

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

Unaudited Condensed Interim Financial Statements
31 December 2016

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

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

<u>Group</u>	Note	As at 31 December 2016 RM'000	(Restated) As at 31 December 2015 RM'000 (Note A2)
ASSETS			
Cash and bank balances		1,229,928	1,367,926
Financial assets at fair value through profit or loss	A11	381,588	338,573
Financial investments available-for-sale	A12	944,364	1,249,661
Financial investments held-to-maturity	A13	40,000	40,003
Derivative financial assets	A10	39,117	2,910
Loans, advances and financing	A14	2,105,584	1,930,064
Balances due from clients and brokers	A15	445,005	457,327
Other assets	A16	229,112	226,116
Statutory deposit with Bank Negara Malaysia	A17	99,504	120,753
Tax recoverable		7,465	8,229
Investment in associates		72,671	66,838
Investment in a joint venture company		6,962	-
Property, plant and equipment		191,717	35,698
Intangible assets		266,922	266,832
Deferred tax assets		9,841	10,025
TOTAL ASSETS		6,069,780	6,120,955
LIABILITIES			
Deposits from customers	A18	3,310,070	3,229,065
Deposits and placements of banks and other financial institutions	A19	550,954	575,159
Balances due to clients and brokers		857,065	896,302
Derivative financial liabilities	A10	47,406	72,278
Other liabilities	A20	214,701	246,378
Obligations on securities sold under repurchase agreements		27,253	95,310
Borrowings	A21	165,700	141,000
Provision for taxation and zakat		439	732
TOTAL LIABILITIES		5,173,588	5,256,224
EQUITY			
Share capital		180,637	770,000
Reserves		705,319	84,982
		885,956	854,982
Non-controlling Interests		10,236	9,749
TOTAL EQUITY		896,192	864,731
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		6,069,780	6,120,955
Commitments and contingencies		2,505,839	2,221,199
Net assets per share attributable to equity holder of the Bank (RM)		1.23	1.11

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015.

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

**UNAUDITED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

<u>Bank</u>	Note	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000
ASSETS			
Cash and bank balances		951,748	854,360
Financial assets at fair value through profit or loss	A11	381,588	318,742
Financial investments available-for-sale	A12	937,704	1,249,661
Financial investments held-to-maturity	A13	40,000	40,003
Derivative financial assets	A10	39,117	2,910
Loans, advances and financing	A14	2,065,887	1,878,665
Balances due from clients and brokers	A15	445,005	457,327
Other assets	A16	72,582	100,297
Statutory deposit with Bank Negara Malaysia	A17	99,504	120,753
Tax recoverable		894	2,381
Investment in subsidiaries		67,550	59,860
Investment in an associate		56,235	56,235
Investment in a joint venture company		7,500	-
Property, plant and equipment		190,731	31,728
Intangible assets		305,409	305,409
Deferred tax assets		7,554	7,758
TOTAL ASSETS		5,669,008	5,486,089
LIABILITIES			
Deposits from customers	A18	3,379,620	3,300,586
Deposits and placements of banks and other financial institutions	A19	550,954	575,159
Balances due to clients and brokers		474,231	354,333
Derivative financial liabilities	A10	47,406	72,278
Other liabilities	A20	171,790	196,694
Obligations on securities sold under repurchase agreements		27,253	95,310
Borrowings	A21	115,200	-
Provision for taxation and zakat		48	176
TOTAL LIABILITIES		4,766,502	4,594,536
EQUITY			
Share capital		180,637	770,000
Reserves		721,869	121,553
TOTAL EQUITY		902,506	891,553
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,669,008	5,486,089
Commitments and contingencies		2,574,339	2,251,199
Net assets per share (RM)		1.25	1.16

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015.

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 2016**

	Note	Individual Quarter		Cumulative Quarter	
		(Restated) (Note A2) 3 months ended 31 December 2016 RM'000	(Restated) (Note A2) 3 months ended 31 December 2015 RM'000	(Restated) (Note A2) 12 months ended 31 December 2016 RM'000	(Restated) (Note A2) 12 months ended 31 December 2015 RM'000
Group					
Interest income	A22	60,241	60,065	253,931	237,095
Interest expense	A23	(38,538)	(39,939)	(166,458)	(154,640)
Net interest income		21,703	20,126	87,473	82,455
Net income from Islamic banking business	A35	3,158	1,508	15,933	9,443
Other operating income	A24	72,267	101,043	304,696	307,425
Net income		97,128	122,677	408,102	399,323
Other operating expenses	A25	(95,242)	(99,963)	(377,058)	(381,648)
Operating profit		1,886	22,714	31,044	17,675
Write back of/(Allowance for) impairment on:					
- loans, advances and financing	A26	197	141	(653)	1,335
- balances due from clients and brokers and other receivables	A27	943	1,221	2,695	(2,333)
		3,026	24,076	33,086	16,677
Share of results of associate and joint venture		246	(1,928)	(549)	1,546
Profit before taxation and zakat		3,272	22,148	32,537	18,223
Taxation and zakat		(1,413)	(4,276)	(12,330)	(5,762)
Profit for the period/year		1,859	17,872	20,207	12,461
Other comprehensive income/(loss)					
Items that may be reclassified subsequently to profit or loss:					
Foreign exchange differences on consolidation		7,727	(2,486)	2,735	14,226
Share of other comprehensive gain/(loss) in an associate		6,228	(1,750)	3,106	(8,156)
Net (loss)/gain on fair value changes of financial investments available-for-sale		(11,681)	3,975	7,122	(3,937)
Income tax relating to the components of other comprehensive income		2,804	(1,162)	(1,709)	816
Other comprehensive income/(loss) for the period/year, net of tax		5,078	(1,423)	11,254	2,949
Total comprehensive income for the period/year, net of tax		6,937	16,449	31,461	15,410

**KENANGA INVESTMENT BANK BERHAD
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CONDENSED INTERIM FINANCIAL STATEMENTS

**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
	<u>(Restated)</u>	<u>(Restated)</u>		<u>(Restated)</u>
	<u>(Note A2)</u>	<u>(Note A2)</u>		<u>(Note A2)</u>
	<u>3 months</u>	<u>3 months</u>	<u>12 months</u>	<u>12 months</u>
	<u>ended</u>	<u>ended</u>	<u>ended</u>	<u>ended</u>
	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Note	RM'000	RM'000	RM'000	RM'000
Profit/(loss) for the period/year				
Attributable to:				
Equity holder of the Bank	1,876	17,550	19,720	11,304
Non-controlling interests	(17)	322	487	1,157
	<u>1,859</u>	<u>17,872</u>	<u>20,207</u>	<u>12,461</u>
Earnings per share				
Basic (sen)	A32 0.25	2.28	2.59	1.47
Fully diluted (sen)	A32 0.25	2.28	2.59	1.47

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015.

**KENANGA INVESTMENT BANK BERHAD
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**CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Note	Individual Quarter		Cumulative Quarter	
		3 months ended 31 December 2016 RM'000	3 months ended 31 December 2015 RM'000	12 months ended 31 December 2016 RM'000	12 months ended 31 December 2015 RM'000
Bank					
Interest income	A22	57,274	54,591	239,131	218,255
Interest expense	A23	(38,208)	(37,155)	(163,095)	(144,908)
Net interest income		19,066	17,436	76,036	73,347
Net income from Islamic banking business	A35	3,158	1,508	15,933	9,443
Other operating income	A24	56,414	85,111	250,283	257,106
Net income		78,638	104,055	342,252	339,896
Other operating expenses	A25	(76,442)	(83,627)	(311,406)	(324,563)
Operating profit		2,196	20,428	30,846	15,333
Write back of/(Allowance for) impairment on:					
- loans, advances and financing	A26	276	119	72	1,289
- balances due from clients and brokers and other receivables	A27	943	1,221	2,695	(2,333)
Profit before taxation and zakat		3,415	21,768	33,613	14,289
Taxation and zakat		(2,129)	(3,789)	(11,586)	(2,673)
Profit for the period/year		1,286	17,979	22,027	11,616
Other comprehensive (loss)/income for					
Items that may be reclassified subsequently to profit or loss:					
Net (loss)/gain on fair value changes of financial investments available-for-sale		(11,682)	(15,068)	7,122	(3,937)
Income tax relating to the components of other comprehensive income		2,804	3,767	(1,709)	816
Other comprehensive (loss)/income for the period/year, net of tax		(8,878)	(11,301)	5,413	(3,121)
Total comprehensive (loss)/income for the period/year, net of tax		(7,592)	6,678	27,440	8,495

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015.

**KENANGA INVESTMENT BANK BERHAD
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**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Group (Restated)		Bank	
	31 December 2016 RM'000	31 December 2015 RM'000 (Note A2)	31 December 2016 RM'000	31 December 2015 RM'000
Cash flows from operating activities				
Profit before taxation	32,537	18,223	33,613	14,289
Adjustments for non-operating and non-cash items	(47,776)	(22,331)	(53,553)	(18,396)
Operating loss before working capital changes	(15,239)	(4,108)	(19,940)	(4,107)
Changes in working capital:				
Net changes in operating assets	61,832	(157,095)	(120,001)	(104,280)
Net changes in operating liabilities	(81,844)	335,526	76,434	176,218
Cash (used in)/generated in operations	(35,251)	174,323	(63,507)	67,831
Taxation and zakat paid	(11,497)	(11,226)	(11,277)	(4,984)
Net operating cash flow	(46,748)	163,097	(74,784)	62,847
Cash flows from investing activities				
Dividends received	2,406	3,801	1,772	1,976
Purchase of property, plant and equipment and intangible assets	(159,345)	(6,493)	(157,455)	(4,362)
Proceeds from disposal of a subsidiary	-	-	60	-
Proceeds from disposal of property, plant and equipment	2,888	748	2,958	1,391
Acquisition of a joint venture	(7,500)	-	(7,500)	-
Net sales of securities	268,807	251,367	258,698	252,850
Net investing cash flow	107,256	249,423	98,533	251,855
Cash flows from financing activities				
Dividend paid	-	(7,249)	-	-
Repayment of hire purchase and finance lease	-	(38)	-	-
Net drawdown/(repayment) of borrowings	24,700	(11,500)	70,200	-
Buy-back of shares	-	(6,604)	-	-
Net financing cash flow	24,700	(25,391)	70,200	-
Net change in cash and cash equivalents during the financial year	85,208	387,129	93,949	314,702
Cash transferred in due to merger	-	-	9,635	-
Cash and cash equivalents brought forward	958,803	571,674	790,157	475,455
Cash and cash equivalents carried forward	1,044,011	958,803	893,741	790,157

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015.

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

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	Reorganisation Reserve RM'000	(Accumulated losses)/ Retained Profit RM'000		
At 1 January 2016											
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
Capital reduction and repayment	(47,453)	-	-	-	-	-	-	64,817	(17,364)	-	-
Par value reduction	(541,910)	-	371,118	-	-	-	73,390	38,849	58,553	-	-
Net profit for the year	-	-	-	-	-	-	-	-	19,720	487	20,207
Share of associate's other comprehensive income	-	-	-	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
Current year transfer to regulatory reserves	-	-	-	-	1,818	-	-	-	(1,818)	-	-
At 31 December 2016	180,637	65,500	465,741	(11,034)	23,929	24,388	88,938	-	47,857	10,236	896,192

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015.

**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	Total Equity	
	Ordinary Shares	Share Premium	Statutory Reserve	Available-For- Sale Deficit	Regulatory reserve	Exchange Reserve	Capital Reserve	Reorganisation Reserve			(Accumulated losses)/ Retained Profits
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 January 2015											
As previously reported	770,000	65,500	88,815	(8,276)	-	7,662	-	-	(22,950)	8,592	909,343
Effect of merger accounting	-	-	-	-	-	(235)	15,548	(103,666)	35,580	-	(52,773)
As restated	770,000	65,500	88,815	(8,276)	-	7,427	15,548	(103,666)	12,630	8,592	856,570
Net profit for the year	-	-	-	-	-	-	-	-	11,304	1,157	12,461
Share of associate's other comprehensive loss	-	-	-	(8,156)	-	-	-	-	-	-	(8,156)
Other comprehensive (loss)/income	-	-	-	(3,121)	-	14,226	-	-	-	-	11,105
Total comprehensive (loss)/income	-	-	-	(11,277)	-	14,226	-	-	11,304	1,157	15,410
Transfer to statutory reserves	-	-	5,808	-	-	-	-	-	(5,808)	-	-
Transfer to regulatory reserves	-	-	-	-	22,111	-	-	-	(22,111)	-	-
Dividend paid	-	-	-	-	-	-	-	-	(7,249)	-	(7,249)
At 31 December 2015	770,000	65,500	94,623	(19,553)	22,111	21,653	15,548	(103,666)	(11,234)	9,749	864,731

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015.

**KENANGA INVESTMENT BANK BERHAD
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**UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	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 Reserve RM'000	(Accumulated losses)/ Retained Profits RM'000	
Bank									
At 1 January 2016	770,000	65,500	-	22,111	94,623	(12,786)	-	(47,895)	891,553
Reserve arising from group internal reorganisation	-	-	(16,487)	-	-	-	-	-	(16,487)
Capital reduction	(47,453)	-	-	-	-	-	-	47,453	-
Par value reduction	(541,910)	-	16,487	-	371,118	-	153,863	442	-
Net profit for the year	-	-	-	-	-	-	-	22,027	22,027
Other comprehensive income	-	-	-	-	-	5,413	-	-	5,413
Total comprehensive income	-	-	-	-	-	5,413	-	22,027	27,440
Current year transfer to regulatory reserves	-	-	-	1,818	-	-	-	(1,818)	-
At 31 December 2016	180,637	65,500	-	23,929	465,741	(7,373)	153,863	20,209	902,506

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015.

KENANGA INVESTMENT BANK BERHAD
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UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Non- Distributable					Distributable	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	(Accumulated losses)/ Retained profits RM'000	
Bank							
At 1 January 2015	770,000	65,500	-	88,815	(9,665)	(31,592)	883,058
Net profit for the year	-	-	-	-	-	11,616	11,616
Other comprehensive loss	-	-	-	-	(3,121)	-	(3,121)
Total comprehensive (loss)/income	-	-	-	-	(3,121)	11,616	8,495
Transfer to regulatory reserve	-	-	22,111	-	-	(22,111)	-
Transfer to statutory reserve	-	-	-	5,808	-	(5,808)	-
At 31 December 2015	770,000	65,500	22,111	94,623	(12,786)	(47,895)	891,553

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015.

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

A1. Basis Of Preparation

The interim financial statements, for the financial year ended 31 December 2016, have been prepared in accordance with 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 2015.

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

A2. Preceding financial year audit report

The preceding financial year audit report in respect of the financial year ended 31 December 2015 was not qualified by the external auditors.

The following comparative figures of the Group and the Bank's financial statements and notes thereto have been restated to conform with the current year presentation due to the adoption of the merger method of accounting to reflect the acquisition of certain subsidiaries, assets and liabilities under the Group Internal Reorganisation as disclosed in Note B3.

The acquisition of subsidiaries and transfer of assets and liabilities to KIBB is a combination between businesses or entities under common control. KIBB has applied the merger method of accounting, whereby Kenanga Investment Bank Berhad has incorporated the carrying value of K&N Kenanga Holdings Berhad's assets and liabilities as at 31 December 2015.

**Statements of Financial Position
As at 31 December 2015**

	Group		
	As previously reported	Effect of merger accounting	As restated
	RM'000	RM'000	RM'000
Assets			
Cash and bank balances	1,327,258	40,668	1,367,926
Financial assets at fair value through profit or loss	318,742	19,831	338,573
Financial investments			
available-for-sale	1,249,661	-	1,249,661
Financial investments held-to-maturity	40,003	-	40,003
Derivative financial assets	2,910	-	2,910
Loans, advances and financing	1,860,206	69,858	1,930,064
Balances due from clients and brokers	457,327	-	457,327
Other assets	223,088	3,028	226,116
Statutory deposit with			
Bank Negara Malaysia	120,753	-	120,753
Tax recoverable	5,349	2,880	8,229
Investment in subsidiaries	-	-	-
Investment in associates	65,613	1,225	66,838
Property, plant and equipment	33,311	2,387	35,698
Intangible assets	316,632	(49,800)	266,832
Deferred tax assets	9,091	934	10,025
Total assets	6,029,944	91,011	6,120,955

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

A2. Preceding financial year audit report (cont'd)

**Statements of Financial Position (Cont'd)
As at 31 December 2015**

	Group		
	As previously reported RM'000	Effect of merger accounting RM'000	As restated RM'000
Liabilities			
Deposits from customers	3,231,051	(1,986)	3,229,065
Deposits and placements of banks and other financial institutions	575,159	-	575,159
Balances due to clients and brokers	896,302	-	896,302
Derivative financial liabilities	72,278	-	72,278
Other liabilities	235,249	11,129	246,378
Obligations on securities sold under repurchase agreements	95,310	-	95,310
Borrowings	-	141,000	141,000
Provision for taxation and zakat	1,213	(481)	732
Deferred tax liabilities	-	-	-
Total liabilities	5,106,562	149,662	5,256,224
Equity			
Share capital	770,000	-	770,000
Reserves	143,633	(58,651)	84,982
Equity attributable to equity holders of the Bank	913,633	(58,651)	854,982
Non-controlling interests	9,749	-	9,749
Total equity	923,382	(58,651)	864,731
Total liabilities and shareholders' equity	6,029,944	91,011	6,120,955

**KENANGA INVESTMENT BANK BERHAD
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A2. Preceding financial year audit report (cont'd)

**Statements of profit and loss
For the financial year ended 31 December 2015**

	Group		
	As previously reported RM'000	Effect of merger accounting RM'000	As restated RM'000
Operating revenue	550,205	12,783	562,988
Interest income	230,276	6,819	237,095
Interest expense	(148,014)	(6,626)	(154,640)
Net interest income	82,262	193	82,455
Net income from Islamic banking operations	9,443	-	9,443
Other operating income	303,391	4,034	307,425
Net income	395,096	4,227	399,323
Other operating expenses	(379,922)	(1,726)	(381,648)
Operating profit	15,174	2,501	17,675
Write back of/(Allowance for) impairment on:			
- loans, advances and financing	1,289	46	1,335
- balances due from clients and brokers and other receivables	(2,333)	-	(2,333)
	14,130	2,547	16,677
Share of results of associates	1,679	(133)	1,546
Profit before taxation and zakat	15,809	2,414	18,223
Taxation and zakat	(4,604)	(1,158)	(5,762)
Profit for the financial year	11,205	1,256	12,461
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange differences on consolidation	14,111	115	14,226
Share of other comprehensive loss in an associate	(8,156)	-	(8,156)
Net loss on fair value changes of financial investments available-for-sale	(3,937)	-	(3,937)
Income tax relating to the components of other comprehensive income	816	-	816
Other comprehensive income for the year, net of tax	2,834	115	2,949
Total comprehensive income for the year, net of tax	14,039	1,371	15,410

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A2. Preceding financial year audit report (cont'd)

Statements of cash flows

For the financial year ended 31 December 2015

	Group		
	As previously reported RM'000	Effect of merger accounting RM'000	As restated RM'000
Cash flows from operating activities			
Profit before taxation	15,809	2,414	18,223
Adjustments for non-operating and non-cash items	(19,197)	(3,134)	(22,331)
Operating loss before working capital changes	(3,388)	(720)	(4,108)
Changes in working capital:			
Net changes in operating assets	(105,391)	(51,704)	(157,095)
Net changes in operating liabilities	329,775	5,751	335,526
Cash generated in/(used in) operations	220,996	(46,673)	174,323
Taxation and zakat paid	(9,962)	(1,264)	(11,226)
Net operating cash flow	211,034	(47,937)	163,097
Cash flows from investing activities			
Dividends received	2,208	1,593	3,801
Purchase of property, plant and equipment and intangible assets	(5,147)	(1,346)	(6,493)
Proceeds from disposal of property, plant and equipment	2,280	(1,532)	748
Net sales of securities	252,909	(1,542)	251,367
Net investing cash flow	252,250	(2,827)	249,423
Cash flows from financing activities			
Dividend paid	-	(7,249)	(7,249)
Repayment of hire purchase and finance lease	-	(38)	(38)
Net repayment of borrowings	-	(11,500)	(11,500)
Buy-back of shares	-	(6,604)	(6,604)
Net financing cash flow	-	(25,391)	(25,391)
Net change in cash and cash equivalents during the financial year	463,284	(76,155)	387,129
Cash and cash equivalents brought forward	490,396	81,278	571,674
Cash and cash equivalents carried forward	953,680	5,123	958,803

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A3. Performance Review

(a) Current financial year versus previous financial year

The Group reported a pretax profit ("PBT") of RM32.5 million for the year ended 31 December 2016 ("FYE16") as compared to RM18.2 million for the the year ended 31 December 2015 ("FYE15"). The PBT was mainly due to higher trading and investment income, interest income and investment banking fee income negated by lower brokerage income and share of loss in an associate and joint venture for the year under review.

(b) Current quarter versus previous quarter

For the fourth quarter 2016, the Group recorded a lower pretax profit of RM3.3 million compared to RM10.3 million in the preceding quarter. Pretax profit for the quarter was lower by 68% mainly due to higher trading and investment income registered in the previous quarter which was contributed by treasury portfolio as well as warrant and derivatives activities. This was partially mitigated by higher impairment allowance written back for other receivables in current quarter.

(c) Performance by Operating Segment

Stockbroking:

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

Net brokerage fee income declined from RM80.9 million to RM62.9 million due to lower trading value on the Bursa Malaysia stock exchange which recorded RM968.2 billion for FYE16 compared to RM1,024.4 billion in the last corresponding year of 2015 and lower market share.

Investment Banking:

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

Investment Management:

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

Futures:

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

A3. Performance Review (Cont'd)

(c) Performance by Operating Segment (cont'd)

Money lending and financing:

This segment reported a PBT of RM0.6 million in FYE16 compared to PBT of RM9 thousand in FYE15 due to higher financing activities which resulted in higher fee income and interest income.

A4. Prospects for 2017

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

Despite global uncertainties, Malaysia's growth momentum is expected to continue into 1H17 with a slightly higher forecast full year growth at 4.5%, compared to 2016's 4.3%. Meanwhile, inflation is expected to edge upwards into 2017 from cost-push factors, ranging from subsidy rationalisation and rising commodity prices.

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

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A5. Seasonal or Cyclical Factors

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

A6. 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 other than those disclosed in Note A2 arising from the significant events on the Group Internal Reorganisation as disclosed in Note B3.

A7. 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.

A8. 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 fourth quarter ended 31 December 2016, other than the following:

- (i) Capital reduction via the cancellation of 47,453,001 ordinary shares of RM1.00 each which resulted in the reduction of the number of issued and paid-up share capital to 722,546,999.
- (ii) Redemption of RM5 million of MTN by the Bank.

A9. Dividends paid per share

No dividend was paid during the current financial year.

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A10. Derivative financial instruments

Derivative financial instruments are as follows:

Group and Bank

Items	As at 31 December 2016		As at 31 December 2015	
	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	33,498	33,498	13,762	2,908
Equity related contract- swaps	5,574	5,573	-	-
Dual currency investment- options	45	45	1,588	2
	39,117	39,117	15,350	2,910
<u>Derivatives financial liabilities</u>				
Equity related contract- options	220,442	47,360	1,042,190	72,276
Dual currency investment- options	17,407	45	1,588	2
	237,849	47,406	1,043,778	72,278

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 previous 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.

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 RM15,369,000. 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.

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	Group		Bank	
	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000
A11. Financial Assets At Fair Value Through Profit or Loss				
At Fair Value				
Money Market Instruments:				
Malaysian Government Investment Issues	-	57,373	-	57,373
	<u>-</u>	<u>57,373</u>	<u>-</u>	<u>57,373</u>
Quoted Securities:				
Shares and Unit Trust Funds in Malaysia	191,578	231,311	191,578	211,480
Shares outside Malaysia	19,632	-	19,632	-
	<u>211,210</u>	<u>231,311</u>	<u>211,210</u>	<u>211,480</u>
Unquoted Private Debt Securities in Malaysia:				
Corporate Bonds	45,035	-	45,035	-
Corporate Bills	84,639	-	84,639	-
Islamic Corporate Bonds	14,668	49,889	14,668	49,889
Islamic Corporate Bills	24,969	-	24,969	-
	<u>169,311</u>	<u>49,889</u>	<u>169,311</u>	<u>49,889</u>
Unquoted Private Debt Securities outside Malaysia:				
Redeemable corporate notes	1,067	-	1,067	-
	<u>1,067</u>	<u>-</u>	<u>1,067</u>	<u>-</u>
Total Financial Assets At Fair Value Through Profit or Loss	<u>381,588</u>	<u>338,573</u>	<u>381,588</u>	<u>318,742</u>
A12. Financial Investments Available-for-Sale				
At Fair Value, or amortised cost				
Money Market Instruments:				
Negotiable Instruments of Deposits	50,000	-	50,000	-
Islamic Negotiable Instruments of Deposits	149,890	-	149,890	-
Malaysian Government Securities	19,566	131,390	19,566	131,390
Malaysian Government Investment Certificates	58,428	284,262	58,428	284,262
Sukuk Perumahan Kerajaan	10,056	9,996	10,056	9,996
	<u>287,940</u>	<u>425,648</u>	<u>287,940</u>	<u>425,648</u>
Unquoted Securities:				
Shares and unit trusts funds in Malaysia	7,150	490	490	490
	<u>7,150</u>	<u>490</u>	<u>490</u>	<u>490</u>
Unquoted Private Debt Securities:				
Islamic Corporate Bonds	524,752	574,451	524,752	574,451
Islamic Corporate Bills	-	49,756	-	49,756
Corporate Bonds	124,522	199,316	124,522	199,316
	<u>649,274</u>	<u>823,523</u>	<u>649,274</u>	<u>823,523</u>
Total Financial Investments Available-for-Sale	<u>944,364</u>	<u>1,249,661</u>	<u>937,704</u>	<u>1,249,661</u>
A13. Financial Investments Held-To-Maturity				
At Amortised Cost				
Unquoted Private Debt Securities:				
Islamic Corporate Bonds	40,000	40,003	40,000	40,003
	<u>40,000</u>	<u>40,003</u>	<u>40,000</u>	<u>40,003</u>

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	Group		Bank	
	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000
A14. Loans, Advances and Financing				
At Amortised Cost				
Share margin financing	1,490,721	1,399,394	1,490,721	1,399,394
Term loans	505,348	424,483	562,084	462,645
Subordinated term loan	-	-	15,219	18,459
Others	112,082	107,725	-	-
Gross loans, advances and financing	2,108,151	1,931,602	2,068,024	1,880,498
Allowance for impairment:				
- collective allowance	(432)	(143)	(871)	(438)
- individual allowance	(2,135)	(1,395)	(1,266)	(1,395)
Net Loans, Advances and Financing	2,105,584	1,930,064	2,065,887	1,878,665
(i) By Type of Customer				
Domestic business enterprise - others	894,834	896,820	900,953	845,738
Individuals	1,158,958	1,002,660	1,112,712	1,002,638
Foreign enterprises	54,359	32,122	54,359	32,122
Gross Loans, Advances and Financing	2,108,151	1,931,602	2,068,024	1,880,498
(ii) By Geographical Distribution				
In Malaysia	2,042,417	1,898,570	2,002,290	1,847,466
Outside Malaysia	65,734	33,032	65,734	33,032
Gross Loans, Advances and Financing	2,108,151	1,931,602	2,068,024	1,880,498
(iii) By Interest Rate/ Profit Rate Sensitivity				
Fixed rate				
- Other fixed rate loans	1,602,786	1,519,169	1,490,704	1,411,444
Variable rate				
- Other variable rates	40,483	95,235	40,483	95,235
- Cost plus	464,882	317,198	536,837	373,819
Gross Loans, Advances and Financing	2,108,151	1,931,602	2,068,024	1,880,498
(iv) By Purpose				
- Purchase of securities	1,720,409	1,609,915	1,703,996	1,598,275
- Working capital	243,792	113,787	254,056	155,110
- Others	143,950	207,900	109,972	127,113
Gross Loans, Advances and Financing	2,108,151	1,931,602	2,068,024	1,880,498
(v) By Residual Contractual Maturity				
- Within one year	1,785,930	1,643,632	1,673,848	1,681,793
- More than one year	322,221	287,970	394,176	198,705
Gross Loans, Advances and Financing	2,108,151	1,931,602	2,068,024	1,880,498
(vi) Movements in impaired loans, advances and financing ("Impaired loans")				
At beginning of the financial year	7,942	2,790	1,954	2,786
Impaired during the financial year	1,824	6,157	160	173
Amount written off	(379)	-	(379)	-
Amount recovered	(6,779)	(1,005)	-	(1,005)
At end of the financial year	2,608	7,942	1,735	1,954
Less: Individual allowance	(2,135)	(1,395)	(1,266)	(1,395)
Net impaired loans	473	6,547	469	559

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	Group		Bank	
	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000
A14. Loans, Advances and Financing (Cont'd)				
(vi) Movements in impaired loans, advances and financing ("Impaired loans") (Cont'd)				
Net impaired loans as a % of gross loans, advances and financing less individual allowance	0.02%	0.34%	0.02%	0.03%
(vii) Impaired loans by Geographical Distribution				
Malaysia	2,608	7,942	1,735	1,954
Gross impaired loans	2,608	7,942	1,735	1,954
(viii) Impaired loans by Purpose				
Working capital	869	5,986	-	-
Purchase of securities	1,739	1,956	1,735	1,954
Gross impaired loans	2,608	7,942	1,735	1,954
(ix) Movements in impairment allowance for loans, advances and financing				
<u>Individual allowance</u>				
At beginning of financial year	1,395	1,725	1,395	1,725
Allowance made during the year	932	259	63	259
Amount written back during the year	(192)	(589)	(192)	(589)
At end of the financial year	2,135	1,395	1,266	1,395
<u>Collective allowance</u>				
At beginning of financial year	143	166	438	415
Allowance made during the financial year	406	32	550	79
Amount written back during the financial year	(117)	(55)	(117)	(56)
At end of the financial year	432	143	871	438
Collective allowance as a % of gross loans, advances and financing less individual allowance	0.02%	0.01%	0.04%	0.02%
A15. Balances due from clients and brokers				
- Due from clients	396,018	174,569	396,018	174,569
- Due from brokers	9,379	228,550	9,379	228,550
Balances due from clients and brokers	460,413	474,558	460,413	474,558
Less:				
Allowance for impairment	(15,408)	(17,231)	(15,408)	(17,231)
	445,005	457,327	445,005	457,327
Movements of allowance impairment for:				
<u>Individual Impairment</u>				
At beginning of the financial year	17,231	24,815	17,231	24,815
Allowance made	3,288	7,763	3,288	7,763
Allowance for impairment losses written back	(5,111)	(6,574)	(5,111)	(6,574)
Amount written off	-	(8,773)	-	(8,773)
At end of the financial year	15,408	17,231	15,408	17,231

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	Group		Bank	
	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000
A16. Other Assets				
Assets segregated for customers	138,146	110,635	-	-
Interest/income receivable	9,463	15,181	8,966	14,528
Prepayments and deposits	21,567	18,119	20,372	15,959
Other debtors	63,437	86,832	45,873	73,171
Amount due from subsidiaries	-	-	872	1,288
Amount due from related parties	104	15	104	17
	232,717	230,782	76,187	104,963
Allowance for impairment	(3,605)	(4,666)	(3,605)	(4,666)
	229,112	226,116	72,582	100,297
A17. Statutory deposit with Bank Negara Malaysia				
Statutory Deposit	99,504	120,753	99,504	120,753
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 liabilities.				
A18. Deposits from customers				
(i) By type of deposit				
Fixed deposits	2,295,897	327,501	2,300,906	327,501
Short term deposits	996,415	2,893,940	1,060,606	2,965,123
Negotiable instruments of deposit	17,758	7,624	18,108	7,962
	3,310,070	3,229,065	3,379,620	3,300,586
(ii) By type of customer				
Government and other statutory bodies	119,396	262,791	119,396	262,791
Individuals	116,950	77,320	116,950	77,320
Business enterprises	941,713	680,073	961,713	700,073
Non-bank financial institutions	2,132,011	2,208,881	2,132,011	2,208,881
Related companies	-	-	49,550	51,521
	3,310,070	3,229,065	3,379,620	3,300,586
(iii) By maturity structure				
Due within six months	2,648,168	3,213,115	2,717,718	3,284,636
More than six months to one year	661,902	15,950	661,902	15,950
	3,310,070	3,229,065	3,379,620	3,300,586
A19. Deposits and placements of banks and financial institutions				
Licensed banks	210,000	140,000	210,000	140,000
Licensed Islamic banks	60,000	-	60,000	-
Others financial institutions	280,954	435,159	280,954	435,159
	550,954	575,159	550,954	575,159

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	Group		Bank	
	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000
A20. Other liabilities				
Interest/Income payable	15,518	11,087	14,515	9,531
Accruals and provision	70,355	54,662	40,402	32,144
Retention for contra losses	487	602	487	602
Hire purchase creditors	-	28	-	-
Treasury trade payables	-	49,818	-	49,818
Deposits and other creditors	66,227	56,681	58,378	38,233
Amounts held in trust on behalf of				
Dealers' Representative	58,007	64,204	58,007	64,204
Amount due to trustee	4,107	9,296	-	-
Amount due to:	-	-	-	-
- subsidiaries	-	-	1	2,162
	214,701	246,378	171,790	196,694
A21. Borrowings				
Secured:				
Revolving bank loans	75,200	-	75,200	-
Unsecured:				
Revolving bank loans	50,500	31,000	-	-
Medium term notes	40,000	110,000	40,000	-
	165,700	141,000	115,200	-

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	Individual Quarter		Cumulative Quarter	
	3 months ended 31 December 2016 RM'000	3 months ended 31 December 2015 RM'000	12 months ended 31 December 2016 RM'000	12 months ended 31 December 2015 RM'000
A22. Interest Income				
Group				
Loans, advances and financing	36,072	34,451	144,550	135,273
Money at call and deposit placements with financial institutions	10,902	11,848	43,001	41,573
Financial assets at fair value through profit or loss	948	881	4,677	6,957
Financial investments available-for-sale	6,808	10,743	37,493	42,675
Financial investments held to maturity	501	522	2,102	1,605
Others	5,010	1,620	22,108	9,012
	60,241	60,065	253,931	237,095
Bank				
Loans, advances and financing	34,641	32,904	137,286	129,437
Money at call and deposit placements with financial institutions	9,367	7,923	35,465	28,569
Financial assets at fair value through profit or loss	948	881	4,677	6,957
Financial investments available-for-sale	6,808	10,742	37,493	42,675
Financial investments held to maturity	501	522	2,102	1,605
Others	5,009	1,619	22,108	9,012
	57,274	54,591	239,131	218,255
A23. Interest Expense				
Group				
Deposits from customers	35,345	35,168	150,618	134,892
Deposits and placement of banks and other financial institutions	1,143	3,072	7,189	12,454
Borrowings:				
Revolving bank loans	1,544	382	5,255	2,094
Medium Term Notes	506	1,317	3,396	5,200
	38,538	39,939	166,458	154,640
Bank				
Deposits from customers	35,950	34,083	153,713	132,454
Deposits and placement of banks and other financial institutions	1,143	3,072	7,189	12,454
Borrowings:				
Revolving bank loans	1,115	-	2,193	-
	38,208	37,155	163,095	144,908

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Individual Quarter		Cumulative Quarter	
3 months ended	3 months ended	12 months ended	12 months ended
31 December 2016	31 December 2015	31 December 2016	31 December 2015
RM'000	RM'000	RM'000	RM'000

A24. Other Operating Income

Group

(a) Fee income:

Brokerage fees	30,563	49,119	143,049	186,387
Corporate advisory fee	7,037	2,251	14,714	10,373
Processing fees on loans, advances and financing	2,155	1,274	5,956	5,085
Commissions	2,576	4,936	12,436	17,421
Management fee income	13,665	9,551	43,413	30,609
Placement fees	2,644	2,457	9,212	6,635
Underwriting commission	-	1,709	-	3,258
Other fee income	2,960	3,375	11,280	11,846
	<u>61,600</u>	<u>74,672</u>	<u>240,060</u>	<u>271,614</u>

(b) Net (loss)/gain arising from sale/redemption of:

Financial assets at fair value through profit or loss and derivatives	(58)	(4,091)	56,835	3,194
Financial investments available-for-sale	2,235	670	15,283	2,207
	<u>2,177</u>	<u>(3,421)</u>	<u>72,118</u>	<u>5,401</u>

(c) Gross dividend income from:

(i) Financial assets at fair value through profit or loss	215	948	1,653	3,233
(ii) Financial investments available-for-sale	14	60	753	568
	<u>229</u>	<u>1,008</u>	<u>2,406</u>	<u>3,801</u>

(d) Unrealised gain/(loss) on revaluation of financial assets at fair value through profit or loss and derivatives

	<u>5,560</u>	<u>25,570</u>	<u>(18,591)</u>	<u>18,110</u>
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(e) Other income:

Net foreign exchange income	1,054	927	4,222	4,448
Gain on disposal of property, plant and equipment	-	169	-	168
Other operating income	16	(84)	197	45
Loss on dissolution of subsidiaries	-	-	-	(50)
Other non-operating income				
-Rental income	1,157	268	2,790	1,112
-Others	474	1,934	1,494	2,776
	<u>2,701</u>	<u>3,214</u>	<u>8,703</u>	<u>8,499</u>

Total other operating income	<u>72,267</u>	<u>101,043</u>	<u>304,696</u>	<u>307,425</u>
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**KENANGA INVESTMENT BANK BERHAD
(15678-H)**

**NOTES TO INTERIM FINANCIAL REPORT
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<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
3 months ended 31 December 2016 RM'000	3 months ended 31 December 2015 RM'000	12 months ended 31 December 2016 RM'000	12 months ended 31 December 2015 RM'000

A24. Other Operating Income (Cont'd)

Bank

(a) Fee income:

Brokerage fees	30,563	49,105	143,049	186,346
Corporate advisory fee	7,045	2,251	14,853	10,373
Processing fees on loans, advances and financing	1,535	1,261	4,337	4,766
Management fee income	1,404	276	1,780	1,039
Placement fees	2,644	2,457	9,212	6,635
Underwriting commission	-	1,709	-	3,258
Other fee income	2,135	2,335	8,626	8,416
	<u>45,326</u>	<u>59,394</u>	<u>181,857</u>	<u>220,833</u>

(b) Net (loss)/gain arising from sale/
redemption of:

Financial assets at fair value through profit or loss and derivatives	(58)	(4,091)	58,075	3,194
Financial investments available- for-sale	2,235	669	15,283	2,207
	<u>2,177</u>	<u>(3,422)</u>	<u>73,358</u>	<u>5,401</u>

(c) Gross dividend from:

Financial assets at fair value through profit or loss	215	716	957	1,408
Financial investments available-for-sale	14	60	753	568
Subsidiary	-	-	62	-
	<u>229</u>	<u>776</u>	<u>1,772</u>	<u>1,976</u>

(d) Unrealised gain/(loss) on revaluation
of financial assets fair value through
profit or loss and derivatives

	<u>5,560</u>	<u>24,302</u>	<u>(18,591)</u>	<u>16,653</u>
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(e) Other income:

Net foreign exchange income	1,022	926	4,202	4,389
Gain on disposal of property, plant and equipment	-	106	-	106
Other operating income	82	14	416	594
Loss on deemed disposal of a subsidiary	-	-	(60)	-
Other non-operating income				
-Rental income	1,674	1,061	5,686	4,283
-Others	344	1,954	1,643	2,871
	<u>3,122</u>	<u>4,061</u>	<u>11,887</u>	<u>12,243</u>

Total other operating income	<u>56,414</u>	<u>85,111</u>	<u>250,283</u>	<u>257,106</u>
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**NOTES TO INTERIM FINANCIAL REPORT
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<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
3 months ended 31 December 2016 RM'000	3 months ended 31 December 2015 RM'000	12 months ended 31 December 2016 RM'000	12 months ended 31 December 2015 RM'000

A25. Other operating expenses

Group

Personnel costs	38,593	34,735	148,010	140,105
- Salaries, allowances and bonuses	30,103	27,945	116,244	111,365
- EPF	3,688	3,468	14,396	14,348
- Others	4,802	3,322	17,370	14,392
Establishment costs	16,644	13,760	60,560	51,815
- Depreciation of property, plant and equipment	3,717	1,847	12,390	8,963
- Amortisation of intangible assets - software	235	427	970	456
- Rental of premises	6,441	5,785	23,892	23,171
- Rental of equipment	161	250	616	588
- Repairs and maintenance	1,257	555	3,290	2,401
- Information technology expenses	2,721	3,541	11,740	10,952
- Others	2,112	1,355	7,662	5,284
Marketing expenses	3,694	4,268	13,481	13,759
- Promotion and advertisements	2,098	2,846	8,525	8,596
- Travel and entertainment	1,029	1,058	3,578	4,014
- Others	567	364	1,378	1,149
Administration and general expenses	36,311	47,200	155,007	175,969
- Communication expenses	1,456	1,542	6,030	6,748
- Professional fees and legal fees	943	3,839	4,471	12,754
- Regulatory charges	4,124	3,746	19,376	20,441
- Fees and brokerage	22,378	33,028	98,735	116,988
- Administrative expenses	6,933	4,532	24,568	17,235
- Printing and stationery	477	513	1,827	1,803
	95,242	99,963	377,058	381,648

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<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
3 months ended	3 months ended	12 months ended	12 months ended
31 December 2016	31 December 2015	31 December 2016	31 December 2015
RM'000	RM'000	RM'000	RM'000

A25. Other operating expenses (Cont'd)

Bank

Personnel costs	31,840	30,393	128,179	124,034
- Salaries, allowances and bonuses	23,857	20,629	87,702	80,473
- EPF	2,915	2,567	10,832	10,591
- Others	5,068	7,197	29,645	32,970
Establishment costs	15,030	12,281	53,989	46,199
- Depreciation of property, plant and equipment	3,550	1,854	11,319	7,754
- Rental of premises	6,262	5,686	23,302	22,781
- Rental of equipment	73	73	272	294
- Repair and maintenance	1,037	396	2,485	1,517
- Information technology expenses	2,697	3,459	11,321	10,717
- Others	1,411	813	5,290	3,136
Marketing expenses	2,178	2,104	7,359	7,434
- Promotion and advertisement	1,129	1,384	4,186	3,968
- Travel and entertainment	629	579	2,320	2,777
- Others	420	141	853	689
Administration and general expenses	27,394	38,849	121,879	146,896
- Communication expenses	1,275	1,343	5,281	5,935
- Professional fees and legal fees	1,383	3,039	3,069	10,587
- Regulatory charges	3,275	2,884	16,118	17,768
- Administrative expenses	4,878	2,973	18,288	10,390
- Printing and stationery	327	326	1,361	1,293
- Fees and brokerages	16,256	28,284	77,762	100,923
	76,442	83,627	311,406	324,563

A26. (Allowance for)/Write back of impairment on loans, advances and financing

Group

Impairment:

- collective allowance (net)	(163)	12	(289)	23
- individual allowance (net)	256	(29)	(740)	330
	93	(17)	(1,029)	353
Bad debts and financing:				
- recovered	104	158	376	982
	197	141	(653)	1,335

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	<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
	3 months ended 31 December 2016 RM'000	3 months ended 31 December 2015 RM'000	12 months ended 31 December 2016 RM'000	12 months ended 31 December 2015 RM'000
A26. (Allowance for)/Write back of impairment on loans, advances and financing (cont'd)				
<u>Bank</u>				
Impairment:				
- collective allowance (net)	(34)	(11)	(433)	(23)
- individual allowance (net)	206	(28)	129	330
	<u>172</u>	<u>(39)</u>	<u>(304)</u>	<u>307</u>
Bad debts and financing:				
- recovered	104	158	376	982
	<u>276</u>	<u>119</u>	<u>72</u>	<u>1,289</u>

**A27. (Allowance for)/Write back of
impairment on balances due from
clients and brokers and other
receivables**

Group and Bank

Impairment:

(i) individual allowance

on clients and brokers

- made during the financial year

- written back during the financial year

(1,490)

(754)

(3,288)

(7,763)

1,710

1,703

5,111

6,574

(ii) impairment allowance

on other receivables

- made during the financial year

- written back during the financial year

(746)

(1,402)

(3,134)

(5,320)

1,834

1,624

3,919

4,122

- individual allowance (net)

1,308

1,171

2,608

(2,387)

Impaired debts:

- Write off during the financial year

- recovered on other receivables

(366)

-

(366)

-

1

50

453

54

943

1,221

2,695

(2,333)

**NOTES TO INTERIM FINANCIAL REPORT
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A28. 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
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A28. Fair value of financial instruments (cont'd.)

Group

31 December 2016

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
- Debt securities	-	169,311	-	169,311
- Equity securities and unit trusts	211,210	-	-	211,210
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
- Equity securities and unit trusts	-	6,660	-	6,660
Unquoted private debt securities	-	-	1,067	1,067
Derivative financial assets	-	39,117	-	39,117
Financial assets for which fair values are disclosed				
Financial investments held-to-maturity	-	40,026	-	40,026
Loans, advances and financing	-	-	2,102,439	2,102,439
	211,210	1,192,328	2,103,506	3,507,044

Financial 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	-	165,700	-	165,700
	13,613	226,746	-	240,359

31 December 2015

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
- Debt securities	-	107,262	-	107,262
- Equity securities and unit trusts	220,136	11,175	-	231,311
Financial investments available-for-sale #				
- Debt securities	-	1,249,171	-	1,249,171
Derivative financial assets	-	2,910	-	2,910
Financial assets for which fair values are disclosed				
Financial investments held-to-maturity	-	39,922	-	39,922
Loans, advances and financing	-	-	1,926,827	1,926,827
	220,136	1,410,440	1,926,827	3,557,403

Financial liabilities measured at fair value

Derivative financial liabilities	45,688	26,590	-	72,278
Obligations on securities sold under repurchase agreements	-	95,310	-	95,310
Borrowings	-	141,000	-	141,000
	45,688	262,900	-	308,588

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A28. Fair value of financial instruments (cont'd.)

Bank

31 December 2016

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
- Debt securities	-	169,311	-	169,311
- Equity securities and unit trusts	211,210	-	-	211,210
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
Unquoted private debt securities	-	-	1,067	1,067
Derivative financial assets	-	39,117	-	39,117
Financial assets for which fair values are disclosed				
Financial investments held-to-maturity	-	40,026	-	40,026
Loans, advances and financing	-	-	2,062,740	2,062,740
	211,210	1,185,668	2,063,807	3,460,685

Financial 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	-	115,200	-	115,200
	13,613	176,246	-	189,859

31 December 2015

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
- Debt securities	-	107,262	-	107,262
- Equity securities and unit trusts	200,305	11,175	-	211,480
Financial investments available-for-sale #				
- Debt securities	-	1,249,171	-	1,249,171
Derivative financial assets	-	2,910	-	2,910
Financial assets for which fair values are disclosed				
Financial investments held-to-maturity	-	39,922	-	39,922
Loans, advances and financing	-	-	1,875,428	1,875,428
	200,305	1,410,440	1,875,428	3,486,173

Financial liabilities measured at fair value

Derivative financial liabilities	45,688	26,590	-	72,278
Obligations on securities sold under repurchase agreements	-	95,310	-	95,310
	45,688	121,900	-	167,588

Excluded unquoted securities stated at cost of RM490,000 (2015 : RM490,000).

There has been no transfer between level 1 & level 2 during the current period ended 31 December 2016 (31 December 2015: no transfer in either direction)

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	As at 31 December 2016			As at 31 December 2015		
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Amount RM'000	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Amount RM'000
A29. <u>Commitments and Contingencies and Off-Balance Sheet Financial Instruments</u>						
Group						
Obligations under underwriting agreements	9,380	4,690	4,690	-	-	-
Commitments to extend credit with maturity of less than 1 year :-						
- margin	1,656,405	-	-	1,400,821	-	-
- corporate loan	-	-	-	57,000	11,400	11,400
- foreign exchange related contracts	44,858	173	123	123,114	1,065	547
- equity exchange related contracts	127,966	7,677	83	35,350	2,120	131
Commitments to extend credit with maturity of more than 1 year :-						
- corporate loan	347	174	174	7,249	3,625	3,625
- equity related contracts	1,145	92	-	-	-	-
Miscellaneous commitments	665,738	665,738	133,148	597,665	597,665	119,533
	<u>2,505,839</u>	<u>678,544</u>	<u>138,217</u>	<u>2,221,199</u>	<u>615,875</u>	<u>135,236</u>

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	As at 31 December 2016			As at 31 December 2015		
	Principal	Credit	Risk	Principal	Credit	Risk
	Amount	Equivalent	Weighted	Amount	Equivalent	Weighted
	RM'000	Amount	Amount	RM'000	Amount	Amount
		RM'000	RM'000		RM'000	RM'000

**A29. Commitments and Contingencies and Off-Balance Sheet
Financial Instruments (Cont'd)**

Bank

Obligations under underwriting agreements	9,380	4,690	4,690	-	-	-
Commitments to extend credit with maturity of less than 1 year :-						
- margin	1,656,405	-	-	1,400,821	-	-
- corporate loan	43,500	8,700	8,700	57,000	11,400	11,400
- foreign exchange related contracts	44,858	173	123	123,114	1,065	547
- equity exchange related contracts	127,966	7,677	83	35,350	2,120	131
Commitments to extend credit with maturity of more than 1 year :-						
- corporate loan	25,347	12,674	12,674	37,249	18,625	18,625
- equity exchange related contracts	1,145	92	-	-	-	-
Miscellaneous commitments	665,738	665,738	133,148	597,665	597,665	119,533
	<u>2,574,339</u>	<u>699,744</u>	<u>159,418</u>	<u>2,251,199</u>	<u>630,875</u>	<u>150,236</u>

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	Group		Bank	
	31 December 2016 RM'000	31 December 2015 RM'000	31 December 2016 RM'000	31 December 2015 RM'000
A30. Other Commitments				
Capital expenditure commitments	11,339	4,470	11,043	4,426
Operating lease arrangements payables	12,500	40,512	12,500	40,512
	<u>23,839</u>	<u>44,982</u>	<u>23,543</u>	<u>44,938</u>
Future minimum sublease receipts:				
K & N Kenanga Holdings Berhad *	-	-	-	4,405
Subsidiaries	-	-	4,674	-
Related companies	-	-	-	352
External parties	1,136	3,156	1,136	3,156
	<u>1,136</u>	<u>3,156</u>	<u>5,810</u>	<u>7,913</u>

* K & N Kenanga Holdings Berhad became a subsidiary of the holding company, Kenanga Investment Bank Berhad from 2 November 2016 as disclosed in Note 1 of the financial statements.

A31. Capital Adequacy

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

	Group		Bank	
	31 December 2016 RM'000	31 December 2015 RM'000	31 December 2016 RM'000	31 December 2015 RM'000
<u>CET 1 / Tier 1 capital</u>				
Paid-up share capital	180,637	770,000	180,637	770,000
Share premium	65,500	65,500	65,500	65,500
Retained profit/(Accumulated losses)	47,857	(11,234)	20,209	(47,895)
Other reserves	591,962	30,716	636,160	103,948
Less: Regulatory adjustments:				
Deferred tax assets	(9,841)	(10,025)	(7,554)	(7,758)
Goodwill	(203,109)	(203,109)	(252,909)	(252,909)
Other intangibles	(63,813)	(63,723)	(52,500)	(52,500)
Regulatory reserve	(23,929)	(22,111)	(23,929)	(22,111)
Deduction in excess of Tier 2*	(65,313)	(54,664)	(116,876)	(104,990)
Total CET 1/Tier 1 capital	<u>519,951</u>	<u>501,350</u>	<u>448,738</u>	<u>451,285</u>
<u>Tier 2 capital</u>				
Collective impairment provision and regulatory reserves	14,320	12,338	13,809	11,105
Less: Regulatory adjustments applied to Tier 2 capital	(14,320)	(12,338)	(13,809)	(11,105)
Total Tier 2 capital	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital	<u>519,951</u>	<u>501,350</u>	<u>448,738</u>	<u>451,285</u>

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A31. Capital Adequacy (cont'd)

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

CET 1 capital ratio	28.176%	27.351%	26.199%	28.359%
Tier 1 capital ratio	28.176%	27.351%	26.199%	28.359%
Total capital ratio	28.176%	27.351%	26.199%	28.359%

* 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		Group	
	31 December 2016		31 December 2015	
	Notional amount RM'000	Risk-weighted amount RM'000	Notional amount RM'000	Risk-weighted amount RM'000
Credit Risk	4,273,833	1,145,590	4,434,090	973,890
Market Risk	-	154,586	-	318,741
Operational Risk	-	545,211	-	540,421
Total Risk Weighted Assets	4,273,833	1,845,387	4,434,090	1,833,052

	Bank		Bank	
	31 December 2016		31 December 2015	
	Notional amount RM'000	Risk-weighted amount RM'000	Notional amount RM'000	Risk-weighted amount RM'000
Credit Risk	3,933,702	1,104,691	3,906,967	888,384
Market Risk	-	154,586	-	264,206
Operational Risk	-	453,526	-	438,746
Total Risk Weighted Assets	3,933,702	1,712,804	3,906,967	1,591,336

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").

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A32. Basic / Fully Diluted (Loss)/Earnings Per Share (Sen)

	<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
	3 months ended 31 December 2016 RM'000	3 months ended 31 December 2015 RM'000	12 months ended 31 December 2016 RM'000	12 months ended 31 December 2015 RM'000
Group				
Profit for the year attributable to equity holder of the Bank	1,876	17,550	19,720	11,304
Weighted average number of ordinary shares in issue ('000)	738,365	770,000	762,091	770,000
Earnings per share (sen) - basic / fully diluted	0.25	2.28	2.59	1.47

There were no potential dilutive ordinary shares outstanding as at 31 December 2016 and 31 December 2015.

A33. 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 securities and investment related services;
- (iii) Futures - Futures broker business
- (iv) Money lending and financing - Money lending, islamic factoring and leasing;
- (v) Investment management - Management of funds and unit trusts; and
- (vi) Corporate and others - Support services comprise all middle and back office functions, and, includes business operations conducted by the Group's associate in the Kingdom of Saudi Arabia and joint venture.

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A33. Segmental reporting (cont'd)

	Investment banking RM'000	Stock broking RM'000	Futures broking RM'000	Money lending and financing RM'000	Investment management RM'000	Corporate and Others RM'000	Elimination/ consolidation adjustments RM'000	Total RM'000
2016								
Revenue								
External sales	238,553	250,634	19,585	13,713	43,209	19,623	-	585,317
Inter-segment sales	4,521	219	1,429	-	1,470	25,992	(33,631)	-
Total revenue	243,074	250,853	21,014	13,713	44,679	45,615	(33,631)	585,317
Result								
Net income	82,794	238,198	20,298	6,245	45,992	44,439	(29,864)	408,102
Other operating expenses	(43,477)	(220,629)	(17,689)	(4,743)	(50,669)	(69,715)	29,864	(377,058)
(Allowance for)/write back of impairment on loans, advances and financing	(600)	140	-	(869)	-	532	144	(653)
Write back of impairment on balance due from clients and brokers and other receivables	30	1,838	-	-	-	827	-	2,695
Share of results in associate and joint venture	-	-	-	-	-	(549)	-	(549)
Profit/(loss) before taxation and zakat	38,747	19,547	2,609	633	(4,677)	(24,466)	144	32,537
Taxation and zakat								(12,330)
Net profit for the financial year								20,207
Other information								
Net interest and finance income	23,225	44,463	7,847	3,979	1,057	11,862	-	92,433
Depreciation and amortisation	820	5,639	692	15	845	5,349	-	13,360
Non cash expenses								
- Unrealised gains/(losses) on revaluation of financial assets at fair value through profit or loss and derivative	295	(17,181)	-	-	-	(1,764)	-	(18,650)

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NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

A33. Segmental reporting (cont'd.)

	Investment banking and stockbroking RM'000	Futures broking RM'000	Investment management RM'000	Money lending and financing RM'000	Corporate and Others RM'000	Elimination/ consolidation adjustments RM'000	Notes	Total RM'000
2016 (cont'd.)								
Assets								
Investments in associates					72,671			72,671
Investment in a joint venture company	-	-	-	-	6,962	-		6,962
Addition to non-current assets	47,070	1,089	21	495	128,871	-	A	177,545
Segment assets	5,669,008	438,285	125,515	61,345	20,139	(244,512)	B	6,069,780
Liabilities								
Segment liabilities	4,766,502	400,374	114,420	27,491	7,011	(142,210)	C	5,173,588

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**NOTES TO INTERIM FINANCIAL REPORT
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A33. Segmental reporting (cont'd.)

	Investment banking RM'000	Stock broking RM'000	Futures broking RM'000	Money lending and financing RM'000	Investment management RM'000	Corporate and Others RM'000	Elimination/ consolidation adjustments RM'000	Total RM'000
2015								
Revenue								
External sales	197,700	269,245	29,924	11,623	30,317	24,179	-	562,988
Inter-segment sales	3,296	418	1,387	(42)	1,176	35,107	(41,342)	-
Total revenue	200,996	269,663	31,311	11,581	31,493	59,286	(41,342)	562,988
Result								
Net income	57,210	257,265	25,021	4,700	32,804	59,390	(37,067)	399,323
Other operating expenses	(43,421)	(240,228)	(19,307)	(4,691)	(39,034)	(71,145)	36,178	(381,648)
(Allowance for)/writeback of impairment on loans, advances and financing	(23)	812	-	-	-	499	47	1,335
Write back of/(allowance for) impairment on balance due from clients and brokers and other receivables	367	(1,134)	-	-	-	(1,566)	-	(2,333)
Share of results in associate	-	-	-	-	-	1,546	-	1,546
Profit/(loss) before taxation and zakat	14,133	16,715	5,714	9	(6,230)	(11,276)	(842)	18,223
Taxation and zakat								(5,762)
Net profit for the financial year								12,461
Other information								
Net interest and finance income	18,882	42,186	7,548	1,886	1,203	14,408	-	86,113
Depreciation and amortisation	652	5,226	144	19	970	2,408	-	9,419
Non cash expenses								
- Unrealised gains/(losses) on revaluation of financial assets at fair value through profit or loss and derivative	(189)	15,099	-	-	-	3,030	-	17,940

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**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

A33. Segmental reporting (cont'd.)

	Investment banking and stockbroking RM'000	Futures broking RM'000	Investment management RM'000	Money lending and financing RM'000	Corporate and Others RM'000	Elimination/ consolidation adjustments RM'000	Notes	Total RM'000
2015 (cont'd.)								
Assets								
Investment in an associate	-	-	-	-	66,838	-		66,838
Addition to non-current assets	4,362	15	15	770	1,331	-	A	6,493
Segment assets	5,485,939	600,260	146,160	63,496	884,362	(1,059,412)	B	6,120,805
Liabilities								
Segment liabilities	4,594,385	564,154	135,570	25,592	131,998	(195,625)	C	5,256,074

Notes

A Additions to non-current assets consist of:

	2016 RM'000	2015 RM'000
Property, plant and equipment		
- Additions during the financial year	176,484	5,972
Intangible assets		
- Additions during the financial year	1,061	521
	<u>177,545</u>	<u>6,493</u>

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**NOTES TO INTERIM FINANCIAL REPORT
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A33. 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.

	2016	2015
	RM'000	RM'000
Investment in subsidiaries	(76,741)	(832,789)
Investment in associates and joint venture	14,711	9,416
Intangible assets	(40,095)	(40,095)
Inter-segment assets	(142,387)	(195,944)
	<u>(244,512)</u>	<u>(1,059,412)</u>

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

	2016	2015
	RM'000	RM'000
Deposits accepted from subsidiaries	(69,550)	(71,521)
Inter-segment liabilities	(72,660)	(124,104)
	<u>(142,210)</u>	<u>(195,625)</u>

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**NOTES TO INTERIM FINANCIAL REPORT
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A34. Credit Exposures Arising From Credit Transactions With Connected Parties

	31 December 2016 (RM'000)	31 December 2015 (RM'000)
Outstanding credit exposures with connected parties	<u>253,809</u>	<u>179,071</u>
Percentage of outstanding credit exposures to connected parties:-		
- as a proportion of total credit exposures	<u>6.91%</u>	<u>5.18%</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 became effective on 1 January 2008.

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**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

A35. Operations of Islamic Banking

**(a) Unaudited Consolidated Statement of Financial Position
As at 31 December 2016**

		Group and Bank	
	Note	As at 31 December 2016 RM '000	As at 31 December 2015 RM '000
ASSETS			
Cash and bank balances	(e)	160,638	115,437
Financial assets at fair value through profit or loss	(f)	34,750	78,576
Financial investments available-for-sale	(g)	276,405	194,630
Financial investments held-for-maturity	(h)	5,000	5,001
Advances and financing	(i)	155,162	59,150
Balances due from clients and brokers		24	-
Other assets		1,322	1,730
Property, plant and equipment		138	14
Deferred tax assets		205	157
TOTAL ASSETS		633,644	454,695
LIABILITIES			
Deposits from customers	(j)	410,813	272,367
Balance due to clients and brokers		56	-
Other liabilities	(k)	84,378	55,012
Provision for taxation and zakat		3,567	1,963
TOTAL LIABILITIES		498,814	329,342
ISLAMIC BANKING CAPITAL FUNDS			
Islamic banking funds		120,000	120,000
Reserves		14,830	5,353
TOTAL ISLAMIC BANKING CAPITAL FUNDS		134,830	125,353
TOTAL LIABILITIES AND ISLAMIC BANKING CAPITAL FUNDS		633,644	454,695

**KENANGA INVESTMENT BANK BERHAD
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**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

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 2016**

		Group and Bank			
		Individual Quarter		Cumulative Quarter	
		3 months ended 31 December 2016 RM'000	3 months ended 31 December 2015 RM'000	12 months ended 31 December 2016 RM'000	12 months ended 31 December 2015 RM'000
Income derived from investment of depositors' funds	(l)	8,135	7,186	30,959	21,630
Income derived from investment of shareholders' funds	(m)	513	323	4,823	4,554
Impairment allowances		(39)	(24)	(210)	(47)
Total attributable income		8,609	7,485	35,572	26,137
Profit distributed to depositors	(n)	(4,924)	(6,001)	(18,630)	(16,741)
Net income		3,685	1,484	16,942	9,396
Finance cost		(566)	-	(1,219)	-
Personnel expenses	(o)	(101)	(148)	(541)	(637)
Other overhead expenses	(p)	(479)	(512)	(1,985)	(1,725)
Profit before taxation and zakat		2,539	824	13,197	7,034
Taxation and zakat		(951)	(391)	(3,568)	(1,963)
Profit for the financial year		1,588	433	9,629	5,071

For consolidation with the conventional banking operations, income from Islamic Banking Window as shown on the face of the consolidated statements of profit or loss and statements of profit or loss, comprise the following items:

Income derived from investment of depositors' funds	8,135	7,186	30,959	21,630
Income derived from investment of shareholders' funds	513	323	4,823	4,554
Total income before impairment allowances and overhead expenses	8,648	7,509	35,782	26,184
Profit distributed to depositors	(4,924)	(6,001)	(18,630)	(16,741)
Finance cost	(566)	-	(1,219)	-
Income from Islamic Banking Window operations reported in the statement of profit or loss of the Group and the Bank	3,158	1,508	15,933	9,443

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**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

A35. Operations of Islamic Banking (Cont'd)

**(c) Unaudited Condensed Statements Of Cash Flows
For the Financial year ended 31 December 2016**

	Group and Bank	
	31 December 2016 RM '000	31 December 2015 RM '000
Cash flows from operating activities		
Profit before tax expense and zakat	13,197	7,034
Adjustments for:		
Depreciation of plant and equipment	44	3
Fixed assets written off	7	-
Impairment allowances	210	46
Operating profit before working capital changes	<u>13,458</u>	<u>7,083</u>
Changes in operating assets:		
Financial assets at fair value through profit/loss	43,825	(78,576)
Financial investments available-for-sale	(81,975)	30,801
Financial investments held-to-maturity	1	2
Financing and advances	(96,222)	(36,153)
Other assets	208	881
Changes in operating liabilities:		
Deposits from customers	138,446	(39,418)
Other liabilities	27,460	29,866
Net cash generated from/(used in) operating activities	<u>45,201</u>	<u>(85,514)</u>
Net cash generated from financing activity	<u>-</u>	<u>20,000</u>
Net change in cash and cash equivalents	45,201	(65,514)
Cash and cash equivalents at beginning of the financial year	115,437	180,951
Cash and cash equivalents at end of the financial year	<u>160,638</u>	<u>115,437</u>

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**NOTES TO INTERIM FINANCIAL REPORT
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A35. Operations Of Islamic Banking (Cont'd)

**(d) Statement Of Changes In Islamic Banking Funds
For the Financial year ended 31 December 2016**

Group and Bank

	Non-distributable			Distributable		Total RM'000
	Islamic banking fund RM'000	Available for- sale reserve RM'000	Regulatory reserve RM'000	Capital reserve * RM'000	Retained profits RM'000	
At 1 January 2016	120,000	(497)	602	-	5,248	125,353
Profit for the financial year	-	-	-	-	9,629	9,629
Other comprehensive loss for the financial year	-	(152)	-	-	-	(152)
Merger adjustment	-	-	-	5,248	(5,248)	-
Transfer to regulatory reserve	-	-	1,061	-	(1,061)	-
At 31 December 2016	120,000	(649)	1,663	5,248	8,568	134,830
At 1 January 2015	100,000	2,666	-	-	779	103,445
Injection of funds for Islamic banking	20,000	-	-	-	-	20,000
Profit for the financial year	-	-	-	-	5,071	5,071
Other comprehensive loss for the financial year	-	(3,163)	-	-	-	(3,163)
Transfer to regulatory reserve	-	-	602	-	(602)	-
At 31 December 2015	120,000	(497)	602	-	5,248	125,353

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

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NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

A35. Operations Of Islamic Banking (Cont'd)

	Group and Bank	
	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000
(e) Cash and short-term funds		
Current account with BNM and banks	58,972	21,117
Money at call and deposit placements with:		
Licensed investment banks	101,666	94,320
	<u>160,638</u>	<u>115,437</u>
(f) Financial Assets at fair value through profit or loss		
At Fair Value		
Money Market Instruments:		
Malaysian Government Investment Certificates	-	28,687
Unquoted Private Debt Securities:		
Islamic Corporate Bills	24,968	-
Islamic Corporate Bonds	9,782	49,889
	<u>34,750</u>	<u>78,576</u>
(g) Financial Investments Available-for-Sale		
At Fair Value		
Money Market Instruments:		
In Malaysia		
Islamic Government Investment Issues	20,322	39,706
Islamic Acceptance Accepted Bills	149,890	-
Malaysia Government Investment Issue Certificate	10,056	9,996
	<u>180,268</u>	<u>49,702</u>
Unquoted Private Debt Securities:		
In Malaysia		
Islamic Corporate Bills	-	24,878
Islamic Corporate Bonds	96,137	120,050
	<u>276,405</u>	<u>194,630</u>
(h) Financial Investments Held-to-Maturity		
At Amortised Cost		
Unquoted Islamic Private Debt Securities:		
In Malaysia		
Islamic Corporate bonds	5,000	5,001
	<u>5,000</u>	<u>5,001</u>
The maturity structure of above securities are as follows:		
Two to five years	<u>5,000</u>	<u>5,001</u>

KENANGA INVESTMENT BANK BERHAD
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NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

A35. Operations Of Islamic Banking (Cont'd)

	Group and Bank	
	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000
(i) Advances and financing		
At Amortised Cost		
Commodity Murabahah Revolving Credit		
- Shariah contract - others	20,224	14,122
Commodity Murabahah Term Financing		
- Shariah contract - others	135,139	45,137
	<u>155,363</u>	<u>59,259</u>
Allowance for impairment:		
- Collective allowance	(201)	(109)
Net financing and advances	<u>155,162</u>	<u>59,150</u>
(i) Gross advances and financing analysed by type of customer are as follows:		
Domestic business enterprise - others	115,256	59,259
Individuals	40,107	-
	<u>155,363</u>	<u>59,259</u>
(ii) Gross advances and financing analysed by geographical distribution are as follows:		
In Malaysia	<u>155,363</u>	<u>59,259</u>
(iii) Gross advances and financing analysed by profit rate sensitivity are as follows:		
Variable rate:		
-Cost plus	<u>155,363</u>	<u>59,259</u>
(v) Gross financing and advances analysed by economic purpose are as follows:		
- Working capital	65,241	14,122
- Purchase of securities	50,015	45,137
- Others	40,107	-
	<u>155,363</u>	<u>59,259</u>
(vi) Gross financing and advances analysed by residual contractual maturity are as follows:		
- Within one year	<u>155,363</u>	<u>59,259</u>

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NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

A35. Operations Of Islamic Banking (Cont'd)

	Group and Bank	
	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000
(j) Islamic deposits from customers		
(i) By type of deposit		
Term deposits		
- Tawarruq (Commodity Murabahah deposits)	410,813	272,367
	<u>410,813</u>	<u>272,367</u>
(ii) By type of customer		
Domestic non-bank institutions	315,032	-
Business enterprises	94,855	272,367
Individuals	926	-
	<u>410,813</u>	<u>272,367</u>
(iii) By maturity structure		
- Due within six months	16,000	272,367
- Due more than six months	394,813	-
	<u>410,813</u>	<u>272,367</u>
(k) Other liabilities		
Mudharabah Specific Investment Account	62,500	20,000
Profit payable	1,023	330
Other payable	20,855	34,682
	<u>84,378</u>	<u>55,012</u>
(l) Income derived from investment of depositors' funds		
Finance income and hibah		
Advances and financing	3,200	697
Deposits placements with financial institutions	5,188	7,759
Financial assets at fair value through profit or loss	1,603	1,391
Financial investments available-for-sale	10,109	5,947
Financial investments held-to-maturity	238	238
Accretion of discount	(353)	(187)
	<u>19,985</u>	<u>15,845</u>

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NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

A35. Operations Of Islamic Banking (Cont'd)

	Group and Bank	
	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000
(l) Income derived from investment of depositors' funds (Cont'd)		
Other operating income		
Net gain on sale of financial assets at fair value through profit or loss	2,680	336
Net gain on sale of financial investments available-for-sale	6,337	5,029
Fees on financing and advances	2,140	506
Brokerage fee	7	-
Advisory fee	19	13
Direct trading fees	(214)	(129)
Other non-operating income	5	30
	<u>10,974</u>	<u>5,785</u>
	<u>30,959</u>	<u>21,630</u>
(m) Income derived from investment of shareholders' funds		
Finance income and hibah		
Advances and financing	2,459	131
Financial investments available-for-sale	2,557	4,703
Accretion of discount	(193)	(280)
	<u>4,823</u>	<u>4,554</u>
(n) Income attributable to depositors		
Deposits from customers and financial institutions		
-Mudharabah Fund	13,898	13,473
Others	4,732	3,268
	<u>18,630</u>	<u>16,741</u>
(o) Personnel costs		
- Salaries, allowances and bonus	437	425
- EPF	61	59
- Others	43	153
	<u>541</u>	<u>637</u>
(p) Other overhead expenses:		
Establishment costs		
- Depreciation of property, plant and equipment	44	3
- Repairs and maintenance	54	54
	<u>98</u>	<u>57</u>
Marketing and trading expenses		
- Promotion and advertisement	27	3
- Travel and entertainment	4	14
	<u>31</u>	<u>17</u>

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NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

A35. Operations Of Islamic Banking (Cont'd)

	Group and Bank	
	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000
(p) Other overhead expenses: (cont'd)		
Administration and general expenses		
- Others	1,856	1,651
	<u>1,985</u>	<u>1,725</u>
(q) Capital adequacy		
CET 1 / Tier 1 Capital		
Islamic Banking funds	120,000	120,000
Retained profits	8,568	5,248
Other reserves	6,262	105
Less:		
Deferred tax assets	(205)	(157)
Regulatory reserves	(1,663)	-
Total CET 1 / Tier 1 capital	<u>132,962</u>	<u>125,196</u>
Tier 2 Capital		
Collective allowance and regulatory reserve	1,696	711
Total Tier 2 capital	<u>1,696</u>	<u>711</u>
Total capital	<u>134,658</u>	<u>125,907</u>
CET 1 capital ratio	83.230%	99.604%
Tier 1 capital ratio	83.230%	99.604%
Total capital ratio	<u>84.292%</u>	<u>100.169%</u>

The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

	Group and Bank			
	31 December 2016		31 December 2015	
	RM'000	RM'000	RM'000	RM'000
	Notional amount	Risk-weighted amount	Notional amount	Risk-weighted amount
Credit risk	508,000	135,691	380,972	64,481
Market risk	-	8,056	-	52,041
Operational risk	-	16,005	-	9,172
Total Risk Weighted Assets	<u>508,000</u>	<u>159,752</u>	<u>380,972</u>	<u>125,694</u>

NOTES TO INTERIM FINANCIAL STATEMENTS
REQUIREMENTS OF PART A, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES
BERHAD

B1. 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.

B2. Taxation and zakat

	Individual Quarter 3 months ended 31 December 2016 RM'000	Cumulative Quarter 12 months ended 31 December 2016 RM'000
Current period - income tax and zakat	(2,173)	(13,952)
Deferred taxation	760	1,622
Total	<u>(1,413)</u>	<u>(12,330)</u>

B3. Status of Corporate Proposals

- On 1 November 2016, the Group has completed the following merger and the capital restructuring under the Group Internal Reorganisation.

The following are the events of the Group during Group Internal Reorganisation:

(a) Merger

- The transfer of K&N Kenanga Holdings Berhad's (KNKH) identified assets and liabilities to Kenanga Investment Bank Berhad (KIBB);
- Capital reduction and repayment by way of cancellation of all the ordinary shares of RM1.00 each in KNKH ("KNKH Share(s)") and distribution of the entire shareholdings of KNKH in KIBB to the shareholders of KNKH, on the basis of one (1) ordinary share of RM0.25 each of KIBB for every one (1) KNKH Share held by the entitled shareholders of KNKH. Simultaneous with the implementation of the KNKH Capital Reduction and Repayment, KNKH issued two (2) new KNKH Shares at par value to KIBB, and became a wholly-owned subsidiary of KIBB.

(b) Capital Restructuring of KIBB

- Capital reduction via the cancellation of ordinary shares of RM1.00 each of KIBB ("KIBB Share(s)") which resulted in the reduction of the issued and paid-up share capital of KIBB to such number that is equivalent to the existing issued and paid-up share capital of KNKH at the prevailing date to facilitate the KNKH Capital Reduction and Repayment at the distribution ratio of one (1) KIBB Share for every one (1) KNKH Share;
- Adjustment of the Par Value of each KIBB Share from RM1.00 to RM0.25;
- Increase in the authorised share capital of KIBB from RM800,000,000 comprising 800,000,000 KIBB Shares to RM1,250,000,000 comprising 5,000,000,000 ordinary shares of RM0.25 each in KIBB in order to accommodate any increase in the issued and paid-up share capital of KIBB pursuant to any corporate exercise which may be undertaken by KIBB in the future; and
- Amendments to the Memorandum and Articles of Association of KIBB to facilitate, among others, the implementation of the KIBB Capital Reduction, KIBB Par Value Adjustment and Increase in the Authorised Share Capital of KIBB, as well as the consequential amendments to comply with the Main Market Listing Requirements of Bursa Securities.

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

B3. Status of Corporate Proposals (Cont'd)

2. On 13 February 2017, the Bank proposes to establish and implement an employees' share scheme of up to ten percent (10%) of the bank's total issued and share capital (excluding treasury shares) at any one time during the duration of the scheme for the eligible employees and executive directors of Kenanga Investment Bank Berhad and its non-dormant subsidiary companies which will be valid for a period of five (5) years from its commencement date, and may be extended for a further period of five (5) years.

B4. Realised and Unrealised Retained Profits/(Accumulated Losses) Disclosure:

	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000
Total (accumulated losses) / retained profits of Bank and its subsidiaries:		
- Realised	(175,109)	(240,870)
- Unrealised	(3,079)	59,295
	(178,188)	(181,575)
Total share of retained profit/(accumulated losses) from associates		
- Realised	206	(1,499)
- Unrealised	(217)	(487)
	(11)	(1,986)
Add: Consolidation adjustments	226,056	172,327
Total Group retained profits/(accumulated losses) as per consolidated accounts	47,857	(11,234)