

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

**Unaudited Condensed Interim Financial Statements**  
**31 December 2017**

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2017**

<u>Group</u>	Note	As at 31 December 2017 RM'000	As at 31 December 2016 RM'000
<b>ASSETS</b>			
Cash and bank balances	A11	1,347,517	1,227,601
Financial assets at fair value through profit or loss	A12	557,568	388,248
Financial investments available-for-sale	A13	1,010,167	937,704
Financial investments held-to-maturity	A14	38,001	40,000
Derivative financial assets	B9	67,393	39,117
Loans, advances and financing	A15	2,195,501	2,105,584
Balances due from clients and brokers	A16	494,883	445,005
Other assets	A17	118,417	231,439
Statutory deposit with Bank Negara Malaysia	A18	116,186	99,504
Tax recoverable		7,028	7,465
Investment in associates		60,438	72,671
Investment in a joint venture company		13,220	6,962
Property, plant and equipment		189,842	191,717
Intangible assets		266,414	266,922
Deferred tax assets		10,006	9,841
<b>TOTAL ASSETS</b>		<b>6,492,581</b>	<b>6,069,780</b>
<b>LIABILITIES</b>			
Deposits from customers	A19	4,233,914	3,286,027
Deposits and placements of banks and other financial institutions	A20	210,762	550,954
Balances due to clients and brokers		624,612	857,065
Derivative financial liabilities	B9	36,174	47,406
Other liabilities	A21	329,150	238,744
Obligations on securities sold under repurchase agreements		74,993	27,253
Borrowings	A22	90,000	165,700
Provision for taxation and zakat		1,510	439
<b>TOTAL LIABILITIES</b>		<b>5,601,115</b>	<b>5,173,588</b>
<b>EQUITY</b>			
Share capital		246,137	180,637
Reserves		645,329	705,319
		891,466	885,956
Non-controlling Interests		-	10,236
<b>TOTAL EQUITY</b>		<b>891,466</b>	<b>896,192</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>6,492,581</b>	<b>6,069,780</b>
<b>Commitments and contingencies</b>		<b>3,293,234</b>	<b>2,923,332</b>
<b>Net assets per share attributable to equity holders of the Bank (RM)</b>		<b>1.23</b>	<b>1.23</b>

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016.

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**UNAUDITED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2017**

<u>Bank</u>	Note	As at 31 December 2017 RM'000	As at 31 December 2016 RM'000
<b>ASSETS</b>			
Cash and bank balances	A11	1,092,544	949,421
Financial assets at fair value through profit or loss	A12	549,735	381,588
Financial investments available-for-sale	A13	1,010,167	937,704
Financial investments held-to-maturity	A14	38,001	40,000
Derivative financial assets	B9	67,393	39,117
Loans, advances and financing	A15	2,180,080	2,065,887
Balances due from clients and brokers	A16	494,883	445,005
Other assets	A17	66,582	74,909
Statutory deposit with Bank Negara Malaysia	A18	116,186	99,504
Tax recoverable		-	894
Investment in subsidiaries		72,564	67,550
Investment in an associate		56,235	56,235
Investment in a joint venture company		20,000	7,500
Property, plant and equipment		186,978	190,731
Intangible assets		305,409	305,409
Deferred tax assets		7,798	7,554
<b>TOTAL ASSETS</b>		<b>6,264,555</b>	<b>5,669,008</b>
<b>LIABILITIES</b>			
Deposits from customers	A19	4,278,148	3,355,577
Deposits and placements of banks and other financial institutions	A20	210,762	550,954
Balances due to clients and brokers		416,960	474,231
Derivative financial liabilities	B9	36,174	47,406
Other liabilities	A21	243,234	195,833
Obligations on securities sold under repurchase agreements		74,993	27,253
Borrowings	A22	69,000	115,200
Provision for taxation and zakat		1,121	48
<b>TOTAL LIABILITIES</b>		<b>5,330,392</b>	<b>4,766,502</b>
<b>EQUITY</b>			
Share capital		246,137	180,637
Reserves		688,026	721,869
<b>TOTAL EQUITY</b>		<b>934,163</b>	<b>902,506</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>6,264,555</b>	<b>5,669,008</b>
<b>Commitments and contingencies</b>		3,411,302	2,991,536
<b>Net assets per share (RM)</b>		<b>1.29</b>	<b>1.25</b>

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016.

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	Note	Individual Quarter		Cumulative Quarter	
		3 months ended 31 December 2017 RM'000	3 months ended 31 December 2016 RM'000	12 months ended 31 December 2017 RM'000	12 months ended 31 December 2016 RM'000
<b>Group</b>					
Interest income	A23	67,914	60,552	295,335	255,187
Interest expense	A24	(45,752)	(38,538)	(208,506)	(166,458)
Net interest income		22,162	22,014	86,829	88,729
Net income from Islamic banking business	A35	3,666	3,158	11,082	15,933
Other operating income	A25	103,363	72,267	368,147	304,696
Net income		129,191	97,439	466,058	409,358
Other operating expenses	A26	(105,959)	(95,242)	(411,190)	(377,058)
Operating profit		23,232	2,197	54,868	32,300
(Allowance for)/Write back of impairment on:					
- loans, advances and financing	A27	(230)	197	(292)	(653)
- balances due from clients and brokers and other receivables	A28	502	632	(601)	1,439
		23,504	3,026	53,975	33,086
Share of results of associates and joint venture		(6,726)	246	(13,356)	(549)
<b>Profit before taxation and zakat</b>		16,778	3,272	40,619	32,537
Taxation and zakat		(4,263)	(1,413)	(16,453)	(12,330)
<b>Profit for the period/year</b>		12,515	1,859	24,166	20,207
<b>Other comprehensive (loss)/income</b>					
Items that may be reclassified subsequently to profit or loss:					
Foreign exchange differences on consolidation		(2,404)	7,727	(6,649)	2,735
Share of other comprehensive gain in associates		4,071	6,228	1,531	3,106
Net (loss)/gain on fair value changes of financial investments available-for-sale		(3,808)	(11,681)	3,333	7,122
Income tax relating to the components of other comprehensive income/(loss)		914	2,804	(800)	(1,709)
Other comprehensive (loss)/income for the period/year, net of tax		(1,227)	5,078	(2,585)	11,254
<b>Total comprehensive income for the period/year, net of tax</b>		11,288	6,937	21,581	31,461

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
	<b>3 months ended 31 December 2017</b>	<b>3 months ended 31 December 2016</b>	<b>12 months ended 31 December 2017</b>	<b>12 months ended 31 December 2016</b>
<b>Note</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Profit for the period/year</b>				
<b>Attributable to:</b>				
Equity holders of the Bank	12,515	1,876	24,188	19,720
Non-controlling interests	-	(17)	(22)	487
	<u>12,515</u>	<u>1,859</u>	<u>24,166</u>	<u>20,207</u>
<b>Earnings per share</b>				
Basic (sen)	B7 1.73	0.25	3.35	2.59
Fully diluted (sen)	B7 1.73	0.25	3.35	2.59

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016.

**KENANGA INVESTMENT BANK BERHAD**  
**(15678-H)**

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	Note	Individual Quarter		Cumulative Quarter	
		3 months ended 31 December 2017 RM'000	3 months ended 31 December 2016 RM'000	12 months ended 31 December 2017 RM'000	12 months ended 31 December 2016 RM'000
<b>Bank</b>					
Interest income	A23	66,439	57,585	287,630	240,387
Interest expense	A24	(46,011)	(38,208)	(209,703)	(163,095)
Net interest income		20,428	19,377	77,927	77,292
Net income from Islamic banking business	A36	3,666	3,158	11,082	15,933
Other operating income	A25	86,865	56,414	303,313	250,283
Net income		110,959	78,949	392,322	343,508
Other operating expenses	A26	(85,037)	(76,442)	(330,904)	(311,406)
Operating profit		25,922	2,507	61,418	32,102
(Allowance for)/Write back of impairment on:					
- loans, advances and financing	A27	(255)	276	(97)	72
- balances due from clients and brokers and other receivables	A28	444	632	787	1,439
- investment in subsidiaries		(500)	-	(500)	-
<b>Profit before taxation and zakat</b>		25,611	3,415	61,608	33,613
Taxation and zakat		(4,305)	(2,129)	(16,227)	(11,586)
<b>Profit for the period/year</b>		21,306	1,286	45,381	22,027
<b>Other comprehensive income/(loss)</b>					
Items that may be reclassified subsequently to profit or loss:					
Net gain/(loss) on fair value changes of financial investments available-for-sale		1,322	(11,682)	3,333	7,122
Income tax relating to the components of other comprehensive income/(loss)		(589)	2,804	(800)	(1,709)
Other comprehensive income/(loss) for the period/year, net of tax		733	(8,878)	2,533	5,413
<b>Total comprehensive income/(loss) for the period/year, net of tax</b>		22,039	(7,592)	47,914	27,440

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016.

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

Group	Non- Distributable						Distributable		Non- Controlling Interests	Total Equity
	Ordinary Shares RM'000	Share Premium RM'000	Statutory Reserve RM'000	Available-For- Sale Deficit RM'000	Regulatory Reserve RM'000	Exchange Reserve RM'000	Capital Reserve RM'000	Retained Profits RM'000		
<b>At 1 January 2017</b>	180,637	65,500	465,741	(11,034)	23,929	24,388	88,938	47,857	10,236	896,192
Net profit for the financial year	-	-	-	-	-	-	-	24,188	(22)	24,166
Share of other comprehensive income of associates	-	-	-	1,531	-	-	-	-	-	1,531
Other comprehensive income/(loss)	-	-	-	2,533	-	(6,649)	-	-	-	(4,116)
Total comprehensive income/(loss)	-	-	-	4,064	-	(6,649)	-	24,188	(22)	21,581
Transfer pursuant to Companies Act 2016	65,500	(65,500)	-	-	-	-	-	-	-	-
Transfer from statutory reserve *	-	-	(465,741)	-	-	-	-	465,741	-	-
Transfer to regulatory reserve	-	-	-	-	1,348	-	-	(1,348)	-	-
Acquisition of interest from non- controlling interest	-	-	-	-	-	-	-	164	(10,214)	(10,050)
Dividend paid	-	-	-	-	-	-	-	(16,257)	-	(16,257)
<b>At 31 December 2017</b>	<b>246,137</b>	<b>-</b>	<b>-</b>	<b>(6,970)</b>	<b>25,277</b>	<b>17,739</b>	<b>88,938</b>	<b>520,345</b>	<b>-</b>	<b>891,466</b>

\* The Bank has transferred the existing reserve funds to distributable retained profits as the reserve fund requirement has been removed by Bank Negara Malaysia effective from 3 May 2017.

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016.

**KENANGA INVESTMENT BANK BERHAD**  
**(15678-H)**

**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

Group	Non- Distributable							Distributable		Non- Controlling Interests RM'000	Total Equity RM'000
	Ordinary Shares RM'000	Share Premium RM'000	Statutory Reserve RM'000	Available-For- Sale Deficit RM'000	Regulatory Reserve RM'000	Exchange Reserve RM'000	Capital Reserve RM'000	Reorganisation Reserve RM'000	(Accumulated losses)/Retained Profits RM'000		
<b>At 1 January 2016</b>											
As previously reported	770,000	65,500	94,623	(19,553)	22,111	21,773	-	-	(40,821)	9,749	923,382
Effect of merger accounting	-	-	-	-	-	(120)	15,548	(103,666)	29,587	-	(58,651)
As restated	770,000	65,500	94,623	(19,553)	22,111	21,653	15,548	(103,666)	(11,234)	9,749	864,731
Net profit for the financial year	-	-	-	-	-	-	-	-	19,720	487	20,207
Share of other comprehensive income of associates	-	-	-	3,106	-	-	-	-	-	-	3,106
Other comprehensive income	-	-	-	5,413	-	2,735	-	-	-	-	8,148
Total comprehensive income	-	-	-	8,519	-	2,735	-	-	19,720	487	31,461
Transfer to regulatory reserve	-	-	-	-	1,818	-	-	-	(1,818)	-	-
Capital restructuring exercise involving:											
Capital reduction and repayment	(47,453)	-	-	-	-	-	-	64,817	(17,364)	-	-
Par value adjustment	(541,910)	-	371,118	-	-	-	73,390	38,849	58,553	-	-
<b>At 31 December 2016</b>	<b>180,637</b>	<b>65,500</b>	<b>465,741</b>	<b>(11,034)</b>	<b>23,929</b>	<b>24,388</b>	<b>88,938</b>	<b>-</b>	<b>47,857</b>	<b>10,236</b>	<b>896,192</b>

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016.

**KENANGA INVESTMENT BANK BERHAD**  
**(15678-H)**

**UNAUDITED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<u>Non- Distributable</u>					<u>Distributable</u>		Total Equity RM'000
	Ordinary Shares RM'000	Share Premium RM'000	Regulatory Reserve RM'000	Statutory Reserve RM'000	Available-For- Sale Deficit RM'000	Capital Reserve RM'000	Retained Profits RM'000	
<b>Bank</b>								
<b>At 1 January 2017</b>	180,637	65,500	23,929	465,741	(7,373)	153,863	20,209	902,506
Net profit for the financial year	-	-	-	-	-	-	45,381	45,381
Other comprehensive income	-	-	-	-	2,533	-	-	2,533
Total comprehensive income	-	-	-	-	2,533	-	45,381	47,914
Transfer pursuant to Companies Act 2016	65,500	(65,500)	-	-	-	-	-	-
Transfer from statutory reserve *	-	-	-	(465,741)	-	-	465,741	-
Transfer to regulatory reserve	-	-	1,348	-	-	-	(1,348)	-
Dividend paid	-	-	-	-	-	-	(16,257)	(16,257)
<b>At 31 December 2017</b>	<b>246,137</b>	<b>-</b>	<b>25,277</b>	<b>-</b>	<b>(4,840)</b>	<b>153,863</b>	<b>513,726</b>	<b>934,163</b>

\* The Bank has transferred the existing reserve funds to distributable retained profits as the reserve fund requirement has been removed by Bank Negara Malaysia effective from 3 May 2017.

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016.

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

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

Bank	Non- Distributable						Distributable	Total Equity RM'000	
	Ordinary Shares RM'000	Share premium RM'000	Reorganisation Reserves RM'000	Regulatory Reserve RM'000	Statutory Reserve RM'000	Available-For-Sale Deficit RM'000	Capital Reserves RM'000		(Accumulated losses) /Retained Profits RM'000
<b>At 1 January 2016</b>	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	-	-	-	-	-	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 reduction	(47,453)	-	-	-	-	-	-	47,453	-
Per value reduction	(541,910)	-	16,487	-	371,118	-	153,863	442	-
<b>At 31 December 2016</b>	<b>180,637</b>	<b>65,500</b>	<b>-</b>	<b>23,929</b>	<b>465,741</b>	<b>(7,373)</b>	<b>153,863</b>	<b>20,209</b>	<b>902,506</b>

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016.

**KENANGA INVESTMENT BANK BERHAD**  
**(15678-H)**

**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	Group		Bank	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
<b>Cash flows from operating activities</b>				
<b>Profit before taxation</b>	40,619	32,537	61,608	33,613
<b>Adjustments for:</b>				
Impairment allowance on loans, advances and financing	366	1,029	171	304
Depreciation of property, plant and equipment	13,154	12,390	12,679	11,319
Amortisation of intangible assets	666	970	-	-
Impairment allowance/(write back) of allowance on balances due from clients and brokers and other receivables	1,234	(1,352)	(154)	(1,352)
Impairment allowance on investment in subsidiaries	-	-	500	-
Property, plant and equipment written off	364	4,844	329	2,988
<b>Non-cash items</b>	15,784	17,881	13,525	13,259
Net gain from sale of financial assets at fair value through profit or loss and derivatives	(57,370)	(59,574)	(57,370)	(60,814)
Net gain from sale of financial investments available-for-sale	(2,868)	(21,620)	(2,868)	(21,620)
Gross dividend income from investments	(1,897)	(2,406)	(7,121)	(1,772)
Loss on revaluation of financial assets at fair value through profit or loss and derivatives	7,632	18,650	7,632	18,650
Loss on disposal of property, plant and equipment	21	-	21	-
Share of results of associates and joint venture	13,356	549	-	-
<b>Non-operating items - investing</b>	(41,126)	(64,401)	(59,706)	(65,556)
Adjustments for non-operating and non-cash items	(25,342)	(46,520)	(46,181)	(52,297)
Operating profit/(loss) before working capital changes	15,277	(13,983)	15,427	(18,684)
<b>Changes in working capital:</b>				
Net changes in operating assets	(63,597)	60,465	(174,902)	(121,368)
Net changes in operating liabilities	519,105	(81,844)	627,235	76,434
Cash generated from/(used in) operations	470,785	(35,362)	467,760	(63,618)
Taxation and zakat paid	(16,002)	(11,497)	(15,272)	(11,277)
<b>Net operating cash flow</b>	454,783	(46,859)	452,488	(74,895)
<b>Cash flows from investing activities</b>				
Acquisition of additional shares in an existing subsidiary	(10,050)	-	(10,050)	-
Dividends received from subsidiaries	-	-	4,536	-
Net acquisition of additional shares in an existing subsidiary	(10,050)	-	(5,514)	-
Acquisition of subsidiary, net of cash	6,284	-	-	-
Net assets acquired from acquisition of subsidiary	3,766	-	-	-
Dividends received from other investments	1,897	2,406	7,121	1,772
Purchase of property, plant and equipment and intangible assets	(17,652)	(159,345)	(15,101)	(157,455)
Proceeds from disposal of a subsidiary	-	-	-	60
Proceeds from disposal of property, plant and equipment and intangible assets	131	2,888	89	2,958
Capital injection in a joint venture	(12,500)	(7,500)	(12,500)	(7,500)
Net (purchase)/sales of securities	(233,309)	268,807	(223,480)	258,698
<b>Net investing cash flow</b>	(261,433)	107,256	(249,385)	98,533
<b>Cash flows from financing activities</b>				
Dividend paid	(16,257)	-	(16,257)	-
Net (repayment)/drawdown of borrowings	(75,700)	24,700	(46,200)	70,200
<b>Net financing cash flow</b>	(91,957)	24,700	(62,457)	70,200

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

<b>Net change in cash and cash equivalents during the financial year</b>	101,393	85,097	140,646	93,838
<b>Cash transferred in due to merger</b>	-	-	-	9,635
<b>Cash and cash equivalents brought forward</b>	<u>1,041,684</u>	<u>956,587</u>	<u>891,414</u>	<u>787,941</u>
<b>Cash and cash equivalents carried forward</b>	<u>1,143,077</u>	<u>1,041,684</u>	<u>1,032,060</u>	<u>891,414</u>

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and short-term funds, excluding segregated funds from customers, deposits and monies held in trust on behalf of dealer's representatives. Cash and cash equivalents included in the statements of cash flows comprise of the following amounts in the statements of financial position:

	<b>Group</b>		<b>Bank</b>	
	<b>As at 31 December 2017 RM'000</b>	<b>As at 31 December 2016 RM'000</b>	<b>As at 31 December 2017 RM'000</b>	<b>As at 31 December 2016 RM'000</b>
Cash and short-term funds	1,106,958	1,087,208	892,544	949,421
Deposits and placements with banks and other financial institutions	240,559	140,393	200,000	-
Less: Segregated funds from customers	(143,956)	(127,910)	-	-
Less: Cash and bank balances and deposits held in trust	<u>(60,484)</u>	<u>(58,007)</u>	<u>(60,484)</u>	<u>(58,007)</u>
	<u>1,143,077</u>	<u>1,041,684</u>	<u>1,032,060</u>	<u>891,414</u>

**KENANGA INVESTMENT BANK BERHAD**  
**(15678-H)**

**A1. Basis Of Preparation**

The interim financial statements, for the financial year ended 31 December 2017, have been prepared in accordance with Malaysian Financial Reporting Standard ("MFRS") 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The significant accounting policies adopted in preparing these interim financial statements are consistent with those of the audited financial statements for the financial year ended 31 December 2016.

The interim financial statements have incorporated those activities relating to the Islamic banking business undertaken by the Group.

Companies Act 2016

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, will be 31 January 2017.

The key changes introduced in the New Act which have affected the financial statements of the Group and of the Bank are:

- (a) removal of the authorised share capital;
- (b) share of the Bank ceased to have par or nominal value; and
- (c) share premium of the Bank became part of the share capital.

During the year, the Bank had transferred a total of RM65,500,000 from its share premium account to share capital pursuant to the New Act.

The adoption of the New Act did not have any financial impact on the Group and the Bank for the current financial year as any accounting implications will only be applied prospectively, if applicable, and the effect of adoptions will mainly be on the disclosures to the annual report and financial statements for the financial year ending 31 December 2017.

**A2. Condensed financial statements**

The interim financial statements have been prepared on a condensed basis and as such should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2016.

**A3. Preceding financial year audit report**

The preceding financial year audit report in respect of the financial year ended 31 December 2016 was not qualified by the external auditors.

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**A4. Seasonal or Cyclical Factors**

The Group's performance was mainly dependent on Bursa Malaysia market volume and value which in turn were affected by market sentiment and the country's macro economic cycles.

**A5. Nature and amounts in relation to assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence**

There were no exceptional items affecting assets, liabilities, equity, net income or cash flows.

**A6. Changes in the nature and amount of estimated figures reported in prior interim periods and or financial years**

There were no changes made to the estimated figures reported in prior interim period.

**A7. Issuance, cancellation, repurchases, resale and repayments of debt and equity securities**

There were no issuance, cancellation, repurchases, resale and repayments of equity securities, share buy-backs, shares held as treasury shares and resale of treasury shares during the financial year ended 31 December 2017, other than the following:

- (i) On 20 April 2017, the Bank has issued RM5 million of Subordinated Notes under the Tier 2 Subordinated Note Programme of up to RM250 million.
- (ii) During the first quarter, the Bank has redeemed RM40 million of Medium Term Notes.

**A8. Dividends paid per share**

A final dividend of 2.25 sen per share in respect of the financial year ended 31 December 2016, which amounted to RM16,257,320 was paid on 9 June 2017.

**A9. Significant event during the interim period**

There was no significant event for the financial interim period.

**A10. Significant event subsequent to the financial year**

The following are the significant events of the Bank during the financial year ended 31 December 2017:

- (i) Employee Share Option Scheme ("ESOS")  
On 2 January 2018, the Bank has made an offer of options under the Employee Share Option Scheme ("ESOS") to the eligible employees of Kenanga Investment Bank Berhad and its non-dormant subsidiary companies to subscribe for new ordinary shares in KIBB under the scheme. The scheme shall not exceed ten percent (10%) of the Bank's total issued share capital (excluding treasury shares) at any one time during the duration of the scheme 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. The total number of option offered was 49,579,000 and the exercise price per was RM0.575. The proceeds from the award of ESOS will be utilised by the Bank as working capital.

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**A10. Significant event subsequent to the financial year (cont'd)**

(ii) Subordinated Note Programme

On 29 January 2018, the Bank issued second tranche of RM10 million Subordinated Notes under its RM250 million in nominal value Tier 2 Subordinated Note Programme which was established on 27 March 2017.

The Subordinated Notes will pay a coupon of 6.6% per annum. The Subordinated Notes has a tenure of 10 years Non-Callable 5 years from the issue date and will mature on 29 January 2028 and the call date on 29 January 2023.

The proceeds from the issuance of the Subordinated Notes will be utilised by the Bank for its working capital requirement.

**KENANGA INVESTMENT BANK BERHAD**  
(15678-H)

**NOTES TO INTERIM FINANCIAL REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	Group		Bank	
	As at 31 December 2017 RM'000	As at 31 December 2016 RM'000	As at 31 December 2017 RM'000	As at 31 December 2016 RM'000
<b>A11. Cash and bank balances</b>				
Cash and balances with banks and other financial institutions	279,972	146,195	126,640	79,704
Money at call and deposit placements	1,067,545	1,081,406	965,904	869,717
	<u>1,347,517</u>	<u>1,227,601</u>	<u>1,092,544</u>	<u>949,421</u>
Included in cash and bank balances are:				
Cash and cash equivalents	1,143,077	1,041,684	1,032,060	891,414
Monies held in trust on behalf of dealer's representatives and segregated funds for customers	204,440	185,917	60,484	58,007
	<u>1,347,517</u>	<u>1,227,601</u>	<u>1,092,544</u>	<u>949,421</u>
<b>A12. Financial Assets At Fair Value Through Profit or Loss</b>				
<b>At Fair Value</b>				
<b>Money Market Instruments:</b>				
Malaysian Government Securities	20,254	-	20,254	-
Malaysian Government Investment Certificates	50,171	-	50,171	-
	<u>70,425</u>	<u>-</u>	<u>70,425</u>	<u>-</u>
<b>Quoted Securities:</b>				
Shares in Malaysia	216,060	191,578	216,060	191,578
Shares outside Malaysia	3,368	19,632	3,368	19,632
	<u>219,428</u>	<u>211,210</u>	<u>219,428</u>	<u>211,210</u>
<b>Unquoted Securities:</b>				
Shares and funds in Malaysia	18,041	6,660	10,208	-
	<u>18,041</u>	<u>6,660</u>	<u>10,208</u>	<u>-</u>
<b>Unquoted Private Debt Securities in Malaysia:</b>				
Corporate Bonds	-	45,035	-	45,035
Corporate Bills	89,733	84,639	89,733	84,639
Islamic Corporate Bonds	-	14,668	-	14,668
Islamic Corporate Bills	159,941	24,969	159,941	24,969
	<u>249,674</u>	<u>169,311</u>	<u>249,674</u>	<u>169,311</u>
<b>Unquoted Private Debt Securities outside Malaysia:</b>				
Redeemable corporate notes	-	1,067	-	1,067
	<u>-</u>	<u>1,067</u>	<u>-</u>	<u>1,067</u>
<b>Total Financial Assets At Fair Value Through Profit or Loss</b>	<b><u>557,568</u></b>	<b><u>388,248</u></b>	<b><u>549,735</u></b>	<b><u>381,588</u></b>
<b>A13. Financial Investments Available-for-Sale</b>				
<b>At Fair Value, or amortised cost</b>				
<b>Money Market Instruments:</b>				
Negotiable Instruments of Deposits	50,000	50,000	50,000	50,000
Islamic Negotiable Instruments of Deposits	-	149,890	-	149,890
Malaysian Government Securities	49,534	19,566	49,534	19,566
Malaysian Government Investment Certificates	155,357	58,428	155,357	58,428
Sukuk Perumahan Kerajaan	10,076	10,056	10,076	10,056
	<u>264,967</u>	<u>287,940</u>	<u>264,967</u>	<u>287,940</u>

**KENANGA INVESTMENT BANK BERHAD**  
(15678-H)

**NOTES TO INTERIM FINANCIAL REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	Group		Bank	
	As at 31 December 2017 RM'000	As at 31 December 2016 RM'000	As at 31 December 2017 RM'000	As at 31 December 2016 RM'000
<b>A13. Financial Investments Available-for-Sale (Cont'd)</b>				
<b>Unquoted Securities:</b>				
Shares	490	490	490	490
<b>Unquoted Private Debt Securities:</b>				
Islamic Corporate Bonds	514,626	524,752	514,626	524,752
Corporate Bonds	230,084	124,522	230,084	124,522
	<u>744,710</u>	<u>649,274</u>	<u>744,710</u>	<u>649,274</u>
<b>Total Financial Investments Available-for-Sale</b>	<b>1,010,167</b>	<b>937,704</b>	<b>1,010,167</b>	<b>937,704</b>
Included in financial investments available-for-sale are financial assets sold under repurchase agreements as follows:				
Malaysian Government Investment Certificates	37,861	27,253	37,861	27,253
Malaysian Government Securities	37,132	-	37,132	-
	<u>74,993</u>	<u>27,253</u>	<u>74,993</u>	<u>27,253</u>
<b>A14. Financial Investments Held-To-Maturity</b>				
<b>Unquoted Private Debt Securities:</b>				
Islamic Corporate Bonds	38,001	40,000	38,001	40,000
<b>A15. Loans, Advances and Financing</b>				
<b>At Amortised Cost</b>				
Share margin financing	1,557,649	1,490,721	1,557,649	1,490,721
Term loans	588,800	505,348	614,478	562,084
Subordinated term loan	-	-	10,261	15,219
Others	51,985	112,082	-	-
Gross loans, advances and financing	<u>2,198,434</u>	<u>2,108,151</u>	<u>2,182,388</u>	<u>2,068,024</u>
Allowance for impairment:				
- collective allowance	(669)	(432)	(867)	(871)
- individual allowance	(2,264)	(2,135)	(1,441)	(1,266)
<b>Net Loans, Advances and Financing</b>	<b>2,195,501</b>	<b>2,105,584</b>	<b>2,180,080</b>	<b>2,065,887</b>
<b>(i) By Type of Customer</b>				
Domestic business enterprise - others	904,376	894,834	889,531	900,953
Individuals	1,230,307	1,158,958	1,229,106	1,112,712
Foreign enterprises	63,751	54,359	63,751	54,359
<b>Gross Loans, Advances and Financing</b>	<b>2,198,434</b>	<b>2,108,151</b>	<b>2,182,388</b>	<b>2,068,024</b>
<b>(ii) By Geographical Distribution</b>				
In Malaysia	2,124,179	2,042,417	2,108,133	2,002,290
Outside Malaysia	74,255	65,734	74,255	65,734
<b>Gross Loans, Advances and Financing</b>	<b>2,198,434</b>	<b>2,108,151</b>	<b>2,182,388</b>	<b>2,068,024</b>
<b>(iii) By Interest Rate/ Profit Rate Sensitivity</b>				
Fixed rate				
- Other fixed rate loans	1,609,617	1,602,786	1,557,634	1,490,704
Variable rate				
- Other variable rates	565,481	464,882	601,419	536,837
- Base lending rate plus	23,336	40,483	23,336	40,483
<b>Gross Loans, Advances and Financing</b>	<b>2,198,434</b>	<b>2,108,151</b>	<b>2,182,389</b>	<b>2,068,024</b>

NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Group		Bank	
	As at 31 December 2017 RM'000	As at 31 December 2016 RM'000	As at 31 December 2017 RM'000	As at 31 December 2016 RM'000
<b>A15. Loans, Advances and Financing (Cont'd)</b>				
<b>(iv) By Purpose</b>				
- Purchase of securities	1,836,502	1,720,409	1,819,194	1,703,996
- Working capital	193,274	243,792	203,635	254,056
- Others	168,658	143,950	159,559	109,972
<b>Gross Loans, Advances and Financing</b>	<b>2,198,434</b>	<b>2,108,151</b>	<b>2,182,388</b>	<b>2,068,024</b>
<b>(v) By Residual Contractual Maturity</b>				
- Within one year	1,778,176	1,785,930	1,751,870	1,673,848
- More than one year	420,258	322,221	430,518	394,176
<b>Gross Loans, Advances and Financing</b>	<b>2,198,434</b>	<b>2,108,151</b>	<b>2,182,388</b>	<b>2,068,024</b>
<b>(vi) Movements in impaired loans, advances and financing ("Impaired loans")</b>				
At beginning of the financial year	2,608	7,942	1,735	1,954
Impaired during the financial year	176	1,824	176	160
Amount written off	-	(379)	-	(379)
Amount recovered	(47)	(6,779)	(1)	-
At end of the financial year	2,737	2,608	1,910	1,735
Less: Individual allowance	(2,264)	(2,135)	(1,441)	(1,266)
<b>Net impaired loans</b>	<b>473</b>	<b>473</b>	<b>469</b>	<b>469</b>
<b>(vi) Movements in impaired loans, advances and financing ("Impaired loans") (Cont'd)</b>				
Net impaired loans as a % of gross loans, advances and financing less individual allowance	<b>0.02%</b>	<b>0.02%</b>	<b>0.02%</b>	<b>0.02%</b>
<b>(vii) Impaired loans by Geographical Distribution</b>				
Malaysia	2,737	2,608	1,910	1,735
<b>Gross impaired loans</b>	<b>2,737</b>	<b>2,608</b>	<b>1,910</b>	<b>1,735</b>
<b>(viii) Impaired loans by Purpose</b>				
Working capital	827	869	-	-
Purchase of securities	1,910	1,739	1,910	1,735
<b>Gross impaired loans</b>	<b>2,737</b>	<b>2,608</b>	<b>1,910</b>	<b>1,735</b>
<b>(ix) Movements in impairment allowance for loans, advances and financing</b>				
<u>Individual allowance</u>				
At beginning of financial year	2,135	1,395	1,266	1,395
Allowance made during the year	176	932	176	63
Amount written back during the year	(47)	(192)	(1)	(192)
<b>At end of the financial year</b>	<b>2,264</b>	<b>2,135</b>	<b>1,441</b>	<b>1,266</b>

**KENANGA INVESTMENT BANK BERHAD**  
(15678-H)

**NOTES TO INTERIM FINANCIAL REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	Group		Bank	
	As at 31 December 2017 RM'000	As at 31 December 2016 RM'000	As at 31 December 2017 RM'000	As at 31 December 2016 RM'000
<b>A15. Loans, Advances and Financing (Cont'd)</b>				
<b>(ix) Movements in impairment allowance for loans, advances and financing (cont'd)</b>				
<u>Collective allowance</u>				
At beginning of financial year	432	143	871	438
Allowance made during the financial year	509	406	268	550
Amount written back during the financial year	(272)	(117)	(272)	(117)
<b>At end of the financial year</b>	<b>669</b>	<b>432</b>	<b>867</b>	<b>871</b>
Collective allowance as a % of gross loans, advances and financing less individual allowance	<b>0.03%</b>	<b>0.02%</b>	<b>0.04%</b>	<b>0.04%</b>
<b>A16. Balances due from clients and brokers</b>				
Balances due from clients and brokers	516,250	471,740	516,250	471,740
Less:				
Allowance for impairment	(21,367)	(26,735)	(21,367)	(26,735)
	<b>494,883</b>	<b>445,005</b>	<b>494,883</b>	<b>445,005</b>
<b>Movements of allowance impairment for:</b>				
<u>Individual Impairment</u>				
At beginning of the financial year	26,735	27,328	26,735	27,328
Allowance made during the year	6,262	5,408	6,262	5,408
Allowance for impairment losses written back	(6,163)	(5,975)	(6,163)	(5,975)
Amount written off against balances due from clients and brokers	(5,467)	(26)	(5,467)	(26)
<b>At end of the financial year</b>	<b>21,367</b>	<b>26,735</b>	<b>21,367</b>	<b>26,735</b>
<b>A17. Other Assets</b>				
Assets segregated for customers	32,431	138,146	-	-
Interest/income receivable	11,989	9,430	11,547	8,933
Prepayments and deposits	18,699	21,567	17,435	20,372
Other debtors	40,019	65,797	20,817	48,233
Treasury trade receivables	19,986	-	19,986	-
Amount due from subsidiaries	-	-	116	872
Amount due from related parties	33	104	33	104
	<b>123,157</b>	<b>235,044</b>	<b>69,934</b>	<b>78,514</b>
Allowance for impairment	(4,740)	(3,605)	(3,352)	(3,605)
	<b>118,417</b>	<b>231,439</b>	<b>66,582</b>	<b>74,909</b>
<b>A18. Statutory deposit with Bank Negara Malaysia</b>				
Statutory Deposit	<b>116,186</b>	<b>99,504</b>	<b>116,186</b>	<b>99,504</b>

The non-interest bearing statutory deposit is maintained by the Bank with Bank Negara Malaysia in compliance with Section 26(2) ( c ) of the Central Bank of Malaysia Act 2009, and is determined as a set percentage of net eligible

**KENANGA INVESTMENT BANK BERHAD**  
(15678-H)

**NOTES TO INTERIM FINANCIAL REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	Group		Bank	
	As at 31 December 2017 RM'000	As at 31 December 2016 RM'000	As at 31 December 2017 RM'000	As at 31 December 2016 RM'000
<b>A19. Deposits from customers</b>				
<b>(i) By type of deposit</b>				
Fixed term deposits	2,856,250	2,295,897	2,866,250	2,300,906
Short term money deposits	1,293,200	972,372	1,327,071	1,036,563
Call money deposits	41,650	-	41,650	-
Negotiable instruments of deposit	42,814	17,758	43,177	18,108
	<b>4,233,914</b>	<b>3,286,027</b>	<b>4,278,148</b>	<b>3,355,577</b>
<b>(ii) By type of customer</b>				
Government and other statutory bodies	163,338	119,396	163,338	119,396
Individuals	131,371	92,907	131,371	92,907
Business enterprises	1,537,791	941,713	1,537,791	961,713
Non-bank financial institutions	2,401,414	2,132,011	2,401,414	2,132,011
Related companies	-	-	44,234	49,550
	<b>4,233,914</b>	<b>3,286,027</b>	<b>4,278,148</b>	<b>3,355,577</b>
<b>(iii) By maturity structure</b>				
Due within six months	3,737,649	2,630,511	3,781,883	2,700,061
More than six months to one year	496,265	655,516	496,265	655,516
	<b>4,233,914</b>	<b>3,286,027</b>	<b>4,278,148</b>	<b>3,355,577</b>
<b>A20. Deposits and placements of banks and financial institutions</b>				
Licenced banks	70,000	210,000	70,000	210,000
Licenced Islamic banks	-	60,000	-	60,000
Others financial institutions	140,762	280,954	140,762	280,954
	<b>210,762</b>	<b>550,954</b>	<b>210,762</b>	<b>550,954</b>
<b>A21. Other liabilities</b>				
Interest/Income payable	23,000	15,518	22,465	14,515
Accruals and provision	74,571	70,355	37,353	40,402
Retention for contra losses	487	487	487	487
Structured products	46,961	24,043	46,961	24,043
Deposits and other creditors	101,688	66,227	74,328	58,378
Amounts held in trust on behalf of				
Dealers' Representatives	60,484	58,007	60,484	58,007
Amount due to trustee	21,959	4,107	-	-
Amount due to subsidiaries	-	-	1,156	1
	<b>329,150</b>	<b>238,744</b>	<b>243,234</b>	<b>195,833</b>
<b>A22. Borrowings</b>				
<b>Secured:</b>				
Revolving bank loan	64,000	75,200	64,000	75,200
<b>Unsecured:</b>				
Revolving bank loans	21,000	50,500	-	-
Medium term notes	-	40,000	-	40,000
Subordinated obligations	5,000	-	5,000	-
	<b>90,000</b>	<b>165,700</b>	<b>69,000</b>	<b>115,200</b>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
	<b>3 months ended 31 December 2017 RM'000</b>	<b>3 months ended 31 December 2016 RM'000</b>	<b>12 months ended 31 December 2017 RM'000</b>	<b>12 months ended 31 December 2016 RM'000</b>
<b>A23. Interest Income</b>				
<b><u>Group</u></b>				
Loans, advances and financing	37,853	36,072	149,120	144,550
Money at call and deposit placements with financial institutions	10,418	10,902	39,173	43,001
Financial assets at fair value through profit or loss	1,839	948	7,836	4,677
Financial investments available-for-sale	9,366	6,808	34,285	37,493
Financial investments held to maturity	487	501	1,927	2,102
Others	7,951	5,321	62,994	23,364
	<b>67,914</b>	<b>60,552</b>	<b>295,335</b>	<b>255,187</b>
<b><u>Bank</u></b>				
Loans, advances and financing	37,087	34,641	143,771	137,286
Money at call and deposit placements with financial institutions	9,709	9,367	36,817	35,465
Financial assets at fair value through profit or loss	1,839	948	7,836	4,677
Financial investments available-for-sale	9,366	6,808	34,285	37,493
Financial investments held to maturity	487	501	1,927	2,102
Others	7,951	5,320	62,994	23,364
	<b>66,439</b>	<b>57,585</b>	<b>287,630</b>	<b>240,387</b>
<b>A24. Interest Expense</b>				
<b><u>Group</u></b>				
Deposits from customers	38,754	32,856	146,093	136,815
Deposits and placement from banks and other financial institutions	941	1,143	4,052	7,189
Borrowings	1,510	2,050	4,345	8,651
Others	4,547	2,489	54,016	13,803
	<b>45,752</b>	<b>38,538</b>	<b>208,506</b>	<b>166,458</b>
<b><u>Bank</u></b>				
Deposits from customers	39,247	33,461	148,167	139,910
Deposits and placement from banks and other financial institutions	941	1,143	4,052	7,189
Borrowings	1,276	1,115	3,468	2,193
Others	4,547	2,489	54,016	13,803
	<b>46,011</b>	<b>38,208</b>	<b>209,703</b>	<b>163,095</b>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
	<b>3 months ended 31 December 2017 RM'000</b>	<b>3 months ended 31 December 2016 RM'000</b>	<b>12 months ended 31 December 2017 RM'000</b>	<b>12 months ended 31 December 2016 RM'000</b>
<b>A25. Other Operating Income</b>				
<b>Group</b>				
(a) Fee income:				
Brokerage fees	45,840	30,563	188,665	143,049
Corporate advisory fee	4,542	7,037	13,182	14,714
Processing fees on loans, advances and financing	1,946	2,155	5,739	5,956
Commissions	1,858	2,576	8,340	12,436
Management fee income	15,236	13,665	51,096	43,413
Placement fees	2,802	2,644	12,077	9,212
Underwriting commission	164	-	370	-
Other fee income	7,163	2,960	20,351	11,280
	<u>79,551</u>	<u>61,600</u>	<u>299,820</u>	<u>240,060</u>
(b) Net gain/(loss) arising from sale/ redemption of:				
Financial assets at fair value through profit or loss and derivatives	31,050	(58)	57,670	56,835
Financial investments available- for-sale	2,862	2,235	2,867	15,283
	<u>33,912</u>	<u>2,177</u>	<u>60,537</u>	<u>72,118</u>
(c) Gross dividend income from:				
(i) Financial assets at fair value through profit or loss	245	215	1,209	1,653
(ii) Financial investments available-for-sale	155	14	688	753
	<u>400</u>	<u>229</u>	<u>1,897</u>	<u>2,406</u>
(d) Unrealised (loss)/gain on revaluation of financial assets at fair value through profit or loss and derivatives	<u>(15,113)</u>	<u>5,560</u>	<u>(7,677)</u>	<u>(18,591)</u>
(e) Other income:				
Net foreign exchange income	1,629	1,054	5,859	4,222
Gain/(Loss) on disposal of property, plant and equipment	23	-	(21)	-
Other operating income	1,105	197	2,153	197
Other non-operating income				
-Rental income	869	1,157	3,459	2,790
-Others	987	293	2,120	1,494
	<u>4,613</u>	<u>2,701</u>	<u>13,570</u>	<u>8,703</u>
<b>Total other operating income</b>	<b><u>103,363</u></b>	<b><u>72,267</u></b>	<b><u>368,147</u></b>	<b><u>304,696</u></b>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	Individual Quarter		Cumulative Quarter	
	3 months ended 31 December 2017 RM'000	3 months ended 31 December 2016 RM'000	12 months ended 31 December 2017 RM'000	12 months ended 31 December 2016 RM'000
<b>A25. Other Operating Income (Cont'd)</b>				
<b><u>Bank</u></b>				
(a) Fee income:				
Brokerage fees	45,840	30,563	188,665	143,049
Corporate advisory fee	4,551	7,045	13,218	14,853
Processing fees on loans, advances and financing	1,643	1,535	4,369	4,337
Management fee income	154	1,404	705	1,780
Placement fees	2,802	2,644	12,077	9,212
Underwriting commission	164	-	370	-
Other fee income	2,123	2,135	8,382	8,626
	<u>57,277</u>	<u>45,326</u>	<u>227,786</u>	<u>181,857</u>
(b) Net gain/(loss) arising from sale/ redemption of:				
Financial assets at fair value through profit or loss and derivatives	31,050	(58)	57,670	58,075
Financial investments available- for-sale	2,862	2,235	2,867	15,283
	<u>33,912</u>	<u>2,177</u>	<u>60,537</u>	<u>73,358</u>
(c) Gross dividend from:				
Financial assets at fair value through profit or loss	180	215	969	957
Financial investments available-for-sale	155	14	688	753
Subsidiaries	5,464	-	5,464	62
	<u>5,799</u>	<u>229</u>	<u>7,121</u>	<u>1,772</u>
(d) Unrealised (loss)/gain on revaluation of financial assets fair value through profit or loss and derivatives	(15,113)	5,560	(7,677)	(18,591)
(e) Other income:				
Net foreign exchange income	1,657	1,022	5,907	4,202
Gain/(Loss) on disposal of property, plant and equipment	25	-	(21)	-
Other operating income	1,248	82	2,460	416
Loss on deemed disposal of a subsidiary	-	-	-	(60)
Other non-operating income				
-Rental income	1,292	1,674	5,156	5,686
-Others	768	344	2,044	1,643
	<u>4,990</u>	<u>3,122</u>	<u>15,546</u>	<u>11,887</u>
Total other operating income	<b><u>86,865</u></b>	<b><u>56,414</u></b>	<b><u>303,313</u></b>	<b><u>250,283</u></b>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
	<b>3 months ended 31 December 2017 RM'000</b>	<b>3 months ended 31 December 2016 RM'000</b>	<b>12 months ended 31 December 2017 RM'000</b>	<b>12 months ended 31 December 2016 RM'000</b>

**A26. Other operating expenses**

**Group**

Personnel costs	48,311	38,593	164,556	148,010
- Salaries, allowances and bonuses	36,957	30,103	127,963	116,244
- EPF	4,107	3,688	15,837	14,396
- Others	7,247	4,802	20,756	17,370
Establishment costs	9,431	16,644	47,827	60,560
- Depreciation of property, plant and equipment	3,452	3,717	13,154	12,390
- Amortisation of intangible assets				
- software	83	235	666	970
- Rental of premises	2,109	6,441	12,940	23,892
- Rental of equipment	162	161	665	616
- Repairs and maintenance	1,145	152	4,482	3,290
- Information technology expenses	752	2,721	8,849	11,740
- Others	1,728	3,217	7,071	7,662
Marketing expenses	5,255	3,694	14,976	13,481
- Promotion and advertisements	3,454	2,098	8,880	8,525
- Travel and entertainment	1,067	1,029	4,133	3,578
- Others	734	567	1,963	1,378
Administration and general expenses	42,962	36,311	183,831	155,007
- Communication expenses	1,291	1,456	4,989	6,030
- Professional fees and legal fees	1,209	943	3,463	4,471
- Regulatory charges	5,034	4,124	21,299	19,376
- Fees and brokerage	33,785	22,378	136,733	98,735
- Administrative expenses	1,198	6,933	15,586	24,568
- Printing and stationery	445	477	1,761	1,827
	<b>105,959</b>	<b>95,242</b>	<b>411,190</b>	<b>377,058</b>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	Individual Quarter		Cumulative Quarter	
	3 months ended	3 months ended	12 months ended	12 months ended
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	RM'000	RM'000	RM'000	RM'000

**A26. Other operating expenses (Cont'd)**

**Bank**

Personnel costs	39,305	31,840	128,299	128,179
- Salaries, allowances and bonuses	30,834	23,857	104,302	87,702
- EPF	3,209	2,915	12,594	10,832
- Others	5,262	5,068	11,403	29,645
Establishment costs	7,965	15,030	41,961	53,989
- Depreciation of property, plant and equipment	3,223	3,550	12,679	11,319
- Rental of premises	1,934	6,262	12,273	23,302
- Rental of equipment	72	73	318	272
- Repair and maintenance	897	1,037	3,582	2,485
- Information technology expenses	744	2,697	8,773	11,321
- Others	1,095	1,411	4,336	5,290
Marketing expenses	4,078	2,178	11,166	7,359
- Promotion and advertisement	2,751	1,129	6,466	4,186
- Travel and entertainment	637	629	3,071	2,320
- Others	690	420	1,629	853
Administration and general expenses	33,689	27,394	149,478	121,879
- Communication expenses	1,075	1,275	4,297	5,281
- Professional fees and legal fees	1,144	1,383	3,137	3,069
- Regulatory charges	4,562	3,275	19,321	16,118
- Administrative expenses	1,202	4,878	13,562	18,698
- Printing and stationery	280	327	1,300	1,361
- Fees and brokerages	25,426	16,256	107,861	77,352
	<b>85,037</b>	<b>76,442</b>	<b>330,904</b>	<b>311,406</b>

**A27. (Allowance for)/Write back of impairment on loans, advances and financing**

**Group**

Impairment:				
- collective allowance (net)	(166)	(163)	(237)	(289)
- individual allowance (net)	(21)	256	(129)	(740)
Bad debts and financing:				
- recovered	(43)	104	74	376
	<b>(230)</b>	<b>197</b>	<b>(292)</b>	<b>(653)</b>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
	<b>3 months ended 31 December 2017 RM'000</b>	<b>3 months ended 31 December 2016 RM'000</b>	<b>12 months ended 31 December 2017 RM'000</b>	<b>12 months ended 31 December 2016 RM'000</b>
<b>A27. (Allowance for)/Write back of impairment on loans, advances and financing (cont'd)</b>				
<b><u>Bank</u></b>				
Impairment:				
- collective allowance (net)	(166)	(34)	4	(433)
- individual allowance (net)	(46)	206	(175)	129
	<u>(212)</u>	<u>172</u>	<u>(171)</u>	<u>(304)</u>
Bad debts and financing:				
- recovered	(43)	104	74	376
	<u>(255)</u>	<u>276</u>	<u>(97)</u>	<u>72</u>
<b>A28. (Allowance for)/Write back of impairment on balances due from clients and brokers and other receivables</b>				
<b><u>Group</u></b>				
Impairment:				
(i) individual allowance on clients and brokers (net)	(314)	(91)	(99)	567
(ii) impairment allowance on other receivables (net)	290	1,088	(1,135)	785
Impaired debts:				
- write off during the financial period/year	-	(366)	-	(366)
- recovered	526	1	633	453
	<u>502</u>	<u>632</u>	<u>(601)</u>	<u>1,439</u>
<b><u>Bank</u></b>				
Impairment:				
(i) individual allowance on clients and brokers (net)	(314)	(91)	(99)	567
(ii) impairment allowance on other receivables (net)	232	1,088	253	785
Impaired debts:				
- write off during the financial period/year	-	(366)	-	(366)
- recovered	526	1	633	453
	<u>444</u>	<u>632</u>	<u>787</u>	<u>1,439</u>

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A29. Fair value of financial instruments**

**Fair value measurements**

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 markets 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; and

Level 3 - techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

**Valuation techniques and sensitivity analysis**

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

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group and the Bank then determine fair value based upon valuation techniques that use inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data. These would include certain bonds, government bonds, corporate debt securities and derivatives.

**NOTES TO INTERIM FINANCIAL REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A29. Fair value of financial instruments (cont'd.)**

**Group**

**31 December 2017**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Financial assets measured at fair value</b>				
Financial assets at fair value through profit or loss				
- Debt securities	-	320,099	-	320,099
- Equity securities	219,428	7,833	10,208	237,469
Financial investments available-for-sale #				
- Debt securities	-	959,677	-	959,677
- Negotiable Instruments of Deposit	-	50,000	-	50,000
Derivative financial assets	-	67,393	-	67,393
<b>Financial assets for which fair values are disclosed</b>				
Financial investments held-to-maturity	-	38,214	-	38,214
Loans, advances and financing	-	-	2,194,417	2,194,417
	<b>219,428</b>	<b>1,443,216</b>	<b>2,204,625</b>	<b>3,867,269</b>

**Financial liabilities measured at fair value**

Derivative financial liabilities	32,356	3,818	-	36,174
Obligations on securities sold under repurchase agreements	-	74,993	-	74,993
Borrowings	-	90,379	-	90,379
	<b>32,356</b>	<b>169,190</b>	<b>-</b>	<b>201,546</b>

**31 December 2016**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Financial assets measured at fair value</b>				
Financial assets at fair value through profit or loss				
- Debt securities	-	169,311	-	169,311
- Equity securities	211,210	6,660	-	217,870
- Unquoted private debt securities	-	-	1,067	1,067
Financial investments available-for-sale #				
- Debt securities	-	737,324	-	737,324
- Negotiable Instruments of Deposit	-	50,000	-	50,000
- Islamic Negotiable Instruments of Deposit	-	149,890	-	149,890
Derivative financial assets	-	39,117	-	39,117
<b>Financial assets for which fair values are disclosed</b>				
Financial investments held-to-maturity	-	40,026	-	40,026
Loans, advances and financing	-	-	2,103,957	2,103,957
	<b>211,210</b>	<b>1,192,328</b>	<b>2,105,024</b>	<b>3,508,562</b>

**Financial liabilities measured at fair value**

Derivative financial liabilities	13,613	33,793	-	47,406
Obligations on securities sold under repurchase agreements	-	27,253	-	27,253
Borrowings	-	168,906	-	168,906
	<b>13,613</b>	<b>229,952</b>	<b>-</b>	<b>243,565</b>

NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

A29. Fair value of financial instruments (cont'd.)

**Bank**

**31 December 2017**

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
<b>Financial assets measured at fair value</b>				
Financial assets at fair value through profit or loss				
- Debt securities	-	320,099	-	320,099
- Equity securities	219,428	-	10,208	229,636
Financial investments available-for-sale #				
- Debt securities	-	959,677	-	959,677
- Negotiable Instruments of Deposit	-	50,000	-	50,000
Derivative financial assets	-	67,393	-	67,393
<b>Financial assets for which fair values are disclosed</b>				
Financial investments held-to-maturity	-	38,214	-	38,214
Loans, advances and financing	-	-	2,179,330	2,179,330
	219,428	1,435,383	2,189,538	3,844,349
<b>Financial liabilities measured at fair value</b>				
Derivative financial liabilities	32,355	3,818	-	36,174
Obligations on securities sold under repurchase agreements	-	74,993	-	74,993
Borrowings	-	69,380	-	69,380
	32,355	148,191	-	180,547

**31 December 2016**

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
<b>Financial assets measured at fair value</b>				
Financial assets at fair value through profit or loss				
- Debt securities	-	169,311	-	169,311
- Equity securities	211,210	-	-	211,210
- Unquoted private debt securities	-	-	1,067	1,067
Financial investments available-for-sale #				
- Debt securities	-	737,324	-	737,324
- Negotiable Instruments of Deposit	-	50,000	-	50,000
- Islamic Negotiable Instruments of Deposit	-	149,890	-	149,890
Derivative financial assets	-	39,117	-	39,117
<b>Financial assets for which fair values are disclosed</b>				
Financial investments held-to-maturity	-	40,026	-	40,026
Loans, advances and financing	-	-	2,065,272	2,065,272
	211,210	1,185,668	2,066,339	3,463,217
<b>Financial liabilities measured at fair value</b>				
Derivative financial liabilities	13,613	33,793	-	47,406
Obligations on securities sold under repurchase agreements	-	27,253	-	27,253
Borrowings	-	118,334	-	118,334
	13,613	179,380	-	192,993

# Excluded unquoted securities stated at cost of RM490,000 (2016 : RM490,000).

There has been no transfer between level 1 & level 2 during the current year ended 31 December 2017 (31 December 2016: None)

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<b>As at 31 December 2017</b>	<b>As at 31 December 2016</b>
	<b>Principal Amount RM'000</b>	<b>Principal Amount RM'000</b>
<b>A30. <u>Commitments and Contingencies and Off-Balance Sheet</u></b>		
<b><u>Financial Instruments</u></b>		
<b>Group</b>		
Obligations under underwriting agreements	-	9,380
Commitments to extend credit with maturity of less than 1 year :-		
- share margin financing	1,662,114	1,656,405
- corporate loan	6,485	-
- foreign exchange related contract	50,111	44,858
- equity exchange related contract	157,823	127,966
Commitments to extend credit with maturity of more than 1 year :-		
- corporate loan	26,000	347
- equity related contract	1,460	1,145
Client trust in respect of the stockbroking business	728,134	665,738
Derivative financial assets (Note B9)		
- dual currency investment - options	18,114	17,407
- equity related contracts - options	111,305	93,636
- equity related contracts - swap	75,772	57,262
Derivative financial liabilities (Note B9)		
- dual currency investment - options	18,114	17,407
- equity related contracts - options	433,635	220,442
Capital commitment:		
- Authorised and contracted for	4,167	11,339
	<b>3,293,234</b>	<b>2,923,332</b>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	As at 31 December 2017	As at 31 December 2016
	Principal Amount RM'000	Principal Amount RM'000

**A30. Commitments and Contingencies and Off-Balance Sheet  
Financial Instruments (Cont'd)**

**Bank**

Obligations under underwriting agreements	-	9,380
Commitments to extend credit with maturity of less than 1 year :-		
- share margin financing	1,662,114	1,656,405
- corporate loan	80,985	43,500
- foreign exchange related contract	50,111	44,858
- equity exchange related contract	157,823	127,966
Commitments to extend credit with maturity of more than 1 year :-		
- corporate loan	56,000	25,347
- equity exchange related contract	1,460	1,145
Client trust in respect of the stockbroking business	728,134	665,738
Derivative financial assets (Note B9)		
- dual currency investment - options	18,114	17,407
- equity related contracts - options	111,305	93,636
- equity related contracts - swap	75,772	57,262
Derivative financial liabilities (Note B9)		
- dual currency investment - options	18,114	17,407
- equity related contracts - options	433,635	220,442
Capital commitment:		
- Authorised and contracted for	3,943	11,043
Investment in equity fund	13,792	-
	3,411,302	2,991,536

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	Group		Bank	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
<b>A31. Operating lease arrangements</b>				
Future minimum rental payable:				
Within one year	8,291	9,942	7,769	9,442
Between one and five years	6,660	3,418	6,423	3,058
	<u>14,951</u>	<u>13,360</u>	<u>14,192</u>	<u>12,500</u>
Future minimum sublease receipts:				
Subsidiaries	-	-	3,116	4,674
External parties	5,106	1,136	5,106	1,136
	<u>5,106</u>	<u>1,136</u>	<u>8,222</u>	<u>5,810</u>

**A32. Capital Adequacy**

(i) Components of Common Equity Tier 1 ("CET 1") capital ratio, Tier 1 and Tier 2 capital:

	Group		Bank	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
<u>CET 1 / Tier 1 capital</u>				
Paid-up share capital	246,137	180,637	246,137	180,637
Share premium	-	65,500	-	65,500
Retained profits	520,345	47,857	513,726	20,209
Other reserves	124,984	591,962	174,300	636,160
Less: Regulatory adjustments:				
Deferred tax assets	(10,006)	(9,841)	(7,798)	(7,554)
Goodwill	(208,754)	(208,754)	(252,909)	(252,909)
Other intangibles	(57,660)	(58,168)	(52,500)	(52,500)
Regulatory reserve	(25,277)	(23,929)	(25,277)	(23,929)
Deduction in excess of Tier 2*	(58,927)	(65,313)	(130,118)	(116,876)
Total CET 1/Tier 1 capital	<u>530,842</u>	<u>519,951</u>	<u>465,561</u>	<u>448,738</u>
<u>Tier 2 capital</u>				
Subordinated obligations capital	5,000	-	5,000	-
Collective impairment provision and regulatory reserves	13,424	14,320	13,081	13,809
Less: Regulatory adjustments applied to Tier 2 capital	(14,732)	(14,320)	(18,081)	(13,809)
Total Tier 2 capital	<u>3,692</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital	<u>534,534</u>	<u>519,951</u>	<u>465,561</u>	<u>448,738</u>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A32. Capital Adequacy (cont'd)**

(i) Components of Common Equity Tier 1 ("CET 1") capital ratio, Tier 1 and Tier 2 capital (cont'd):

	Group		Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
CET 1 capital ratio	29.803%	28.176%	28.390%	26.199%
Tier 1 capital ratio	29.803%	28.176%	28.390%	26.199%
Total capital ratio	30.010%	28.176%	28.390%	26.199%

\* 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 Bank Negara Malaysia's Capital Adequacy Framework (Capital Components).

(ii) Breakdown of risk-weighted assets in the various categories of risks are as follows:

	Group 31 December 2017		Group 31 December 2016	
	Notional amount RM'000	Risk-weighted amount RM'000	Notional amount RM'000	Risk-weighted amount RM'000
Credit Risk	4,507,125	1,073,882	4,273,833	1,145,590
Market Risk	-	152,115	-	154,586
Operational Risk	-	548,768	-	545,211
Large exposure risk	-	6,400	-	-
<b>Total Risk Weighted Assets</b>	<b>4,507,125</b>	<b>1,781,165</b>	<b>4,273,833</b>	<b>1,845,387</b>

	Bank 31 December 2017		Bank 31 December 2016	
	Notional amount RM'000	Risk-weighted amount RM'000	Notional amount RM'000	Risk-weighted amount RM'000
Credit Risk	4,300,880	1,046,479	3,933,702	1,104,691
Market Risk	-	130,574	-	154,586
Operational Risk	-	456,444	-	453,526
Large exposure risk	-	6,400	-	-
<b>Total Risk Weighted Assets</b>	<b>4,300,880</b>	<b>1,639,897</b>	<b>3,933,702</b>	<b>1,712,804</b>

The capital adequacy ratios of the Group and the Bank are computed in accordance with Bank Negara Malaysia's Revised Risk-weighted Capital Adequacy Framework: Standardised Approach for Credit Risk and Market Risk, and Basic Indicator Approach for Operational Risk ("RWCAF Basel II").

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A33. Credit Exposures Arising From Credit Transactions With Connected Parties**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Outstanding credit exposures with connected parties (RM'000)	<u>284,320</u>	<u>253,809</u>
Percentage of outstanding credit exposures to connected parties:- - as a proportion of total credit exposures	<u>7.10%</u>	<u>6.91%</u>
- which is impaired or in default	<u>-</u>	<u>-</u>

The credit exposure above are derived based on Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which are effective on 1 January 2008.

**A34. Segmental reporting**

The Group has five major operating divisions as described below. The division form the basis of which the Group reports its segment information.

- (i) Investment bank - Investment banking business, treasury and related financial services;
- (ii) Stockbroking - Dealings in equity securities and investment related services;
- (iii) Futures broking- Futures broker business
- (iv) Money lending and financing - Money lending, islamic factoring and leasing;
- (v) Investment and Wealth Management - Management of funds and unit trusts (Note 1); and
- (vi) Corporate and others - Support services comprise all middle and back office functions, and, includes business operations conducted by the Group's associates in the Kingdom of Saudi Arabia and Sri Lanka and joint venture company.

**Note 1**

Wealth Management was previously reported under the corporate and other segments. However with effect from this financial year, it has been reported as part of the investment management segment due to similar products and services rendered. This will enable decisions on allocation of resources to be handled more effectively and efficiently to improve the performance of this segment.

The comparative figures of the Group's segments have been restated to be consistent with the current year presentation due to allocation of cost which was previously reported under corporate and others segments.

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A34. Segmental reporting (cont'd)**

	Investment banking RM'000	Stock broking RM'000	Futures broking RM'000	Money lending and financing RM'000	Investment and wealth management RM'000	Corporate and Others RM'000	Elimination/ consolidation adjustments RM'000	Total RM'000
<b>2017</b>								
<b>Revenue</b>								
External sales	266,382	312,987	13,048	7,760	82,607	14,841	-	697,625
Inter-segment sales	3,157	307	1,488	-	2,184	5,464	(12,600)	-
<b>Total revenue</b>	<b>269,539</b>	<b>313,294</b>	<b>14,536</b>	<b>7,760</b>	<b>84,791</b>	<b>20,305</b>	<b>(12,600)</b>	<b>697,625</b>
<b>Result</b>								
Net income	70,728	298,848	13,879	4,979	67,606	20,239	(10,221)	466,058
Other operating expenses	(50,891)	(261,144)	(14,936)	(4,577)	(69,542)	(14,857)	4,757	(411,190)
(Allowance for)/Write back of impairment on loans, advances and financing	(13)	(101)	-	46	-	18	(242)	(292)
(Allowance for)/ Write back of impairment on balances due from clients and brokers and other receivables	(123)	13	-	-	3	(494)	-	(601)
Allowance for impairment on investment in an associate and subsidiaries	-	-	-	-	-	(727)	727	-
Share of results in associates and joint venture company	-	-	-	-	-	(13,356)	-	(13,356)
Profit/(loss) before taxation and zakat	19,701	37,616	(1,057)	448	(1,933)	(9,177)	(4,979)	40,619
Taxation and zakat								(16,453)
Net profit for the financial year								24,166

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A34. Segmental reporting (cont'd.)**

	Investment banking and stockbroking RM'000	Futures broking RM'000	Investment and wealth management RM'000	Money lending and financing RM'000	Corporate and Others RM'000	Elimination/ consolidation adjustments RM'000	Notes	Total RM'000
<b>2017 (cont'd.)</b>								
<b>Other information</b>								
Net interest and finance income	77,944	5,557	730	2,700	8,449	-	-	95,380
Depreciation and amortisation	5,673	518	600	18	7,010	-	-	13,819
Non cash expenses								
- Unrealised gains/(losses) on revaluation of financial assets at fair value through profit or loss and derivatives	(7,632)	-	-	-	-	-	-	(7,632)
<b>Assets</b>								
Investments in associate companies	-	-	-	-	60,438	-		60,438
Investment in a joint venture company					13,220			13,220
Addition to non-current assets	15,101	575	1,867	109	-	-	<b>A</b>	17,652
Segment assets	6,264,554	246,689	90,350	74,392	23,571	(206,975)	<b>B</b>	6,492,581
<b>Liabilities</b>								
Segment liabilities	5,330,391	219,975	57,458	62,638	11,825	(81,172)	<b>C</b>	5,601,115

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A34. Segmental reporting (cont'd.)**

	Investment banking RM'000	Stock broking RM'000	Futures broking RM'000	Money lending and financing RM'000	Investment and wealth management RM'000	Corporate and Others RM'000	Elimination/ consolidation adjustments RM'000	Total RM'000
<b>2016</b>								
<b>Revenue</b>								
External sales	238,553	250,634	19,585	13,713	48,279	14,553	-	585,317
Inter-segment sales	4,521	219	1,429	-	1,470	25,992	(33,631)	-
<b>Total revenue</b>	<b>243,074</b>	<b>250,853</b>	<b>21,014</b>	<b>13,713</b>	<b>49,749</b>	<b>40,545</b>	<b>(33,631)</b>	<b>585,317</b>
<b>Result</b>								
Net income	82,794	239,454	20,298	6,245	49,174	41,257	(29,864)	409,358
Other operating expenses	(47,539)	(224,007)	(17,689)	(4,743)	(57,298)	(55,646)	29,864	(377,058)
(Allowance for)/Write back of impairment on loans, advances and financing	(600)	140	-	(869)	-	532	144	(653)
Write back of/(Allowance for) impairment on balances due from clients and brokers and other receivables	30	582	-	-	(11)	838	-	1,439
Share of results in associates and a joint venture company	-	-	-	-	-	(549)	-	(549)
Profit/(loss) before taxation and zakat	34,685	16,169	2,609	633	(8,135)	(13,568)	144	32,537
Taxation and zakat								(12,330)
Net profit for the financial year								<b>20,207</b>
<b>Other information</b>								
Net interest and finance income	23,225	44,463	7,847	3,979	1,710	11,209	-	92,433
Depreciation and amortisation	820	5,639	692	15	945	5,249	-	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)

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A34. Segmental reporting (cont'd.)**

	Investment banking and stockbroking RM'000	Futures broking RM'000	Investment and wealth management RM'000	Money lending and financing RM'000	Corporate and Others RM'000	Elimination/ consolidation adjustments RM'000	Notes	Total RM'000
<b>2016 (cont'd.)</b>								
<b>Assets</b>								
Investments in associates	-	-	-	-	72,671	-		72,671
Investment in a joint venture company	-	-	-	-	6,962	-		6,962
Addition to non-current assets	47,070	1,088	495	21	128,871	-	<b>A</b>	177,545
Segment assets	5,669,008	438,285	61,345	125,515	20,139	(244,512)	<b>B</b>	6,069,780
<b>Liabilities</b>								
Segment liabilities	4,766,502	400,374	27,491	114,420	7,011	(142,210)	<b>C</b>	5,173,588

**Notes**

**A** Additions to non-current assets consist of:

	2017 RM'000	2016 RM'000
Property, plant and equipment		
- Additions during the financial year	17,452	176,484
Intangible assets		
- Additions during the financial year	200	1,061
	<u>17,652</u>	<u>177,545</u>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A34. Segmental reporting (cont'd.)**

**B** The following items are (deducted from)/added to segment assets to arrive at total assets reported in the consolidated statement of financial position.

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Investment in subsidiaries	(81,755)	(76,741)
Investment in associates and joint venture	(3,536)	14,711
Intangible assets	(40,095)	(40,095)
Inter-segment assets	(81,589)	(142,387)
	<u>(206,975)</u>	<u>(244,512)</u>

**C** The following items are added to segment liabilities to arrive at total liabilities reported in the consolidated statement of financial position.

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Deposits accepted from subsidiaries	(44,234)	(69,550)
Inter-segment liabilities	(36,938)	(72,660)
	<u>(81,172)</u>	<u>(142,210)</u>

**KENANGA INVESTMENT BANK BERHAD**  
(15678-H)

**NOTES TO INTERIM FINANCIAL REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A35. Operations of Islamic Banking**

**(a) Unaudited Statement of Financial Position**  
**As at 31 December 2017**

		<b>Group and Bank</b>	
	<b>Note</b>	<b>As at 31 December 2017 RM '000</b>	<b>As at 31 December 2016 RM '000</b>
<b>ASSETS</b>			
Cash and bank balances	<b>(e)</b>	532,663	160,638
Financial assets at fair value through profit or loss	<b>(f)</b>	122,501	34,750
Financial investments available-for-sale	<b>(g)</b>	199,576	276,405
Financial investments held-for-maturity	<b>(h)</b>	5,001	5,000
Financing and advances	<b>(i)</b>	172,052	155,162
Balances due from clients and brokers		7,497	24
Other assets		22,788	1,322
Property, plant and equipment		104	138
Deferred tax assets		-	205
<b>TOTAL ASSETS</b>		<b>1,062,182</b>	<b>633,644</b>
<b>LIABILITIES</b>			
Deposits from customers	<b>(j)</b>	819,296	410,813
Balances due to clients and brokers		1,378	56
Other liabilities	<b>(k)</b>	97,802	84,378
Deferred tax liabilities		15	-
Provision for taxation and zakat		2,177	3,567
<b>TOTAL LIABILITIES</b>		<b>920,668</b>	<b>498,814</b>
<b>ISLAMIC BANKING CAPITAL FUNDS</b>			
Islamic banking funds		120,000	120,000
Reserves		21,514	14,830
<b>TOTAL ISLAMIC BANKING CAPITAL FUNDS</b>		<b>141,514</b>	<b>134,830</b>
<b>TOTAL LIABILITIES AND ISLAMIC BANKING CAPITAL FUNDS</b>		<b>1,062,182</b>	<b>633,644</b>

**KENANGA INVESTMENT BANK BERHAD**  
(15678-H)

**NOTES TO INTERIM FINANCIAL REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A35. Operations of Islamic Banking (Cont'd)**

**(b) Unaudited Statement Of Profit Or Loss And Other Comprehensive Income**  
**For the financial year ended 31 December 2017**

	Note	Group and Bank			
		Individual Quarter		Cumulative Quarter	
		3 months ended	3 months ended	12 months ended	12 months ended
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
		RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositors' funds	(l)	9,061	8,135	31,917	30,959
Income derived from investment of shareholders' funds	(m)	2,905	513	7,803	4,823
(Allowance for)/ Write back of impairment on financing and advances		(44)	(39)	15	(210)
Total attributable income		11,922	8,609	39,735	35,572
Profit distributed to depositors	(n)	(7,514)	(4,924)	(25,786)	(18,630)
Net income		4,469	3,685	13,949	16,942
Finance cost		(786)	(566)	(2,852)	(1,219)
Personnel expenses	(o)	(161)	(101)	(591)	(541)
Other overhead expenses	(p)	(621)	(479)	(2,342)	(1,985)
<b>Profit before taxation and zakat</b>		<b>2,901</b>	<b>2,539</b>	<b>8,164</b>	<b>13,197</b>
Taxation and zakat		(759)	(951)	(2,177)	(3,568)
<b>Profit for the financial period/year</b>		<b>2,142</b>	<b>1,588</b>	<b>5,987</b>	<b>9,629</b>

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:

Income derived from investment of depositors' funds	9,061	8,135	31,917	30,959
Income derived from investment of shareholders' funds	2,905	513	7,803	4,823
Total income before impairment allowances and overhead expenses	11,966	8,648	39,720	35,782
Profit distributed to depositors	(7,514)	(4,924)	(25,786)	(18,630)
Finance cost	(786)	(566)	(2,852)	(1,219)
<b>Income from Islamic Banking Window operations reported in the statement of profit or loss of the Group and the Bank</b>	<b>3,666</b>	<b>3,158</b>	<b>11,082</b>	<b>15,933</b>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A35. Operations of Islamic Banking (Cont'd)**

**(c) Unaudited Condensed Statements Of Cash Flows  
For the financial year ended 31 December 2017**

	<b>Group and Bank</b>	
	<b>31 December 2017 RM '000</b>	<b>31 December 2016 RM '000</b>
<b>Cash flows from operating activities</b>		
Profit before tax expense and zakat	8,164	13,197
Adjustments for:		
Depreciation of property, plant and equipment	43	44
Property, plant and equipment written off	-	7
(Reversal of)/Allowance for impairment	(15)	210
Realised loss/(gain) from sale of financial assets of fair value through profit or loss	300	(2,739)
Realised gain from sale of financial investments available-for-sale	(1)	(6,337)
Unrealised (gain)/loss on revaluation of financial assets at fair value through profit or loss	(45)	59
Operating profit before working capital changes	<u>8,446</u>	<u>4,441</u>
<b>Changes in operating assets:</b>		
Financing and advances	(16,819)	(96,105)
Balances due from clients and brokers	(7,473)	(24)
Other assets	(21,511)	407
<b>Changes in operating liabilities:</b>		
Deposits from customers	408,483	138,446
Balances due to clients and brokers	1,322	56
Other liabilities	13,823	29,249
Cash generated from operating activities	<u>386,271</u>	<u>76,470</u>
Taxation and zakat paid	(3,567)	(2,163)
Net cash generated from operating activities	<u>382,704</u>	<u>74,307</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(10)	(174)
Net purchase of securities	(10,669)	(28,932)
Net investing cash flow	<u>(10,679)</u>	<u>(29,106)</u>
<b>Net change in cash and cash equivalents</b>	372,025	45,201
<b>Cash and cash equivalents at beginning of the financial year</b>	<u>160,638</u>	<u>115,437</u>
<b>Cash and cash equivalents at end of the financial year</b>	<u>532,663</u>	<u>160,638</u>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A35. Operations Of Islamic Banking (Cont'd)**

**(d) Statement Of Changes In Islamic Banking Funds  
For the financial year ended 31 December 2017**

**Group and Bank**

	<b>Non-distributable</b>				<b>Distributable</b>	<b>Total RM'000</b>
	<b>Islamic Banking Fund RM'000</b>	<b>Available for-sale (Deficit)/ Reserve RM'000</b>	<b>Regulatory Reserve RM'000</b>	<b>Capital Reserve * RM'000</b>	<b>Retained Profits RM'000</b>	
<b>At 1 January 2017</b>	120,000	(649)	1,663	5,248	8,568	134,830
Profit for the financial year	-	-	-	-	5,987	5,987
Other comprehensive income for the financial year	-	697	-	-	-	697
Transfer to regulatory reserve	-	-	265	-	(265)	-
<b>At 31 December 2017</b>	<b>120,000</b>	<b>48</b>	<b>1,928</b>	<b>5,248</b>	<b>14,290</b>	<b>141,514</b>
<b>At 1 January 2016</b>	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)	-
<b>At 31 December 2016</b>	<b>120,000</b>	<b>(649)</b>	<b>1,663</b>	<b>5,248</b>	<b>8,568</b>	<b>134,830</b>

\* Capital reserve arose from the merger adjustment to reflect the capital restructuring as a result of the group internal reorganisation exercise.

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A35. Operations Of Islamic Banking (Cont'd)**

	<b>Group and Bank</b>	
	<b>As at 31 December 2017 RM'000</b>	<b>As at 31 December 2016 RM'000</b>
<b>(e) Cash and short-term funds</b>		
Current account with Bank Negara Malaysia and banks	3,763	88
Money at call and deposit placements with:		
Licensed banks	388,900	80,550
Bank Negara Malaysia	140,000	80,000
	<u>532,663</u>	<u>160,638</u>
<b>(f) Financial Assets at fair value through profit or loss</b>		
<b>At Fair Value</b>		
<b>Money Market Instruments:</b>		
Malaysian Government Investment Certificates	30,065	-
<b>Unquoted Private Debt Securities in Malaysia:</b>		
Corporate Bills	92,436	24,968
Corporate Bonds	-	9,782
	<u>122,501</u>	<u>34,750</u>
<b>(g) Financial Investments Available-for-Sale</b>		
<b>At Fair Value</b>		
<b>Money Market Instruments:</b>		
In Malaysia		
Government Investment Certificates	61,574	20,322
Negotiable Instruments of Deposits	-	149,890
Sukuk Perumahan Kerajaan	10,076	10,056
	<u>71,650</u>	<u>180,268</u>
<b>Unquoted Private Debt Securities:</b>		
In Malaysia		
Corporate Bonds	127,926	96,137
	<u>199,576</u>	<u>276,405</u>
<b>(h) Financial Investments Held-to-Maturity</b>		
<b>At Amortised Cost</b>		
<b>Unquoted Islamic Private Debt Securities:</b>		
In Malaysia		
Corporate bonds	5,001	5,000
	<u>5,001</u>	<u>5,000</u>
The maturity structure of above securities are as follows:		
Within one year	5,001	-
More than one year to three years	-	5,000
	<u>5,001</u>	<u>5,000</u>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A35. Operations Of Islamic Banking (Cont'd)**

	<b>Group and Bank</b>	
	<b>As at 31 December 2017 RM'000</b>	<b>As at 31 December 2016 RM'000</b>
<b>(i) Financing and advances</b>		
<b>At Amortised Cost</b>		
Commodity Murabahah share margin		
- Shariah contract - others	130	-
Commodity Murabahah revolving credit		
- Shariah contract - others	12,653	20,224
Commodity Murabahah term financing		
- Shariah contract - others	159,400	135,139
	<u>172,183</u>	<u>155,363</u>
Allowance for impairment:		
- Collective allowance	(131)	(201)
Net financing and advances	<u>172,052</u>	<u>155,162</u>
<b>(i) Gross financing and advances analysed by type of customer are as follows:</b>		
Domestic business enterprise - others	136,947	115,255
Individuals	35,236	40,108
	<u>172,183</u>	<u>155,363</u>
<b>(ii) Gross financing and advances analysed by geographical distribution are as follows:</b>		
In Malaysia	<u>172,183</u>	<u>155,363</u>
<b>(iii) Gross financing and advances analysed by profit rate sensitivity are as follows:</b>		
Fixed rate		
- Other fixed rate loans	-	-
Variable rate:		
- Cost plus	172,183	155,363
	<u>172,183</u>	<u>155,363</u>
<b>(v) Gross financing and advances analysed by economic purpose are as follows:</b>		
- Working capital	12,750	65,241
- Purchase of securities	94,169	50,014
- Others	65,264	40,108
	<u>172,183</u>	<u>155,363</u>
<b>(vi) Gross financing and advances analysed by residual contractual maturity are as follows:</b>		
- Within one year	12,750	20,224
- More than one year	159,433	135,139
	<u>172,183</u>	<u>155,363</u>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A35. Operations Of Islamic Banking (Cont'd)**

	<b>Group and Bank</b>	
	<b>As at 31 December 2017 RM'000</b>	<b>As at 31 December 2016 RM'000</b>
<b>(j) Deposits from customers</b>		
<b>(i) By type of deposits</b>		
Term deposits		
- Tawarruq (Commodity Murabahah deposits)	819,296	410,813
	<u>819,296</u>	<u>410,813</u>
<b>(ii) By type of customers</b>		
Domestic non-bank institutions	422,164	315,032
Business enterprises	396,176	94,855
Individuals	956	926
	<u>819,296</u>	<u>410,813</u>
<b>(iii) By maturity</b>		
- Due within six months	776,296	394,813
- Due more than six months	43,000	16,000
	<u>819,296</u>	<u>410,813</u>
<b>(k) Other liabilities</b>		
Murabahah Specific Investment Account	55,500	62,500
Profit payable	2,534	1,023
Other payable	39,768	20,855
	<u>97,802</u>	<u>84,378</u>
	<b>Group and Bank</b>	
	<b>12 months ended 31 December 2017 RM'000</b>	<b>12 months ended 31 December 2016 RM'000</b>
<b>(l) Income derived from investment of depositors' funds</b>		
<b>Finance income and hibah</b>		
Financing and advances	4,880	3,200
Deposits placements with financial institutions	11,312	5,188
Financial assets at fair value through profit or loss	2,328	1,603
Financial investments available-for-sale	11,265	10,109
Financial investments held-to-maturity	238	238
Accretion of discount	(637)	(353)
	<u>29,386</u>	<u>19,985</u>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A35. Operations Of Islamic Banking (Cont'd)**

	<b>Group and Bank</b>	
	<b>12 months ended 31 December 2017 RM'000</b>	<b>12 months ended 31 December 2016 RM'000</b>
<b>(l) Income derived from investment of depositors' funds (Cont'd)</b>		
<b>Other operating income</b>		
Net (loss)/gain on sale of financial assets at fair value through profit or loss	(255)	2,680
Net gain on sale of financial investments available-for-sale	1	6,337
Fees on financing and advances	1,259	2,140
Brokerage fee	1,225	7
Advisory fee	500	19
Placement fee	35	-
Direct trading fees	(240)	(214)
Other non-operating income	6	5
	<u>2,531</u>	<u>10,974</u>
	<u>31,917</u>	<u>30,959</u>
<b>(m) Income derived from investment of shareholders' funds</b>		
<b>Finance income and hibah</b>		
Financing and advances	7,243	2,459
Financial investments available-for-sale	616	2,557
Accretion of discount	(56)	(193)
	<u>7,803</u>	<u>4,823</u>
<b>(n) Profit distributed to depositors</b>		
Deposits from customers and financial institutions		
- Murabahah Fund	21,528	13,898
Others	4,258	4,732
	<u>25,786</u>	<u>18,630</u>
<b>(o) Personnel costs</b>		
- Salaries, wages, allowances and bonus	465	437
- EPF	71	61
- Other staff related expenses	55	43
	<u>591</u>	<u>541</u>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A35. Operations Of Islamic Banking (Cont'd)**

	<b>Group and Bank</b>	
	<b>12 months ended 31 December 2017 RM'000</b>	<b>12 months ended 31 December 2016 RM'000</b>
<b>(p) Other overhead expenses:</b>		
<b>Establishment costs</b>		
- Depreciation	43	44
- Office rental	57	45
- Repairs and maintenance	7	9
	<u>107</u>	<u>98</u>
<b>Marketing and trading expenses</b>		
- Advertisement and promotions	41	27
- Travelling and entertainment expenses	13	4
	<u>54</u>	<u>31</u>
<b>Administration and general expenses</b>		
- Others	<u>2,181</u>	<u>1,856</u>
	<u>2,342</u>	<u>1,985</u>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**A35. Operations Of Islamic Banking (Cont'd)  
(q) Capital adequacy**

	<b>Group and Bank</b>	
	<b>As at 31 December 2017 RM'000</b>	<b>As at 31 December 2016 RM'000</b>
<b>CET 1 / Tier 1 Capital</b>		
Islamic Banking funds	120,000	120,000
Retained profits	14,290	8,568
Other reserves	7,224	6,262
Less:		
Deferred tax assets	-	(205)
Regulatory reserves	(1,928)	(1,663)
<b>Total CET 1 / Tier 1 capital</b>	<u>139,586</u>	<u>132,962</u>
<b>Tier 2 Capital</b>		
Collective allowance and regulatory reserve	1,862	1,696
<b>Total Tier 2 capital</b>	<u>1,862</u>	<u>1,696</u>
<b>Total capital</b>	<u>141,448</u>	<u>134,658</u>
CET 1 capital ratio	74.382%	83.230%
Tier 1 capital ratio	74.382%	83.230%
<b>Total capital ratio</b>	<u>75.374%</u>	<u>84.292%</u>

The breakdown of risk-weighted assets (excluding any deferred tax assets) in the various categories of risk-weights are as follows:

	<b>Group and Bank</b>			
	<b>As at 31 December 2017</b>		<b>As at 31 December 2016</b>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
	<b>Notional amount</b>	<b>Risk-weighted amount</b>	<b>Notional amount</b>	<b>Risk-weighted amount</b>
Credit risk	809,866	148,960	508,000	135,691
Market risk	-	19,125	-	8,056
Operational risk	-	19,577	-	16,005
<b>Total Risk Weighted Assets</b>	<u>809,866</u>	<u>187,662</u>	<u>508,000</u>	<u>159,752</u>

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**REQUIREMENTS OF PART A, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA  
MALAYSIA SECURITIES BERHAD**

**B1. Performance Review**

**Current quarter and financial year-to-date**

**Group:**

	Individual period		Cumulative period	
	3 months ended	3 months ended	12 months ended	12 months ended
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
(RM'000)				
Revenue	182,229	138,410	697,625	585,317
Net income	127,906	97,439	466,058	409,358
Profit before tax	16,778	3,272	40,619	32,537
Profit after tax	12,515	1,859	24,166	20,207

The Group reported a pre-tax profit ("PBT") of RM40.6 million for the year ended 31 December 2017 (FYE17) as compared to RM32.5 million for the the year ended 31 December 2016 (FYE16). The increase in PBT was mainly due to higher net brokerage and investment banking fees income generated but partially offset by lower trading and investment income and higher share of losses from associate companies and a joint venture company. The cost savings from the relocation of office to our new building also contributed to the improved performance.

Performance analysis of the Group's major operating segments are as follows:

**Stockbroking:**

	Individual period		Cumulative period	
	3 months ended	3 months ended	12 months ended	12 months ended
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
(RM'000)				
Revenue	80,495	54,351	313,294	250,853
Net income	78,281	51,391	298,848	239,454
Profit/(Loss) before tax	6,375	(4,684)	37,616	16,169

Stockbroking registered PBT of RM37.6 million in FYE17 (FYE16: PBT of RM16.2 million) mainly due to higher brokerage income, interest income and trading and investment income.

Net brokerage fee income increased from RM62.9 million to RM84.1 million due to higher trading value on the Bursa Malaysia stock exchange which recorded RM1,229.6 billion for FYE17 compared to RM968.2 billion for FYE16.

**KENANGA INVESTMENT BANK BERHAD**  
(15678-H)

**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**REQUIREMENTS OF PART A, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA**  
**MALAYSIA SECURITIES BERHAD**

**B1. Performance Review (cont'd)**

**Current quarter and financial year-to-date (cont'd)**

Performance analysis of the Group's major operating segments are as follows (cont'd):

**Stockbroking (cont'd):**

A commendable result was recorded in the current quarter ("4Q17") compared to the corresponding quarter in the previous year ("4Q16"), due to higher Bursa trading volume that contributed to the increase in brokerage income. In addition, trading and investment income increased arising from higher gain in the warrants and options business.

**Investment Banking:**

	Individual period		Cumulative period	
	3 months ended	3 months ended	12 months ended	12 months ended
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
(RM'000)				
Revenue	68,544	59,431	269,539	243,074
Net income	23,517	22,376	70,728	82,794
Profit before tax	6,186	7,998	19,701	34,685

Investment Banking registered a lower PBT of RM19.7 million in FYE17 (FYE16: PBT of RM34.7 million) mainly due to lower trading and investment income as a result of the subdued bond market condition. The impact was mitigated by higher interest income and investment banking fees income.

Higher net income was recorded in 4Q17 compared to 4Q16 as a result of an increase in net interest income, foreign exchange gain and trading income, partially offset by lower advisory, placement and management fees income.

**Investment and Wealth Management:**

	Individual period		Cumulative period	
	3 months ended	3 months ended	12 months ended	12 months ended
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
(RM'000)				
Revenue	24,366	15,397	84,791	49,749
Net income	21,902	14,907	67,606	49,174
Profit/(Loss) before tax	2,883	1,719	(1,933)	(8,135)

Investment and Wealth Management registered a lower loss before tax ("LBT") of RM1.9 million (FYE16: LBT of RM8.1 million) due to higher personnel expenses negated by higher management fee income arising from an increase in total Assets under Management ("AUM").

**KENANGA INVESTMENT BANK BERHAD**  
(15678-H)

**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**REQUIREMENTS OF PART A, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA**  
**MALAYSIA SECURITIES BERHAD**

**B1. Performance Review (cont'd)**

**Current quarter and financial year-to-date (cont'd)**

Performance analysis of the Group's major operating segments are as follows (cont'd):

**Futures:**

	Individual period		Cumulative period	
	3 months ended	3 months ended	12 months ended	12 months ended
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
(RM'000)				
Revenue	3,240	4,422	14,536	21,014
Net income	3,053	4,305	13,879	20,298
(Loss)/Profit before tax	(688)	(72)	(1,057)	2,609

Futures registered LBT of RM1.1 million and RM0.7 million in FYE17 and 4Q17, compared to PBT of RM2.6 million and LBT of RM72,000 in FYE16 and 4Q16 respectively, mainly due to lower commission income earned from lower levels of client activities amid the sluggish market conditions and low volatility, as well as lower interest income earned.

**Money lending and financing:**

	Individual period		Cumulative period	
	3 months ended	3 months ended	12 months ended	12 months ended
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
(RM'000)				
Revenue	1,568	3,225	7,760	13,713
Net income	1,234	1,413	4,979	6,245
Profit before tax	147	275	448	633

This segment reported lower PBT of RM0.4 million and RM 0.1 million in FYE17 and 4Q17 compared to PBT of RM0.6 million and RM0.3 million in FYE16 and 4Q16 respectively, mainly due to lower interest income from financing activities as a result of stiff competition in the market.

**KENANGA INVESTMENT BANK BERHAD**  
(15678-H)

**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**REQUIREMENTS OF PART A, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA**  
**MALAYSIA SECURITIES BERHAD**

**B1. Performance Review (cont'd)**

**Current quarter and financial year-to-date (cont'd)**

Performance analysis of the Group's major operating segments are as follows (cont'd):

**Corporate and others:**

	Individual period		Cumulative period	
	3 months ended	3 months ended	12 months ended	12 months ended
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
(RM'000)				
Revenue	11,121	6,336	20,305	40,545
Net income	7,400	6,861	20,239	41,257
Profit/(Loss) before tax	6,612	(1,835)	(9,177)	(13,568)

With the exclusion of the dividend received from a subsidiary in the current quarter, this segment would have recorded higher LBT of 14.6mil for YTD 2017 compared to YTD 2016 of RM13.6mil mainly due to higher share of losses from an associate as a result of impairment in its investments and operating loss from a joint venture which has started business in the mid of FYE17. However, it was mitigated by higher net rental income and cost saving from the relocation of office to the new premise.

**B2. Explanatory comments on any material change in profit before taxation (current quarter) as compared with the immediate preceding quarter**

**Current quarter versus previous quarter**

**Group:**

	Current quarter	Previous quarter
	3 months ended 31 December 2017	3 months ended 30 September 2017
(RM'000)		
Revenue	182,229	171,923
Net income	127,906	104,230
Profit before tax	16,778	8,757
Profit after tax	12,515	5,420

For 4Q17, the Group's net income and profit before tax increased by 23% and 92% respectively compared to the previous quarter for the period from 1 July 2017 to 30 September 2017. The favourable pretax profit for 4Q17 was mainly due to higher net brokerage fees income, loan processing fees income, management fee income and trading income as a result of the active equities and derivatives trading.

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**REQUIREMENTS OF PART A, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA  
MALAYSIA SECURITIES BERHAD**

**B3. Prospects for 2018**

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

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

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

**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**SELECTED EXPLANATORY NOTES**  
**REQUIREMENTS OF PART A, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA**  
**SECURITIES BERHAD**

**B4. Variance From Profit Forecast And Profit Guarantee**

This is not applicable as the Company did not issue any profit forecast or profit guarantee during the financial year.

**B5. Taxation and zakat**

	<b>Individual Quarter 3 months ended 31 December 2017 RM'000</b>	<b>Cumulative Quarter 12 months ended 31 December 2017 RM'000</b>
Current period/year - income tax and zakat	(6,528)	(17,418)
Deferred taxation	2,265	965
Total	<u>(4,263)</u>	<u>(16,453)</u>

The effective tax rate of the Group for the fourth quarter and the financial year ended 31 December 2017 was higher than the statutory tax rate mainly due to non-deductibility of certain expenses for tax purpose.

**B6. Borrowings**

	<b>Group</b>		<b>Bank</b>	
	<b>As at 31 December 2017 RM '000</b>	<b>As at 31 December 2016 RM '000</b>	<b>As at 31 December 2017 RM '000</b>	<b>As at 31 December 2016 RM '000</b>
<b>Secured</b>				
Revolving bank loan denominated in RM				
- More than one year	64,000	75,200	64,000	75,200
<b>Unsecured</b>				
Revolving bank loans denominated in RM				
- Within one year	21,000	50,500	-	-
Subordinated obligations denominated in RM				
- More than one year	5,000	-	5,000	-
Medium term notes denominated in RM				
- Within one year	-	40,000	-	40,000
	<u>90,000</u>	<u>165,700</u>	<u>69,000</u>	<u>115,200</u>

**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**SELECTED EXPLANATORY NOTES**  
**REQUIREMENTS OF PART A, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA**  
**SECURITIES BERHAD**

**B7. Earnings per share**

	<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
	<b>3 months ended 31 December 2017</b> RM'000	<b>3 months ended 31 December 2016</b> RM'000	<b>12 months ended 31 December 2017</b> RM'000	<b>12 months ended 31 December 2016</b> RM'000
Profit for the period/year attributable to equity holders of the bank	12,515	1,876	24,188	19,720
Weighted average number of ordinary shares in issue ('000)	722,547	738,325	722,547	762,091
Earnings per share (sen) - basic / fully diluted	1.73	0.25	3.35	2.59

There were no potential dilutive ordinary shares outstanding as at 31 December 2017 and 31 December 2016.

**B8. Status of Corporate Proposal**

There is no outstanding corporate proposals as at 31 December 2017.

**KENANGA INVESTMENT BANK BERHAD  
(15678-H)**

**NOTES TO INTERIM FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**REQUIREMENTS OF PART A, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA  
MALAYSIA SECURITIES BERHAD**

**B9. Derivative financial instruments**

Derivative financial instruments are as follows:

**Group and Bank**

Items	As at 31 December 2017		As at 31 December 2016	
	Contract/Notional Value RM'000	Fair Value RM'000	Contract/Notional Value RM'000	Fair Value RM'000
<u>Derivatives financial assets</u>				
Equity related contract- options	111,305	64,820	93,636	33,498
Equity related contract- swaps	75,772	2,455	57,262	5,574
Dual currency investment- options	18,114	118	17,407	45
	205,191	67,393	168,305	39,117
<u>Derivatives financial liabilities</u>				
Equity related contract- options	433,635	36,056	220,442	47,361
Dual currency investment- options	18,114	118	17,407	45
	451,749	36,174	237,849	47,406

**Types of derivative financial instruments**

Options are contractual agreements or embedded in other financial instruments under which seller/issuer grants the purchaser the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of an underlying assets at a pre-determined price.

The Seller may receive a premium from the purchaser in consideration of risk. Options may be either exchanged-traded, negotiated between the purchaser and the seller in the over-the-counter market or embedded components in other financial instruments.

**Purposes of engaging in derivative financial instruments**

There have been no changes since the end of the financial year in respect of the type of derivative financial instruments, the rationale and expected benefits accruing to the Group from these derivative financial instruments.

**(Loss)/Gain arising from fair value change of derivative financial instruments**

The loss arising from fair value changes of derivative financial instruments for the current quarter amounted to RM16,976,564 (3Q17 gain: RM9,705,317). This was arrived at based on the fluctuation in the market prices of the derivative financial instruments or underlying assets which are listed on Bursa Malaysia.