

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

Unaudited Condensed Interim Financial Statements
30 June 2018

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

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

| <u>Group</u> | Note | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
|---|----------|------------------------------------|--|
| ASSETS | | | |
| Cash and bank balances | A11 | 1,449,412 | 1,347,517 |
| Financial assets at fair value through profit or loss | A12 | 551,119 | 557,568 |
| Financial instruments at fair value through other comprehensive income ("FVOCI") | A13 (i) | 1,366,810 | - |
| Financial instruments at amortised cost | A13 (ii) | 131,210 | - |
| Financial investments available-for-sale | A14 (i) | - | 1,010,167 |
| Financial investments held-to-maturity | A14 (ii) | - | 38,001 |
| Derivative financial assets | B11 | 81,306 | 67,393 |
| Loans, advances and financing | A15 | 2,139,276 | 2,195,501 |
| Balances due from clients and brokers | A16 | 414,363 | 494,883 |
| Other assets | A17 | 169,266 | 118,417 |
| Statutory deposit with Bank Negara Malaysia | A18 | 122,773 | 116,186 |
| Tax recoverable | | 13,669 | 7,028 |
| Investment in associates | | 60,888 | 60,438 |
| Investment in a joint venture company | | 13,918 | 13,220 |
| Property, plant and equipment | | 188,709 | 189,842 |
| Intangible assets | | 266,311 | 266,414 |
| Deferred tax assets | | 7,374 | 10,006 |
| TOTAL ASSETS | | 6,976,404 | 6,492,581 |
| LIABILITIES | | | |
| Deposits from customers | A19 | 4,931,268 | 4,233,914 |
| Deposits and placements of banks and other financial institutions | A20 | 81,093 | 210,762 |
| Balances due to clients and brokers | | 614,632 | 624,612 |
| Derivative financial liabilities | B11 | 21,201 | 36,174 |
| Other liabilities | A21 | 298,350 | 329,150 |
| Obligations on securities sold under repurchase agreements | | - | 74,993 |
| Borrowings | A22 | 139,900 | 90,000 |
| Provision for taxation and zakat | | 7,388 | 1,510 |
| TOTAL LIABILITIES | | 6,093,832 | 5,601,115 |
| EQUITY | | | |
| Share capital | | 246,213 | 246,137 |
| Treasury shares | | (3,772) | - |
| Reserves | | 640,131 | 645,329 |
| TOTAL EQUITY | | 882,572 | 891,466 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 6,976,404 | 6,492,581 |
| Commitments and contingencies | | 3,289,722 | 3,293,234 |
| Net assets per share attributable to equity holders of the Bank (RM) | | 1.22 | 1.23 |

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017.

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

**UNAUDITED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

| <u>Bank</u> | Note | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
|---|----------|------------------------------------|--|
| ASSETS | | | |
| Cash and bank balances | A11 | 1,202,873 | 1,092,544 |
| Financial assets at fair value through profit or loss | A12 | 545,387 | 549,735 |
| Financial instruments at fair value through other comprehensive income ("FVOCI") | A13 (i) | 1,366,810 | - |
| Financial instruments at amortised cost | A13 (ii) | 131,210 | - |
| Financial investments available-for-sale | A14 (i) | - | 1,010,167 |
| Financial investments held-to-maturity | A14 (ii) | - | 38,001 |
| Derivative financial assets | B11 | 81,306 | 67,393 |
| Loans, advances and financing | A15 | 2,099,346 | 2,180,080 |
| Balances due from clients and brokers | A16 | 414,363 | 494,883 |
| Other assets | A17 | 79,883 | 66,582 |
| Statutory deposit with Bank Negara Malaysia | A18 | 122,773 | 116,186 |
| Tax recoverable | | 6,219 | - |
| Investment in subsidiaries | | 72,564 | 72,564 |
| Investment in an associate | | 56,235 | 56,235 |
| Investment in a joint venture company | | 25,000 | 20,000 |
| Property, plant and equipment | | 185,773 | 186,978 |
| Intangible assets | | 305,409 | 305,409 |
| Deferred tax assets | | 5,275 | 7,798 |
| TOTAL ASSETS | | 6,700,426 | 6,264,555 |
| LIABILITIES | | | |
| Deposits from customers | A19 | 4,976,790 | 4,278,148 |
| Deposits and placements of banks and other financial institutions | A20 | 81,093 | 210,762 |
| Balances due to clients and brokers | | 351,872 | 416,960 |
| Derivative financial liabilities | B11 | 21,201 | 36,174 |
| Other liabilities | A21 | 257,479 | 243,234 |
| Obligations on securities sold under repurchase agreements | | - | 74,993 |
| Borrowings | A22 | 73,400 | 69,000 |
| Provision for taxation and zakat | | 6,746 | 1,121 |
| TOTAL LIABILITIES | | 5,768,581 | 5,330,392 |
| EQUITY | | | |
| Share capital | | 246,213 | 246,137 |
| Treasury shares | | (3,772) | - |
| Reserves | | 689,404 | 688,026 |
| TOTAL EQUITY | | 931,845 | 934,163 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 6,700,426 | 6,264,555 |
| Commitments and contingencies | | 3,424,559 | 3,411,302 |
| Net assets per share (RM) | | 1.29 | 1.29 |

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017.

KENANGA INVESTMENT BANK BERHAD
(15678-H)

CONDENSED INTERIM FINANCIAL STATEMENTS

**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

| | Note | Individual Quarter | | Cumulative Quarters | |
|---|------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | | 3 months ended 30 June 2018 RM'000 | 3 months ended 30 June 2017 RM'000 | 6 months ended 30 June 2018 RM'000 | 6 months ended 30 June 2017 RM'000 |
| Group | | | | | |
| Interest income | A23 | 74,361 | 68,535 | 147,151 | 143,247 |
| Interest expense | A24 | (52,255) | (47,466) | (103,846) | (100,922) |
| Net interest income | | 22,106 | 21,069 | 43,305 | 42,325 |
| Net income from Islamic banking business | A35 | 2,886 | 3,154 | 5,717 | 4,610 |
| Other operating income | A25 | 78,358 | 97,522 | 175,807 | 186,654 |
| Net income | | 103,350 | 121,745 | 224,829 | 233,589 |
| Other operating expenses | A26 | (96,947) | (110,011) | (205,897) | (212,175) |
| Operating profit | | 6,403 | 11,734 | 18,932 | 21,414 |
| Credit loss expenses | A27 | (234) | (583) | (248) | (1,378) |
| Bad debt recovered | A28 | 147 | 90 | 13,673 | 114 |
| | | 6,316 | 11,241 | 32,357 | 20,150 |
| Share of results of associates and joint venture | | (966) | (1,644) | (3,425) | (5,066) |
| Profit before taxation and zakat | | 5,350 | 9,597 | 28,932 | 15,084 |
| Taxation and zakat | | (2,230) | (5,288) | (10,376) | (8,853) |
| Profit for the period | | 3,120 | 4,309 | 18,556 | 6,231 |
| Other comprehensive (loss)/income | | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | | |
| Share of associate's gain/(losses) on equity instruments at FVOCI | | 5 | - | 494 | - |
| Items that will be reclassified subsequently to profit or loss: | | | | | |
| Foreign exchange differences on consolidation | | 2,753 | (2,254) | (513) | (2,969) |
| Share of other comprehensive loss in associates | | (511) | (139) | (407) | (712) |
| Net (loss)/gain on fair value changes of debt instrument at FVOCI | | (3,499) | 2,457 | (3,328) | 4,468 |
| Income tax relating to the components of other comprehensive income | | 840 | (589) | 799 | (1,072) |
| Other comprehensive loss for the period, net of tax | | (412) | (525) | (2,955) | (285) |
| Total comprehensive income for the period, net of tax | | 2,708 | 3,784 | 15,601 | 5,946 |

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

CONDENSED INTERIM FINANCIAL STATEMENTS

**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

| | <u>Individual Quarter</u> | | <u>Cumulative Quarters</u> | |
|------------------------------|---|---|---|---|
| | 3 months ended 30 June 2018 RM'000 | 3 months ended 30 June 2017 RM'000 | 6 months ended 30 June 2018 RM'000 | 6 months ended 30 June 2017 RM'000 |
| Profit for the period | | | | |
| Attributable to: | | | | |
| Equity holders of the Bank | 3,120 | 4,363 | 18,556 | 6,253 |
| Non-controlling interests | - | (54) | - | (22) |
| | <u>3,120</u> | <u>4,309</u> | <u>18,556</u> | <u>6,231</u> |
| Earnings per share | | | | |
| Basic (sen) | B9 0.43 | 0.60 | 2.57 | 0.87 |
| Fully diluted (sen) | B9 0.43 | 0.60 | 2.54 | 0.87 |

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017.

KENANGA INVESTMENT BANK BERHAD
(15678-H)

CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018

| | Note | Individual Quarter | | Cumulative Quarters | |
|---|------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | | 3 months ended 30 June 2018 RM'000 | 3 months ended 30 June 2017 RM'000 | 6 months ended 30 June 2018 RM'000 | 6 months ended 30 June 2017 RM'000 |
| Bank | | | | | |
| Interest income | A23 | 72,052 | 66,826 | 143,240 | 138,761 |
| Interest expense | A24 | (52,417) | (47,794) | (104,397) | (101,503) |
| Net interest income | | 19,635 | 19,032 | 38,843 | 37,258 |
| Net income from Islamic banking business | A35 | 2,886 | 3,154 | 5,717 | 4,610 |
| Other operating income | A25 | 59,668 | 81,531 | 138,862 | 155,455 |
| Net income | | 82,189 | 103,717 | 183,422 | 197,323 |
| Other operating expenses | A26 | (74,647) | (89,518) | (161,767) | (172,610) |
| Operating profit | | 7,542 | 14,199 | 21,655 | 24,713 |
| Credit loss (expenses)/reversal | A27 | (243) | 750 | (114) | (38) |
| Bad debt recovered | A28 | 147 | 90 | 13,673 | 114 |
| Profit before taxation and zakat | | 7,446 | 15,039 | 35,214 | 24,789 |
| Taxation and zakat | | (2,199) | (5,781) | (10,249) | (9,256) |
| Profit for the period | | 5,247 | 9,258 | 24,965 | 15,533 |
| Other comprehensive income | | | | | |
| Items that will be reclassified subsequently to profit or loss: | | | | | |
| Net gain/(loss) on fair value changes of debt instruments at FVOCI | | 171 | 2,457 | (3,328) | 4,468 |
| Income tax relating to the components of other comprehensive income | | (41) | (589) | 799 | (1,072) |
| Other comprehensive income/(loss) for the period, net of tax | | 130 | 1,868 | (2,529) | 3,396 |
| Total comprehensive income for the period, net of tax | | 5,377 | 11,126 | 22,436 | 18,929 |

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017.

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

**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

| Group | Non- Distributable | | | | | | Distributable | | Total Equity RM'000 |
|--|------------------------------|------------------------------|---------------------------|-----------------------------------|---------------------------------|-------------------------------|------------------------------|-------------------------------|------------------------|
| | Ordinary Shares RM'000 | Treasury Shares RM'000 | ESOS Reserve RM'000 | * Fair value Deficit RM'000 | Regulatory Reserve RM'000 | Exchange Reserve RM'000 | Capital Reserve RM'000 | Retained Profits RM'000 | |
| At 1 January 2018 | 246,137 | - | - | (6,629) | 25,277 | 17,398 | 88,938 | 520,345 | 891,466 |
| Impact of adopting MFRS 9 (Note A4) | - | - | - | 974 | - | - | - | (1,292) | (318) |
| Restated opening balance under MFRS 9 | 246,137 | - | - | (5,655) | 25,277 | 17,398 | 88,938 | 519,053 | 891,148 |
| Net profit for the financial year | - | - | - | - | - | - | - | 18,556 | 18,556 |
| Share of other comprehensive income of associates | - | - | - | (407) | - | - | - | 494 | 87 |
| Other comprehensive income/(loss) | - | - | - | (2,529) | - | (513) | - | - | (3,042) |
| Total comprehensive income/(loss) | - | - | - | (2,936) | - | (513) | - | 19,050 | 15,601 |
| Share based payment under Employees' Share Options Scheme ("ESOS") | - | - | 1,172 | - | - | - | - | - | 1,172 |
| Issue of shares pursuant to exercise of ESOS | 76 | - | (11) | - | - | - | - | 11 | 76 |
| Buy-back of shares | - | (3,772) | - | - | - | - | - | - | (3,772) |
| Transfer to regulatory reserve | - | - | - | - | (51) | - | - | 51 | - |
| Dividend paid | - | - | - | - | - | - | - | (21,653) | (21,653) |
| At 30 June 2018 | 246,213 | (3,772) | 1,161 | (8,591) | 25,226 | 16,885 | 88,938 | 516,512 | 882,572 |

* Fair value deficit replaced available-for-sale deficit as disclosed in the audited financial statements for the financial year ended 31 December 2017.

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017.

KENANGA INVESTMENT BANK BERHAD
(15678-H)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 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 | | |
| At 1 January 2017 | 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 period | - | - | - | - | - | - | - | 6,253 | (22) | 6,231 |
| Share of other comprehensive loss of associates | - | - | - | (712) | - | - | - | - | - | (712) |
| Other comprehensive income/(loss) | - | - | - | 3,396 | - | (2,969) | - | - | - | 427 |
| Total comprehensive income/(loss) | - | - | - | 2,684 | - | (2,969) | - | 6,253 | (22) | 5,946 |
| Transfer pursuant to Companies Act 2016 | 65,500 | (65,500) | - | - | - | - | - | - | - | - |
| Transfer to regulatory reserve | - | - | - | - | 1,067 | - | - | (1,067) | - | - |
| Transfer from statutory reserve* | - | - | (465,741) | - | - | - | - | 465,741 | - | - |
| Dividend paid | - | - | - | - | - | - | - | (16,257) | - | (16,257) |
| At 30 June 2017 | 246,137 | - | - | (8,350) | 24,996 | 21,419 | 88,938 | 502,527 | 10,214 | 885,881 |

* 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 2017.

KENANGA INVESTMENT BANK BERHAD
(15678-H)

UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018

| Bank | Non- Distributable | | | | | Distributable | | Total Equity RM'000 |
|--|------------------------------|------------------------------|---------------------------------|---------------------------|-----------------------------------|------------------------------|-------------------------------|------------------------|
| | Ordinary Shares RM'000 | Treasury Shares RM'000 | Regulatory Reserve RM'000 | ESOS Reserve RM'000 | * Fair value Deficit RM'000 | Capital Reserve RM'000 | Retained Profits RM'000 | |
| At 1 January 2018 | 246,137 | - | 25,277 | - | (4,840) | 153,863 | 513,726 | 934,163 |
| Impact of adopting MFRS 9 (Note A4) | - | - | - | - | 974 | - | (1,551) | (577) |
| Restated opening balance under MFRS 9 | 246,137 | - | 25,277 | - | (3,866) | 153,863 | 512,175 | 933,586 |
| Net profit for the financial period | - | - | - | - | - | - | 24,965 | 24,965 |
| Other comprehensive income/(loss) | - | - | - | - | (2,529) | - | - | (2,529) |
| Total comprehensive income | - | - | - | - | (2,529) | - | 24,965 | 22,436 |
| Share based payment under Employees' Share Options Scheme ("ESOS") | - | - | - | 1,172 | - | - | - | 1,172 |
| Issue of shares pursuant to exercise of ESOS | 76 | - | - | (11) | - | - | 11 | 76 |
| Buy-back of shares | - | (3,772) | - | - | - | - | - | (3,772) |
| Transfer to regulatory reserve | - | - | (51) | - | - | - | 51 | - |
| Dividend paid | - | - | - | - | - | - | (21,653) | (21,653) |
| At 30 June 2018 | 246,213 | (3,772) | 25,226 | 1,161 | (6,395) | 153,863 | 515,549 | 931,845 |

* Fair value deficit replaced available-for-sale deficit as disclosed in the audited financial statements for the financial year ended 31 December 2017.

The condensed financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017.

KENANGA INVESTMENT BANK BERHAD
(15678-H)

UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2017

| Bank | 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 | Capital Reserve RM'000 | Retained Profits RM'000 | |
| At 1 January 2017 | 180,637 | 65,500 | 23,929 | 465,741 | (7,373) | 153,863 | 20,209 | 902,506 |
| Net profit for the financial period | - | - | - | - | - | - | 15,533 | 15,533 |
| Other comprehensive income | - | - | - | - | 3,396 | - | - | 3,396 |
| Total comprehensive income | - | - | - | - | 3,396 | - | 15,533 | 18,929 |
| Transfer pursuant to Companies Act 2016 | 65,500 | (65,500) | - | - | - | - | - | - |
| Transfer to regulatory reserve | - | - | 1,067 | - | - | - | (1,067) | - |
| Transfer from statutory reserve* | - | - | - | (465,741) | - | - | 465,741 | - |
| Dividend paid | - | - | - | - | - | - | (16,257) | (16,257) |
| At 30 June 2017 | 246,137 | - | 24,996 | - | (3,977) | 153,863 | 484,159 | 905,178 |

* 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 2017.

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

**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

| | Group | | Bank | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2018 RM'000 | 30 June 2017 RM'000 | 30 June 2018 RM'000 | 30 June 2017 RM'000 |
| Cash flows from operating activities | | | | |
| Profit before taxation | 28,932 | 15,084 | 35,214 | 24,789 |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | 6,630 | 6,434 | 6,394 | 6,279 |
| Amortisation of intangible assets | 124 | 380 | - | - |
| ESOS expenses | 1,020 | - | 1,020 | - |
| Credit loss expense on financial assets | 248 | 1,378 | 114 | 38 |
| Property, plant and equipment written off | 1 | 304 | 1 | 312 |
| Non-cash items | 8,023 | 8,496 | 7,529 | 6,629 |
| Net gain from sale of financial assets at fair value through profit or loss and derivatives | (8,759) | (28,617) | (8,759) | (28,617) |
| Net gain from sale of financial investments available-for-sale | - | (2) | - | (2) |
| Net gain from sale of financial investments other than those measured at FVTPL | (331) | - | (331) | - |
| Gross dividend income from investments | (869) | (491) | (769) | (491) |
| (Gain)/Loss on revaluation of financial assets at FVTPL and derivatives | (5,696) | 3,118 | (5,696) | 3,118 |
| Gain on disposal of property, plant and equipment | - | (2) | - | (2) |
| Share of results of associates and joint venture | 3,425 | 5,066 | - | - |
| Non-operating items - investing | (12,230) | (20,928) | (15,555) | (25,994) |
| Adjustments for non-operating and non-cash items | (4,207) | (12,432) | (8,026) | (19,365) |
| Operating profit before working capital changes | 24,725 | 2,652 | 27,188 | 5,424 |
| Changes in working capital: | | | | |
| Net changes in operating assets | 23,998 | 59,074 | 138,968 | (28,477) |
| Net changes in operating liabilities | 452,141 | 739,906 | 443,451 | 878,628 |
| Cash generated from operations | 500,864 | 801,632 | 609,607 | 855,575 |
| Taxation and zakat paid | (7,685) | (6,954) | (7,501) | (6,440) |
| Net operating cash flow | 493,179 | 794,678 | 602,106 | 849,135 |
| Cash flows from investing activities | | | | |
| Dividends received from other investments | 869 | 491 | 769 | 491 |
| Purchase of property, plant and equipment and intangible assets | (5,523) | (9,921) | (5,189) | (9,302) |
| Proceeds from disposal of property, plant and equipment and intangible assets | - | 8 | - | - |
| Capital injection in a joint venture | (5,000) | (7,500) | (5,000) | (7,500) |
| Net purchase of securities | (460,488) | (560,950) | (462,589) | (560,149) |
| Net investing cash flow | (470,142) | (577,872) | (472,009) | (576,460) |
| Cash flows from financing activities | | | | |
| Dividend paid | (21,653) | (16,257) | (21,653) | (16,257) |
| Issuance of shares | 76 | - | 76 | - |
| Net drawdown/(repayment) of borrowings | 49,900 | (69,100) | 4,400 | (40,600) |
| Buy-back of shares | (3,772) | - | (3,772) | - |
| Net financing cash flow | 24,551 | (85,357) | (20,949) | (56,857) |

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

**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

| | Group | | Bank | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2018 RM'000 | 30 June 2017 RM'000 | 30 June 2018 RM'000 | 30 June 2017 RM'000 |
| Net change in cash and cash equivalents during the financial period | 47,588 | 131,449 | 109,148 | 215,818 |
| Effect of exchange rate differences | 2 | - | - | - |
| Cash and cash equivalents brought forward | <u>1,143,077</u> | <u>1,044,011</u> | <u>1,032,060</u> | <u>893,741</u> |
| Cash and cash equivalents carried forward | <u>1,190,667</u> | <u>1,175,460</u> | <u>1,141,208</u> | <u>1,109,559</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:

| | Group | | Bank | |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | As at 30 June 2018 RM'000 | As at 30 June 2017 RM'000 | As at 30 June 2018 RM'000 | As at 30 June 2017 RM'000 |
| Cash and short-term funds | 1,369,526 | 1,339,118 | 1,202,873 | 1,171,331 |
| Deposits and placements with banks and other financial institutions | 79,886 | 50,000 | - | - |
| Less: Segregated funds from customers | (197,080) | (151,886) | - | - |
| Less: Cash and bank balances and deposits held in trust | <u>(61,665)</u> | <u>(61,772)</u> | <u>(61,665)</u> | <u>(61,772)</u> |
| | <u>1,190,667</u> | <u>1,175,460</u> | <u>1,141,208</u> | <u>1,109,559</u> |

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

**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

A1. Basis Of Preparation

The interim financial statements, for the financial period ended 30 June 2018, 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 interim financial statements have also incorporated those activities relating to the Islamic banking business undertaken by the Group.

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 2017, except for the adoption of new standards, MFRS 15 Revenue from contracts with customers and MFRS 9 Financial Instruments effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

There is no financial impact on the adoption of MFRS 15 as the existing policies applied by the Group and the Bank in respect of the recognition of revenue comply with the requirements of MFRS 15.

The Group applies, for the first time, MFRS 9 Financial Instruments where retrospective application is required but comparative information is not compulsory. The Group and the Bank has not restated comparative information for 2017 for financial instruments within the scope of MFRS 9. Therefore, the comparative information for 2017 is reported under MFRS 139 and is not comparable to the information presented for 2018. Differences arising from the adoption of MFRS 9 have been recognised directly in retained earnings and fair value reserves as of 1 January 2018.

As required by MFRS 134, the nature and impact of the changes are disclosed in note A4 below.

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 2017. 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 2017.

A3. Preceding financial year audit report

The preceding financial year audit report in respect of the financial year ended 31 December 2017 was not qualified by the external auditors.

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A4. The nature and impact of MFRS 9 Financial Instruments

MFRS 9 Financial Instruments replaces MFRS 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Bank's classification of its financial assets and liabilities and the quantitative impact of applying MFRS 9 as at 1 January 2018 are disclosed in Note A4(i) to (iv).

(i) Changes to classification and measurement

To determine their classification and measurement category, MFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The MFRS 139 measurement categories of financial assets have been replaced as follow:

| Financial assets | Measurement Category | |
|-------------------------|----------------------|---|
| | MFRS 139 | MFRS 9 |
| FVTPL ¹ | FVTPL | FVTPL |
| AFS (debt) ² | FVOCI ³ | FVOCI (with cumulative gain or losses recycle to profit or loss upon derecognition) |
| AFS (equity) | FVOCI | FVOCI (with no recycling of gain or losses to profit or loss upon derecognition) |
| AFS (equity) | Amortised Cost | FVOCI (with no recycling of gain or losses to profit or loss upon derecognition) |
| HTM ⁴ | Amortised Cost | Amortised Cost |
| Loans and receivables | Amortised Cost | Amortised Cost |

The accounting for financial liabilities remains largely the same as it was under MFRS 139.

Under MFRS 9, embedded derivatives in financial assets are no longer separated from its host financial asset. Instead, such financial assets can be classified as FVTPL, FVOCI or amortised cost based on their business model and cash flow characteristic. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

¹ FVTPL: Fair Value Through Profit Or Loss

² AFS: Available-for-Sale

³ FVOCI: Fair Value Through Other Comprehensive Income

⁴ HTM: Held-to-Maturity

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A4. The nature and impact of MFRS 9 Financial Instruments (cont'd)

(ii) Changes to the impairment calculation

The adoption of MFRS 9 has fundamentally changed the Group's and the Bank's accounting for loan loss impairments by replacing MFRS 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. MFRS 9 requires the Group and the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL and loan commitments. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If there has been a significant increase in the credit risk, lifetime expected credit loss will need to be provided. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

For contract assets and trade and other receivables, the Group and the Bank have applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses.

The general mechanics of the ECL method are summarised below:

- Stage 1: Covers instruments that have not deteriorated significantly in credit quality since initial recognition or (where the optional low credit risk simplification is applied) that have low credit risk.
- Stage 2: Covers financial instruments that have deteriorated significantly in credit quality since initial recognition (unless the low credit risk simplification has been applied and is relevant) but that do not have objective evidence of a credit loss event.
- Stage 3: Covers financial assets that have objective evidence of impairment at the reporting date.

Measurement of ECL:

- Stage 1: For financial instruments in stage 1, the Group and the Bank are required to recognise 12 months ECL.
- Stage 2: When a financial instrument transfers to stage 2, the Group and the Bank are required to recognise lifetime ECL.
- Stage 3: For financial instruments in stage 3, the Bank will continue to recognise lifetime ECL but based on specific provision approach.

- (iii)** In addition to the adjustments described above, upon adoption of MFRS 9, other items of the primary financial statements such as deferred taxes, investment in the associates (arising from the financial instruments held by the entity) and retained earnings were adjusted as necessary.

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A4. The nature and impact of MFRS 9 Financial Instruments (cont'd)

(iv) Transition disclosures

The following tables set out the impact of adopting MFRS 9 on the statement of financial position, and retained earnings including the effect of replacing MFRS 139's incurred credit loss calculations with MFRS 9's ECLs.

A reconciliation between the carrying amounts under MFRS 139 to the balances reported under MFRS 9 as of 1 January 2018 is, as follows:

| Group | Note | MFRS 139 | | Re- classification | Remeasurement | | MFRS 9 | |
|---|------------------|----------|------------------|-----------------------|----------------|------------|------------------|-----------------|
| | | Category | Amount | | ECL | Other | Amount | Category |
| | | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | |
| Financial assets | | | | | | | | |
| Cash and Bank balances | L&R ¹ | | 1,347,517 | - | - | - | 1,347,517 | AC ² |
| Financial assets at fair value through profit or loss | FVTPL | | 557,568 | - | - | - | 557,568 | FVTPL |
| Debt instruments at fair value through other comprehensive income | A | | N/A | 1,009,677 | (17) | 17 | 1,009,677 | FVOCI |
| Equity instruments at fair value through other comprehensive income | B | | N/A | 490 | - | 1,264 | 1,754 | FVOCI |
| Debt instruments at amortised cost | C | | N/A | 38,001 | (1,016) | - | 36,985 | AC |
| Financial investments available-for-sale | A&B | AFS | 1,010,167 | (1,010,167) | - | - | - | |
| Financial investments held-to-maturity | C | HTM | 38,001 | (38,001) | - | - | - | |
| Derivative financial assets | | FVTPL | 67,393 | - | - | - | 67,393 | FVTPL |
| Loans, advances and financing | | L&R | 2,195,501 | - | (667) | - | 2,194,834 | AC |
| Balances due from clients and brokers | | L&R | 494,883 | - | - | - | 494,883 | AC |
| Other assets | | L&R | 118,417 | - | - | - | 118,417 | AC |
| Statutory deposit with Bank Negara Malaysia | | L&R | 116,186 | - | - | - | 116,186 | AC |
| | | | 5,945,633 | - | (1,700) | 1,281 | 5,945,214 | |
| Non-financial assets | | | | | | | | |
| Deferred tax assets | | | 10,006 | - | 408 | (307) | 10,107 | |
| Total assets | | | 5,955,639 | - | (1,292) | 974 | 5,955,321 | |

¹L&R: Loans and receivables

²AC: Amortised cost

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A4. The nature and impact of MFRS 9 Financial Instruments (cont'd)

(iv) Transition disclosures (Cont'd)

| Bank | Note | MFRS 139 | | Re- classification | Remeasurement | | MFRS 9 | |
|---|------|------------------|-----------|-----------------------|---------------|--------|-----------|-----------------|
| | | Category | Amount | | ECL | Other | Amount | Category |
| | | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | |
| Financial assets | | | | | | | | |
| Cash and Bank balances | | L&R ¹ | 1,092,544 | - | - | - | 1,092,544 | AC ² |
| Financial assets at fair value through profit or loss | | FVTPL | 549,735 | - | - | - | 549,735 | FVTPL |
| Debt instruments at fair value through other comprehensive income | A | | N/A | 1,009,677 | (17) | 17 | 1,009,677 | FVOCI |
| Equity instruments at fair value through other comprehensive income | B | | N/A | 490 | - | 1,264 | 1,754 | FVOCI |
| Debt instruments at amortised cost | C | | N/A | 38,001 | (1,016) | - | 36,985 | AC |
| Financial investments available-for-sale | A&B | AFS | 1,010,167 | (1,010,167) | - | - | - | |
| Financial investments held-to-maturity | C | HTM | 38,001 | (38,001) | - | - | - | |
| Derivative financial assets | | FVTPL | 67,393 | - | - | - | 67,393 | FVTPL |
| Loans, advances and financing | | L&R | 2,180,080 | - | (1,007) | - | 2,179,073 | AC |
| Balances due from clients and brokers | | L&R | 494,883 | - | - | - | 494,883 | AC |
| Other assets | | L&R | 66,582 | - | - | - | 66,582 | AC |
| Statutory deposit with Bank Negara Malaysia | | L&R | 116,186 | - | - | - | 116,186 | AC |
| | | | 5,615,571 | - | (2,040) | 1,281 | 5,614,812 | |
| Non-financial assets | | | | | | | | |
| Deferred tax assets | | | 7,798 | - | 489 | (307) | 7,980 | |
| Total assets | | | 5,623,369 | - | (1,551) | 974 | 5,622,792 | |

The adoption of MFRS 9 has no impact on the classification and measurement of the Group and the Bank's financial liabilities.

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**NOTES TO INTERIM FINANCIAL REPORT
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A4. The nature and impact of MFRS 9 Financial Instruments (cont'd)

(iv) Transition disclosures (Cont'd)

Note:

- A. As at 1 January 2018, the Bank has assessed its treasury portfolio which had previously been classified as AFS debt instruments. The Bank concluded that these instruments are managed within a business model of collecting contractual cash flows and are sold for investment gain. Accordingly, the Bank has classified these investments as debt instruments measured at FVOCI.
- B. The Bank has elected the option to irrevocably designate an AFS equity instrument as Equity instruments at FVOCI.
- C. As at 1 January 2018, the Bank did not have any debt instruments that did not meet the solely payments of principal and interest ("SPPI") criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

The impact of transition to MFRS 9 on reserves and retained earnings is, as follows:

| | Group RM'000 | Bank RM'000 |
|---|-------------------------|------------------------|
| Fair value reserves | | |
| Closing balance under MFRS 139 (31 December 2017) | (6,629) | (4,840) |
| Reclassification adjustments in relation to adopting MFRS 9 | 1,264 | 1,264 |
| Recognition of expected credit losses under MFRS 9 | 17 | 17 |
| Deferred tax in relation to the above | (307) | (307) |
| Opening balance under MFRS 9 (1 January 2018) | <u>(5,655)</u> | <u>(3,866)</u> |
| Retained earnings | | |
| Closing balance under MFRS 139 (31 December 2017) | 520,345 | 513,726 |
| Recognition of expected credit losses under MFRS 9 | (1,700) | (2,040) |
| Deferred tax | 408 | 489 |
| Opening balance under MFRS 9 (1 January 2018) | <u>519,053</u> | <u>512,175</u> |
| Total change in equity due to adopting MFRS 9 | <u>(318)</u> | <u>(577)</u> |

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A4. The nature and impact of MFRS 9 Financial Instruments (cont'd)

(iv) Transition disclosures (Cont'd)

The following table reconciles the aggregate opening loan loss provision under MFRS 139 and provisions for loan commitments in accordance with MFRS 137's Provision Contingent Liabilities and Contingent Assets to the ECL allowances under MFRS 9.

| Group | Impairment allowance under MFRS 139/ MFRS 137 as at 31 December 2017 <u>RM'000</u> | Re- measurement <u>RM'000</u> | ECLs under MFRS 9 as at 1 January 2018 <u>RM'000</u> |
|---|--|-------------------------------------|---|
| Impairment allowance for: | | | |
| Financial investments available- for-sale per MFRS 139/ financial instruments at FVOCI under MFRS 9 | - | 17 | 17 |
| Financial investments held- to-maturity per MFRS 139/ financial instruments at amortised cost under MFRS 9 | - | 1,016 | 1,016 |
| Loans, advances and financing | 2,933 | 654 | 3,587 |
| | <u>29,040</u> | <u>1,687</u> | <u>30,727</u> |
| Undrawn loan commitment | - | 13 | 13 |
| | <u>29,040</u> | <u>1,700</u> | <u>30,740</u> |
| Bank | | | |
| Impairment allowance for: | | | |
| Financial investments available- for-sale per MFRS 139/ financial instruments at FVOCI under MFRS 9 | - | 17 | 17 |
| Financial investments held- to-maturity per MFRS 139/ financial instruments at amortised cost under MFRS 9 | - | 1,016 | 1,016 |
| Loans, advances and financing | 2,308 | 853 | 3,161 |
| | <u>27,027</u> | <u>1,886</u> | <u>28,913</u> |
| Undrawn loan commitment | - | 154 | 154 |
| | <u>27,027</u> | <u>2,040</u> | <u>29,067</u> |

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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 were affected by market sentiment and the country's macro economic conditions.

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 which have affected the assets, liabilities, equity, net income or cash flows other than the bad debt recovered of RM13,500,000 from a final settlement with certain respondents of a legal case where judgement was granted by the Court of Appeal in favour of the Bank.

Further details of the legal case is described in note B10.

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 during the financial period ended 30 June 2018, other than the following:

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

As at 30 June 2018, the Bank has issued RM15 million Subordinated Notes under the above-mentioned Programme.

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A8. Issuance, cancellation, repurchases, resale and repayments of debt and equity securities (cont'd)

- (ii) On 23 May 2018, the shareholders of the Bank renewed their approval for the Bank to buy-back its own shares. The Bank initiated its share buy-back programme on 15 May 2015. During the course of this programme, total shares amounting to a maximum of 10% of the issued and paid-up share capital of the Company can be repurchased and held as Treasury Shares in accordance with Section 127 (16) of the Companies Act, 2016.

During the current financial quarter and financial period to date, the Company repurchased 5,768,800 ordinary shares of its issued share capital from the open market at an average cost of RM0.6501 per share. The total consideration paid for the share buy-back, including transaction costs was RM3.77 million, and was financed by internally generated fund.

As at 30 June 2018, the number of treasury shares held was 5,768,800 shares.

- (iii) The share capital of the Bank increased from RM246,136,750 as at 31 December 2017 to RM246,212,650 as at 30 June 2018 via issuance of 132,000 new ordinary shares amounting to RM75,900 to eligible employees who exercised their options under the current Employees' Share Options Scheme ("ESOS").

A9. Dividends paid per share

A final dividend of 3.0 sen per share in respect of the financial year ended 31 December 2017, which amounted to RM21,652,848 was paid on 31 May 2018.

A10. Significant event during and subsequent to the interim period

There was no significant event during and subsequent to the financial interim period.

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| | Group | | Bank | |
|---|------------------------------------|--|------------------------------------|--|
| | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
| A11. Cash and bank balances | | | | |
| Cash and balances with banks and other financial institutions | 333,102 | 279,972 | 220,192 | 126,640 |
| Money at call and deposit placements | 1,116,310 | 1,067,545 | 982,681 | 965,904 |
| | <u>1,449,412</u> | <u>1,347,517</u> | <u>1,202,873</u> | <u>1,092,544</u> |
| Included in cash and bank balances are: | | | | |
| Cash and cash equivalents | 1,190,667 | 1,143,077 | 1,141,208 | 1,032,060 |
| Monies held in trust on behalf of dealer's representatives and segregated funds for customers | 258,745 | 204,440 | 61,665 | 60,484 |
| | <u>1,449,412</u> | <u>1,347,517</u> | <u>1,202,873</u> | <u>1,092,544</u> |
| A12. Financial Assets At Fair Value Through Profit or Loss ("FVTPL") | | | | |
| At fair value | | | | |
| Money Market Instruments: | | | | |
| Malaysian Government Securities | 78,885 | 20,254 | 78,885 | 20,254 |
| Malaysian Government Investment Certificates | 69,502 | 50,171 | 69,502 | 50,171 |
| Bank Negara Malaysia Bills and Notes | 49,963 | - | 49,963 | - |
| Islamic Negotiable Instruments of Deposit | 49,920 | - | 49,920 | - |
| | <u>248,270</u> | <u>70,425</u> | <u>248,270</u> | <u>70,425</u> |
| Quoted Securities: | | | | |
| Shares in Malaysia | 47,377 | 216,060 | 47,377 | 216,060 |
| Shares outside Malaysia | 148 | 3,368 | 148 | 3,368 |
| | <u>47,525</u> | <u>219,428</u> | <u>47,525</u> | <u>219,428</u> |
| Unquoted Securities: | | | | |
| Shares and funds in Malaysia | 117,878 | 18,041 | 112,146 | 10,208 |
| Unquoted Private Debt Securities in Malaysia: | | | | |
| Corporate Bills | 92,588 | 89,733 | 92,588 | 89,733 |
| Islamic Corporate Bills | 44,858 | 159,941 | 44,858 | 159,941 |
| | <u>137,446</u> | <u>249,674</u> | <u>137,446</u> | <u>249,674</u> |
| Total Financial Assets At Fair Value Through Profit or Loss | <u>551,119</u> | <u>557,568</u> | <u>545,387</u> | <u>549,735</u> |

| | Group | | Bank | |
|---|------------------------------------|--|------------------------------------|--|
| | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
| A13. Financial investments other than those measured at FVTPL | | | | |
| (i) Financial instrument at Fair Value Through Other Comprehensive Income ("FVOCI"): | | | | |
| Money market instruments: | | | | |
| Malaysian Government Securities | 107,207 | - | 107,207 | - |
| Malaysian Government Investment Certificates | 205,082 | - | 205,082 | - |
| Sukuk Perumahan Kerajaan | 10,042 | - | 10,042 | - |
| Negotiable Instruments of Deposits | 50,000 | - | 50,000 | - |
| Islamic Negotiable Instruments of Deposits | 349,010 | - | 349,010 | - |
| | 721,341 | - | 721,341 | - |
| Equity instruments in Malaysia: | | | | |
| Unquoted Shares | 1,754 | - | 1,754 | - |
| Debt instruments in Malaysia: | | | | |
| Islamic Corporate Sukuk | 483,668 | - | 483,668 | - |
| Corporate Bonds | 160,047 | - | 160,047 | - |
| | 643,715 | - | 643,715 | - |
| Total Financial instruments at FVOCI: | 1,366,810 | - | 1,366,810 | - |

Included in financial investments at FVOCI are financial assets sold under repurchase agreements as follows:

| | | | | |
|--|--------|---|--------|---|
| Malaysian Government Investment Certificates | 19,321 | - | 19,321 | - |
|--|--------|---|--------|---|

(ii) Financial investment at amortised cost:

Money market instruments:

| | | | | |
|--|--------------|----------|--------------|----------|
| Islamic Malaysian Government Investment Issues | 9,868 | - | 9,868 | - |
| | 9,868 | - | 9,868 | - |

Debt instruments in Malaysia:

| | | | | |
|-------------------------|----------------|----------|----------------|----------|
| Islamic Corporate Sukuk | | | | |
| At cost | 122,263 | - | 122,263 | - |
| Less: Allowance for ECL | (921) | - | (921) | - |
| | 121,342 | - | 121,342 | - |

Total financial investment at amortised cost:

| | | | | |
|--|----------------|----------|----------------|----------|
| | 131,210 | - | 131,210 | - |
|--|----------------|----------|----------------|----------|

(iii) Impairment losses on financial instruments subject to impairment assessment

(a) Debt instrument measured at Fair Value Through Other Comprehensive Income ("FVOCI"):

| | 2018 | | | Total RM'000 |
|---------------------------------------|-------------------|-------------------|-------------------|-----------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | |
| Movement in ECLs | | | | |
| As at 1 January 2018 and 30 June 2018 | 17 | - | - | 17 |

A13. Financial investments other than those measured at FVTPL (cont'd)

(iii) Impairment losses on financial instruments subject to impairment assessment (cont'd)

(b) Debt instrument measured at Amortised Cost ("AC"):

An analysis of changes in the ECLs is, as follows:

Group and Bank

| | 2018 | | | |
|-------------------------------------|-------------------|-------------------|-------------------|-----------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| Movement in ECLs | | | | |
| As at 1 January 2018 | 64 | 952 | - | 1,016 |
| Impact of net re-measurement of ECL | - | (95) | - | (95) |
| As at 30 June 2018 | 64 | 857 | - | 921 |

Note: Stages of ECL are as defined in note A4 (ii).

| Group | | Bank | |
|------------------------------------|--|------------------------------------|--|
| As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |

A14. (i) Financial Investments Available-for-Sale

At Fair Value, or amortised cost

Money Market Instruments:

| | | | | |
|--|---|---------|---|---------|
| Negotiable Instruments of Deposits | - | 50,000 | - | 50,000 |
| Malaysian Government Securities | - | 49,534 | - | 49,534 |
| Malaysian Government Investment Certificates | - | 155,357 | - | 155,357 |
| Sukuk Perumahan Kerajaan | - | 10,076 | - | 10,076 |
| | - | 264,967 | - | 264,967 |

Unquoted Securities in Malaysia:

| | | | | |
|--------|---|-----|---|-----|
| Shares | - | 490 | - | 490 |
|--------|---|-----|---|-----|

Unquoted Private Debt Securities in Malaysia:

| | | | | |
|-------------------------|---|---------|---|---------|
| Islamic Corporate Sukuk | - | 514,626 | - | 514,626 |
| Corporate Bonds | - | 230,084 | - | 230,084 |
| | - | 744,710 | - | 744,710 |

Total Financial Investments Available-for-Sale

| | | | | |
|--|---|-----------|---|-----------|
| | - | 1,010,167 | - | 1,010,167 |
|--|---|-----------|---|-----------|

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

| | | | | |
|--|---|--------|---|--------|
| Malaysian Government Investment Certificates | - | 37,861 | - | 37,861 |
| Malaysian Government Securities | - | 37,132 | - | 37,132 |
| | - | 74,993 | - | 74,993 |

(ii) Financial Investments Held-To-Maturity

Unquoted Private Debt Securities in Malaysia:

| | | | | |
|-------------------------|---|--------|---|--------|
| Islamic Corporate Sukuk | - | 38,001 | - | 38,001 |
|-------------------------|---|--------|---|--------|

| | Group | | Bank | |
|--|------------------------------------|--|------------------------------------|--|
| | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
| A15. Loans, Advances and Financing | | | | |
| At Amortised Cost | | | | |
| Share margin financing | 1,488,332 | 1,557,649 | 1,488,332 | 1,557,649 |
| Term loans | 589,442 | 588,800 | 602,465 | 614,478 |
| Subordinated term loan | - | - | 10,259 | 10,261 |
| Others | 63,701 | 51,985 | 53 | - |
| Gross loans, advances and financing | 2,141,475 | 2,198,434 | 2,101,109 | 2,182,388 |
| Less: Allowance for ECL/impairment losses | | | | |
| - Stage 1- 12-month ECL | (1,362) | - | (1,763) | - |
| - Stage 2- Lifetime ECL not credit impaired | (32) | - | - | - |
| - Stage 3- Lifetime ECL credit impaired | (805) | - | - | - |
| - Collective impairment | - | (669) | - | (867) |
| - Individual impairment | - | (2,264) | - | (1,441) |
| Net Loans, Advances and Financing | 2,139,276 | 2,195,501 | 2,099,346 | 2,180,080 |
| (i) By Type of Customer | | | | |
| Domestic business enterprise | 871,271 | 904,376 | 835,536 | 889,531 |
| Individuals | 1,206,481 | 1,230,307 | 1,201,850 | 1,229,106 |
| Foreign enterprises | 63,723 | 63,751 | 63,723 | 63,751 |
| Gross Loans, Advances and Financing | 2,141,475 | 2,198,434 | 2,101,109 | 2,182,388 |
| (ii) By Geographical Distribution | | | | |
| In Malaysia | 2,053,007 | 2,124,179 | 2,012,641 | 2,108,133 |
| Outside Malaysia | 88,468 | 74,255 | 88,468 | 74,255 |
| Gross Loans, Advances and Financing | 2,141,475 | 2,198,434 | 2,101,109 | 2,182,388 |
| (iii) By Interest Rate/ Profit Rate Sensitivity | | | | |
| Fixed rate | | | | |
| - Other fixed rate loans | 1,551,980 | 1,609,617 | 1,488,332 | 1,557,633 |
| Variable rate | | | | |
| - Other variable rates | 570,991 | 565,481 | 594,273 | 601,419 |
| - Base lending rate plus | 18,451 | 23,336 | 18,451 | 23,336 |
| Zero rate | 53 | - | 53 | - |
| Gross Loans, Advances and Financing | 2,141,475 | 2,198,434 | 2,101,109 | 2,182,388 |
| (iv) By Purpose | | | | |
| - Purchase of securities | 1,776,091 | 1,836,502 | 1,764,204 | 1,819,194 |
| - Working capital | 175,160 | 193,274 | 179,320 | 203,635 |
| - Others | 190,224 | 168,658 | 157,585 | 159,559 |
| Gross Loans, Advances and Financing | 2,141,475 | 2,198,434 | 2,101,109 | 2,182,388 |
| (v) By Residual Contractual Maturity | | | | |
| - Within one year | 1,696,835 | 1,778,176 | 1,686,038 | 1,751,870 |
| - More than one year | 444,640 | 420,258 | 415,071 | 430,518 |
| Gross Loans, Advances and Financing | 2,141,475 | 2,198,434 | 2,101,109 | 2,182,388 |

| | Group | | Bank | |
|--|------------------------------------|--|------------------------------------|--|
| | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
| A15. Loans, Advances and Financing (Cont'd) | | | | |
| (vi) Movements in impaired loans, advances and financing ("Impaired loans") | | | | |
| At beginning of the financial period/year | 2,737 | 2,608 | 1,910 | 1,735 |
| Impaired during the financial period/year | 52,676 | 176 | 52,676 | 176 |
| Amount written off against allowance for ECL | (1,441) | - | (1,441) | - |
| Amount recovered | (18) | (47) | - | (1) |
| At end of the financial period/year | 53,954 | 2,737 | 53,145 | 1,910 |
| Less: Allowance for ECL/impairment losses | (805) | (2,264) | - | (1,441) |
| Net impaired loans | 53,149 | 473 | 53,145 | 469 |
| Net impaired loans as a % of gross loans, advances and financing less allowance | 2.48% | 0.02% | 2.53% | 0.02% |

(vii) Impaired loans by Geographical Distribution

| | | | | |
|----------------------|--------|-------|--------|-------|
| Malaysia | 53,954 | 2,737 | 53,145 | 1,910 |
| Gross impaired loans | 53,954 | 2,737 | 53,145 | 1,910 |

(viii) Impaired loans by Purpose

| | | | | |
|------------------------|--------|-------|--------|-------|
| Working capital | 809 | 827 | - | - |
| Purchase of securities | 53,145 | 1,910 | 53,145 | 1,910 |
| Gross impaired loans | 53,954 | 2,737 | 53,145 | 1,910 |

(ix) Impairment allowance for loans, advances and financing are as follows:

An analysis of changes in the ECL allowances in relation to term loan is, as follows:

Term loan and subordinated term loan:

Group

| | 2018 | | | |
|--|-------------------|-------------------|-------------------|-----------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| Movement in ECLs | | | | |
| As at 1 January 2018 | 1,302 | - | - | 1,302 |
| New assets originated or purchased | 171 | - | - | 171 |
| Assets derecognised or repaid (excluding write-offs) | (174) | - | - | (174) |
| As at 30 June 2018 | 1,299 | - | - | 1,299 |

Bank

| | 2018 | | | |
|--|-------------------|-------------------|-------------------|-----------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| Movement in ECLs | | | | |
| As at 1 January 2018 | 1,720 | - | - | 1,720 |
| New assets originated or purchased | 171 | - | - | 171 |
| Assets derecognised or repaid (excluding write-offs) | (332) | - | - | (332) |
| As at 30 June 2018 | 1,559 | - | - | 1,559 |

An analysis of changes in the ECL allowances in relation to share margin financing is, as follows:

Group and Bank

| | 2018 | | | |
|-------------------------|-------------------|-------------------|-------------------|-----------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| Movement in ECLs | | | | |
| As at 1 January 2018 | - | - | 1,441 | 1,441 |
| Amounts written off | - | - | (1,441) | (1,441) |
| As at 30 June 2018 | - | - | - | - |

NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018

A15. Loans, Advances and Financing (Cont'd)

(ix) Impairment allowance for loans, advances and financing (Cont'd)

An analysis of changes in the ECL allowances in relation to other loan and financing is, as follows:

Others

Group

| | 2018 | | | |
|--|-------------------|-------------------|-------------------|-----------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| Movement in ECLs | | | | |
| As at 1 January 2018 | - | 21 | 823 | 844 |
| New assets originated or purchased | - | 11 | - | 11 |
| Assets derecognised or repaid (excluding write-offs) | - | - | (18) | (18) |
| As at 30 June 2018 | - | 32 | 805 | 837 |

Note: Stages of ECL are as defined in note A4 (ii).

Undrawn commitment:

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to undrawn commitment is, as follows:

Group

| | 2018 | | | |
|------------------------------------|-------------------|-------------------|-------------------|-----------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| Movement in ECLs | | | | |
| As at 1 January 2018 | 13 | - | - | 13 |
| New assets originated or purchased | 50 | - | - | 50 |
| As at 30 June 2018 | 63 | - | - | 63 |

Bank

| | 2018 | | | |
|--|-------------------|-------------------|-------------------|-----------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| Movement in ECLs | | | | |
| As at 1 January 2018 | 154 | - | - | 154 |
| Exposure derecognised or matured/lapsed (excluding write-offs) | 50 | - | - | 50 |
| As at 30 June 2018 | 204 | - | - | 204 |

An analysis of the allowance for impairment losses under MFRS139 for loan, advances and financing, for the financial year ended 31 December 2017 is, as follows:

| | Group As at 31 December 2017 RM'000 | Bank As at 31 December 2017 RM'000 |
|---|---|--|
| Individual allowance | | |
| At beginning of financial year | 2,135 | 1,266 |
| Allowance made during the year | 176 | 176 |
| Amount written back during the year | (47) | (1) |
| At end of the financial year | 2,264 | 1,441 |
| Collective allowance | | |
| At beginning of financial year | 432 | 871 |
| Allowance made during the year | 509 | 268 |
| Amount written back during the year | (272) | (272) |
| At end of the financial year | 669 | 867 |
| Collective allowance as a % of gross loans, advances and financing less individual allowance | 0.03% | 0.04% |

NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018

A16. Balances due from clients and brokers

| | Group and Bank | |
|---------------------------------------|------------------------------------|--|
| | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
| Balances due from clients and brokers | 428,832 | 516,250 |
| Less: | | |
| Allowance for impairment | (14,469) | (21,367) |
| | 414,363 | 494,883 |

An analysis of changes in the ECL allowances in relation to balance due from client and brokers is, as follows:

Group and Bank

| | 2018 | | | |
|--------------------------------|-------------------|-------------------|-------------------|-----------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| Movement in ECLs | | | | |
| As at 1 January 2018 | - | 1,516 | 12,904 | 14,420 |
| Charge during the period | - | 58 | 97 | 155 |
| Written back during the period | - | (54) | (52) | (106) |
| As at 30 June 2018 | - | 1,520 | 12,949 | 14,469 |

Note: Stages of ECL are as defined in note A4 (ii).

An analysis of the allowance for impairment losses under MFRS139 for balance due from client and brokers, for the financial year ended 31 December 2017 is, as follows:

Movements of impairment allowance for:

| | Group and Bank As at 31 December 2017 RM'000 |
|---|---|
| <u>Individual Impairment</u> | |
| At beginning of the financial year | 26,735 |
| Allowance made during the year | 6,262 |
| Allowance for impairment losses written back | (6,163) |
| Amount written off against balances due from clients and brokers | (5,467) |
| At end of the financial year | 21,367 |

NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018

A17. Other Assets

| | Group | | Bank | |
|---------------------------------|------------------------------------|--|------------------------------------|--|
| | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
| Assets segregated for customers | 69,914 | 32,431 | - | - |
| Interest/income receivable | 15,059 | 11,989 | 14,710 | 11,547 |
| Prepayments and deposits | 20,165 | 18,699 | 18,669 | 17,435 |
| Other debtors | 39,198 | 40,019 | 19,795 | 20,817 |
| Treasury trade receivables | 29,885 | 19,986 | 29,885 | 19,986 |
| Amount due from subsidiaries | - | - | 408 | 116 |
| Amount due from related parties | 39 | 33 | 39 | 33 |
| | 174,260 | 123,157 | 83,506 | 69,934 |
| Allowance for impairment | (4,994) | (4,740) | (3,623) | (3,352) |
| | 169,266 | 118,417 | 79,883 | 66,582 |

Group

| | 2018 | | | |
|--------------------------------|-------------------|-------------------|-------------------|-----------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| Movement in ECLs | | | | |
| As at 1 January 2018 | - | 473 | 4,267 | 4,740 |
| Charge during the period | - | 89 | 223 | 312 |
| Written back during the period | - | (27) | (27) | (54) |
| Written off during the period | - | - | (4) | (4) |
| As at 30 June 2018 | - | 535 | 4,459 | 4,994 |

Bank

| | 2018 | | | |
|--------------------------------|-------------------|-------------------|-------------------|-----------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| Movement in ECLs | | | | |
| As at 1 January 2018 | - | 473 | 2,879 | 3,352 |
| Charge during the period | - | 89 | 223 | 312 |
| Written back during the period | - | (27) | (10) | (37) |
| Written off during the period | - | - | (4) | (4) |
| As at 30 June 2018 | - | 535 | 3,088 | 3,623 |

A18. Statutory deposit with Bank Negara Malaysia

| | Group | | Bank | |
|-------------------|------------------------------------|--|------------------------------------|--|
| | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
| Statutory Deposit | 122,773 | 116,186 | 122,773 | 116,186 |

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.

NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018

A19. Deposits from customers

| | Group | | Bank | |
|---------------------------------------|------------------------------------|--|------------------------------------|--|
| | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
| (i) By type of deposit | | | | |
| Fixed term deposits | 3,404,116 | 2,856,250 | 3,418,137 | 2,866,250 |
| Short term money deposits | 1,403,000 | 1,293,200 | 1,434,133 | 1,327,071 |
| Call money deposits | 76,756 | 41,650 | 76,756 | 41,650 |
| Negotiable instruments of deposit | 47,396 | 42,814 | 47,764 | 43,177 |
| | 4,931,268 | 4,233,914 | 4,976,790 | 4,278,148 |
| (ii) By type of customer | | | | |
| Government and other statutory bodies | 512,786 | 163,338 | 512,786 | 163,338 |
| Individuals | 117,021 | 131,371 | 117,021 | 131,371 |
| Business enterprises | 1,634,075 | 1,537,791 | 1,634,075 | 1,537,791 |
| Non-bank financial institutions | 2,667,386 | 2,401,414 | 2,667,386 | 2,401,414 |
| Related companies | - | - | 45,522 | 44,234 |
| | 4,931,268 | 4,233,914 | 4,976,790 | 4,278,148 |
| (iii) By maturity structure | | | | |
| Due within six months | 3,694,431 | 3,737,649 | 3,739,953 | 3,781,883 |
| More than six months to one year | 1,236,837 | 496,265 | 1,236,837 | 496,265 |
| | 4,931,268 | 4,233,914 | 4,976,790 | 4,278,148 |

A20. Deposits and placements of banks and financial institutions

| | | | | |
|-------------------------------|---------------|----------------|---------------|----------------|
| Licenced banks | - | 70,000 | - | 70,000 |
| Others financial institutions | 81,093 | 140,762 | 81,093 | 140,762 |
| | 81,093 | 210,762 | 81,093 | 210,762 |

A21. Other liabilities

| | | | | |
|------------------------------------|----------------|----------------|----------------|----------------|
| Interest/Income payable | 24,332 | 23,000 | 23,503 | 22,465 |
| Accruals and provision | 57,092 | 74,571 | 39,249 | 37,353 |
| Retention for contra losses | 487 | 487 | 487 | 487 |
| Structured products | 40,158 | 46,961 | 40,158 | 46,961 |
| Treasury trade payables | 29,879 | - | 29,879 | - |
| Deposits and other creditors | 73,896 | 101,688 | 62,537 | 74,328 |
| Amounts held in trust on behalf of | | | | |
| Dealers' Representatives | 61,665 | 60,484 | 61,665 | 60,484 |
| Amount due to trustee | 10,841 | 21,959 | - | - |
| Amount due to subsidiaries | - | - | 1 | 1,156 |
| | 298,350 | 329,150 | 257,479 | 243,234 |

A22. Borrowings

| | | | | |
|----------------------|----------------|---------------|---------------|---------------|
| Secured: | | | | |
| Revolving bank loan | 58,400 | 64,000 | 58,400 | 64,000 |
| Unsecured: | | | | |
| Revolving bank loans | 66,500 | 21,000 | - | - |
| Subordinated notes | 15,000 | 5,000 | 15,000 | 5,000 |
| | 139,900 | 90,000 | 73,400 | 69,000 |

**KENANGA INVESTMENT BANK BERHAD
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**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

| | <u>Individual Quarter</u> | | <u>Cumulative Quarters</u> | |
|---|---|---|---|---|
| | 3 months ended 30 June 2018 RM'000 | 3 months ended 30 June 2017 RM'000 | 6 months ended 30 June 2018 RM'000 | 6 months ended 30 June 2017 RM'000 |
| A23. Interest Income | | | | |
| <u>Group</u> | | | | |
| Loans, advances and financing | 38,919 | 37,603 | 76,948 | 73,459 |
| Money at call and deposit placements with financial institutions | 14,687 | 9,032 | 28,169 | 19,930 |
| Financial assets at fair value through profit or loss | 472 | 2,332 | 1,177 | 4,365 |
| Financial instrument at FVOCI | 8,236 | - | 16,762 | - |
| Financial instrument at amortised cost | 1,027 | - | 1,654 | - |
| Financial investments available-for-sale | - | 9,350 | - | 15,784 |
| Financial investments held to maturity | - | 470 | - | 962 |
| Others | 11,020 | 9,748 | 22,441 | 28,747 |
| | 74,361 | 68,535 | 147,151 | 143,247 |
| <u>Bank</u> | | | | |
| Loans, advances and financing | 37,340 | 35,750 | 74,363 | 70,267 |
| Money at call and deposit placements with financial institutions | 13,956 | 9,176 | 26,842 | 18,636 |
| Financial assets at fair value through profit or loss | 473 | 2,332 | 1,178 | 4,365 |
| Financial instrument at FVOCI | 8,236 | - | 16,762 | - |
| Financial instrument at amortised cost | 1,027 | - | 1,654 | - |
| Financial investments available-for-sale | - | 9,350 | - | 15,784 |
| Financial investments held to maturity | - | 470 | - | 962 |
| Others | 11,020 | 9,748 | 22,441 | 28,747 |
| | 72,052 | 66,826 | 143,240 | 138,761 |
| A24. Interest Expense | | | | |
| <u>Group</u> | | | | |
| Deposits from customers | 43,218 | 37,296 | 84,707 | 71,766 |
| Deposits and placement from banks and other financial institutions | 137 | 1,658 | 898 | 2,171 |
| Borrowings | 1,403 | 972 | 2,486 | 2,420 |
| Others | 7,497 | 7,540 | 15,755 | 24,565 |
| | 52,255 | 47,466 | 103,846 | 100,922 |
| <u>Bank</u> | | | | |
| Deposits from customers | 43,614 | 37,803 | 85,488 | 72,833 |
| Deposits and placement from banks and other financial institutions | 137 | 1,658 | 898 | 2,171 |
| Borrowings | 657 | 793 | 1,329 | 1,934 |
| Others | 8,009 | 7,540 | 16,682 | 24,565 |
| | 52,417 | 47,794 | 104,397 | 101,503 |

**KENANGA INVESTMENT BANK BERHAD
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**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

| | Individual Quarter | | Cumulative Quarters | |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | 3 months ended 30 June 2018 RM'000 | 3 months ended 30 June 2017 RM'000 | 6 months ended 30 June 2018 RM'000 | 6 months ended 30 June 2017 RM'000 |
| A25. Other Operating Income | | | | |
| Group | | | | |
| (a) Fee income: | | | | |
| Brokerage fees | 43,342 | 53,605 | 95,907 | 102,691 |
| Corporate advisory fees | 3,046 | 4,409 | 5,478 | 6,850 |
| Processing fees on loans, advances and financing | 1,778 | 1,624 | 3,596 | 2,897 |
| Commissions | 1,751 | 2,094 | 3,579 | 4,564 |
| Management fee income | 14,608 | 12,425 | 28,536 | 22,621 |
| Placement fees | 4,283 | 2,775 | 6,270 | 4,521 |
| Underwriting commission | 76 | 60 | 315 | 60 |
| Other fee income | 3,989 | 4,750 | 8,862 | 10,196 |
| | <u>72,873</u> | <u>81,742</u> | <u>152,543</u> | <u>154,400</u> |
| (b) Net gain arising from sale/ redemption of: | | | | |
| Financial assets at fair value through profit or loss and derivatives | 40,212 | 17,583 | 9,172 | 28,798 |
| Financial investments measured at FVOCI | (11) | - | 350 | - |
| Financial investments available-for-sale | - | 1 | - | 1 |
| | <u>40,201</u> | <u>17,584</u> | <u>9,522</u> | <u>28,799</u> |
| (c) Gross dividend income from: | | | | |
| Financial assets at fair value through profit or loss | 268 | 164 | 840 | 185 |
| Financial investments measured at FVOCI | 17 | - | 29 | - |
| Financial investments available-for-sale | - | 50 | - | 306 |
| | <u>285</u> | <u>214</u> | <u>869</u> | <u>491</u> |
| (d) Unrealised (loss)/gain on revaluation of financial assets at fair value through profit or loss and derivatives | <u>(38,281)</u> | <u>(5,233)</u> | <u>6,116</u> | <u>(2,924)</u> |
| (e) Other income: | | | | |
| Net foreign exchange income | 1,109 | 1,383 | 2,814 | 2,826 |
| Gain on disposal of property, plant and equipment | - | 2 | - | 2 |
| Other operating income | 75 | 709 | 423 | 705 |
| Other non-operating income | | | | |
| - Rental income | 639 | 573 | 1,320 | 1,669 |
| - Others | 1,457 | 548 | 2,200 | 686 |
| | <u>3,280</u> | <u>3,215</u> | <u>6,757</u> | <u>5,888</u> |
| Total other operating income | <u>78,358</u> | <u>97,522</u> | <u>175,807</u> | <u>186,654</u> |

**KENANGA INVESTMENT BANK BERHAD
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FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

| | Individual Quarter | | Cumulative Quarters | |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | 3 months ended 30 June 2018 RM'000 | 3 months ended 30 June 2017 RM'000 | 6 months ended 30 June 2018 RM'000 | 6 months ended 30 June 2017 RM'000 |
| A25. Other Operating Income (Cont'd) | | | | |
| Bank | | | | |
| (a) Fee income: | | | | |
| Brokerage fees | 43,342 | 53,605 | 95,907 | 102,691 |
| Corporate advisory fees | 3,055 | 4,418 | 5,496 | 6,869 |
| Processing fees on loans, advances and financing | 1,485 | 1,302 | 2,992 | 2,192 |
| Management fee income | 106 | 279 | 233 | 436 |
| Placement fees | 3,483 | 2,775 | 5,370 | 4,521 |
| Underwriting commission | 76 | 60 | 315 | 60 |
| Other fee income | 2,479 | 2,479 | 4,835 | 5,229 |
| | <u>54,026</u> | <u>64,918</u> | <u>115,148</u> | <u>121,998</u> |
| (b) Net gain arising from sale/redemption of: | | | | |
| Financial assets at fair value through profit or loss and derivatives | 40,230 | 17,583 | 9,172 | 28,798 |
| Financial investments measured at FVOCI | (29) | - | 350 | - |
| Financial investments available-for-sale | - | 1 | - | 1 |
| | <u>40,201</u> | <u>17,584</u> | <u>9,522</u> | <u>28,799</u> |
| (c) Gross dividend from: | | | | |
| Financial assets at fair value through profit or loss | 219 | 164 | 740 | 185 |
| Financial investments measured at FVOCI | 17 | - | 29 | - |
| Financial investments available-for-sale | - | 50 | - | 306 |
| | <u>236</u> | <u>214</u> | <u>769</u> | <u>491</u> |
| (d) Unrealised (loss)/gain on revaluation of financial assets fair value through profit or loss and derivatives | <u>(38,281)</u> | <u>(5,233)</u> | <u>6,116</u> | <u>(2,924)</u> |
| (e) Other income: | | | | |
| Net foreign exchange income | 1,066 | 1,391 | 2,810 | 2,838 |
| Gain on disposal of property, plant and equipment | - | 2 | - | 2 |
| Other operating income | 145 | 770 | 598 | 846 |
| Other non-operating income | | | | |
| - Rental income | 1,065 | 1,275 | 2,168 | 2,577 |
| - Others | 1,210 | 610 | 1,731 | 828 |
| | <u>3,486</u> | <u>4,048</u> | <u>7,307</u> | <u>7,091</u> |
| Total other operating income | <u>59,668</u> | <u>81,531</u> | <u>138,862</u> | <u>155,455</u> |

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| | <u>Individual Quarter</u> | | <u>Cumulative Quarters</u> | |
|---|---|---|---|---|
| | 3 months ended 30 June 2018 RM'000 | 3 months ended 30 June 2017 RM'000 | 6 months ended 30 June 2018 RM'000 | 6 months ended 30 June 2017 RM'000 |
| A26. Other operating expenses | | | | |
| Group | | | | |
| Personnel costs | 38,261 | 39,442 | 79,856 | 77,362 |
| - Salaries, allowances and bonuses | 29,084 | 30,863 | 61,199 | 60,902 |
| - EPF | 4,199 | 3,877 | 8,431 | 7,748 |
| - Others | 4,978 | 4,702 | 10,226 | 8,712 |
| Establishment costs | 11,007 | 14,918 | 22,398 | 27,924 |
| - Depreciation of property, plant and equipment | 3,335 | 3,211 | 6,630 | 6,434 |
| - Amortisation of intangible assets - software | 55 | 190 | 124 | 380 |
| - Rental of premises | 2,342 | 4,107 | 4,715 | 8,281 |
| - Rental of equipment | 154 | 188 | 315 | 345 |
| - Repairs and maintenance | 924 | 1,303 | 2,076 | 2,325 |
| - Information technology expenses | 2,456 | 2,848 | 5,081 | 5,398 |
| - Others | 1,741 | 3,071 | 3,457 | 4,761 |
| Marketing expenses | 3,974 | 4,222 | 7,161 | 8,429 |
| - Promotion and advertisements | 2,052 | 2,466 | 3,656 | 4,489 |
| - Travel and entertainment | 1,349 | 877 | 2,466 | 1,940 |
| - Others | 573 | 879 | 1,039 | 2,000 |
| Administration and general expenses | 43,705 | 51,429 | 96,482 | 98,460 |
| - Communication expenses | 1,218 | 1,189 | 2,401 | 2,576 |
| - Professional fees and legal fees | 668 | 954 | 2,768 | 1,561 |
| - Regulatory charges | 5,757 | 5,963 | 11,388 | 11,100 |
| - Fees and brokerage | 30,934 | 37,620 | 69,694 | 72,381 |
| - Administrative expenses | 4,744 | 5,281 | 9,453 | 9,987 |
| - Printing and stationery | 384 | 422 | 778 | 855 |
| | 96,947 | 110,011 | 205,897 | 212,175 |

**KENANGA INVESTMENT BANK BERHAD
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**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

| | Individual Quarter | | Cumulative Quarters | |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | 3 months ended 30 June 2018 RM'000 | 3 months ended 30 June 2017 RM'000 | 6 months ended 30 June 2018 RM'000 | 6 months ended 30 June 2017 RM'000 |
| A26. Other operating expenses (Cont'd) | | | | |
| Bank | | | | |
| Personnel costs | 28,528 | 30,168 | 60,633 | 59,448 |
| - Salaries, allowances and bonuses | 22,441 | 24,937 | 48,380 | 49,538 |
| - EPF | 3,334 | 3,098 | 6,612 | 6,194 |
| - Others | 2,753 | 2,133 | 5,641 | 3,716 |
| Establishment costs | 9,497 | 13,594 | 19,356 | 25,005 |
| - Depreciation of property, plant and equipment | 3,218 | 3,130 | 6,394 | 6,279 |
| - Rental of premises | 2,158 | 4,195 | 4,355 | 7,998 |
| - Rental of equipment | 67 | 101 | 140 | 173 |
| - Repair and maintenance | 749 | 1,044 | 1,667 | 1,874 |
| - Information technology expenses | 2,430 | 2,822 | 5,039 | 5,351 |
| - Others | 875 | 2,302 | 1,761 | 3,330 |
| Marketing expenses | 2,512 | 2,780 | 4,384 | 5,715 |
| - Promotion and advertisement | 1,197 | 1,309 | 1,797 | 2,378 |
| - Travel and entertainment | 749 | 703 | 1,564 | 1,600 |
| - Others | 566 | 768 | 1,023 | 1,737 |
| Administration and general expenses | 34,110 | 42,976 | 77,394 | 82,442 |
| - Communication expenses | 1,035 | 1,040 | 2,056 | 2,273 |
| - Professional fees and legal fees | 602 | 886 | 2,640 | 1,435 |
| - Regulatory charges | 5,342 | 5,452 | 10,578 | 10,039 |
| - Fees and brokerages | 22,602 | 30,614 | 53,180 | 59,403 |
| - Administrative expenses | 4,275 | 4,667 | 8,426 | 8,605 |
| - Printing and stationery | 254 | 317 | 514 | 687 |
| | 74,647 | 89,518 | 161,767 | 172,610 |

**KENANGA INVESTMENT BANK BERHAD
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**NOTES TO INTERIM FINANCIAL REPORT
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A27. Credit loss (expense)/reversal

The tables below show the ECL charges on financial instruments for the period recorded in the income statement:

Group

| Individual Quarter | 2018 | | | |
|--|---------------------------|---------------------------|---------------------------|-------------------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| Movement in ECLs | | | | |
| Debts instruments measured at amortised cost | (1) | (13) | - | (14) |
| Loans, advances and financing | 54 | (11) | 18 | 61 |
| Loan commitments | (56) | - | - | (56) |
| Balance due from clients and brokers | (2) | 6 | (30) | (26) |
| Other debtors | - | (19) | (180) | (199) |
| Credit loss expense | (5) | (37) | (192) | (234) |

| Cumulative Quarters | 2018 | | | |
|--|---------------------------|---------------------------|---------------------------|-------------------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| Movement in ECLs | | | | |
| Debts instruments measured at amortised cost | - | 95 | - | 95 |
| Loans, advances and financing | 3 | (11) | 18 | 10 |
| Loan commitments | (50) | - | - | (50) |
| Balance due from clients and brokers | - | (4) | (45) | (49) |
| Other debtors | - | (62) | (192) | (254) |
| Credit loss (expense)/reversal | (47) | 18 | (219) | (248) |

Bank

| Individual Quarter | 2018 | | | |
|--|---------------------------|---------------------------|---------------------------|-------------------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| Movement in ECLs | | | | |
| Debts instruments measured at amortised cost | (1) | (13) | - | (14) |
| Loans, advances and financing | 53 | - | - | 53 |
| Loan commitments | (56) | - | - | (56) |
| Balance due from clients and brokers | (2) | 6 | (31) | (27) |
| Other debtors | - | (19) | (180) | (199) |
| Credit loss expense | (6) | (26) | (211) | (243) |

**KENANGA INVESTMENT BANK BERHAD
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A27. Credit loss (expense)/reversal (cont'd)

Bank

Cumulative Quarters

| | 2018 | | | |
|---|-------------------|-------------------|-------------------|-----------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| Movement in ECLs | | | | |
| Debts instruments measured at amortised cost | - | 95 | - | 95 |
| Loans, advances and financing | 161 | - | - | 161 |
| Loan commitments | (50) | - | - | (50) |
| Balance due from clients and brokers | - | (4) | (45) | (49) |
| Other debtors | - | (62) | (209) | (271) |
| Credit loss reversal/(expense) | 111 | 29 | (254) | (114) |

The tables below disclose the impairment charges recorded in the income statement under MFRS 139 during 2017:

(i) (Allowance for)/Write back of impairment on loans, advances and financing:

| | Individual Quarter 3 months ended 30 June 2017 RM'000 | Cumulative Quarters 6 months ended 30 June 2017 RM'000 |
|------------------------------|---|--|
| <u>Group</u> | | |
| Impairment: | | |
| - collective allowance (net) | (141) | (99) |
| - individual allowance (net) | (22) | (64) |
| | (163) | (163) |
| <u>Bank</u> | | |
| Impairment: | | |
| - collective allowance (net) | 93 | 142 |
| - individual allowance (net) | (43) | (85) |
| | 50 | 57 |

(ii) (Allowance for)/Write back of impairment on balances due from clients and brokers

Group and Bank

Impairment allowance

| | | |
|---|------------|--------------|
| - made during the financial period | (2,240) | (3,945) |
| - written back during the financial period | 2,991 | 3,529 |
| | 751 | (416) |

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A27. Credit loss (expense)/reversal (cont'd)

(iii) Write back of/(Allowance for) impairment on balances due from other receivables

| <u>Group</u> | <u>Individual Quarter</u> | <u>Cumulative Quarters</u> |
|--|---|---|
| | 3 months ended 30 June 2017 RM'000 | 6 months ended 30 June 2017 RM'000 |
| Impairment allowance | | |
| - made during the financial period | (2,125) | (2,532) |
| - written back during the financial period | 954 | 1,733 |
| | (1,171) | (799) |
| <u>Bank</u> | | |
| Impairment allowance | | |
| - made during the financial period | (1,005) | (1,412) |
| - written back during the financial period | 954 | 1,733 |
| | (51) | 321 |

A28. Bad debts recovered/written off

| | <u>Individual Quarter</u> | | <u>Cumulative Quarters</u> | |
|------------------------------------|---|---|---|---|
| | 3 months ended 30 June 2018 RM'000 | 3 months ended 30 June 2017 RM'000 | 6 months ended 30 June 2018 RM'000 | 6 months ended 30 June 2017 RM'000 |
| <u>Group</u> | | | | |
| Loans, advances and financing | 26 | 8 | 13,527 | 9 |
| Amount due from client and brokers | 121 | | 150 | - |
| Other receivables | - | 82 | (4) | 105 |
| | 147 | 90 | 13,673 | 114 |
| <u>Bank</u> | | | | |
| Loans, advances and financing | 26 | 8 | 13,527 | 9 |
| Amount due from client and brokers | 121 | - | 150 | - |
| Other receivables | - | 82 | (4) | 105 |
| | 147 | 90 | 13,673 | 114 |

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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.

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FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018

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

Group

30 June 2018

| | 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 | - | 385,716 | - | 385,716 |
| - Equity securities | 47,525 | 107,670 | 10,208 | 165,403 |
| Financial investments at FVOCI | | | | |
| - Debt securities | - | 966,046 | - | 966,046 |
| - Equity securities | - | - | 1,754 | 1,754 |
| - Negotiable Instruments of Deposit | - | 50,000 | - | 50,000 |
| - Islamic Negotiable Instruments of Deposit | - | 349,010 | - | 349,010 |
| Derivative financial assets | - | 81,306 | - | 81,306 |
| Financial assets at amortised cost for which fair values are disclosed | | | | |
| Financial investments at amortised cost | - | 135,032 | - | 135,032 |
| Loans, advances and financing | - | - | 2,138,667 | 2,138,667 |
| | 47,525 | 2,074,780 | 2,150,629 | 4,272,934 |

Financial liabilities measured at fair value

| | | | | |
|----------------------------------|---------------|----------------|----------|----------------|
| Derivative financial liabilities | 16,503 | 4,698 | - | 21,201 |
| Borrowings | - | 138,172 | - | 138,172 |
| | 16,503 | 142,870 | - | 159,373 |

31 December 2017

| | 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 | - | 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 |
| Financial assets for which fair values are disclosed | | | | |
| Financial investments held-to-maturity | - | 38,214 | - | 38,214 |
| Loans, advances and financing | - | - | 2,194,417 | 2,194,417 |
| | 219,428 | 1,443,216 | 2,204,625 | 3,867,269 |
| Financial 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 |
| | 32,356 | 169,190 | - | 201,546 |

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

Bank

30 June 2018

| | 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 | - | 385,716 | - | 385,716 |
| - Equity securities | 47,525 | 101,938 | 10,208 | 159,671 |
| Financial investments at FVOCI | | | | |
| - Debt securities | - | 966,046 | - | 966,046 |
| - Equity securities | - | - | 1,754 | 1,754 |
| - Negotiable Instruments of Deposit | - | 50,000 | - | 50,000 |
| - Islamic Negotiable Instruments of Deposit | - | 349,010 | - | 349,010 |
| Derivative financial assets | - | 81,306 | - | 81,306 |
| Financial assets at amortised cost for which fair values are disclosed | | | | |
| Financial investments at amortised cost | - | 135,032 | - | 135,032 |
| Loans, advances and financing | - | - | 2,098,970 | 2,098,970 |
| | 47,525 | 2,069,048 | 2,110,932 | 4,227,505 |
| Financial liabilities measured at fair value | | | | |
| Derivative financial liabilities | 16,503 | 4,698 | - | 21,201 |
| Borrowings | - | 70,671 | - | 70,671 |
| | 16,503 | 75,369 | - | 91,872 |

31 December 2017

| | 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 | - | 320,099 | - | 320,099 |
| - Equity securities | 219,428 | - | 10,208 | 229,636 |
| - Unquoted private debt securities | - | - | - | - |
| Financial investments available-for-sale # | | 959,677 | - | 959,677 |
| - Debt securities | - | 50,000 | - | 50,000 |
| Derivative financial assets | - | 67,393 | - | 67,393 |
| Financial assets for which fair values are disclosed | | | | |
| Financial investments held-to-maturity | - | 38,214 | - | 38,214 |
| Loans, advances and financing | - | - | 2,179,330 | 2,179,330 |
| | 219,428 | 1,435,383 | 2,189,538 | 3,844,349 |
| Financial 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 | - | 69,380 | - | 69,380 |
| | 32,356 | 148,191 | - | 180,547 |

Excluded unquoted securities stated at cost of RM490,000.

There has been no transfer between level 1 & level 2 during the current period ended 30 June 2018 (31 December 2017: None)

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**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

| | As at 30 June 2018 | As at 31 December 2017 |
|--|-------------------------------|-------------------------------|
| | Principal Amount RM'000 | Principal Amount RM'000 |

**A30. Commitments and Contingencies and Off-Balance Sheet
Financial Instruments**

Group

| | | |
|--|------------------|------------------|
| Obligations under underwriting agreements | 17,050 | - |
| Commitments to extend credit with maturity of less than 1 year :- | | |
| - share margin financing | 1,729,480 | 1,662,114 |
| - corporate loan | 25,551 | 6,485 |
| - foreign exchange related contract | 37,072 | 50,111 |
| - equity exchange related contract | 122,562 | 157,823 |
| Commitments to extend credit with maturity of more than 1 year :- | | |
| - corporate loan | 79,874 | 26,000 |
| - equity related contract | 1,388 | 1,460 |
| Client trust in respect of the stockbroking business | 832,522 | 728,134 |
| Derivative financial assets | | |
| - dual currency investment - options | 4,478 | 18,114 |
| - equity related contracts - options | 101,757 | 111,305 |
| - equity related contracts - swaps | 5,153 | 75,772 |
| Derivative financial liabilities | | |
| - dual currency investment - options | 4,478 | 18,114 |
| - equity related contracts - options | 326,002 | 433,635 |
| Capital commitment: | | |
| - Authorised and contracted for | 2,354 | 4,167 |
| | <u>3,289,722</u> | <u>3,293,234</u> |

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| As at 30 June 2018 | As at 31 December 2017 |
|--|--|
| 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 | 17,050 | - |
| Commitments to extend credit with maturity of less than 1 year :- | | |
| - share margin financing | 1,729,480 | 1,662,114 |
| - corporate loan | 112,551 | 80,985 |
| - foreign exchange related contract | 37,072 | 50,111 |
| - equity exchange related contract | 122,562 | 157,823 |
| Commitments to extend credit with maturity of more than 1 year :- | | |
| - corporate loan | 109,874 | 56,000 |
| - equity exchange related contract | 1,388 | 1,460 |
| Client trust in respect of the stockbroking business | 832,522 | 728,134 |
| Derivative financial assets | | |
| - dual currency investment - options | 4,478 | 18,114 |
| - equity related contracts - options | 101,757 | 111,305 |
| - equity related contracts - swaps | 5,153 | 75,772 |
| Derivative financial liabilities | | |
| - dual currency investment - options | 4,478 | 18,114 |
| - equity related contracts - options | 326,002 | 433,635 |
| Capital commitment: | | |
| - Authorised and contracted for | 2,337 | 3,943 |
| Investment in equity fund | 17,854 | 13,792 |
| | <u>3,424,559</u> | <u>3,411,302</u> |

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| | Group | | Bank | |
|--|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | 30 June 2018 RM'000 | 31 December 2017 RM'000 | 30 June 2018 RM'000 | 31 December 2017 RM'000 |
| A31. Operating lease arrangements | | | | |
| Future minimum rental payable: | | | | |
| Within one year | 8,380 | 8,291 | 7,881 | 7,769 |
| Between one and five years | 5,800 | 6,660 | 5,523 | 6,423 |
| | <u>14,180</u> | <u>14,951</u> | <u>13,404</u> | <u>14,192</u> |
| Future minimum sublease receipts: | | | | |
| Subsidiaries | - | - | 2,952 | 3,116 |
| External parties | 4,152 | 5,106 | 4,152 | 5,106 |
| | <u>4,152</u> | <u>5,106</u> | <u>7,104</u> | <u>8,222</u> |

A32. Capital Adequacy

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

| | Group | | Bank | |
|---|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | 30 June 2018 RM'000 | 31 December 2017 RM'000 | 30 June 2018 RM'000 | 31 December 2017 RM'000 |
| <u>CET 1 / Tier 1 capital</u> | | | | |
| Paid-up share capital | 246,213 | 246,137 | 246,213 | 246,137 |
| Retained profits | 497,957 | 520,345 | 490,584 | 513,726 |
| Other reserves | 123,619 | 124,984 | 173,855 | 174,300 |
| Less: Regulatory adjustments: | | | | |
| Deferred tax assets | (7,374) | (10,006) | (5,275) | (7,798) |
| Goodwill | (208,754) | (208,754) | (252,909) | (252,909) |
| Other intangibles | (57,557) | (57,660) | (52,500) | (52,500) |
| Regulatory reserve | (25,226) | (25,277) | (25,226) | (25,277) |
| Treasury shares | (3,772) | - | (3,772) | - |
| Deduction in excess of Tier 2* | (74,807) | (58,927) | (153,600) | (130,118) |
| Total CET 1/Tier 1 capital | <u>490,299</u> | <u>530,842</u> | <u>417,370</u> | <u>465,561</u> |
| <u>Tier 2 capital</u> | | | | |
| Subordinated obligations capital | 15,000 | 5,000 | 15,000 | 5,000 |
| Impairment provision and regulatory reserves | 17,362 | 13,353 | 16,846 | 13,081 |
| Less: Regulatory adjustments applied to Tier 2 capital | - | (14,732) | - | (18,081) |
| Total Tier 2 capital | <u>32,362</u> | <u>3,621</u> | <u>31,846</u> | <u>-</u> |
| Total capital | <u>522,661</u> | <u>534,463</u> | <u>449,216</u> | <u>465,561</u> |

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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 | |
|----------------------|-----------------|---------------------|-----------------|---------------------|
| | 30 June 2018 | 31 December 2017 | 30 June 2018 | 31 December 2017 |
| CET 1 capital ratio | 22.833% | 29.898% | 20.965% | 28.390% |
| Tier 1 capital ratio | 22.833% | 29.898% | 20.965% | 28.390% |
| Total capital ratio | 24.340% | 30.102% | 22.565% | 28.390% |

* 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 30 June 2018 | | Group 31 December 2017 | |
|-----------------------------------|------------------------------|-----------------------------------|------------------------------|-----------------------------------|
| | Notional amount RM'000 | Risk-weighted amount RM'000 | Notional amount RM'000 | Risk-weighted amount RM'000 |
| Credit Risk | 5,297,782 | 1,388,941 | 4,501,487 | 1,068,244 |
| Market Risk | - | 187,712 | - | 152,115 |
| Operational Risk | - | 561,351 | - | 548,768 |
| Large exposure risk | - | 9,307 | - | 6,400 |
| Total Risk Weighted Assets | 5,297,782 | 2,147,311 | 4,501,487 | 1,775,527 |

| | Bank 30 June 2018 | | Bank 31 December 2017 | |
|-----------------------------------|------------------------------|-----------------------------------|------------------------------|-----------------------------------|
| | Notional amount RM'000 | Risk-weighted amount RM'000 | Notional amount RM'000 | Risk-weighted amount RM'000 |
| Credit Risk | 5,121,992 | 1,347,676 | 4,300,880 | 1,046,479 |
| Market Risk | - | 171,948 | - | 130,574 |
| Operational Risk | - | 461,834 | - | 456,444 |
| Large exposure risk | - | 9,307 | - | 6,400 |
| Total Risk Weighted Assets | 5,121,992 | 1,990,765 | 4,300,880 | 1,639,897 |

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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A33. Credit Exposures Arising From Credit Transactions With Connected Parties

| | 30 June 2018 | 31 December 2017 |
|--|-------------------------|-----------------------------|
| Outstanding credit exposures with connected parties (RM'000) | <u>319,289</u> | <u>284,320</u> |
| Percentage of outstanding credit exposures to connected parties:- - as a proportion of total credit exposures | <u>8.93%</u> | <u>7.10%</u> |
| - which was impaired or in default | <u>-</u> | <u>-</u> |

The credit exposure above were derived based on Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which was effective since 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 broking business
- (iv) Money lending and financing - Money lending, islamic factoring and leasing;
- (v) Investment and Wealth Management - Management of funds and unit trusts; and
- (vi) Corporate and others - Support services comprise all middle and back office functions, and, includes business operations conducted by the Group's associates in the Kingdom of Saudi Arabia and Sri Lanka and joint venture company.

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

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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 |
|---|--|-------------------------------------|---------------------------------------|---|--|--|--|-------------------------|
| 2018 | | | | | | | | |
| Revenue | | | | | | | | |
| External sales | 137,704 | 153,702 | 5,106 | 3,729 | 42,627 | 6,588 | - | 349,456 |
| Inter-segment sales | 882 | - | 722 | - | 1,812 | - | (3,416) | - |
| Total revenue | 138,586 | 153,702 | 5,828 | 3,729 | 44,439 | 6,588 | (3,416) | 349,456 |
| Result | | | | | | | | |
| Net income | 28,647 | 146,348 | 5,541 | 2,672 | 36,421 | 7,391 | (2,191) | 224,829 |
| Other operating expenses | (23,723) | (130,414) | (7,078) | (2,369) | (38,294) | (5,410) | 1,391 | (205,897) |
| Credit loss (expenses)/reversal | (258) | (106) | - | 6 | 7 | 261 | (158) | (248) |
| Bad debt recovery | - | 172 | - | - | - | 13,501 | - | 13,673 |
| Share of results of associates and joint venture company | - | - | - | - | - | (3,425) | - | (3,425) |
| Profit/(loss) before taxation and zakat | 4,666 | 16,000 | (1,537) | 309 | (1,866) | 12,318 | (958) | 28,932 |
| Taxation and zakat | | | | | | | | (10,376) |
| Net profit for the financial period | | | | | | | | 18,556 |

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

**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

A34. Segmental reporting (cont'd.)

| | Investment banking and stockbroking RM'000 | Futures broking RM'000 | Money lending and financing RM'000 | Investment and wealth management RM'000 | Corporate and Others RM'000 | Elimination/ consolidation adjustments RM'000 | Notes | Total RM'000 |
|---|---|---------------------------------------|---|--|--|--|--------------|-------------------------|
| 2018 (cont'd.) | | | | | | | | |
| Other information | | | | | | | | |
| Net interest and finance income | 39,517 | 1,957 | 1,309 | 378 | 4,427 | 927 | - | 48,515 |
| Depreciation and amortisation | 2,797 | 48 | 17 | 294 | 3,598 | - | - | 6,754 |
| Non cash expenses | | | | | | | | |
| - Unrealised gains on revaluation of financial assets at fair value through profit or loss and derivatives | 5,696 | - | - | - | - | - | - | 5,696 |
| Assets | | | | | | | | |
| Investments in associate companies | - | - | - | - | 46,970 | - | | 46,970 |
| Investment in a joint venture company | | | | | 13,918 | | | 13,918 |
| Addition to non-current assets | 5,189 | 43 | 67 | 224 | - | - | A | 5,523 |
| Segment assets | 6,700,426 | 300,368 | 100,860 | 58,529 | 17,732 | (201,511) | B | 6,976,404 |
| Liabilities | | | | | | | | |
| Segment liabilities | 5,768,581 | 275,220 | 88,813 | 26,566 | 5,823 | (71,171) | C | 6,093,832 |

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**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

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 |
|--|--|-------------------------------------|---------------------------------------|---|--|--|--|-------------------------|
| 2017 | | | | | | | | |
| Revenue | | | | | | | | |
| External sales | 127,296 | 164,220 | 7,126 | 4,512 | 34,308 | 6,011 | - | 343,473 |
| Inter-segment sales | 1,861 | 140 | 767 | - | 1,047 | - | (3,815) | - |
| Total revenue | 129,157 | 164,360 | 7,893 | 4,512 | 35,355 | 6,011 | (3,815) | 343,473 |
| Result | | | | | | | | |
| Net income | 31,832 | 156,717 | 7,538 | 2,647 | 30,423 | 7,076 | (2,311) | 233,922 |
| Other operating expenses | (24,719) | (137,410) | (7,584) | (2,262) | (34,564) | (8,280) | 2,311 | (212,508) |
| (Allowance for)/Write back of impairment on loans, advances and financing | (155) | (77) | - | 21 | - | 298 | (241) | (154) |
| (Allowance for)/Write back of impairment on balances due from clients and brokers and other receivables | (54) | (328) | - | - | 3 | (731) | - | (1,110) |
| Share of results of associates and a joint venture company | - | - | - | - | - | (5,066) | - | (5,066) |
| Profit/(loss) before taxation and zakat | 6,904 | 18,902 | (46) | 406 | (4,138) | (6,703) | (241) | 15,084 |
| Taxation and zakat | | | | | | | | (8,853) |
| Net profit for the financial period | | | | | | | | 6,231 |
| Other information | | | | | | | | |
| Net interest and finance income | 13,633 | 23,369 | 2,981 | 1,786 | 215 | 4,078 | - | 46,062 |
| Depreciation and amortisation | 335 | 2,481 | 300 | 7 | 225 | 3,466 | - | 6,814 |
| Non cash expenses | | | | | | | | |
| - Unrealised (losses)/gains on revaluation of financial assets at fair value through profit or loss and derivatives | 436 | (3,554) | - | - | - | - | - | (3,118) |

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**NOTES TO INTERIM FINANCIAL REPORT
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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 |
|---------------------------------------|---|------------------------------|--|--|--------------------------------------|--|----------|-----------------|
| 2017 (cont'd.) | | | | | | | | |
| Assets | | | | | | | | |
| Investments in associate companies | - | - | - | - | 65,666 | - | | 65,666 |
| Investment in a joint venture company | - | - | - | - | 12,720 | - | | 12,720 |
| Addition to non-current assets | 9,302 | 50 | 3 | 566 | - | - | A | 9,921 |
| Segment assets | 6,484,243 | 286,338 | 62,718 | 58,461 | 18,973 | (206,070) | B | 6,704,663 |
| Liabilities | | | | | | | | |
| Segment liabilities | 5,579,066 | 248,508 | 51,244 | 28,368 | 6,877 | (95,281) | C | 5,818,782 |

Notes

A Additions to non-current assets consist of:

| | 2018 RM'000 | 2017 RM'000 |
|---|----------------|----------------|
| Property, plant and equipment | | |
| - Additions during the financial period | 5,502 | 9,818 |
| Intangible assets | | |
| - Additions during the financial period | 21 | 103 |
| | <u>5,523</u> | <u>9,921</u> |

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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.

| | 2018 | 2017 |
|--|------------------|------------------|
| | RM'000 | RM'000 |
| Investment in subsidiaries | (81,755) | (67,550) |
| Investment in associates and joint venture | (7,388) | 5,965 |
| Intangible assets | (40,095) | (40,095) |
| Inter-segment assets | (72,273) | (104,390) |
| | <u>(201,511)</u> | <u>(206,070)</u> |

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

| | 2018 | 2017 |
|-------------------------------------|-----------------|-----------------|
| | RM'000 | RM'000 |
| Deposits accepted from subsidiaries | (46,523) | (58,760) |
| Inter-segment liabilities | (24,648) | (36,521) |
| | <u>(71,171)</u> | <u>(95,281)</u> |

**KENANGA INVESTMENT BANK BERHAD
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**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

A35. Operations of Islamic Banking

**(a) Unaudited Statement of Financial Position
As at 30 June 2018**

| | Note | Group and Bank | |
|--|----------|-------------------------------------|---|
| | | As at 30 June 2018 RM '000 | As at 31 December 2017 RM '000 |
| ASSETS | | | |
| Cash and bank balances | (e) | 288,592 | 532,663 |
| Financial assets at fair value through profit or loss | (f) | 284,491 | 122,501 |
| Financial investment measured at FVOCI | (g)(i) | 587,644 | - |
| Financial investment at amortised cost | (g)(ii) | 35,080 | - |
| Financial investments available-for-sale | (g)(iii) | - | 199,576 |
| Financial investments held-for-maturity | (g)(iv) | - | 5,001 |
| Financing and advances | (h) | 189,270 | 172,052 |
| Balances due from clients and brokers | | 1,845 | 7,497 |
| Other assets | | 14,866 | 22,788 |
| Property, plant and equipment | | 101 | 104 |
| Deferred tax assets | | 174 | - |
| TOTAL ASSETS | | 1,402,063 | 1,062,182 |
| LIABILITIES | | | |
| Deposits from customers | (i) | 1,064,190 | 819,296 |
| Balances due to clients and brokers | | 1,347 | 1,378 |
| Other liabilities | (j) | 191,644 | 97,802 |
| Deferred tax liabilities | | - | 15 |
| Provision for taxation and zakat | | 1,100 | 2,177 |
| TOTAL LIABILITIES | | 1,258,281 | 920,668 |
| ISLAMIC BANKING CAPITAL FUNDS | | | |
| Islamic banking funds | | 120,000 | 120,000 |
| Reserves | | 23,782 | 21,514 |
| TOTAL ISLAMIC BANKING CAPITAL FUNDS | | 143,782 | 141,514 |
| TOTAL LIABILITIES AND ISLAMIC BANKING CAPITAL FUNDS | | 1,402,063 | 1,062,182 |

KENANGA INVESTMENT BANK BERHAD
(15678-H)

NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018

A35. Operations of Islamic Banking (Cont'd)

(b) Unaudited Statement Of Profit Or Loss And Other Comprehensive Income
For the financial period ended 30 June 2018

| | Group and Bank | | | |
|---|--|--|--|--|
| | Individual Quarter | | Cumulative Quarter | |
| | 3 months ended 30 June 2018 RM'000 | 3 months ended 30 June 2017 RM'000 | 6 months ended 30 June 2018 RM'000 | 6 months ended 30 June 2017 RM'000 |
| | | | | |
| Income derived from investment of depositors' funds | (k) 12,523 | 8,747 | 25,396 | 13,508 |
| Income derived from investment of shareholders' funds | (l) 2,086 | 1,357 | 3,999 | 3,115 |
| Credit loss (expenses)/reversal | (46) | 86 | 121 | 59 |
| Allowance for impairment on other assets | - | (60) | - | (60) |
| Total attributable income | 14,563 | 10,130 | 29,516 | 16,622 |
| Profit distributed to depositors | (m) (10,923) | (6,291) | (22,158) | (10,732) |
| Net income | 3,640 | 3,839 | 7,358 | 5,890 |
| Finance cost | (800) | (659) | (1,520) | (1,281) |
| Personnel expenses | (n) (171) | (145) | (336) | (277) |
| Other overhead expenses | (o) (629) | (511) | (1,275) | (1,049) |
| Profit before taxation and zakat | 2,040 | 2,524 | 4,227 | 3,283 |
| Taxation and zakat | (540) | (673) | (1,100) | (904) |
| Profit for the financial period | 1,500 | 1,851 | 3,127 | 2,379 |

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 | 12,523 | 8,747 | 25,396 | 13,508 |
| Income derived from investment of shareholders' funds | 2,086 | 1,357 | 3,999 | 3,115 |
| Total income before impairment allowances and overhead expenses | 14,609 | 10,104 | 29,395 | 16,623 |
| Profit distributed to depositors | (10,923) | (6,291) | (22,158) | (10,732) |
| Finance cost | (800) | (659) | (1,520) | (1,281) |
| Income from Islamic Banking Window operations reported in the statement of profit or loss of the Group and the Bank | 2,886 | 3,154 | 5,717 | 4,610 |

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**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

A35. Operations Of Islamic Banking (Cont'd)

**(d) Statement Of Changes In Islamic Banking Funds
For the financial period ended 30 June 2018**

Group and Bank

| | Non-distributable | | | | | Distributable | Total RM'000 |
|--|-----------------------------------|--|---------------------------------|----------------------------|--------------------------------|-------------------------------|-----------------|
| | Islamic Banking Fund RM'000 | Fair value (Deficit)/ Reserve RM'000 | Regulatory Reserve RM'000 | ESOS Reserves RM'000 | Capital Reserve * RM'000 | Retained Profits RM'000 | |
| At 1 January 2018 | 120,000 | 48 | 1,928 | - | 5,248 | 14,290 | 141,514 |
| Impact of adopting MFRS 9 | - | - | - | - | - | (266) | (266) |
| Profit for the financial period | - | - | - | - | - | 3,127 | 3,127 |
| Other comprehensive income for the financial period | - | (597) | - | - | - | - | (597) |
| Issue of shares pursuant to ESOS | - | - | - | 4 | - | - | 4 |
| Transfer to regulatory reserve | - | - | 1,133 | - | - | (1,133) | - |
| At 30 June 2018 | 120,000 | (549) | 3,061 | 4 | 5,248 | 16,018 | 143,782 |
| At 1 January 2017 | 120,000 | (649) | 1,663 | - | 5,248 | 8,568 | 134,830 |
| Profit for the financial period | - | - | - | - | - | 2,379 | 2,379 |
| Other comprehensive income for the financial period | - | 593 | - | - | - | - | 593 |
| Transfer to regulatory reserve | - | - | 468 | - | - | (468) | - |
| At 30 June 2017 | 120,000 | (56) | 2,131 | - | 5,248 | 10,479 | 137,802 |

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

**(c) Unaudited Condensed Statements Of Cash Flows
For the financial period ended 30 June 2018**

| | Group and Bank | |
|--|-------------------------------------|-------------------------------------|
| | 30 June 2018 RM '000 | 30 June 2017 RM '000 |
| Cash flows from operating activities | | |
| Profit before tax expense and zakat | 4,227 | 3,283 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 23 | 21 |
| (Reversal of)/Allowance for credit loss expense | (121) | 1 |
| Realised loss from sale of financial assets of fair value through profit or loss | 413 | 181 |
| Realised loss/(gain) from sale of financial investments measured at FVOCI/ available-for-sale | 19 | (1) |
| Unrealised loss on revaluation of financial assets at fair value through profit or loss | 420 | 194 |
| Operating profit before working capital changes | <u>4,981</u> | <u>3,679</u> |
| Changes in operating assets: | | |
| Financing and advances | (17,059) | (34,089) |
| Balances due from clients and brokers | (5,652) | - |
| Other assets | (7,917) | (52,394) |
| Changes in operating liabilities: | | |
| Deposits from customers | 244,894 | 357,374 |
| Balances due to clients and brokers | (31) | 882 |
| Other liabilities | 117,290 | 16,803 |
| Net cash generated from operating activities | <u>336,506</u> | <u>292,255</u> |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (20) | (181) |
| Net purchase of securities | (580,557) | (100,496) |
| Net investing cash flow | <u>(580,577)</u> | <u>(100,677)</u> |
| Net change in cash and cash equivalents | (244,071) | 191,578 |
| Cash and cash equivalents at beginning of the financial period | <u>532,663</u> | <u>160,638</u> |
| Cash and cash equivalents at end of the financial period | <u>288,592</u> | <u>352,216</u> |

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**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

A35. Operations Of Islamic Banking (Cont'd)

| | Group and Bank | |
|--|--|--|
| | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
| (e) Cash and short-term funds | | |
| Current account with Bank Negara Malaysia and banks | 52,242 | 3,763 |
| Money at call and deposit placements with: | | |
| Licensed banks | 136,350 | 388,900 |
| Bank Negara Malaysia | - | 140,000 |
| Domestic non-bank financial institutions | 100,000 | - |
| | <u>288,592</u> | <u>532,663</u> |
| (f) Financial Assets at fair value through profit or loss | | |
| At Fair Value | | |
| Money Market Instruments: | | |
| Malaysian Government Investment Certificates | 39,770 | 30,065 |
| Structured Placement | 100,000 | - |
| Government Bills | 49,634 | - |
| Negotiable Instruments of Deposits | 50,229 | - |
| Unquoted Private Debt Securities in Malaysia: | | |
| Corporate Bills | 44,858 | 92,436 |
| | <u>284,491</u> | <u>122,501</u> |
| (g) Financial investment other than those measured at FVTPL | | |
| (i) Financial instrument measured at Fair Value Through Other Comprehensive Income ("FVOCI"): | | |
| (a) Money market instruments: | | |
| Malaysian Government Investment Certificates | 111,094 | - |
| Negotiable Instruments of Deposits | 349,010 | - |
| Sukuk Perumahan Kerajaan | 10,042 | - |
| | <u>470,146</u> | <u>-</u> |
| (b) Debt instruments: | | |
| Corporate Sukuk | 117,498 | - |
| Total Financial instrument measured at Fair Value Through Other Comprehensive Income ("FVOCI"): | <u>587,644</u> | <u>-</u> |
| (ii) Financial instrument at amortised cost: | | |
| Debt instruments: | | |
| Islamic Corporate Sukuk | 35,080 | - |
| Total financial instrument at amortised cost: | <u>35,080</u> | <u>-</u> |
| Total Financial investment other than those measured at FVTPL | <u>622,724</u> | <u>-</u> |

NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018

A35. Operations Of Islamic Banking (Cont'd)

| | Group and Bank | |
|---|------------------------------------|--|
| | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
| (g) Financial investment other than those measured at FVTPL (cont'd) | | |
| (iii) Financial Investments Available-for-Sale | | |
| At Fair Value | | |
| Money Market Instruments: | | |
| In Malaysia | | |
| Malaysian Government Investment Certificates | - | 61,574 |
| Sukuk Perumahan Kerajaan | - | 10,076 |
| | - | 71,650 |
| Unquoted Private Debt Securities: | | |
| In Malaysia | | |
| Corporate Sukuk | - | 127,926 |
| | - | 199,576 |
| (iv) Financial Investments Held-to-Maturity | | |
| At Amortised Cost | | |
| Unquoted Islamic Private Debt Securities: | | |
| In Malaysia | | |
| Corporate Sukuk | - | 5,001 |
| | - | 5,001 |
| The maturity structure of above securities are as follows: | | |
| Within one year | - | 5,001 |
| | - | 5,001 |

(v) Impairment losses on financial instruments subject to impairment assessment

Debt instrument measured at Amortised Cost ("AC"):

An analysis of changes in the ECLs is, as follows:

Group and Bank

| | 2018 | | |
|------------------------------------|-------------------|-------------------|-----------------|
| | Stage 1 RM'000 | Stage 2 RM'000 | Total RM'000 |
| <u>Movement in ECLs</u> | | | |
| As at 1 January 2018 | 32 | - | 32 |
| New assets originated or purchased | - | - | - |
| As at 30 June 2018 | 32 | - | 32 |

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**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

A35. Operations Of Islamic Banking (Cont'd)

| | Group and Bank | |
|--|--|--|
| | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
| (h) Financing and advances | | |
| At Amortised Cost | | |
| Commodity Murabahah share margin financing | | |
| - Shariah contract - others | 44 | 130 |
| Commodity Murabahah revolving credit | | |
| - Shariah contract - others | - | 12,653 |
| Commodity Murabahah term financing | | |
| - Shariah contract - others | 189,415 | 159,400 |
| | <u>189,459</u> | <u>172,183</u> |
| Less: Allowance for ECL | (189) | - |
| Less: Collective allowance | - | (131) |
| Net financing and advances | <u>189,270</u> | <u>172,052</u> |
| (i) Gross financing and advances analysed by type of customer are as follows: | | |
| Domestic business enterprise - others | 159,328 | 136,947 |
| Individuals | 30,131 | 35,236 |
| | <u>189,459</u> | <u>172,183</u> |
| (ii) Gross financing and advances analysed by geographical distribution are as follows: | | |
| In Malaysia | <u>189,459</u> | <u>172,183</u> |
| (iii) Gross financing and advances analysed by profit rate sensitivity are as follows: | | |
| Variable rate: | | |
| - Cost plus | 189,459 | 172,183 |
| | <u>189,459</u> | <u>172,183</u> |
| (v) Gross financing and advances analysed by economic purpose are as follows: | | |
| - Working capital | 80,262 | 12,750 |
| - Purchase of securities | 109,197 | 94,169 |
| - Others | - | 65,264 |
| | <u>189,459</u> | <u>172,183</u> |
| (vi) Gross financing and advances analysed by residual contractual maturity are as follows: | | |
| - Within one year | 15,080 | 12,750 |
| - More than one year | 174,379 | 159,433 |
| | <u>189,459</u> | <u>172,183</u> |

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

| | Group and Bank | |
|--|---|---|
| | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
| (i) Deposits from customers | | |
| (i) By type of deposit | | |
| Term deposits | | |
| - Tawarruq (Commodity Murabahah deposits) | 1,064,190 | 819,296 |
| | <u>1,064,190</u> | <u>819,296</u> |
| (ii) By type of customers | | |
| Domestic non-bank institutions | 612,780 | 422,164 |
| Government and other statutory bodies | 3,685 | - |
| Business enterprises | 446,753 | 396,176 |
| Individuals | 972 | 956 |
| | <u>1,064,190</u> | <u>819,296</u> |
| (iii) By maturity | | |
| - Due within six months | 821,190 | 776,296 |
| - Due more than six months | 243,000 | 43,000 |
| | <u>1,064,190</u> | <u>819,296</u> |
| (j) Other liabilities | | |
| Murabahah Specific Investment Account | 73,000 | 55,500 |
| Profit payable | 4,446 | 2,534 |
| Other payable | 114,198 | 39,768 |
| | <u>191,644</u> | <u>97,802</u> |
| | | |
| | Group and Bank | |
| | 6 months ended 30 June 2018 RM'000 | 6 months ended 30 June 2017 RM'000 |
| (k) Income derived from investment of depositors' funds | | |
| Finance income and hibah | | |
| Financing and advances | 2,732 | 2,603 |
| Deposits placements with financial institutions | 4,212 | 4,299 |
| Financial assets at fair value through profit or loss | 3,289 | 959 |
| Financial investment other than those measured at FVTPL | 14,994 | - |
| Financial investments available-for-sale | - | 4,895 |
| Financial investments held-to-maturity | - | 118 |
| Accretion of discount | (338) | (239) |
| | <u>24,889</u> | <u>12,635</u> |

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**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

A35. Operations Of Islamic Banking (Cont'd)

| Group and Bank | |
|---|---|
| 6 months ended 30 June 2018 RM'000 | 6 months ended 30 June 2017 RM'000 |

(k) Income derived from investment of depositors' funds (Cont'd)

Other operating income

| | | |
|---|---------------|---------------|
| Net loss on sale of financial assets at fair value through profit or loss | (833) | (375) |
| Net loss on sale of financial investments other than measured at FVTPL | (19) | - |
| Net gain on sale of financial investments available-for-sale | - | 1 |
| Fees on financing and advances | 603 | 659 |
| Brokerage fee | 754 | 399 |
| Rollover fee | 1 | - |
| Advisory fee | 153 | 247 |
| Placement fee | 2 | 35 |
| Direct trading fees | (159) | (99) |
| Other non-operating income | 5 | 6 |
| | <u>507</u> | <u>873</u> |
| | <u>25,396</u> | <u>13,508</u> |

(l) Income derived from investment of shareholders' funds

Finance income and hibah

| | | |
|---|--------------|--------------|
| Financing and advances | 3,567 | 2,644 |
| Financial investment other than those measured at FVTPL | 475 | 512 |
| Accretion of discount | (43) | (41) |
| | <u>3,999</u> | <u>3,115</u> |

(m) Profit distributed to depositors

| | | |
|--|---------------|---------------|
| Deposits from customers and financial institutions | | |
| - Murabahah Fund | 20,005 | 8,629 |
| Others | 2,153 | 2,103 |
| | <u>22,158</u> | <u>10,732</u> |

(n) Personnel costs

| | | |
|---|------------|------------|
| - Salaries, wages, allowances and bonus | 259 | 220 |
| - EPF | 39 | 34 |
| - Other staff related expenses | 38 | 23 |
| | <u>336</u> | <u>277</u> |

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

**NOTES TO INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

A35. Operations Of Islamic Banking (Cont'd)

| | Group and Bank | |
|--|---|---|
| | 6 months ended 30 June 2018 RM'000 | 6 months ended 30 June 2017 RM'000 |
| (o) Other overhead expenses: | | |
| Establishment costs | | |
| - Depreciation | 23 | 21 |
| - Office rental | 28 | 28 |
| - Repairs and maintenance | 1 | 1 |
| - Others | 3 | 3 |
| | <u>55</u> | <u>53</u> |
| Marketing and trading expenses | | |
| - Advertisement and promotions | 11 | 15 |
| - Travelling and entertainment expenses | 2 | 12 |
| | <u>13</u> | <u>27</u> |
| Administration and general expenses | | |
| - Others | <u>1,207</u> | <u>969</u> |
| | <u>1,275</u> | <u>1,049</u> |

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A35. Operations Of Islamic Banking (Cont'd)

| | Group and Bank | |
|-------------------------------|--|--|
| | As at 30 June 2018 RM'000 | As at 31 December 2017 RM'000 |
| (p) Capital adequacy | | |
| CET 1 / Tier 1 Capital | | |
| Islamic Banking funds | 120,000 | 120,000 |
| Retained profits | 12,892 | 14,290 |
| Other reserves | 7,763 | 7,224 |
| Less: | | |
| Regulatory reserves | (3,061) | (1,928) |
| Total CET 1 / Tier 1 capital | <u>137,594</u> | <u>139,586</u> |
| Tier 2 Capital | | |
| Impairment loss provision | 3,315 | 1,862 |
| Total Tier 2 capital | <u>3,315</u> | <u>1,862</u> |
| Total capital | <u>140,909</u> | <u>141,448</u> |
| CET 1 capital ratio | 42.245% | 74.382% |
| Tier 1 capital ratio | 42.245% | 74.382% |
| Total capital ratio | <u>43.263%</u> | <u>75.374%</u> |

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

| | Group and Bank | | | |
|----------------------------|----------------------------|---------------------------------|-------------------------------|---------------------------------|
| | As at 30 June 2018 | | As at 31 December 2017 | |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| | Notional amount | Risk-weighted amount | Notional amount | Risk-weighted amount |
| Credit risk | 1,057,777 | 282,601 | 809,866 | 148,960 |
| Market risk | - | 24,756 | - | 19,125 |
| Operational risk | - | 18,346 | - | 19,577 |
| Total Risk Weighted Assets | <u>1,057,777</u> | <u>325,703</u> | <u>809,866</u> | <u>187,662</u> |

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REQUIREMENTS OF PART A, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA
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B1. Performance Review

Group:

| (RM'000) | Individual period | | Cumulative period | |
|-------------------|-------------------|----------------|-------------------|----------------|
| | 3 months ended | 3 months ended | 6 months ended | 6 months ended |
| | 30 June 2018 | 30 June 2017 | 30 June 2018 | 30 June 2017 |
| Revenue | 167,124 | 174,340 | 349,456 | 343,473 |
| Net income | 103,350 | 120,117 | 224,829 | 233,922 |
| Profit before tax | 5,350 | 9,597 | 28,932 | 15,084 |
| Profit after tax | 3,120 | 4,309 | 18,556 | 6,231 |

The Group reported a pre-tax profit ("PBT") of RM28.9 million for the period ended 30 June 2018 (1H18) as compared to RM15.1 million for the period ended 30 June 2017 (1H17). The increase in PBT was mainly due to bad debt recovery from a court case settlement, higher net interest income and investment banking fees income generated and lower overhead expenses and share of losses from associates. These were partially negated by lower trading and investment income and lower net brokerage fees and higher share of loss from joint venture.

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

Stockbroking:

| (RM'000) | Individual period | | Cumulative period | |
|-------------------|-------------------|----------------|-------------------|----------------|
| | 3 months ended | 3 months ended | 6 months ended | 6 months ended |
| | 30 June 2018 | 30 June 2017 | 30 June 2018 | 30 June 2017 |
| Revenue | 67,328 | 83,052 | 153,702 | 164,360 |
| Net income | 63,743 | 79,145 | 146,348 | 156,717 |
| Profit before tax | 4,154 | 9,162 | 16,000 | 18,902 |

Net income for current quarter ("2Q18") was lower by 19% mainly due to lower net brokerage fee income as a consequence of lower brokerage yield in 2Q18 compared to corresponding quarter in the previous year ("2Q17"). In addition, trading and investment income from call warrant business has decreased due to sharp decline of value in shares and warrants.

The PBT recorded in 2Q18 was lower than 2Q17 as a result of the decrease in the above net income mitigated by lower brokerage related expenses and personnel cost.

On year to date basis, the segment registered lower PBT of RM16.0 million in 1H18 (1H17: PBT of RM18.9 million) mainly due to lower brokerage income and trading and investment income.

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B1. Performance Review (cont'd)

Investment Banking:

| (RM'000) | Individual period | | Cumulative period | |
|-------------------|-------------------|----------------|-------------------|----------------|
| | 3 months ended | 3 months ended | 6 months ended | 6 months ended |
| | 30 June 2018 | 30 June 2017 | 30 June 2018 | 30 June 2017 |
| Revenue | 68,533 | 65,155 | 138,586 | 129,157 |
| Net income | 14,171 | 19,874 | 28,647 | 31,832 |
| Profit before tax | 1,997 | 7,098 | 4,666 | 6,904 |

Investment Banking ("IB") registered lower PBT in 2Q18 compared to 2Q17 as a result of decrease in net trading and investment income as bond prices declined from exit of foreign funds from government bonds. Foreign exchange gain, loan and processing fees and advisory fees income also declined during the quarter but partially offset by higher interest income and placement fees income.

On year to date basis, IB also recorded lower PBT of RM4.7 million in 1H18 (1H17: PBT of RM6.9 million) mainly due to trading and investment loss of RM2.6 million from bond portfolio but mitigated by higher interest income and investment banking fees income.

Investment and Wealth Management:

| (RM'000) | Individual period | | Cumulative period | |
|-----------------|-------------------|----------------|-------------------|----------------|
| | 3 months ended | 3 months ended | 6 months ended | 6 months ended |
| | 30 June 2018 | 30 June 2017 | 30 June 2018 | 30 June 2017 |
| Revenue | 25,037 | 19,552 | 44,439 | 35,355 |
| Net income | 18,910 | 16,132 | 36,421 | 30,423 |
| Loss before tax | (359) | (2,067) | (1,866) | (4,138) |

The loss before tax ("LBT") of this segment in 2Q18 has reduced by RM1.7 million compared to 2Q17 mainly due to higher revenue derived from an equity wrapper product launched and increase of retail sales and its AUM.

Lower LBT of RM1.9 million registered in 1H18 (1H17: LBT of RM4.1 million) mainly due to higher management fee income attributable from steady sales from retail channel.

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B1. Performance Review (cont'd)

Futures broking:

| | Individual period | | Cumulative period | |
|-----------------|-------------------|----------------|-------------------|----------------|
| | 3 months ended | 3 months ended | 6 months ended | 6 months ended |
| | 30 June 2018 | 30 June 2017 | 30 June 2018 | 30 June 2017 |
| (RM'000) | | | | |
| Revenue | 2,933 | 3,584 | 5,828 | 7,893 |
| Net income | 2,823 | 3,441 | 5,541 | 7,538 |
| Loss before tax | (764) | (234) | (1,537) | (46) |

Futures business recorded LBT of RM0.8 million in 2Q18 compared to LBT of RM0.2 million in 2Q17 mainly due a lull in clients trading activities.

Higher LBT of RM1.5 million recorded in 1H18 compared to LBT of RM0.05 million in 1H17 mainly due to lower commission income from lower levels of client activities amid the sluggish market conditions, as well as lower interest income earned.

Money lending and financing:

| | Individual period | | Cumulative period | |
|--------------------------|-------------------|----------------|-------------------|----------------|
| | 3 months ended | 3 months ended | 6 months ended | 6 months ended |
| | 30 June 2018 | 30 June 2017 | 30 June 2018 | 30 June 2017 |
| (RM'000) | | | | |
| Revenue | 2,157 | 1,729 | 3,729 | 4,512 |
| Net income | 1,495 | 959 | 2,672 | 2,647 |
| Profit/(Loss) before tax | 333 | (198) | 309 | 406 |

The result of this segment is in positive position for current quarter compared to loss before tax recorded in 2Q17 due to improved loan and factoring business made.

This segment reported PBT of RM0.3 million in 1H18 compared to PBT of RM0.4 million in 1H17 mainly due to lower interest income from financing activities as a result of lower loan balances in the first quarter compared to the first quarter of previous year.

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B1. Performance Review (cont'd)

Corporate and others:

| | Individual period | | Cumulative period | |
|--------------------------|-------------------|----------------|-------------------|----------------|
| | 3 months ended | 3 months ended | 6 months ended | 6 months ended |
| | 30 June 2018 | 30 June 2017 | 30 June 2018 | 30 June 2017 |
| (RM'000) | | | | |
| Revenue | 3,258 | 3,051 | 6,588 | 6,011 |
| Net income | 3,668 | 3,625 | 7,391 | 7,076 |
| Profit/(Loss) before tax | 787 | (3,930) | 12,318 | (6,703) |

Favourable result of PBT was shown in 2Q18 compared to LBT recorded in 2Q17 was mainly due to lower share of loss in joint venture, share of profit in associates compared to the losses shared in 2Q17 and lower rental expenses incurred in current quarter.

This segment has recorded PBT of RM12.3 mil for 1H18 due to the bad debt recovered from the net settlement of a court case which amounted to RM13.5 mil.

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 30 June 2018 | 3 months ended 31 March 2018 |
| (RM'000) | | |
| Revenue | 167,124 | 182,332 |
| Net income | 103,350 | 121,479 |
| Profit before tax | 5,350 | 23,582 |
| Profit after tax | 3,120 | 15,436 |

For 2Q18, the Group's PBT decreased by 80% compared to previous quarter for the period from 1 January 2018 to 31 March 2018 mainly due to lower brokerage and trading and investment income as well as bad debt recovered of RM13.5 million in the previous quarter, partially mitigated by higher interest income and investment banking fee income.

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B3. Prospects for 2018

During 2Q18, Malaysia's domestic capital markets experienced large fund outflows, a decline in the FBMKLCI and increased market volatility. Since Malaysia's May 2018 general election, significant uncertainties arose in capital markets due to market concerns on Malaysia's national debt position, on potential shortfalls in government revenue with the promised removal of GST, general uncertainty as to future government policies as well as downgrades in corporate earnings estimates. External factors such as trade tensions, high oil prices and US Federal reserve rate hikes had also heightened concerns. This all led to a substantial exit of foreign funds from Malaysia.

In the upcoming quarters, trading and investment sentiment may remain lacklustre with investors generally side-lined or defensive while waiting for the release of the new Malaysian government's 100-days progress report, its first Budget as well as signs of improvement in global market conditions. However the FBMKLCI has now traced out a "Double-Bottom" technical pattern. When this is coupled with solid corporate earnings, 5-6% economic growth forecasts as well as a relatively stable interest rate environment, we are confident domestic capital markets should have bottomed out.

The Group has recorded a PBT of RM28.9 million for 1H18 compared to RM15.0 million for 1H17. For the reasons outlined above, we believe both the stock market and investment activity will be more positive towards the second half of the year and hence, barring unforeseen circumstances, we expect the Group to outperform last year's results.

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 period.

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SELECTED EXPLANATORY NOTES

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B5. Taxation and zakat

| | Individual Quarter 3 months ended 30 June 2018 RM'000 | Cumulative Quarters 6 months ended 30 June 2018 RM'000 |
|---------------------------------------|--|---|
| Current period - income tax and zakat | (3,133) | (6,845) |
| Deferred taxation | 903 | (3,531) |
| Total | <u>(2,230)</u> | <u>(10,376)</u> |

The effective tax rate of the Group for the second quarter was higher than the statutory tax rate mainly due to non-deductibility of certain expenses for tax purpose.

B6. Borrowings

| | Group | | Bank | |
|--|---|---|---|---|
| | As at 30 June 2018 RM '000 | As at 31 December 2017 RM '000 | As at 30 June 2018 RM '000 | As at 31 December 2017 RM '000 |
| Secured | | | | |
| Revolving bank loan denominated in RM | | | | |
| - More than one year | 105,900 | 64,000 | 58,400 | 64,000 |
| Unsecured | | | | |
| Revolving bank loans denominated in RM | | | | |
| - Within one year | 19,000 | 21,000 | - | - |
| Subordinated notes denominated in RM | | | | |
| - More than one year | 15,000 | 5,000 | 15,000 | 5,000 |
| | <u>139,900</u> | <u>90,000</u> | <u>73,400</u> | <u>69,000</u> |

B7. Dividend

No dividend has been proposed for the current financial quarter.

B8. Status of Corporate Proposal

On 21 May 2018, the Bank announced that Bank Negara Malaysia had, vide its letter dated 16 May 2018, stated that it has no objection for the Bank to commence negotiations with Interpac Securities to acquire the stockbroking business-related assets, liabilities and contractual arrangements of Interpac Securities Sdn Bhd ("Interpac Securities"), subject to, amongst others, all parties concluding the negotiations within 6 months from the date of said letter.

The proposed acquisition will be financed by shares of the Bank and cash.

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**SELECTED EXPLANATORY NOTES
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B9. Earnings per share

| | Individual Quarter | | Cumulative Quarter | |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | 3 months ended 30 June 2018 RM'000 | 3 months ended 30 June 2017 RM'000 | 6 months ended 30 June 2018 RM'000 | 6 months ended 30 June 2017 RM'000 |
| Profit for the period attributable to equity holders of the Bank | 3,120 | 4,363 | 18,556 | 6,253 |
| Weighted average number of ordinary shares in issue ('000) | 717,410 | 722,547 | 722,002 | 722,547 |
| Effects of dilution | 7,131 | - | 8,391 | - |
| Adjusted weighted average number of ordinary shares in issue ('000) | 724,541 | - | 730,393 | - |
| Earnings per share (sen) | | | | |
| - basic | 0.43 | 0.60 | 2.57 | 0.87 |
| - fully diluted | 0.43 | 0.60 | 2.54 | 0.87 |

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

B10. Changes in Material Litigation

On 22 December 2017, the Court of Appeal in Court of Appeal Civil Appeal No. Q-02(W) 1276-08/2015 and Court of Appeal No. Q-02(W) 1277-08/2015, Kenanga Investment Bank Berhad (KIBB) v Swee Joo Berhad ("SJB"), Asia Bulkers Sdn Bhd and others (collectively referred to as the "Respondents"), had dismissed the Respondents' claims and judgment was granted in favour of KIBB. On 19 January 2018, the Respondents had filed an application for leave to appeal to the Federal Court against the Court of Appeal's judgment.

The proceedings arose from SJB's default in repayment of a term loan granted by KIBB to SJB. KIBB's claim against the Respondents was to recover the outstanding balance under the term loan.

Following the judgment, two (2) of the Respondents (referred to as the "Applicants") and KIBB have agreed to a settlement in an agreement dated 9 February 2018. In consideration of KIBB agreeing to a discharge of the Applicants, the Applicants had agreed to pay RM13,500,000 to KIBB in one lump sum as final settlement and had withdrew their application for leave to appeal to the Federal Court.

The agreement is for the discharge of only the Applicants and KIBB shall continue to execute the judgment granted by the Court of Appeal against the remaining six (6) Respondents.

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B11. Derivative financial instruments

Derivative financial instruments are as follows:

Group and Bank

| Items | As at 30 June 2018 | | As at 31 December 2017 | |
|---|-----------------------------------|----------------------|-----------------------------------|----------------------|
| | Contract/Notional Value RM'000 | Fair Value RM'000 | Contract/Notional Value RM'000 | Fair Value RM'000 |
| <u>Derivative financial assets</u> | | | | |
| Equity related contract- options | 101,757 | 80,789 | 111,305 | 64,820 |
| Equity related contract- swaps | 5,153 | 490 | 75,772 | 2,455 |
| Dual currency investment- options | 4,478 | 27 | 18,114 | 118 |
| | 111,388 | 81,306 | 205,191 | 67,393 |
| <u>Derivative financial liabilities</u> | | | | |
| Equity related contract- options | 326,002 | 21,174 | 433,635 | 36,056 |
| Dual currency investment- options | 4,478 | 27 | 18,114 | 118 |
| | 330,481 | 21,201 | 451,749 | 36,174 |

Changes in the risk, cash requirement, policies in place and accounting policies reported in prior financial years

There have been no changes since the end of the previous financial year ended 31 December 2017 in respect of the following:

- (i) the market risk and credit risk associated with the derivatives;
- (ii) the cash requirements of the derivatives;
- (iii) the policies in place for mitigating or controlling the risks associated with the derivatives; and
- (iv) the related accounting policies

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.

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B11. Derivative 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 arising from fair value change of derivative financial instruments

The unrealised loss arising from fair value changes of derivative financial instruments for the current quarter amounted to RM39,448,531 (1Q18 gain: RM45,450,707). 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.