 490 | 490 |
| Financial investments held-to-maturity | | | | | | | | | |
| Islamic corporate bonds | - | - | - | - | - | - | 10,000 | 30,000 | 40,000 |
| Other assets | - | - | - | - | - | - | - | 8,966 | 8,966 |
| | 79,180 | 53,275 | 152,937 | - | 152,858 | 231,192 | 2,126,201 | 2,174,747 | 4,970,390 |

## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (a) Credit risk (cont'd.)

**Industry analysis as at 31 December 2015**

| 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 | - | - | - | - | - | - | 854,360 | - | 854,360 |
| Statutory deposit with Bank Negara Malaysia | - | - | - | - | - | - | 120,753 | - | 120,753 |
| Balances due from clients and brokers | - | - | - | - | - | - | 457,327 | - | 457,327 |
| Financial assets at fair value through profit or loss | | | | | | | | | |
| Malaysian Government Investment Certificates | - | - | - | - | - | - | 57,373 | - | 57,373 |
| Islamic corporate bonds | - | - | - | - | - | 49,889 | - | - | 49,889 |
| Securities quoted in Malaysia | 74,390 | 8,853 | 608 | 7 | 133 | 13 | 23,152 | 104,324 | 211,480 |
| Derivative financial assets | - | - | - | - | - | - | - | 2,910 | 2,910 |
| Net loans, advances and financing | | | | | | | | | |
| Term loans | - | - | - | - | 53,071 | - | 24,040 | 344,734 | 421,845 |
| Islamic term loans | - | - | - | - | - | - | 14,122 | 45,137 | 59,259 |
| Share margin financing | - | 25,851 | - | - | 108,966 | 1,164 | - | 1,262,018 | 1,397,999 |
| Financial investments available-for-sale | | | | | | | | | |
| Malaysian Government Securities | - | - | - | - | - | - | 131,390 | - | 131,390 |
| Malaysian Government Investment Certificates | - | - | - | - | - | - | 284,262 | - | 284,262 |
| Islamic corporate bonds | 28,919 | 29,991 | 89,295 | - | 53,890 | 119,084 | 48,795 | 204,477 | 574,451 |
| Islamic corporate bills | - | - | - | - | 49,756 | - | - | - | 49,756 |
| Corporate bonds | - | 15,431 | 14,988 | - | 64,652 | - | 89,551 | 14,694 | 199,316 |
| Sukuk Perumahan Kerajaan | - | - | - | - | - | - | 9,996 | - | 9,996 |
| Unquoted equities | - | - | - | - | - | - | - | 490 | 490 |
| Financial investments held-to-maturity | | | | | | | | | |
| Islamic corporate bonds | 10,002 | - | - | - | - | - | - | 30,001 | 40,003 |
| Other assets | - | - | - | - | - | - | - | 32,384 | 32,384 |
| | 113,311 | 80,126 | 104,891 | 7 | 330,468 | 170,150 | 2,115,121 | 2,041,169 | 4,955,243 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 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**

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 and 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
AS AT 31 DECEMBER 2016

## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (a) Credit risk (cont'd.)

### (i) Credit quality by class of financial assets (cont'd.)

| | Neither past due nor impaired | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Group | Strong credit profile RM'000 | Satisfactory risk RM'000 | Sub-standard RM'000 | Non rated RM'000 | Default/ impaired RM'000 | Past due but not impaired RM'000 | * Individually impaired RM'000 | Total RM'000 |
| **2016** | | | | | | | | |
| Cash and bank balances | 1,229,928 | - | - | - | - | - | - | 1,229,928 |
| 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 bonds | 14,668 | - | - | - | - | - | - | 14,668 |
| Islamic Corporate Bills | 24,969 | - | - | - | - | - | - | 24,969 |
| Securities quoted in Malaysia | - | - | - | 191,578 | - | - | - | 191,578 |
| Securities quoted outside Malaysia | - | - | - | 19,632 | - | - | - | 19,632 |
| Unquoted private debt securities outside Malaysia | - | - | - | 1,067 | - | - | - | 1,067 |
| Net loans, advances and financing | | | | | | | | |
| Term loans | - | 320,182 | 50,027 | - | - | - | - | 370,209 |
| Islamic term loans | - | 85,124 | 50,015 | - | - | - | - | 135,139 |
| Share margin financing | 454,513 | 774,089 | 142,391 | 117,993 | 1,735 | - | (1,266) | 1,489,455 |
| Others | 12,773 | 60,827 | - | 37,609 | 869 | - | (869) | 111,209 |
| Financial investments available-for-sale | | | | | | | | |
| Malaysian Government Securities | 19,566 | - | - | - | - | - | - | 19,566 |
| Malaysian Government Investment Certificates | 58,428 | - | - | - | - | - | - | 58,428 |
| Islamic corporate bonds | 495,010 | 29,742 | - | - | - | - | - | 524,752 |
| Corporate bonds | 124,522 | - | - | - | - | - | - | 124,522 |
| Negotiable Instruments of Deposits | 50,000 | - | - | - | - | - | - | 50,000 |
| Negotiable Instruments of Deposits - Islamic | 149,890 | - | - | - | - | - | - | 149,890 |
| Sukuk Perumahan Kerajaan | 10,056 | - | - | - | - | - | - | 10,056 |
| Unit Trust | - | - | - | 6,660 | - | - | - | 6,660 |
| Unquoted equities | - | - | - | 490 | - | - | - | 490 |
| Financial investments held-to-maturity | | | | | | | | |
| Islamic corporate bonds | - | 10,000 | - | 30,000 | - | - | - | 40,000 |
| Derivative financial assets | - | - | - | 39,117 | - | - | - | 39,117 |
| Balances due from clients and brokers | - | 439,455 | - | - | 20,401 | 557 | (15,408) | 445,005 |
| Other assets | 147,609 | - | - | - | - | - | - | 147,609 |
| **Total** | 3,021,110 | 1,719,419 | 242,433 | 444,146 | 23,005 | 557 | (17,543) | 5,433,127 |

* 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
AS AT 31 DECEMBER 2016

## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (a) Credit risk (cont'd.)

#### (i) Credit quality by class of financial assets (cont'd.)

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 and 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
AS AT 31 DECEMBER 2016

## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (a) Credit risk (cont'd.)

#### (i) Credit quality by class of financial assets (cont'd.)

| Group | Neither past due nor impaired | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Strong credit profile RM'000 | Satisfactory risk RM'000 | Sub-standard RM'000 | Non rated RM'000 | Default/ impaired RM'000 | Past due but not impaired RM'000 | * Individually impaired RM'000 | Total RM'000 |
| **2015 (Restated)** | | | | | | | | |
| Cash and bank balances | 1,367,926 | - | - | - | - | - | - | 1,367,926 |
| Statutory deposit with Bank Negara Malaysia | 120,753 | - | - | - | - | - | - | 120,753 |
| Financial assets at fair value through profit or loss | | | | | | | | |
| Malaysian Government Investment Certificates | 57,373 | - | - | - | - | - | - | 57,373 |
| Islamic corporate bonds | 49,889 | - | - | - | - | - | - | 49,889 |
| Securities quoted in Malaysia | - | - | - | 231,311 | - | - | - | 231,311 |
| Net loans, advances and financing | | | | | | | | |
| Term loans | - | 374,834 | 49,604 | - | - | - | - | 424,438 |
| Islamic term loans | - | 45 | - | - | - | - | - | 45 |
| Share margin financing | 1,392,248 | 2,915 | 2,292 | - | 1,939 | - | (1,395) | 1,397,999 |
| Others | - | 83,528 | - | 18,209 | 5,988 | - | - | 107,725 |
| Financial investments available-for-sale | | | | | | | | |
| Malaysian Government Securities | 131,390 | - | - | - | - | - | - | 131,390 |
| Malaysian Government Investment Certificates | 284,262 | - | - | - | - | - | - | 284,262 |
| Islamic corporate bonds | 574,451 | - | - | - | - | - | - | 574,451 |
| Islamic corporate bills | 49,756 | - | - | - | - | - | - | 49,756 |
| Corporate bonds | 199,316 | - | - | - | - | - | - | 199,316 |
| Sukuk Perumahan Kerajaan | 9,996 | - | - | - | - | - | - | 9,996 |
| Unquoted equities | - | - | - | 490 | - | - | - | 490 |
| Financial investments held-to-maturity | | | | | | | | |
| Islamic corporate bonds | 10,002 | - | - | 30,001 | - | - | - | 40,003 |
| Derivative financial assets | - | - | - | 2,910 | - | - | - | 2,910 |
| Balances due from clients and brokers | - | 448,573 | - | - | 25,985 | - | (17,231) | 457,327 |
| Other assets | 125,816 | - | - | - | - | 20,544 | - | 146,360 |
| **Total** | 4,373,178 | 909,895 | 51,896 | 282,921 | 33,912 | 20,544 | (18,626) | 5,653,720 |

* 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
AS AT 31 DECEMBER 2016

## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (a) Credit risk (cont'd.)

#### (i) Credit quality by class of financial assets (cont'd.)

| Bank | Neither past due nor impaired | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Strong credit profile RM'000 | Satisfactory risk RM'000 | Sub-standard RM'000 | Non rated RM'000 | Default/ impaired RM'000 | Past due but not impaired RM'000 | * Individually impaired RM'000 | Total RM'000 |
| **2016** | | | | | | | | |
| Cash and bank balances | 951,748 | - | - | - | - | - | - | 951,748 |
| 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 bonds | 14,668 | - | - | - | - | - | - | 14,668 |
| Securities quoted in Malaysia | - | - | - | 191,578 | - | - | - | 191,578 |
| Unquoted private debt securities outside Malaysia | - | - | - | 1,067 | - | - | - | 1,067 |
| Unquoted securities outside Malaysia | - | - | - | 19,632 | - | - | - | 19,632 |
| 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 |
| Malaysian Government Investment Certificates | 58,428 | - | - | - | - | - | - | 58,428 |
| Islamic corporate bonds | 495,010 | 29,742 | - | - | - | - | - | 524,752 |
| Corporate bonds | 124,522 | - | - | - | - | - | - | 124,522 |
| Negotiable Instruments of Deposits | 50,000 | - | - | - | - | - | - | 50,000 |
| Negotiable Instruments of Deposits - Islamic | 149,890 | - | - | - | - | - | - | 149,890 |
| Sukuk Perumahan Kerajaan | 10,056 | - | - | - | - | - | - | 10,056 |
| Unquoted equities | - | - | - | 490 | - | - | - | 490 |
| Financial investments held-to-maturity | | | | | | | | |
| Islamic corporate bonds | - | 10,000 | - | 30,000 | - | - | - | 40,000 |
| Derivative financial assets | - | - | - | 39,117 | - | - | - | 39,117 |
| Balances due from clients and brokers | - | 439,455 | - | - | 20,401 | 557 | (15,408) | 445,005 |
| Other assets | 8,966 | - | - | - | - | - | - | 8,966 |
| **Total** | 2,606,733 | 1,715,328 | 242,433 | 399,877 | 22,136 | 557 | (16,674) | 4,970,390 |

* 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
AS AT 31 DECEMBER 2016

## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (a) Credit risk (cont'd.)

#### (i) Credit quality by class of financial assets (cont'd.)

| | Neither past due nor impaired | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Bank** | **Strong credit profile RM'000** | **Satisfactory risk RM'000** | **Sub-standard RM'000** | **Non rated RM'000** | **Default/ impaired RM'000** | **Past due but not impaired RM'000** | ***Individually impaired RM'000** | **Total RM'000** |
| **2015 (Restated)** | | | | | | | | |
| Cash and bank balances | 854,360 | - | - | - | - | - | - | 854,360 |
| Statutory deposit with Bank Negara Malaysia | 120,753 | - | - | - | - | - | - | 120,753 |
| Financial assets at fair value through profit or loss | | | | | | | | |
| Malaysian Government Investment Certificates | 57,373 | - | - | - | - | - | - | 57,373 |
| Islamic corporate bonds | 49,889 | - | - | - | - | - | - | 49,889 |
| Securities quoted in Malaysia | - | - | - | 211,480 | - | - | - | 211,480 |
| Net loans, advances and financing | | | | | | | | |
| Term loans | 18,459 | 353,781 | 49,605 | - | - | - | - | 421,845 |
| Islamic term loans | - | 59,259 | - | - | - | - | - | 59,259 |
| Share margin financing | 1,392,248 | 2,915 | 2,292 | - | 1,939 | - | (1,395) | 1,397,999 |
| Financial investments available-for-sale | | | | | | | | |
| Malaysian Government Securities | 131,390 | - | - | - | - | - | - | 131,390 |
| Malaysian Government Investment Certificates | 284,262 | - | - | - | - | - | - | 284,262 |
| Islamic corporate bonds | 574,451 | - | - | - | - | - | - | 574,451 |
| Islamic corporate bills | 49,756 | - | - | - | - | - | - | 49,756 |
| Corporate bonds | 199,316 | - | - | - | - | - | - | 199,316 |
| Sukuk Perumahan Kerajaan | 9,996 | - | - | - | - | - | - | 9,996 |
| Unquoted equities | - | - | - | 490 | - | - | - | 490 |
| Financial investments held-to-maturity Islamic corporate bonds | 10,002 | - | - | 30,001 | - | - | - | 40,003 |
| Derivative financial assets | - | - | - | 2,910 | - | - | - | 2,910 |
| Balances due from clients and brokers | - | 448,573 | - | - | 25,985 | - | (17,231) | 457,327 |
| Other assets | 14,528 | - | - | - | - | 17,856 | - | 32,384 |
| **Total** | 3,766,783 | 864,528 | 51,897 | 244,881 | 27,924 | 17,856 | (18,626) | 4,955,243 |

* 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
AS AT 31 DECEMBER 2016

## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (a) Credit risk (cont'd.)

#### (ii) Credit risk exposure for each internal credit risk rating

**Internal credit rating**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group Total RM'000 | Bank Total RM'000 | Group Total RM'000 Restated | Bank Total RM'000 |
| **Strong** | | | | |
| AAA | **2,442,422** | **2,025,599** | 4,024,437 | 3,414,587 |
| AA | **578,688** | **581,134** | 348,741 | 352,196 |
| **Satisfactory** | | | | |
| A | **963,634** | **902,861** | 647,493 | 563,965 |
| BBB | **755,785** | **812,467** | 269,249 | 307,410 |
| **Substandard** | | | | |
| BB | **100,042** | **100,042** | 51,881 | 51,882 |
| B | **132,001** | **132,001** | - | - |
| C | **10,390** | **10,390** | - | - |
| **Default** | | | | |
| D | **6,019** | **6,019** | 28,998 | 20,322 |
| **Non-rated** | **444,146** | **399,877** | 282,921 | 244,881 |
| | **5,433,127** | **4,970,390** | 5,653,720 | 4,955,243 |

# NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 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** | | | | |
| **2016** | | | | |
| Balances due from clients and brokers | **-** | **557** | **-** | **557** |
| Other assets | **-** | **-** | **-** | **-** |
| **Total** | **-** | **557** | **-** | **557** |
| **2015** | | | | |
| Balances due from clients and brokers | - | - | - | - |
| Other assets | - | 20,544 | - | 20,544 |
| **Total** | - | 20,544 | - | 20,544 |
| **Bank** | | | | |
| **2016** | | | | |
| Balances due from clients and brokers | **-** | **557** | **-** | **557** |
| Other assets | **-** | **-** | **-** | **-** |
| **Total** | **-** | **557** | **-** | **557** |
| **2015** | | | | |
| Balances due from clients and brokers | - | - | - | - |
| Other assets | - | 17,856 | - | 17,856 |
| **Total** | - | 17,856 | - | 17,856 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 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** | | | | | | |
| **2016** | | | | | | |
| Balances due from clients and brokers | **36** | **-** | **-** | **36** | **593** | **557** |
| | **36** | **-** | **-** | **36** | **593** | **557** |
| **2015** | | | | | | |
| Other assets | - | - | - | - | 20,544 | 20,544 |
| | - | - | - | - | 20,544 | 20,544 |
| **Bank** | | | | | | |
| **2016** | | | | | | |
| Balances due from clients and brokers | **36** | **-** | **-** | **36** | **593** | **557** |
| | **36** | **-** | **-** | **36** | **593** | **557** |
| **2015** | | | | | | |
| Other assets | - | - | - | - | 17,856 | 17,856 |
| | - | - | - | - | 17,856 | 17,856 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 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

| | 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** | | | | | | |
| **2016** | | | | | | |
| Loans, advances and financing | | | | | | |
| Share margin financing | **469** | **-** | **-** | **469** | **1,735** | **1,266** |
| Others | **4** | **-** | **-** | **4** | **873** | **869** |
| Balances due from clients and brokers | **4,993** | **-** | **-** | **4,993** | **20,958** | **15,965** |
| | **5,466** | **-** | **-** | **5,466** | **23,566** | **18,100** |
| **2015 (Restated)** | | | | | | |
| Loans, advances and financing | | | | | | |
| Share margin financing | 1,062 | - | - | 1,062 | 1,939 | 877 |
| Others | - | 9,800 | - | 9,800 | 5,988 | - |
| Balances due from clients and brokers | 8,754 | - | - | 8,754 | 25,985 | 17,231 |
| | 9,816 | 9,800 | - | 19,616 | 33,912 | 18,108 |
| **Bank** | | | | | | |
| **2016** | | | | | | |
| Loans, advances and financing | | | | | | |
| Share margin financing | **469** | **-** | **-** | **469** | **1,735** | **1,266** |
| Balances due from clients and brokers | **4,993** | **-** | **-** | **4,993** | **20,401** | **15,408** |
| | **5,462** | **-** | **-** | **5,462** | **22,136** | **16,674** |
| **2015** | | | | | | |
| Loans, advances and financing | | | | | | |
| Share margin financing | 1,062 | - | - | 1,062 | 1,939 | 877 |
| Balances due from clients and brokers | 8,754 | - | - | 8,754 | 25,985 | 17,231 |
| | 9,816 | - | - | 9,816 | 27,924 | 877 |

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## 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.

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## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (b) Market risk (cont'd.)

#### (i) Interest rate risk (cont'd.)

| Group | 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 % |
|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | |
| **Assets** | | | | | | | | | |
| Cash and bank balances | 940,413 | 140,393 | - | - | - | 149,122 | - | 1,229,928 | 3.00 |
| Financial assets at fair value through profit or loss | - | - | 45,035 | - | 14,668 | 1,067 | 320,818 | 381,588 | 4.04 |
| Financial investments available-for-sale | 235,165 | 14,797 | 70,871 | 267,431 | 348,951 | 7,149 | - | 944,364 | 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 | 1,529,467 | 23,443 | 173,647 | 364,062 | 14,965 | - | - | 2,105,584 | 7.09 |
| Balances due from clients and brokers | - | - | - | - | - | 445,005 | - | 445,005 | |
| Other assets | - | - | - | - | - | 229,112 | - | 229,112 | |
| Other non interest sensitive balances | - | - | - | - | - | 655,082 | - | 655,082 | |
| **Total assets** | 2,705,045 | 180,633 | 289,553 | 669,493 | 378,584 | 1,525,654 | 320,818 | 6,069,780 | |
| **Liabilities** | | | | | | | | | |
| Deposits from customers | 1,862,183 | 970,635 | 477,252 | - | - | - | - | 3,310,070 | 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 | 4.97 |
| Obligations on securities sold under repurchase agreements | 27,253 | - | - | - | - | - | - | 27,253 | |
| Derivative financial liabilities | - | - | - | - | - | 47,406 | - | 47,406 | |
| Balances due from clients and brokers | - | - | - | - | - | 857,065 | - | 857,065 | |
| Other non interest sensitive balances | - | - | - | - | - | 215,140 | - | 215,140 | |
| **Total liabilities** | 2,545,997 | 1,030,728 | 477,252 | - | - | 1,119,611 | - | 5,173,588 | |
| Equity | - | - | - | - | - | 885,956 | - | 885,956 | |
| Non-controlling interest | - | - | - | - | - | 10,236 | - | 10,236 | |
| **Total liabilities and shareholders' equity** | 2,545,997 | 1,030,728 | 477,252 | - | - | 2,015,803 | - | 6,069,780 | |
| On-balance sheet interest sensitivity gap | 159,048 | (850,095) | (187,699) | 669,493 | 378,584 | (490,149) | 320,818 | - | |
| **Cumulative interest sensitivity gap** | 159,048 | (691,047) | (878,746) | (209,253) | 169,331 | (320,818) | - | - | |

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## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (b) Market risk (cont'd.)

#### (i) Interest rate risk (cont'd.)

| Group | 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 % |
|---|---|---|---|---|---|---|---|---|---|
| **2015 (Restated)** | | | | | | | | | |
| **Assets** | | | | | | | | | |
| Cash and bank balances | 968,006 | 58,332 | 54,344 | - | - | 287,244 | - | 1,367,926 | 3.23 |
| Financial assets at fair value through profit or loss | - | - | - | - | 107,262 | - | 231,311 | 338,573 | 3.92 |
| Financial investments available-for-sale | - | 59,735 | 55,028 | 514,396 | 620,012 | 490 | - | 1,249,661 | 4.15 |
| Financial investments held-to-maturity | - | - | - | 40,003 | - | - | - | 40,003 | 5.45 |
| Derivative financial assets | - | - | - | - | - | 2,910 | - | 2,910 | |
| Loans, advances and financing | 1,510,724 | 31,703 | 207,404 | 180,233 | - | - | - | 1,930,064 | 7.05 |
| Balances due from clients and brokers | - | - | - | - | - | 457,327 | - | 457,327 | |
| Other assets | - | - | - | - | - | 226,116 | - | 226,116 | |
| Other non interest sensitive balances | - | - | - | - | - | 508,375 | - | 508,375 | |
| **Total assets** | 2,478,730 | 149,770 | 316,776 | 734,632 | 727,274 | 1,482,462 | 231,311 | 6,120,955 | |
| **Liabilities** | | | | | | | | | |
| Deposits from customers | 2,457,025 | 674,103 | 97,937 | - | - | - | - | 3,229,065 | 3.68 |
| Deposits and placement of banks and other financial institutions | 575,159 | - | - | - | - | - | - | 575,159 | 3.68 |
| Borrowings | - | 27,000 | 114,000 | - | - | - | - | 141,000 | 5.40 |
| Obligations on securities sold under repurchase agreements | 48,058 | 47,252 | - | - | - | - | - | 95,310 | |
| Derivative financial liabilities | - | - | - | - | - | 72,278 | - | 72,278 | |
| Balances due from clients and brokers | - | - | - | - | - | 896,302 | - | 896,302 | |
| Other non interest sensitive balances | - | - | - | - | - | 247,110 | - | 247,110 | |
| **Total liabilities** | 3,080,242 | 748,355 | 211,937 | - | - | 1,215,690 | - | 5,256,224 | |
| Equity | - | - | - | - | - | 854,982 | - | 854,982 | |
| Non-controlling interest | - | - | - | - | - | 9,749 | - | 9,749 | |
| **Total liabilities and shareholders' equity** | 3,080,242 | 748,355 | 211,937 | - | - | 2,080,421 | - | 6,120,955 | |
| On-balance sheet interest sensitivity gap | (601,512) | (598,585) | 104,839 | 734,632 | 727,274 | (597,959) | 231,311 | - | |
| **Cumulative interest sensitivity gap** | (601,512) | (1,200,097) | (1,095,258) | (360,626) | 366,648 | (231,311) | - | - | |

## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (b) Market risk (cont'd.)

#### (i) Interest rate risk (cont'd.)

| Bank | 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 % |
|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | |
| **Assets** | | | | | | | | | |
| Cash and bank balances | 869,717 | - | - | - | - | 82,031 | - | 951,748 | 3.00 |
| Financial assets at fair value through profit or loss | - | - | 45,035 | - | 14,668 | 1,067 | 320,818 | 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 | 1,549,692 | 23,443 | 98,801 | 378,985 | 14,966 | - | - | 2,065,887 | 7.09 |
| Balances due from clients and brokers | - | - | - | - | - | 445,005 | - | 445,005 | |
| Other assets | - | - | - | - | - | 72,582 | - | 72,582 | |
| Other non interest sensitive balances | - | - | - | - | - | 735,377 | - | 735,377 | |
| **Total assets** | 2,654,574 | 40,239 | 214,707 | 684,416 | 378,585 | 1,375,669 | 320,818 | 5,669,008 | |
| **Liabilities** | | | | | | | | | |
| Deposits from customers | 1,931,733 | 970,635 | 477,252 | - | - | - | - | 3,379,620 | 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 | |
| Other non interest sensitive balances | - | - | - | - | - | 693,475 | - | 693,475 | |
| **Total liabilities** | 2,565,047 | 1,030,728 | 477,252 | - | - | 693,475 | - | 4,766,502 | |
| Equity | - | - | - | - | - | 902,506 | - | 902,506 | |
| **Total liabilities and shareholders' equity** | 2,565,047 | 1,030,728 | 477,252 | - | - | 1,595,981 | - | 5,669,008 | |
| On-balance sheet interest sensitivity gap | 89,527 | (990,489) | (262,545) | 684,416 | 378,585 | (220,312) | 320,818 | - | |
| **Cumulative interest sensitivity gap** | 89,527 | (900,962) | (1,163,507) | (479,091) | (100,506) | (320,818) | - | - | |

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## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (b) Market risk (cont'd.)

#### (i) Interest rate risk (cont'd.)

| Bank | 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 % |
|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | |
| **Assets** | | | | | | | | | |
| Cash and bank balances | 707,804 | - | - | - | - | 146,556 | - | 854,360 | 3.23 |
| Financial assets at fair value through profit or loss | - | - | - | - | 107,262 | - | 211,480 | 318,742 | 3.92 |
| Financial investments available-for-sale | - | 59,735 | 55,028 | 514,396 | 620,012 | 490 | - | 1,249,661 | 4.15 |
| Financial investments held-to-maturity | - | - | - | 40,003 | - | - | - | 40,003 | 5.45 |
| Derivative financial assets | - | - | - | - | - | 2,910 | - | 2,910 | |
| Loans, advances and financing | 1,436,103 | 30,765 | 213,105 | 180,233 | 18,459 | - | - | 1,878,665 | 7.05 |
| Balances due from clients and brokers | - | - | - | - | - | 457,327 | - | 457,327 | |
| Other assets | - | - | - | - | - | 100,297 | - | 100,297 | |
| Other non interest sensitive balances | - | - | - | - | - | 584,124 | - | 584,124 | |
| **Total assets** | 2,143,907 | 90,500 | 268,133 | 734,632 | 745,733 | 1,291,704 | 211,480 | 5,486,089 | |
| **Liabilities** | | | | | | | | | |
| Deposits from customers | 2,528,546 | 674,103 | 97,937 | - | - | - | - | 3,300,586 | 3.68 |
| Deposits and placement of banks and other financial institutions | 575,159 | - | - | - | - | - | - | 575,159 | 3.68 |
| Obligations on securities sold under repurchase agreements | 48,058 | 47,252 | - | - | - | - | - | 95,310 | |
| Other non interest sensitive balances | - | - | - | - | - | 623,481 | - | 623,481 | |
| **Total liabilities** | 3,151,763 | 721,355 | 97,937 | - | - | 623,481 | - | 4,594,536 | |
| Equity | - | - | - | - | - | 891,553 | - | 891,553 | |
| **Total liabilities and shareholders' equity** | 3,151,763 | 721,355 | 97,937 | - | - | 1,515,034 | - | 5,486,089 | |
| On-balance sheet interest sensitivity gap | (1,007,856) | (630,855) | 170,196 | 734,632 | 745,733 | (223,330) | 211,480 | - | |
| **Cumulative interest sensitivity gap** | (1,007,856) | (1,638,711) | (1,468,515) | (733,883) | 11,850 | (211,480) | - | - | |

## 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 2016 | Impact on Profit or Loss 2016 RM'000 | Impact on Equity 2016 RM'000 | Change in Interest Rates 2015 | Impact on Profit or Loss 2015 RM'000 | Impact on Equity 2015 RM'000 |
|---|---|---|---|---|---|
| **+100** | **(6,453)** | **(28,503)** | +100 | (6,646) | (61,027) |
| **-100** | **6,453** | **28,503** | -100 | 6,646 | 61,027 |

### (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.

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## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (b) Market risk (cont'd.)

#### (ii) Foreign currency exchange risk (cont'd.)

**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 2016 RM'000 | Impact on Equity 2016 RM'000 | Changes in Foreign Exchange Rates | Impact on Profit or Loss 2015 RM'000 | Impact on Equity 2015 RM'000 |
|---|---|---|---|---|---|---|
| AUD | **5%** | **(4)** | **(4)** | 5% | 3 | 3 |
| CHF | **5%** | **1** | **1** | 5% | - | - |
| CNY | **5%** | **4** | **4** | 5% | - | - |
| EUR | **5%** | **(21)** | **(21)** | 5% | (15) | (15) |
| GBP | **5%** | **16** | **16** | 5% | (11) | (11) |
| HKD | **5%** | **6** | **6** | 5% | 12 | 12 |
| IDR | **5%** | **-** | **-** | 5% | - | - |
| JPY | **5%** | **(15)** | **(15)** | 5% | 9 | 9 |
| NZD | **5%** | **5** | **5** | 5% | 3 | 3 |
| PHP | **5%** | **1** | **1** | 5% | - | - |
| SGD | **5%** | **191** | **191** | 5% | 375 | 375 |
| THB | **5%** | **9** | **9** | 5% | 14 | 14 |
| USD | **5%** | **143** | **143** | 5% | (300) | (300) |

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%** | **-** | **(3,578)** | 5% | - | (3,281) |

#### (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.

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## 50. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (b) Market risk (cont'd.)

#### (iii) Equity price sensitivity analysis (cont'd.)

| Percentage Change in Equity Price 2016 | Impact on Profit or Loss 2016 RM'000 | Impact on Equity 2016 RM'000 | Percentage Change in Equity Price 2015 | Impact on Profit or Loss 2015 RM'000 | Impact on Equity 2015 RM'000 |
|---|---|---|---|---|---|
| +30% | 75,322 | - | +30% | 65,570 | - |
| -30% | (98,725) | - | -30% | (49,083) | - |

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 has made some equity investments in Saudi Arabia, with a total mark-to-market value of SAR 26.9 million.

The impact of a +/- 30% change in equity prices on the Group's Profit & Loss arising from these investments are shown as follows:

| Percentage Change in Equity Price 2016 | Impact on Profit or Loss 2016 RM'000 | Impact on Equity 2016 RM'000 | Percentage Change in Equity Price 2015 | Impact on Profit or Loss 2015 RM'000 | Impact on Equity 2015 RM'000 |
|---|---|---|---|---|---|
| +30% | - | 9,619 | +30% | - | 8,393 |
| -30% | - | (9,619) | -30% | - | (8,393) |

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## 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 been 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 that 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 4% of its eligible liabilities.

The Group stresses the importance of stable funding source to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of customer deposits, together with term funding with a remaining term to maturity in excess of one year.

**Liquidity ratios**

**Loans to deposit ratios**

| | 2016 | 2015 |
|---|---|---|
| Year-end | **55%** | 48% |
| Maximum | **58%** | 51% |
| Minimum | **46%** | 45% |
| Average | **52%** | 48% |

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## 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 2016. The contractual maturity profile often may not reflect the actual behavioural patterns.

| Group | 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 |
|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and bank balances | 146,135 | 943,340 | 140,393 | - | - | - | 60 | 1,229,928 |
| 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 | 7,150 | 944,364 |
| Financial investments held-to-maturity | - | - | 2,000 | - | - | 38,000 | - | 40,000 |
| Loans, advances and financing | 92,560 | 1,600,667 | 23,517 | - | 10,155 | 378,685 | - | 2,105,584 |
| Balances due from clients and brokers | - | 445,005 | - | - | - | - | - | 445,005 |
| Other assets | 259 | 140,706 | 66,734 | - | - | - | 21,413 | 229,112 |
| Other assets balances | - | - | - | - | - | - | 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 | - | 1,922,181 | 910,636 | 220,320 | 256,933 | - | - | 3,310,070 |
| 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 | - | 125,700 | 40,000 | - | - | - | - | 165,700 |
| Other liabilities balances | - | - | - | - | - | - | 215,140 | 215,140 |
| **Total liabilities** | - | 3,404,840 | 1,036,653 | 221,460 | 295,495 | - | 215,140 | 5,173,588 |
| **Net maturity mismatch** | 238,954 | (50,183) | (719,369) | (221,460) | (132,596) | 1,101,071 | 679,775 | 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.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Miscellaneous commitments | 665,738 | - | - | - | - | - | - | 665,738 |
| **Total commitments and guarantees** | 665,738 | - | - | - | - | - | - | 665,738 |

## 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 2015. The contractual maturity profile often may not reflect the actual behavioural patterns.

| Group | 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 |
|---|---|---|---|---|---|---|---|---|
| **2015 (Restated)** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and bank balances | 284,973 | 968,120 | 114,833 | - | - | - | - | 1,367,926 |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 107,262 | 231,311 | 338,573 |
| Derivative financial assets | - | 41 | - | - | 2,869 | - | - | 2,910 |
| Financial investments available-for-sale | - | - | 59,735 | - | 55,028 | 1,134,408 | 490 | 1,249,661 |
| Financial investments held-to-maturity | - | - | - | - | - | 40,003 | - | 40,003 |
| Loans, advances and financing | 38,178 | 1,472,545 | 31,703 | 39,716 | 167,689 | 180,233 | - | 1,930,064 |
| Balances due from clients and brokers | - | 457,327 | - | - | - | - | - | 457,327 |
| Other assets | 151 | 122,042 | 77,866 | 174 | 541 | 11,659 | 13,683 | 226,116 |
| Other assets balances | - | - | - | - | - | - | 508,375 | 508,375 |
| **Total assets** | 323,302 | 3,020,075 | 284,137 | 39,890 | 226,127 | 1,473,565 | 753,859 | 6,120,955 |
| **Liabilities** | | | | | | | | |
| Deposits from customers | - | 2,457,025 | 676,118 | 89,922 | 6,000 | - | - | 3,229,065 |
| Deposits and placements of banks and other financial institutions | - | 575,159 | - | - | - | - | - | 575,159 |
| Obligations on securities sold under repurchase agreements | - | 48,058 | 47,252 | - | - | - | - | 95,310 |
| Derivative financial liabilities | - | 32,617 | 5,465 | - | 34,196 | - | - | 72,278 |
| Borrowings | - | 27,000 | - | 69,000 | 45,000 | - | - | 141,000 |
| Balances due to clients and brokers | - | 896,302 | - | - | - | - | - | 896,302 |
| Other liabilities balances | - | 55,741 | 4,889 | 261 | 15 | - | 186,204 | 247,110 |
| **Total liabilities** | - | 4,091,902 | 733,724 | 159,183 | 85,211 | - | 186,204 | 5,256,224 |
| **Net maturity mismatch** | 323,302 | (1,071,827) | (449,587) | (119,293) | 140,916 | 1,473,565 | 567,655 | 864,731 |

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.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Miscellaneous commitments | 597,665 | - | - | - | - | - | - | 597,665 |
| **Total commitments and guarantees** | 597,665 | - | - | - | - | - | - | 597,665 |

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## 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 | 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 |
|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and bank balances | 79,644 | 872,044 | - | - | - | - | 60 | 951,748 |
| 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 |
| Balances due from clients and brokers | - | 445,005 | - | - | - | - | - | 445,005 |
| Other assets | 259 | 2,560 | 48,350 | - | - | - | 21,413 | 72,582 |
| Other assets balances | - | - | - | - | - | - | 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 | - | 1,991,731 | 910,636 | 220,320 | 256,933 | - | - | 3,379,620 |
| 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 | - | 474,231 | - | - | - | - | - | 474,231 |
| Borrowings | - | 75,200 | 40,000 | - | - | - | - | 115,200 |
| Other liabilities balances | - | - | - | - | - | - | 171,838 | 171,838 |
| **Total liabilities** | - | 3,041,056 | 1,036,653 | 221,460 | 295,495 | - | 171,838 | 4,766,502 |
| **Net maturity mismatch** | 172,463 | 13,016 | (878,146) | (221,460) | (96,370) | 1,116,291 | 796,712 | 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.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Miscellaneous commitments | 665,738 | - | - | - | - | - | - | 665,738 |
| **Total commitments and guarantees** | 665,738 | - | - | - | - | - | - | 665,738 |

## 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 2015. The contractual maturity profile often may not reflect the actual behavioural patterns.

| Bank | 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 |
|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and bank balances | 144,284 | 710,076 | - | - | - | - | - | 854,360 |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 107,262 | 211,480 | 318,742 |
| Derivative financial assets | - | 41 | - | - | 2,869 | - | - | 2,910 |
| Financial investments available-for-sale | - | - | 59,735 | - | 55,028 | 1,134,408 | 490 | 1,249,661 |
| Financial investments held-to-maturity | - | - | - | - | - | 40,003 | - | 40,003 |
| Loans, advances and financing | 38,178 | 1,397,924 | 30,765 | 12,051 | 201,054 | 198,693 | - | 1,878,665 |
| Balances due from clients and brokers | - | 457,327 | - | - | - | - | - | 457,327 |
| Other assets | 151 | 11,114 | 65,389 | - | 541 | 11,659 | 11,443 | 100,297 |
| Other assets balances | - | - | - | - | - | - | 584,124 | 584,124 |
| **Total assets** | 182,613 | 2,576,482 | 155,889 | 12,051 | 259,492 | 1,492,025 | 807,537 | 5,486,089 |
| **Liabilities** | | | | | | | | |
| Deposits from customers | - | 2,528,546 | 676,118 | 89,922 | 6,000 | - | - | 3,300,586 |
| Deposits and placements of banks and other financial institutions | - | 575,159 | - | - | - | - | - | 575,159 |
| Obligations on securities sold under repurchase agreements | - | 48,058 | 47,252 | - | - | - | - | 95,310 |
| Derivative financial liabilities | - | 32,617 | 5,465 | - | 34,196 | - | - | 72,278 |
| Balances due to clients and brokers | - | 354,333 | - | - | - | - | - | 354,333 |
| Other liabilities balances | - | - | - | - | - | - | 196,870 | 196,870 |
| **Total liabilities** | - | 3,538,713 | 728,835 | 89,922 | 40,196 | - | 196,870 | 4,594,536 |
| **Net maturity mismatch** | 182,613 | (962,231) | (572,946) | (77,871) | 219,296 | 1,492,025 | 610,667 | 891,553 |

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.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Miscellaneous commitments | 597,665 | - | - | - | - | - | - | 597,665 |
| **Total commitments and guarantees** | 597,665 | - | - | - | - | - | - | 597,665 |

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## 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 |
|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Deposits from customers | **1,174,444** | **1,019,280** | **835,205** | **318,884** | **159** | **-** | **3,347,972** |
| 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** |
| Borrowings | **125,705** | **40,010** | **-** | **-** | **-** | **-** | **165,715** |
| Other liabilities balances | **864,378** | **9,933** | **1,401** | **38,577** | **-** | **189,738** | **1,104,027** |
| **Total undiscounted financial liabilities** | **2,460,267** | **1,306,036** | **897,301** | **357,461** | **159** | **189,738** | **5,210,962** |
| **2015 (Restated)** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Deposits from customers | 2,468,625 | 684,607 | 92,228 | 6,248 | - | - | 3,251,708 |
| Deposits and placements of banks and other financial institutions | 577,203 | - | - | - | - | - | 577,203 |
| Borrowings | 27,001 | - | 69,057 | 45,021 | - | - | 141,079 |
| Others | 984,660 | 10,354 | - | 34,211 | - | 186,054 | 1,215,279 |
| **Total undiscounted financial liabilities** | 4,057,489 | 694,961 | 161,285 | 85,480 | - | 186,054 | 5,185,269 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 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 |
|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Deposits from customers | **1,191,985** | **1,039,280** | **835,205** | **318,884** | **159** | **-** | **3,385,513** |
| 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** |
| Borrowings | **75,203** | **40,010** | **-** | **-** | **-** | **-** | **115,213** |
| Other liabilities balances | **481,277** | **9,919** | **1,401** | **38,577** | **-** | **157,713** | **688,887** |
| **Total undiscounted financial liabilities** | **2,044,205** | **1,326,022** | **897,301** | **357,461** | **159** | **157,713** | **4,782,861** |
| **2015** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Deposits from customers | 2,535,919 | 684,607 | 92,228 | 6,248 | - | - | 3,319,002 |
| Deposits and placements of banks and other financial institutions | 577,203 | - | - | - | - | - | 577,203 |
| Obligations on securities sold under repurchase agreements | 48,202 | 47,757 | - | - | - | - | 95,959 |
| Other liabilities balances | 444,191 | 9,460 | 261 | 34,211 | - | 135,208 | 623,331 |
| **Total undiscounted financial liabilities** | 3,605,515 | 741,824 | 92,489 | 40,459 | - | 135,208 | 4,615,495 |

# 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

### (a) 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.

NOTES TO THE FINANCIAL STATEMENTS
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## 51. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

### (a) Fair value measurement (cont'd.)

| Group | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **2016** | | | | |
| **Financial assets measured at fair value** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Debt securities | - | 169,311 | - | 169,311 |
| - Equity securities and unit trusts | 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 |
| - Equity securities and unit trusts | - | 6,660 | - | 6,660 |
| 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 | - | - | 2,102,439 | 2,102,439 |
| | 211,210 | 1,192,328 | 2,103,506 | 3,507,044 |
| **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
AS AT 31 DECEMBER 2016

## 51. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

### (a) Fair value measurement (cont'd.)

| Group | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **2015 (Restated)** | | | | |
| **Financial assets measured at fair value** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Debt securities | - | 107,262 | - | 107,262 |
| - Equity securities and unit trusts | 220,136 | 11,175 | - | 231,311 |
| Financial investments available-for-sale # | | | | |
| - Debt securities | - | 1,249,171 | - | 1,249,171 |
| Derivative financial assets | - | 2,910 | - | 2,910 |
| **Financial assets for which fair values are disclosed** | | | | |
| Financial investments held-to-maturity | - | 39,922 | - | 39,922 |
| Loans, advances and financing | - | - | 1,926,827 | 1,926,827 |
| | 220,136 | 1,410,440 | 1,926,827 | 3,557,403 |
| **Financial liability measured at fair value** | | | | |
| Derivative financial liabilities | 45,688 | 26,590 | - | 72,278 |
| **Financial liabilities for which fair values are disclosed** | | | | |
| Obligations on securities sold under repurchase agreements | - | 95,310 | - | 95,310 |
| Borrowings | - | 140,963 | - | 140,963 |
| | 45,688 | 262,863 | - | 308,551 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 51. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

### (a) Fair value measurement (cont'd.)

| Bank | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **2016** | | | | |
| **Financial assets measured at fair value** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Debt securities | - | 169,311 | - | 169,311 |
| - Equity securities and unit trusts | 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 | - | - | 2,062,740 | 2,062,740 |
| | 211,210 | 1,185,668 | 2,063,807 | 3,460,685 |
| **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 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 51. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

### (a) Fair value measurement (cont'd.)

| Bank | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **2015** | | | | |
| **Financial assets measured at fair value** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Debt securities | - | 107,262 | - | 107,262 |
| - Equity securities | 200,305 | 11,175 | - | 211,480 |
| Financial investments available-for-sale # | | | | |
| - Debt securities | - | 1,249,171 | - | 1,249,171 |
| Derivative financial assets | - | 2,910 | - | 2,910 |
| **Financial assets for which fair values are disclosed** | | | | |
| Financial investments held-to-maturity | - | 39,922 | - | 39,922 |
| Loans, advances and financing | - | - | 1,875,428 | 1,875,428 |
| | 200,305 | 1,410,440 | 1,875,428 | 3,486,173 |
| **Financial liability measured at fair value** | | | | |
| Derivative financial liabilities | 45,688 | 26,590 | - | 72,278 |
| **Financial liability for which fair value is disclosed** | | | | |
| Obligations on securities sold under repurchase agreements | - | 95,310 | - | 95,310 |
| | 45,688 | 121,900 | - | 167,588 |

# Excludes unquoted securities stated at cost of RM490,000 (2015: 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.

# NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 51. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

### (a) Fair value measurement (cont'd.)

**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 | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Financial investment measured at fair value | | |
| Balance at the beginning of the financial year | **-** | - |
| Acquisition | **1,067** | - |
| Balance at the end of the financial year | **1,067** | - |

# NOTES TO THE FINANCIAL STATEMENTS
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## 52. OPERATIONS OF ISLAMIC BANKING

**The Islamic banking operations of the Bank are as follows:**

### (a) Statement of financial position as at 31 December 2016

| | | Group and Bank | |
|---|---|---|---|
| | Note | 2016 RM'000 | 2015 RM'000 |
| **Assets** | | | |
| Cash and bank balances | (e) | **160,638** | 115,437 |
| Financial assets at fair value through profit or loss | (f) | **34,750** | 78,576 |
| Financial investments available-for-sale | (g) | **276,405** | 194,630 |
| Financial investments held-to-maturity | (h) | **5,000** | 5,001 |
| Advances and financing | (i) | **155,162** | 59,150 |
| Balances due from clients and brokers | | **24** | - |
| Other assets | (j) | **1,322** | 1,730 |
| Property, plant and equipment | | **138** | 14 |
| Deferred tax assets | | **205** | 157 |
| **Total assets** | | **633,644** | 454,695 |
| **Liabilities** | | | |
| Deposits from customers | (k) | **410,813** | 272,367 |
| Balances due to clients and brokers | | **56** | - |
| Other liabilities | (l) | **84,378** | 55,012 |
| Provision for taxation and zakat | | **3,567** | 1,963 |
| **Total liabilities** | | **498,814** | 329,342 |
| **Islamic banking capital funds** | | | |
| Islamic banking funds | | **120,000** | 120,000 |
| Reserves | | **14,830** | 5,353 |
| **Total Islamic banking capital funds** | | **134,830** | 125,353 |
| **Total liabilities and Islamic banking capital funds** | | **633,644** | 454,695 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

**(b) Statements of profit or loss and other comprehensive income**

**For the financial year ended 31 December 2016**

| | Note | Group and Bank 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|
| Income derived from investment of depositors funds | (m) | **30,959** | 21,630 |
| Income derived from investment of shareholders' funds | (n) | **4,823** | 4,554 |
| Impairment allowances | | **(210)** | (47) |
| Total attributable income | | **35,572** | 26,137 |
| Profit distributed to the depositors | (o) | **(18,630)** | (16,741) |
| Net Income | | **16,942** | 9,396 |
| Finance Cost | | **(1,219)** | - |
| Personnel expenses | (p) | **(541)** | (637) |
| Other overhead expenses | (p) | **(1,985)** | (1,725) |
| **Profit before taxation and zakat** | | **13,197** | 7,034 |
| Taxation and Zakat | | **(3,568)** | (1,963) |
| **Profit for the financial year** | | **9,629** | 5,071 |

**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:**

| | Note | Group and Bank 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|
| Income derived from investment of depositors funds and others | | **30,959** | 21,630 |
| Income derived from investment of shareholders' funds | | **4,823** | 4,554 |
| Total income before impairment allowances and overhead expenses | | **35,782** | 26,184 |
| Profit distributed to depositors | | **(18,630)** | (16,741) |
| Finance cost | | **(1,219)** | - |
| **Income from Islamic Banking Window operations reported in the statement of profit or loss of the Group and the Bank** | | **15,933** | 9,443 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

### (c) Statement of cash flows

**For the financial year ended 31 December 2016**

| | Group and Bank | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| **Cash flows from operating activities** | | |
| Profit before tax expense and zakat | **13,197** | 7,034 |
| Adjustments for: | | |
| Depreciation of plant and equipment (Note 52(p)(ii)) | **44** | 3 |
| Fixed assets written off | **7** | - |
| Impairment allowances | **210** | 46 |
| Operating profit before working capital changes | **13,458** | 7,083 |
| **Changes in operating assets:** | | |
| Financial assets at fair value through profit or loss | **43,825** | (78,576) |
| Financial investments available-for-sale | **(81,975)** | 30,801 |
| Financial investments held-to-maturity | **1** | 2 |
| Financing and advances | **(96,222)** | (36,153) |
| Other assets | **208** | 881 |
| **Changes in operating liabilities:** | | |
| Deposits from customers | **138,446** | (39,418) |
| Other liabilities | **27,460** | 29,866 |
| Net cash generated from/(used in) operating activities | **45,201** | (85,514) |
| Net cash generated from financing activity | **-** | 20,000 |
| **Net change in cash and cash equivalents** | **45,201** | (65,514) |
| **Cash and cash equivalents at beginning of the financial year** | **115,437** | 180,951 |
| **Cash and cash equivalents at end of the financial year** | **160,638** | 115,437 |

## 52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

### (d) Statement of changes in Islamic banking funds

**For the financial year ended 31 December 2016**

| | Non-distributable | | | | Distributable | |
|---|---|---|---|---|---|---|
| **Group and Bank** | **Islamic banking fund RM'000** | **Available for-sale reserve RM'000** | **Regulatory reserve RM'000** | **Capital reserve* RM'000** | **Retained profits RM'000** | **Total RM'000** |
| **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** |
| | | | | | | |
| **At 1 January 2015** | 100,000 | 2,666 | - | - | 779 | 103,445 |
| Injection of funds for Islamic banking | 20,000 | - | - | - | - | 20,000 |
| Profit for the financial year | - | - | - | - | 5,071 | 5,071 |
| Other comprehensive loss for the financial year | - | (3,163) | - | - | - | (3,163) |
| Transfer to regulatory reserve | - | - | 602 | - | (602) | - |
| **At 31 December 2015** | 120,000 | (497) | 602 | - | 5,248 | 125,353 |

* Capital reserve arised from the merger adjustment to reflect the capital restructuring as a result of the group internal reorganisation exercise.

# NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

### (e) Cash and bank balances

| | Group and Bank | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| Current account with BNM and banks | **58,972** | 21,117 |
| Money at call and deposit placements with: | | |
| Licensed investment banks | **101,666** | 94,320 |
| | **160,638** | 115,437 |

### (f) Financial assets at fair value through profit or loss

| | Group and Bank | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| **At fair value** | | |
| **Money market instruments:** | | |
| Malaysian Government Investment Certificates | **-** | 28,687 |
| **Unquoted securities:** | | |
| Islamic Corporate Bills | **24,968** | - |
| Islamic Corporate Bonds | **9,782** | 49,889 |
| | **34,750** | 78,576 |

### (g) Financial investments available-for-sale

| | Group and Bank | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| **At fair value** | | |
| **Money market instruments:** | | |
| Islamic Government Investment Issues | **20,322** | 39,706 |
| Islamic acceptance Accepted Bills | **149,890** | - |
| Malaysian Government Investment Issue Certificate | **10,056** | 9,996 |
| | **180,268** | 49,702 |
| **Unquoted securities:** | | |
| Islamic Coporate Bills | **-** | 24,878 |
| Islamic Corporate Bonds | **96,137** | 120,050 |
| | **96,137** | 144,928 |
| | **276,405** | 194,630 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

### (h) Financial investments held-to-maturity

| | Group and Bank | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| **At amortised cost** | | |
| Unquoted Islamic debt securities in Malaysia | | |
| - Islamic corporate bonds | **5,000** | 5,001 |
| The maturity structure of above securities are as follows: | | |
| Two to five years | **5,000** | 5,001 |

### (i) Advances and financing

| | Group and Bank | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Commodity Murabahah revolving credit | | |
| - Shariah contract - others | **20,224** | 14,122 |
| Commodity Murabahah term financing | | |
| - Shariah contract - others | **135,139** | 45,137 |
| Gross advances and financing | **155,363** | 59,259 |
| Allowance for impairment: | | |
| - Collective allowance | **(201)** | (109) |
| Net financing and advances | **155,162** | 59,150 |
| (i) Gross financing and advances analysed by type of customer are as follows: | | |
| Domestic business enterprises - others | **115,255** | 59,259 |
| Individual | **40,108** | - |
| | **155,363** | 59,259 |
| (ii) Gross financing and advances analysed by geographical distribution are as follows: | | |
| In Malaysia | **155,363** | 59,259 |
| (iii) Gross financing and advances analysed by profit rate sensitivity are as follows: | | |
| Variable rate | | |
| - Cost plus | **155,363** | 59,259 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

### (i) Advances and financing (cont'd.)

| | | Group and Bank | |
|---|---|---|---|
| | | **2016 RM'000** | **2015 RM'000** |
| (iv) | Gross financing and advances analysed by economic purpose are as follows: | | |
| | Purchase of securities | **50,014** | 45,137 |
| | Working capital | **65,241** | 14,122 |
| | Others | **40,108** | - |
| | | **155,363** | 59,259 |
| (v) | Gross financing and advances analysed by residual contractual maturity are as follows: | | |
| | Within one year | **155,363** | 59,259 |

### (j) Other assets

| | Group and Bank | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Income receivable | **1,319** | 1,728 |
| Prepayment | **3** | 2 |
| | **1,322** | 1,730 |

### (k) Deposits from customers

| | | Group and Bank | |
|---|---|---|---|
| | | **2016 RM'000** | **2015 RM'000** |
| **(i)** | **By type of deposit:** | | |
| | Tawarruq (Commodity Murabahah deposits) | **410,813** | 272,367 |
| **(ii)** | **By type of customers:** | | |
| | Domestic non-bank institutions | **315,032** | - |
| | Business enterprises | **94,855** | 272,367 |
| | Individuals | **926** | - |
| | | **410,813** | 272,367 |
| **(iii)** | **By maturity:** | | |
| | Due within six months | **16,000** | 272,367 |
| | More than six months | **394,813** | - |
| | | **410,813** | 272,367 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

### (l) Other liabilities

| | Group and Bank | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Mudharabah Specific Investment Account | **62,500** | 20,000 |
| Profit payable | **1,023** | 330 |
| Other payable | **20,855** | 34,682 |
| | **84,378** | 55,012 |

### (m) Income derived from investment of depositors' funds and others

| | Group and Bank | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| **Finance income and hibah** | | |
| Advances and financing | **3,200** | 697 |
| Deposits placements with financial institutions | **5,188** | 7,759 |
| Financial assets at fair value through profit or loss | **1,603** | 1,391 |
| Financial investments available-for-sale | **10,109** | 5,947 |
| Financial investments held-to-maturity | **238** | 238 |
| Accretion of discount | **(353)** | (187) |
| | **19,985** | 15,845 |
| **Other operating income** | | |
| Net gain on sale of financial assets at fair value through profit or loss | **2,680** | 336 |
| Net gain on sale of financial investments available-for-sale | **6,337** | 5,029 |
| Fees on financing and advances | **2,140** | 506 |
| Brokerage fee | **7** | - |
| Advisory fee | **19** | 13 |
| Direct trading fees | **(214)** | (129) |
| Other non-operating income | **5** | 30 |
| | **10,974** | 5,785 |
| | **30,959** | 21,630 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

### (n) Income derived from investment of shareholders' funds

| | Group and Bank | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| **Finance income and hibah** | | |
| Advances and financing | **2,459** | 131 |
| Financial investments available-for-sale | **2,557** | 4,703 |
| Accretion of discount | **(193)** | (280) |
| | **4,823** | 4,554 |

### (o) Income attributable to depositors

| | Group and Bank | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Deposits from customers and financial institutions | | |
| - Mudharabah Fund | **13,898** | 13,473 |
| Others | **4,732** | 3,268 |
| | **18,630** | 16,741 |

### (p) Other operating expenses

| | Group and Bank | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| **(i) Personnel costs** | | |
| - salaries, wages, allowances and bonus | **437** | 425 |
| - EPF | **61** | 59 |
| - other staff related expense | **43** | 153 |
| | **541** | 637 |
| **(ii) Other overhead expenses:** | | |
| **Establishment costs** | | |
| - depreciation | **44** | 3 |
| - repair and maintenance | **54** | 54 |
| | **98** | 57 |
| **Marketing and trading expenses** | | |
| - advertisement and promotions | **27** | 3 |
| - travelling and entertainment expenses | **4** | 14 |
| | **31** | 17 |
| **Administration and general expenses** | | |
| - others | **1,856** | 1,651 |
| | **1,985** | 1,725 |

## NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

### (q) Capital adequacy

| | Group and Bank | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| **CET 1/ Tier 1 capital** | | |
| Islamic banking funds | **120,000** | 120,000 |
| Retained profits | **8,568** | 5,248 |
| Other reserves | **6,262** | 105 |
| Less: Deferred tax assets | **(205)** | (157) |
| Regulatory reserve | **(1,663)** | - |
| Total CET 1/ Tier 1 capital | **132,962** | 125,196 |
| **Tier 2 capital** | | |
| Collective allowance and regulatory reserve | **1,696** | 711 |
| Total Tier 2 capital | **1,696** | 711 |
| **Total capital** | **134,658** | 125,907 |

| | Group and Bank | |
|---|---|---|
| | **2016** | **2015** |
| CET 1 capital ratio | **83.230%** | 99.604% |
| Tier 1 capital ratio | **83.230%** | 99.604% |
| Total capital ratio | **84.292%** | 100.169% |

The breakdown of risk-weighted assets (excluding any deferred tax assets) in the various categories of risk-weights are as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **Group and Bank** | **Principal RM'000** | **Risk-weighted RM'000** | **Principal RM'000** | **Risk-weighted RM'000** |
| | **-** | | | |
| Credit risk | **508,000** | **135,691** | 380,972 | 64,481 |
| Market risk | **-** | **8,056** | - | 52,041 |
| Operational risk | **-** | **16,005** | - | 9,172 |
| **Total risk weighted assets** | **508,000** | **159,752** | 380,972 | 125,694 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 53. DIVIDEND

| | Group | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| **Recognised during the year:** | | |
| **Dividend paid** | | |
| Interim dividend of 1% less tax at 25%, based on KNKH's adjusted issued and paid up share capital of RM724,903,099 comprising 724,903,099 ordinary shares (excluding 6,856,400 treasury shares held pursuant of Section 67A of the Companies Act, 1965) in respect of the financial year ended 31 December 2014. | - | 7,249 |

In the previous year, the Group paid a dividend amounting to RM7,249,031 in respect of the year ended 31 December 2014. The dividend was paid by KNKH, the former holding company of the Bank. KNKH became a subsidiary of the Bank from 1 November 2016 as disclosed in Note 1 of the financial statements.

During the current year, the Bank did not pay any dividend in respect of the previous financial year.

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year ended 31 December 2016 of 2.25 sen on 722,546,999 ordinary shares, amounting to a dividend payable of RM16,257,307 will be proposed for shareholders' approval. 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 2017.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 54. SIGNIFICANT EVENTS AND SUBSEQUENT EVENTS

### A. Significant events during the financial year

The following are the significant events of the Group during the financial year ended 31 December 2016:

**(1) Group Internal Reorganisation**

On 1 November 2016, the Group has completed the following merger and the capital restructuring under the Group Internal Reorganisation.

**(a) Merger**

(i) The transfer of KNKH's identified assets and liabilities to KIBB (as stated below):

| | Bank 2016 RM'000 |
|---|---|
| **Assets** | |
| Cash and bank balances | 9,635 |
| Other assets | 14,058 |
| Investment in subsidiaries (Note 14) | 7,750 |
| Property, plant and equipment (Note 17) | 957 |
| Intangible assets (Note 18) | - |
| Deferred tax assets (Note 19) | 259 |
| **Liabilities** | |
| Other liabilities | (4,148) |
| Borrowings (Note 26(c)) | (45,000) |
| | (16,489) |

(ii) Capital reduction and repayment by way of cancellation of all the ordinary shares of RM1.00 each in KNKH ("KNKH Share(s)") and distribution of the entire shareholdings of KNKH in KIBB to the shareholders of KNKH, on the basis of one (1) ordinary share of RM0.25 each of KIBB for every one (1) KNKH Share held by the entitled shareholders of KNKH. Simultaneous with the implementation of the KNKH Capital Reduction and Repayment, KNKH issued two (2) new KNKH Shares at par value to KIBB, and became a wholly-owned subsidiary of KIBB, as disclosed in Note 14;

## NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

### 54. SIGNIFICANT EVENTS AND SUBSEQUENT EVENTS (CONT'D.)

**A. Significant events during the financial year (cont'd.)**

**(1) Group Internal Reorganisation (cont'd.)**

**(b) Capital Restructuring of KIBB**

(i) Capital reduction via the cancellation of ordinary shares of RM1.00 each of KIBB ("KIBB Share(s)") which resulted in the reduction of the issued and paid-up share capital of KIBB to such number that is equivalent to the existing issued and paid-up share capital of KNKH at the prevailing date to facilitate the KNKH Capital Reduction and Repayment at the distribution ratio of one (1) KIBB Share of RM0.25 each for every one (1) KNKH Share, as disclosed in Note 27;

(ii) Adjustment of the Par Value of each KIBB Share from RM1.00 to RM0.25, as disclosed in Note 27;

(iii) Increase in the authorised share capital of KIBB from RM800,000,000 comprising 800,000,000 KIBB Shares to RM1,250,000,000 comprising 5,000,000,000 ordinary shares of RM0.25 each in KIBB in order to accommodate any increase in the issued and paid-up share capital of KIBB pursuant to any corporate exercise which may be undertaken by KIBB in the future, as disclosed in Note 27; and

(iv) Amendments to the Memorandum and Articles of Association of KIBB to facilitate, among others, the implementation of the KIBB Capital Reduction, KIBB Par Value Adjustment and Increase in the Authorised Share Capital of KIBB, as well as the consequential amendments to comply with the Main Market Listing Requirements of Bursa Securities.

**(c) Transfer of KNKH's listing status to KIBB**

On 2 November 2016, KNKH was delisted from the Main Market of Bursa Securities and KIBB assumed the listing status of KNKH.

**(2) Acquisition of a Piece of Freehold Land Together with a Nineteen (19)-Storey Office Building as the Group's corporate office**

On 28 January 2016, the Bank entered into a Conditional Sale and Purchase Agreement ("SPA") with Tropicana Plaza Sdn. Bhd. to acquire a piece of freehold land measuring approximately 3,674 square metres and held under Geran 74958, Lot 11672, Seksyen 67, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Negeri Wilayah Persekutuan Kuala Lumpur together with a nineteen (19)-storey office building known as "Kenanga Tower" (formerly known as Dijaya Plaza) with two (2) levels of basement containing three hundred and twenty-two (322) parking bays erected thereon and bearing the postal address of No. 237, Jalan Tun Razak, 50400 Kuala Lumpur for a total cash consideration of Ringgit Malaysia One Hundred and Forty Million (RM140,000,000) only subject to the terms and conditions as stipulated in the SPA. The Kenanga Tower building is used as the corporate office of the Group.

The acquisition of Kenanga Tower has been completed on 31 May 2016.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 54. SIGNIFICANT EVENTS AND SUBSEQUENT EVENTS (CONT'D.)

### B. Significant events subsequent to the financial year

(i) On 13 February 2017, the Bank proposes to establish and implement an employees' share scheme of up to ten percent (10%) of the bank's total issued and share capital (excluding treasury shares) at any one time during the duration of the scheme for the eligible employees and executive directors of Kenanga Investment Bank Berhad 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.

(ii) The Companies Act 2016 ("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.

Amongst the key changes introduced in the New Act which will affect the financial statements of the Group and of the Bank upon the commencement of the New Act on 31 January 2017 are:

(a) Removal of the authorised share capital;

(b) Shares of the Group and of the Bank will cease to have par or nominal value; and

(c) Share premium and capital redemption reserves of the Group and of the Bank will become part of the share capital, to be effected upon approval from relevant authorities.

The adoption of the New Act is not expected to have any financial impact on the Group and on the Bank for the current financial year as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption mainly will be on the disclosures to the annual report and financial statements of the Group and of the Bank for the financial year ending 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 55. COMPARATIVE FIGURES

The following comparative figures of the Group's financial statements and notes thereto have been restated to conform with the current year presentation due to the adoption of the merger method of accounting to reflect the acquisition of certain subsidiaries, assets and liabilities under the Group Internal Reorganisation as disclosed in Note 54.

The acquisition of subsidiaries and transfer of assets and liabilities to KIBB is a combination between businesses or entities under common control. KIBB has applied the merger method of accounting, whereby KIBB has incorporated the predecessor carrying value of KNKH's assets and liabilities as at 31 December 2015.

**Consolidated statement of financial position**
**As at 31 December 2015**

| Group | As previously reported RM'000 | Effect of merger accounting RM'000 | As restated RM'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and bank balances | 1,327,258 | 40,668 | 1,367,926 |
| Financial assets at fair value through profit or loss | 318,742 | 19,831 | 338,573 |
| Financial investments available-for-sale | 1,249,661 | - | 1,249,661 |
| Financial investments held-to-maturity | 40,003 | - | 40,003 |
| Derivative financial assets | 2,910 | - | 2,910 |
| Loans, advances and financing | 1,860,206 | 69,858 | 1,930,064 |
| Balances due from clients and brokers | 457,327 | - | 457,327 |
| Other assets | 223,088 | 3,028 | 226,116 |
| Statutory deposit with Bank Negara Malaysia | 120,753 | - | 120,753 |
| Tax recoverable | 5,349 | 2,880 | 8,229 |
| Investment in subsidiaries | - | - | - |
| Investment in associates | 65,613 | 1,225 | 66,838 |
| Property, plant and equipment | 33,311 | 2,387 | 35,698 |
| Intangible assets | 316,632 | (49,800) | 266,832 |
| Deferred tax assets | 9,091 | 934 | 10,025 |
| **Total assets** | 6,029,944 | 91,011 | 6,120,955 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 55. COMPARATIVE FIGURES (CONT'D.)

**Consolidated statement of financial position (cont'd.)**
**As at 31 December 2015**

| Group | As previously reported RM'000 | Effect of merger accounting RM'000 | As restated RM'000 |
|---|---|---|---|
| **Liabilities** | | | |
| Deposits from customers | 3,231,051 | (1,986) | 3,229,065 |
| Deposits and placements of banks and other financial institutions | 575,159 | - | 575,159 |
| Balances due to clients and brokers | 896,302 | - | 896,302 |
| Derivative financial liabilities | 72,278 | - | 72,278 |
| Other liabilities | 235,249 | 11,129 | 246,378 |
| Obligations on securities sold under repurchase agreements | 95,310 | - | 95,310 |
| Borrowings | - | 141,000 | 141,000 |
| Provision for taxation and zakat | 1,213 | (481) | 732 |
| **Total liabilities** | 5,106,562 | 149,662 | 5,256,224 |
| **Equity** | | | |
| Share capital | 770,000 | - | 770,000 |
| Reserves | 143,633 | (58,651) | 84,982 |
| Equity attributable to equity holders of the Bank | 913,633 | (58,651) | 854,982 |
| Non-controlling interests | 9,749 | - | 9,749 |
| Total equity | 923,382 | (58,651) | 864,731 |
| **Total liabilities and shareholders' equity** | 6,029,944 | 91,011 | 6,120,955 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 55. COMPARATIVE FIGURES (CONT'D.)

**Consolidated statement of profit and loss and other comprehensive income**
**For the financial year ended 31 December 2015**

| Group | As previously reported RM'000 | Effect of merger accounting RM'000 | As restated RM'000 |
|---|---|---|---|
| **Operating revenue** | 550,205 | 12,783 | 562,988 |
| Interest income | 230,276 | 6,819 | 237,095 |
| Interest expense | (148,014) | (6,626) | (154,640) |
| Net interest income | 82,262 | 193 | 82,455 |
| Net income from Islamic banking operations | 9,443 | - | 9,443 |
| Other operating income | 303,391 | 4,034 | 307,425 |
| Net income | 395,096 | 4,227 | 399,323 |
| Other operating expenses | (379,922) | (1,726) | (381,648) |
| Operating profit | 15,174 | 2,501 | 17,675 |
| Write back of/(Allowance for) impairment on: | | | |
| - loans, advances and financing | 1,289 | 46 | 1,335 |
| - balances due from clients and brokers and other receivables | (2,333) | - | (2,333) |
| | 14,130 | 2,547 | 16,677 |
| Share of results of associates | 1,679 | (133) | 1,546 |
| Profit before taxation and zakat | 15,809 | 2,414 | 18,223 |
| Taxation and zakat | (4,604) | (1,158) | (5,762) |
| Profit for the financial year | 11,205 | 1,256 | 12,461 |
| Other comprehensive income/(loss): | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Foreign exchange differences on consolidation | 14,111 | 115 | 14,226 |
| Share of other comprehensive loss in an associate | (8,156) | - | (8,156) |
| Net (loss)/gain on fair value changes of financial investments available-for-sale | (3,937) | - | (3,937) |
| Income tax relating to the components of other comprehensive income | 816 | - | 816 |
| Other comprehensive income/(loss) for the financial year, net of tax | 2,834 | 115 | 2,949 |
| **Total comprehensive income for the financial year, net of tax** | 14,039 | 1,371 | 15,410 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 55. COMPARATIVE FIGURES (CONT'D.)

**Consolidated statement of cash flows**
**For the financial year ended 31 December 2015**

| Group | As previously reported RM'000 | Effect of merger accounting RM'000 | As restated RM'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation and zakat | 15,809 | 2,414 | 18,223 |
| Adjustments for:- | | | |
| Allowance for/(Write back of) impairment on loans, advances and financing | 307 | (660) | (353) |
| Depreciation of property, plant and equipment | 8,413 | 550 | 8,963 |
| Amortisation of intangible assets - software licence | 454 | 2 | 456 |
| Allowance for impairment on balances due from clients and brokers, and other receivables | 2,387 | - | 2,387 |
| Property, plant and equipment written off | 657 | - | 657 |
| Gross dividend income from investments | (2,208) | (1,593) | (3,801) |
| Gain on disposal of property, plant and equipment | (109) | (59) | (168) |
| Net gain from sale of financial assets at fair value through profit or loss and derivatives | (3,700) | - | (3,700) |
| Net gain from sale of financial investments available-for-sale | (7,236) | - | (7,236) |
| Unrealised gain on revaluation of financial assets at fair value through profit or loss and derivatives | (16,483) | (1,457) | (17,940) |
| Loss from dissolution of subsidiaries | - | (50) | (50) |
| Share of results of associates | (1,679) | 133 | (1,546) |
| Operating loss before working capital changes | (3,388) | (720) | (4,108) |
| (Increase)/decrease in operating assets: | | | |
| Loans, advances and financing | (19,809) | (78,016) | (97,825) |
| Other assets | (84,774) | 60,561 | (24,213) |
| Statutory deposit with Bank Negara Malaysia | 6,823 | - | 6,823 |
| Balances due from clients and brokers | (80,212) | - | (80,212) |
| Trust monies and deposits | 72,581 | (34,249) | 38,332 |
| Increase/(decrease) in operating liabilities: | | | |
| Other liabilities | 66,072 | (955) | 65,117 |
| Balances due to clients and brokers | 151,540 | - | 151,540 |
| Deposits from customers | 129,748 | 6,706 | 136,454 |
| Deposits and placements of banks and other financial institutions | (112,895) | - | (112,895) |
| Obligations on securities sold under repurchase agreements | 95,310 | - | 95,310 |
| Cash generated from/(used in) operations | 220,996 | (46,673) | 174,323 |
| Taxation and zakat paid | (9,962) | (1,264) | (11,226) |
| Net cash generated from operating activities | 211,034 | (47,937) | 163,097 |

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

## 55. COMPARATIVE FIGURES (CONT'D.)

**Consolidated statement of cash flows**
**For the financial year ended 31 December 2015 (cont'd.)**

| Group | As previously reported RM'000 | Effect of merger accounting RM'000 | As restated RM'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Dividend income from investments | 2,208 | 1,593 | 3,801 |
| Purchase of property, plant and equipment | (4,626) | (1,346) | (5,972) |
| Purchase of intangible assets | (521) | - | (521) |
| Proceeds from disposal of property, plant and equipment | 2,280 | (1,532) | 748 |
| Net sales of securities | 252,909 | (1,542) | 251,367 |
| Net cash generated from/(used in) investing activities | 252,250 | (2,827) | 249,423 |
| **Cash flows from financing activities** | | | |
| Dividend paid | - | (7,249) | (7,249) |
| Repayment of hire purchase and finance lease | - | (38) | (38) |
| Net repayment of borrowings | - | (11,500) | (11,500) |
| Buy-back of shares | - | (6,604) | (6,604) |
| Net cash used in financing activities | - | (25,391) | (25,391) |
| **Net increase in cash and cash equivalents** | 463,284 | (76,155) | 387,129 |
| **Cash and cash equivalents at beginning of financial year** | 490,396 | 81,278 | 571,674 |
| **Cash and cash equivalents at end of financial year** | 953,680 | 5,123 | 958,803 |

## 56. REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained profits of the Group and the Bank as at reporting date into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Securities Listing Requirements, as issued by the Malaysian Institute of Accountants.

| | Group RM'000 | Bank RM'000 |
|---|---|---|
| **2016** | | |
| **Bank and subsidiaries** | | |
| Total (accumulated losses)/retained profits | | |
| - Realised | **(175,109)** | **25,576** |
| - Unrealised | **(3,079)** | **(5,367)** |
| | **(178,188)** | **20,209** |
| **Associated companies and joint venture company** | | |
| Total accumulated losses | | |
| - Realised | **(332)** | **-** |
| - Unrealised | **(217)** | **-** |
| | **(549)** | **-** |
| **Consolidation adjustments** | **226,594** | **-** |
| Total retained profits | **47,857** | **20,209** |

| | Group RM'000 (Restated) | Bank RM'000 |
|---|---|---|
| **2015** | | |
| **Bank and subsidiaries** | | |
| Total (accumulated losses)/retained profits | | |
| - Realised | (240,870) | (92,275) |
| - Unrealised | 59,295 | 44,380 |
| | (181,575) | (47,895) |
| **Associated companies** | | |
| Total retained profits/(accumulated losses) | | |
| - Realised | 2,033 | - |
| - Unrealised | (487) | - |
| | 1,546 | - |
| **Consolidation adjustments** | 168,795 | - |
| Total accumulated losses | (11,234) | (47,895) |

Disclosure of the above is solely for complying with the disclosure requirements of Bursa Securities Listing Requirements and should not be applied for any other purposes.

# ANALYSIS OF SHAREHOLDINGS
## AS AT 31 MARCH 2017

### SHARE CAPITAL

| | |
|---|---|
| Total Number of Issued Shares | : 722,546,999 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 | 6,859 | 27.54 | 184,370 | 0.03 |
| 100 to 1,000 | 5,672 | 22.78 | 2,557,792 | 0.35 |
| 1,001 to 10,000 | 10,128 | 40.67 | 34,125,050 | 4.72 |
| 10,001 to 100,000 | 1,988 | 7.98 | 58,293,961 | 8.07 |
| 100,001 to less than 5% of issued shares | 251 | 1.01 | 277,264,656 | 38.37 |
| 5% and above of issued shares | 4 | 0.02 | 350,121,170 | 48.46 |
| **Total** | **24,902** | **100.00** | **722,546,999** | **100.00** |

# ANALYSIS OF SHAREHOLDINGS

## LIST OF THIRTY (30) LARGEST SHAREHOLDERS AS AT 31 MARCH 2017

| No. | Name of Shareholder | No. of Shares | Percentage (%) |
|---|---|---|---|
| 1 | CMS Capital Sdn Bhd | 153,353,000 | 21.22 |
| 2 | Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail | 100,969,770 | 13.97 |
| 3 | Deutsche Asia Pacific Holdings Pte Ltd | 59,283,601 | 8.20 |
| 4 | HSBC Nominees (Asing) Sdn Bhd<br>Exempt AN for Tokai Tokyo Securities Co. Ltd. | 36,514,799 | 5.05 |
| 5 | HSBC Nominees (Asing) Sdn Bhd<br>Exempt AN for Bank Julius Baer & Co. Ltd. | 30,117,909 | 4.17 |
| 6 | Cahya Mata Sarawak Berhad | 30,070,000 | 4.16 |
| 7 | Abdul Aziz Bin Hashim | 29,753,712 | 4.12 |
| 8 | Aras Kreatif Sdn Bhd | 28,819,884 | 3.99 |
| 9 | Aiza Binti Abdul Aziz | 26,467,156 | 3.66 |
| 10 | HSBC Nominees (Asing) Sdn Bhd<br>Exempt AN for Credit Suisse | 10,284,052 | 1.42 |
| 11 | Lim Kuan Gin | 8,880,000 | 1.23 |
| 12 | Kenanga Nominees (Tempatan) Sdn Bhd<br>Libra Invest Berhad for ECM Libra Foundation | 6,867,749 | 0.95 |
| 13 | Rescom International Limited | 4,292,000 | 0.59 |
| 14 | Raja Karib Shah Bin Shahrudin | 3,637,642 | 0.50 |
| 15 | Pui Cheng Wui | 3,540,000 | 0.49 |
| 16 | Inter-Pacific Equity Nominees (Tempatan) Sdn Bhd<br>Inter-Pacific Capital Sdn Bhd | 3,500,000 | 0.48 |
| 17 | CIMSEC Nominees (Tempatan) Sdn Bhd<br>Exempt AN For CIMB Securities (Singapore) Pte Ltd (Retail Clients) | 3,119,416 | 0.43 |
| 18 | Sumberama Sdn Bhd | 2,333,156 | 0.32 |
| 19 | Citigroup Nominees (Asing) Sdn Bhd<br>CBNY for Dimensional Emerging Markets Value Fund | 2,020,488 | 0.28 |
| 20 | Datuk Chay Wai Leong | 2,000,000 | 0.28 |
| 21 | CIMSEC Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Ng Kok Hin | 1,956,834 | 0.27 |
| 22 | CIMB Group Nominees (Asing) Sdn Bhd<br>Exempt AN for DBS Bank Ltd (SFS) | 1,919,800 | 0.27 |
| 23 | Citigroup Nominees (Asing) Sdn Bhd<br>CBNY for DFA Emerging Markets Small Cap Series | 1,871,361 | 0.26 |
| 24 | Affin Hwang Nominees (Asing) Sdn Bhd<br>Exempt AN for DBS Vickers Securities (Singapore) Pte Ltd (Clients) | 1,800,771 | 0.25 |
| 25 | Citigroup Nominees (Asing) Sdn Bhd<br>CBNY for Emerging Markets Core Equity Portfolio DFA Investment Dimensions Group Inc | 1,779,386 | 0.25 |
| 26 | Lim Su Tong @ Lim Chee Tong | 1,626,833 | 0.23 |
| 27 | Ong Leong Huat | 1,621,000 | 0.22 |
| 28 | Ong Geok Hwa | 1,611,100 | 0.22 |
| 29 | Khor Keng Saw @ Khaw Ah Soay | 1,581,400 | 0.22 |
| 30 | Kim Poh Holdings Sdn Bhd | 1,503,000 | 0.21 |
| | **Total** | **563,095,819** | **77.91** |

# ANALYSIS OF SHAREHOLDINGS

## SUBSTANTIAL SHAREHOLDERS AND DIRECTORS' INTEREST IN SHARES AS AT 31 MARCH 2017

### SUBSTANTIAL SHAREHOLDERS

| | Direct Interest | | Indirect Interest | |
|---|---|---|---|---|
| **Name of Substantial Shareholder** | **No. of Shares** | **Percentage (%)** | **No. of Shares** | **Percentage (%)** |
| CMS Capital Sdn Bhd | 153,353,000 | 21.22 | - | - |
| Cahya Mata Sarawak Berhad | 30,070,000 | 4.16 | 153,353,000[a] | 21.22 |
| Deutsche Asia Pacific Holdings Pte Ltd | 59,283,601 | 8.20 | - | - |
| Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail | 100,969,770 | 13.97 | 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

| | Direct Interest | | Indirect Interest | |
|---|---|---|---|---|
| **Name of Director** | **No. of Shares** | **Percentage (%)** | **No. of Shares** | **Percentage (%)** |
| Dato' Richard Alexander John Curtis | 900,000 | 0.12 | - | - |
| Luigi Fortunato Ghirardello | 140,000 | 0.02 | - | - |

# NOTICE OF FORTY-THIRD (43RD) ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the Forty-Third (43rd) 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 Thursday, 25 May 2017 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 2016 together with the Reports of the Directors and Auditors thereon.

2. To approve the payment of a final dividend of 2.25 sen per share in respect of the financial year ended 31 December 2016. **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 Dato' Richard Alexander John Curtis; and **Ordinary Resolution 2**
   3.2 Mr. Luk Wai Hong, William. **Ordinary Resolution 3**

4. To re-elect Encik Izlan Izhab who retires in accordance with Article 81 of the Company's Articles of Association and being eligible, offers himself for re-election. **Ordinary Resolution 4**

5. To approve the payment of Directors' fees totalling RM1,711,038.40 in respect of the financial year ended 31 December 2016. **Ordinary Resolution 5**

6. To approve the payment of Directors' remuneration (excluding Directors' fees) to the Non-Executive Chairman, Non-Executive Deputy Chairman and Non-Executive Directors up to an amount of RM624,000, from 1 January 2017 until the next AGM of the Company. **Ordinary Resolution 6**

7. To re-appoint Messrs. Ernst & Young as Auditors of the Company for the financial year ending 31 December 2017 and to authorise the Board of Directors to determine their remuneration. **Ordinary Resolution 7**

## AS SPECIAL BUSINESS

To consider, and if thought fit, to pass the following Ordinary Resolutions:

8. **Authority to Directors to Issue Shares** **Ordinary Resolution 8**

   "**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 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."

## NOTICE OF FORTY-THIRD (43RD) ANNUAL GENERAL MEETING

9. **Proposed Share Buy-Back Authority** **Ordinary Resolution 9**

“**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 the aggregate number of shares to be purchased pursuant to this Resolution does not exceed 10% of the total number of issued shares for the time being of the Company and an amount not exceeding the retained profits of the Company be allocated by the Company for the Proposed Share Buy-Back Authority;

**THAT** at the discretion of the Board of Directors, upon such purchase by the Company of its own shares, the purchased shares may be cancelled and/or retained as treasury shares or retained part of the shares so purchased as treasury shares and cancelled the remainder of the shares or distributed the shares as dividends or resold the shares on Bursa Malaysia Securities Berhad;

**THAT** the authority hereby given shall commence immediately upon the passing of this Resolution and shall continue 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;

**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.”

10. 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 FORTY-THIRD (43RD) ANNUAL GENERAL MEETING

## NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

**NOTICE IS ALSO HEREBY GIVEN THAT** subject to the shareholders' approval for the payment of final dividend of 2.25 sen per share in respect of the financial year ended 31 December 2016 (Final Dividend) under **Ordinary Resolution 1** at the Forty-Third (43rd) AGM of the Company, the Final Dividend will be paid to shareholders on 9 June 2017. The entitlement date for the Final Dividend shall be 26 May 2017.

Shareholders of the Company will only entitled to the Final Dividend in respect of:

a. securities transferred into their securities account before 4.00 p.m. on 26 May 2017 for transfers; and

b. securities bought on Bursa Malaysia Securities Berhad on 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
28 April 2017

***Notes:***

*1.* ***Proxy***

*1.1 Only members whose names appear in the Record of Depositors as at 19 May 2017 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 not less than forty-eight (48) hours before the time appointed for holding the AGM or at any adjournment thereof, or, in the case of a poll, not later than twenty-four (24) hours before the time appointed for the taking of the poll.*

NOTICE OF FORTY-THIRD (43RD) ANNUAL GENERAL MEETING

2. ***Audited Financial Statements for the Financial Year Ended 31 December 2016***

*The audited financial statements under Agenda 1 are for discussion only, as they do not require shareholders' approval under the provision of Section 340 (1)(a) of the Companies Act, 2016. Hence, Agenda 1 will not be put for voting.*

3. ***Final Dividend***

*With reference to Section 131 of the 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 6 March 2017, the Board had considered the amount of dividend and decided to recommend the same for the shareholders' approval.*

*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 9 June 2017 in accordance with the requirements under Section 132(2) and (3) of the Companies Act, 2016.*

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 (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 Dato' Richard Alexander John Curtis and Mr. Luk Wai Hong, William shall retire in accordance with Article 75 of the AA.*

5. ***Re-election of Director who retire in accordance with Article 81 of the Company's AA***

*Article 81 of the AA provided amongst others, that the Board 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, and that any Director so appointed shall hold office until the next following AGM and shall then be eligible for re-election.*

*Accordingly, Encik Izlan Izhab who was appointed as an Independent Non-Executive Director of the Company on 8 September 2016, shall hold office until the Forty-Third (43rd) AGM and shall then be eligible for re-election pursuant to Article 81 of the AA.*

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-Third (43rd) AGM on the Directors' remuneration in two (2) separate resolutions as follows:*

- ***Ordinary Resolution 5*** *on payment of Directors' fees in respect of the preceding year 2016; and*
- ***Ordinary Resolution 6*** *on payment of Directors' remuneration (excluding Directors' fees) in respect of the current year 2017 until the next AGM.*

7. ***Directors' Fees***

*Kenanga Group had on 1 November 2016, completed an internal reorganisation of its corporate structure, whereupon, certain identified assets and liabilities and businesses were transferred from K & N Kenanga Holdings Berhad (KNKH) to the Company (Internal Reorganisation). On 2 November 2016, KNKH transferred its listing status on the Main Market of Bursa Malaysia Securities Berhad to the Company and hence, the Company became the primary operating and listed entity of Kenanga Group.*

*Pursuant to the above, the Group Nomination & Remuneration Committee (NRC) had deliberated and reviewed the Company's Non-Executive Directors' (NEDs) remuneration framework given the additional accountability, as well as responsibility of the Directors in view of the highly regulated operating environment of the Company, being a listed investment bank upon completion of the Internal Reorganisation in November 2016.*

*Further, the NRC was also of the view that the remuneration framework should be enhanced to make it more attractive and competitive for purposes of attracting future talents to be on the Board of Directors of the Company.*

NOTICE OF FORTY-THIRD (43RD) ANNUAL GENERAL MEETING

*In view of the above, the NRC had recommended and the Board had approved for the proposed revision in the Directors' fees for financial year (FY) 2016 to be tabled to the shareholders for approval at the Forty-Third (43rd) AGM.*

| | FY2015 (RM) | FY2016 (RM)@ |
|---|---|---|
| Non-Executive Chairman | 220,000 | 440,000~ |
| Non-Executive Deputy Chairman | 195,000 | 390,000^ |
| NEDs | 170,000 | 270,000* |
| Board Committee Chairman # | 40,000 | 40,000 |
| Board Committee Member # | 30,000 | 30,000 |

@ Effective from 2 November 2016
# The Board Committees are Audit Committee, NRC and Group Board Risk Committee.
~ Consolidating the fees paid under KNKH of RM220,000
^ Consolidating the fees paid under KNKH of RM195,000
* Consolidating fees paid under KNKH of RM100,000

*The payment of the fees to the Non-Executive Chairman, Non-Executive Deputy Chairman and NEDs in respect of FY2016 will only be paid if the proposed **Ordinary Resolution 5** is passed at the Forty-Third (43rd) AGM pursuant to Article 85 of the AA and Section 230(1)(b) of the Companies Act, 2016.*

8. ***Directors' Remuneration (Excluding Directors' Fees)***

*The Directors' remuneration (excluding Directors' fees) comprises the allowances and other emoluments payable to the Chairman of the Board, Deputy Chairman, members of the Board, Board Committees and Boards of subsidiaries of the Company. The current Directors' remuneration framework is as set out below.*

| Description | Chairman | Deputy Chairman | Board Members |
|---|---|---|---|
| Benefits (applicable to the Company only) | Club membership, leave passage, medical coverage, driver, vehicle and other claimable benefits | Club membership, vehicle and other claimable benefits | Nil |

| Type of Meeting Allowance (per meeting) | Chairman | NED/ Member |
|---|---|---|
| Board of the Company | RM1,000 | RM1,000 |
| General Meeting of the Company | RM1,000 | RM1,000 |
| Board Committees * | RM1,000 | RM1,000 |
| Board of subsidiary | RM1,000 | RM1,000 |

* The Board Committees are Audit Committee, NRC, Group Board Risk Committee and Wealth Management Project Oversight Committee.

*Payment of the said remuneration (excluding Directors' fees) is made by the Company and its subsidiaries on a monthly basis and/or as and when incurred if the proposed **Ordinary Resolution 6** is passed at the Forty-Third (43rd) AGM. The Board of Directors is of the view that it is just and equitable for the NEDs to be paid the Directors' remuneration (excluding Directors' fees) 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 year 2017 and until the next AGM.*

9. ***Re-appointment of Auditors***

*The Board of Directors had at its meeting on 26 January 2017 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, Bank Negara Malaysia has, on 24 February 2017, approved the Company's application for the re-appointment of Messrs. Ernst & Young as Auditors of the Company.*

NOTICE OF FORTY-THIRD (43RD) ANNUAL GENERAL MEETING

10. ***Special Business***

10.1 ***Ordinary Resolution 8 - Authority to Directors to Issue Shares***

*The proposed Ordinary Resolution 8 is a new general mandate, 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 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.*

10.2 ***Ordinary Resolution 9 - Proposed Share Buy-Back Authority***

*The proposed Ordinary Resolution 9, 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 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 Circular to Shareholders dated 28 April 2017 which is dispatched together with the Annual Report of the Company for the financial year ended 31 December 2016.*

11. ***Abstention from Voting***

11.1 *Any NED referred to in Ordinary Resolutions 2, 3 and 4 who is a shareholder of the Company will abstain from voting on the resolution in respect of his re-election at the Forty-Third (43rd) AGM. In this respect, Dato' Richard Alexander John Curtis, who is a shareholder of the Company, will abstain from voting on Ordinary Resolution 2.*

11.2 *Any NEDs of the Company who are the shareholders of the Company will abstain from voting on Ordinary Resolution 5 and Ordinary Resolution 6 concerning the Directors' fees and Directors' remuneration (excluding Directors' fees) at the Forty-Third (43rd) AGM. In this respect, Dato' Richard Alexander John Curtis and Mr. Luigi Fortunato Ghirardello, who are the shareholders of the Company, will abstain from voting on Ordinary Resolution 5 and Ordinary Resolution 6.*

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-Third (43rd) AGM is also available on the Company's website www.kenanga.com.my throughout the period beginning from the date of notice until the conclusion of the Forty-Third (43rd) AGM.*

# STATEMENT ACCOMPANYING NOTICE OF FORTY-THIRD (43RD) 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. Dato' Richard Alexander John Curtis;
2. Mr. Luk Wai Hong, William; and

**Article 81**

1. Encik Izlan Izhab.

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 page 236 of the Company's Annual Report.

# PROXY FORM

**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** (KIBB) 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-Third (43rd) 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 Thursday, 25 May 2017 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 2.25 sen per share in respect of the financial year ended 31 December 2016 | **RESOLUTION 1** | | |
| 2. | Re-election of the following Directors pursuant to the Article 75 of the Company's Articles of Association: | | | |
| | 2.1 Dato' Richard Alexander John Curtis | **RESOLUTION 2** | | |
| | 2.2 Mr. Luk Wai Hong, William | **RESOLUTION 3** | | |
| 3. | Re-election of Encik Izlan Izhab pursuant to the Article 81 of the Company's Articles of Association | **RESOLUTION 4** | | |
| 4. | Payment of Directors' fees totaling RM1,711,038.40 | **RESOLUTION 5** | | |
| 5. | Payment of Directors' remuneration (excluding Directors' fees) to the Non-Executive Chairman, Non-Executive Deputy Chairman and Non-Executive Directors up to an amount of RM624,000, from 1 January 2017 until the next AGM of the Company | **RESOLUTION 6** | | |
| 6. | Re-appointment of Messrs. Ernst & Young as Auditors | **RESOLUTION 7** | | |
| **As Special Business** | | | | |
| 7. | Authority to Directors to Issue Shares | **RESOLUTION 8** | | |
| 8. | Proposed Share Buy-Back Authority | **RESOLUTION 9** | | |

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 ____________ day of ____________ 2017

________________________________
Signature/Common Seal of Member

| No. 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 19 May 2017 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 not less than forty-eight (48) hours before the time appointed for holding the AGM or at any adjournment thereof, or, in the case of a poll, not later than twenty-four (24) hours before the time appointed for the taking of the poll.*

*fold here*

Stamp

**Symphony Share Registrars Sdn Bhd**
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia

*fold here*

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E-mail: kenanga@kenanga.com.my

Kenanga Group Kenanga Channel