

FINANCIAL STATEMENTS

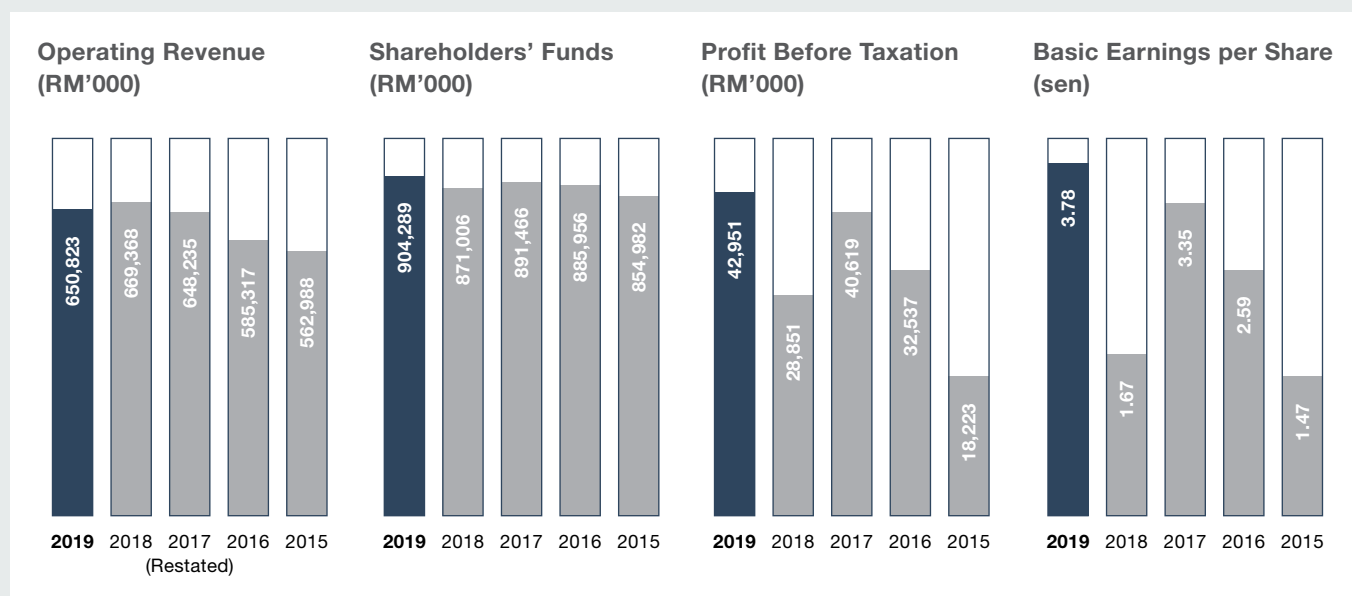
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FIVE (5)-YEAR GROUP FINANCIAL SUMMARY

	2019 RM'000	2018 RM'000	2017 RM'000 Restated	2016 RM'000	2015 RM'000 Restated
RESULTS					
Operating Revenue	650,823	669,368	648,235	585,317	562,988
Profit before Taxation continuing operations	42,951	28,851	40,619	32,537	18,223
Profit after taxation for the financial year attributable to equity holders of KIBB	26,386	11,911	24,188	19,720	11,304
ASSETS					
Total Assets	6,630,774	6,546,528	6,508,720	6,069,780	6,120,955
SHAREHOLDERS' FUNDS					
Paid-up share capital	246,249	246,249	246,137	180,637	770,000
Shareholders' funds attributable to equity holders of KIBB	904,289	871,006	891,466	885,956	854,982
FINANCIAL RATIOS					
Net return on average' shareholders funds (%)	2.97	1.35	2.72	2.27	1.32
Net return on average assets (%)	0.40	0.18	0.38	0.32	0.19
SHARE INFORMATION					
Basic earnings per share (sen)	3.78	1.67	3.35	2.59	1.47
Net assets backing per share (RM)	1.29	1.25	1.23	1.23	1.11
Dividend cover (times)	1.16	1.55	1.12	1.21	1.56
Net dividend per share (sen)	3.25	1.10	3.00	2.25	1.00

FIVE (5)-YEAR GROUP FINANCIAL HIGHLIGHTS



DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of Kenanga Investment Bank Berhad ("the Bank" or "KIBB") and its subsidiaries ("the Group" or "Kenanga Group") for the financial year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the investment banking business, provision of stockbroking and related financial services. The principal activities of the subsidiaries are described in Note 13 to the financial statements.

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

RESULTS

	Group RM'000	Bank RM'000
Profit after taxation and zakat	33,959	26,305
Share of results in associates and a joint venture	(7,573)	-
Profit for the financial year	26,386	26,305
Attributable to:		
Equity holders of the Bank	26,386	26,305

There were no material transfers to or from reserves or provisions during the financial year other than those that have been disclosed in the statements of profit or loss and other comprehensive income and the statements of changes in equity.

In the opinion of the Directors, the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

During the financial year, an interim single tier dividend of 1.1 sen per ordinary share on 698,687,499 ordinary shares in respect of the financial year ended 31 December 2018, which amounted to RM7,685,562 was paid on 19 April 2019.

Subsequent to financial year end, on 2 March 2020 the Directors declared an interim dividend in respect of the current financial year ended 31 December 2019 of 3.25 sen amounting to a dividend payable of approximately RM22,707,344. This is computed based on issued and paid-up capital as of 31 December 2019 of 698,687,499 ordinary shares (excluding 24,053,900 treasury shares).

The financial statements for the current financial year do not reflect this interim dividend. Such dividend will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2020.

DIRECTORS' REPORT

KENANGA GROUP EMPLOYEES' SHARE SCHEME ("ESS" OR "SCHEME")

The Kenanga Group ESS is governed by the by-laws approved by the shareholders of the Bank at an Extraordinary General Meeting held on 25 May 2017. The ESS was implemented on 21 September 2017. It is valid for a period of five (5) years from its commencement date, and may be extended for a further period of five (5) years and is administered by the ESS Committee.

The aggregate maximum number of the Bank shares which may be made available under the Scheme shall not in aggregate exceed 10% of the issued share capital of the Bank (excluding treasury shares) at any point in time during the duration of the Scheme.

Other principal features of the ESS are as follows:

- (i) The employees eligible to participate in the ESS must be at least eighteen (18) years of age on the Award date and are employed by, and are on the payroll of the Kenanga Group and are confirmed in service. The ESS applies to the Bank and its non-dormant subsidiary companies.
- (ii) The entitlement under the ESS for the Executive Directors is subject to the approval of the shareholders in a general meeting and is not prohibited or disallowed by the relevant authorities or laws from participation in the Scheme.

The ESS encompasses two (2) primary schemes in the form of Employees' Share Option Scheme ("ESOS") and Employee Share Grant Plan ("ESGP").

The actual allocation of share options to senior management of the Group is 38.8% as at 31 December 2019.

More details of the ESS are as disclosed in Note 55 to the financial statements.

ISSUANCE OF SHARES

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

BUSINESS REVIEW FOR 2019

The profit before tax ("PBT") of the Group and the Bank for the financial year ended 31 December 2019 ("FYE19") are RM43.0 million and RM40.4 million, compared to PBT of RM28.9 million and RM38.6 million respectively in the previous financial year ("FYE18").

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

STOCKBROKING

Stockbroking division registered PBT of RM9.5 million for FYE19 (FYE18: loss before tax ("LBT") of RM13.5 million) mainly due to reversal of provision of impairment negated by lower brokerage income and interest income in 2019.

DIRECTORS' REPORT

INVESTMENT BANKING

Investment Banking registered a higher PBT of RM24.7 million in FYE19 (FYE18: PBT of RM22.5 million) mainly due to higher interest income, trading and investment income and advisory fees income but partially negated by lower placement fees and fees on loans recorded for FYE19.

INVESTMENT AND WEALTH MANAGEMENT

Investment and Wealth Management registered a PBT of RM5.2 million (FYE18: PBT of RM33,000) mainly due to increase in Asset Under Management and higher management and performance fee earned.

FUTURES

The futures segment recorded higher LBT of RM2.9 million in FYE19 compared to LBT of RM2.8 million in FYE18 mainly due to lower commission income and interest income earned during the year. Income decreased mainly due to lower levels of client activities amid sluggish market conditions.

MONEY LENDING AND FINANCING

This segment reported a PBT of RM0.8 million in FYE19 compared to PBT of RM0.5 million in FYE18 mainly due to higher interest and profit income recorded during the current year.

CAPITAL RATIOS

The Group and the Bank remain on a strong financial footing with total capital ratios of 23.184% (FYE18: 25.257%) and 22.725% (FYE18: 23.869%) respectively, well above the minimum prescribed by Bank Negara Malaysia ("BNM") of 10.5% including capital conservation buffer of up to 2.50%.

OUTLOOK AND PROSPECTS FOR 2020

Our research indicates that external demand is expected to remain weak in the immediate term, dragged down by the escalating COVID-19 outbreak and the global oil price war, thus weighing on Malaysia's Gross Domestic Product ("GDP") growth in 2020. This is mainly attributable to the potential economic fallout in the services sector where transportation and tourism related industries will be amongst the most substantially affected. Whilst the full implications and impact of COVID-19 on the economy is not fully understood at this time, it is highly likely that there will be a significant and adverse impact on the overall GDP in 2020.

Nevertheless, KIBB will proactively manage its risks such as liquidity, credit and market risks to mitigate the impact of slowdown in the economy resulting from the COVID-19 outbreak. We expect the year to be volatile and challenging but will continue to focus on our strategic objectives of achieving long term sustainable growth across the Group whilst ensuring our core businesses remain resilient.

DIRECTORS' REPORT

INDEMNIFICATION OF DIRECTORS

The Bank has maintained a Directors and Officers Liability Insurance on a group basis up to the aggregate limit of RM30.0 million against any legal liability incurred by the directors and officers in the discharge of their duties while holding office for the Group. The directors and officers shall not be indemnified by such insurance for any gross negligence, fraud, intentional breach of law or breach of trust proven against them. The total amount of insurance premium paid for the Directors and Officers of the Bank for the current financial year was RM34,000.

DIRECTORS

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

Izlan Bin Izhab	(Independent Non-Executive Director/Chairman)
Datuk Syed Ahmad Alwee Alsree	(Non-Independent Non-Executive Director/Deputy Chairman)
Dato' Richard Alexander John Curtis	(Non-Independent Non-Executive Director)
Luigi Fortunato Ghirardello	(Non-Independent Non-Executive Director)
Ismail Harith Merican	(Non-Independent Non-Executive Director)
Luk Wai Hong, William	(Independent Non-Executive Director)
Jeremy Bin Nasrulhaq	(Independent Non-Executive Director)
Norazian Binti Ahmad Tajuddin	(Independent Non-Executive Director)
Kanagaraj Lorenz	(Independent Non-Executive Director)

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

DIRECTORS' BENEFITS

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

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS

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

The Bank	Number of ordinary shares			
	At 1.1.2019	Addition	Disposal	At 31.12.2019
Direct interest:				
Luigi Fortunato Ghirardello	631,700	-	-	631,700
Dato' Richard Alexander John Curtis	1,100,000	-	-	1,100,000
Norazian Binti Ahmad Tajuddin	-	10,000	-	10,000
Kanagaraj Lorenz	-	42,000	-	42,000

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

OTHER STATUTORY INFORMATION

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

DIRECTORS' REPORT

OTHER STATUTORY INFORMATION (CONT'D.)

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

- (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (ii) any contingent liability in respect of the Group and of the Bank which has arisen since the end of the financial year other than those arising in the normal course of business as disclosed in Note 42 and Note 43 to the financial statements.

(f) In the opinion of the Directors:

- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve (12) months after the end of the financial year which will or may affect the ability of the Group or of the Bank to meet their obligations as and when they fall due, other than those arising in the normal course of business as disclosed in Note 42 and Note 43 to the financial statements; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Bank for the financial year in which this report is made.

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

The Directors have taken reasonable steps to ensure that the preparation of the financial statements of the Group and of the Bank are in compliance with the BNM's Policy Document on Financial Reporting.

SIGNIFICANT AND SUBSEQUENT EVENT

There was no significant event during the financial year and subsequent to the financial year ended 31 December 2019 other than the event disclosed in Note 56 to the financial statements.

AUDITORS AND AUDITORS' REMUNERATION

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

Signed on behalf of the Board of Directors in accordance with a resolution of the Board of Directors on 16 March 2020.



Izlan Bin Izhah
Kuala Lumpur, Malaysia



Jeremy Bin Nasrulhaq

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, Izlan Bin Izhab and Jeremy Bin Nasrulhaq, being two (2) of the Directors of Kenanga Investment Bank Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 120 to 319 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2019 and of their financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Board of Directors on 16 March 2020.



Izlan Bin Izhab
Kuala Lumpur, Malaysia



Jeremy Bin Nasrulhaq

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(B) OF THE COMPANIES ACT, 2016

I, Cheong Boon Kak, being the officer primarily responsible for the financial management of Kenanga Investment Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 120 to 319 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Cheong Boon Kak
at Kuala Lumpur in the Federal Territory
on 16 March 2020



Cheong Boon Kak
(MIA No: 10259)

Before me,



Lot 6, Arked Star, 23-G,
Jalan Tuanku Abdul Rahman
50100 Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Kenanga Investment Bank Berhad (“the Bank”), which comprise the statements of financial position as at 31 December 2019 of the Group and of the Bank, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 120 to 319.

In our opinion, the accompanying financial statements of the Group and of the Bank give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2019, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

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

Independence and other ethical responsibilities

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

Key audit matters

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

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

INDEPENDENT AUDITORS' REPORT

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

Key audit matters (cont'd.)

Risk area and rationale	Our response
<p><u>Expected credit losses of loans, advances and financing and investments not carried at fair value through profit or loss</u></p> <p>As at 31 December 2019, the loans, advances and financing represent 31.14% and 31.79% of the total assets of the Group and of the Bank respectively, and the debt instruments carried at amortised cost and fair value through other comprehensive income represent 13.67% and 14.13% of the total assets of the Group and of the Bank respectively.</p> <p>The measurement of expected credit loss ("ECL") requires the application of significant judgement and increased complexity which include the identification of on-balance sheet and off-balance sheet credit exposures with significant deterioration in credit quality, assumptions used in the ECL models (for exposures assessed individually or collectively) such as the expected future cash flows, forward looking macroeconomic factors and probability-weighted multiple scenarios.</p>	
	<p>Our audit procedures included the assessment of key controls over the origination, segmentation, ongoing internal credit quality assessments, recording and monitoring of the loans, advances and financing and the investments.</p>
	<p>We assessed the processes and effectiveness of key controls over the transfer criteria (for the three stages of credit exposures under MFRS 9 in accordance with credit quality), impairment measurement methodologies, governance for development, maintenance and validation of ECL models, inputs, basis and assumptions used by the Group and the Bank in staging the credit exposures and calculating the ECL.</p>
	<p>For staging and identification of credit exposures with significant deterioration in credit quality, we assessed and tested the reasonableness of the transfer criteria applied by the Group and the Bank for different types of credit exposures. We evaluated if the transfer criteria are consistent with the Group's and the Bank's credit risk management practices.</p>

INDEPENDENT AUDITORS' REPORT

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

Key audit matters (cont'd.)

Risk area and rationale	Our response
<u>Expected credit losses of loans, advances and financing and investments not carried at fair value through profit or loss (cont'd.)</u>	
<p>Refer to summary of significant accounting policies in Note 3.4(k)(ii), significant accounting judgements, estimates and assumptions in Note 4(iii), loans, advances and financing in Note 9, financial investments other than those carried at fair value through profit or loss in Note 7, and disclosures of credit risk exposures in Note 50(a) to the financial statements.</p>	<p>For the measurement of ECL, we assessed and tested reasonableness of the Group's and the Bank's ECL models, including model input, model design and model performance for significant portfolios. We challenged whether historical experience is representative of current circumstances and of the recent losses incurred in the portfolios and assessed the reasonableness of forward looking adjustments, macroeconomic factor analysis and probability-weighted multiple scenarios.</p> <p>We evaluated if changes in modeling approaches, parameters and assumptions are needed and if any changes made were appropriate. We also assessed, tested and monitored the sensitivity of the credit loss provisions to changes in modelling assumptions.</p> <p>With respect to individually assessed ECL which are mainly in relation to the impaired assets in Stage 3, we reviewed and tested a sample of loans, advances and financing and investments to evaluate the timely identification by the Group and the Bank of exposures with significant deterioration in credit quality or which have been impaired. Where impairment has been identified, we challenged and assessed the Group's and the Bank's assumptions on the expected future cash flows, including the value of realisable collaterals based on available market information and the multiple scenarios considered.</p> <p>We also assessed whether the financial statement disclosures are adequate and appropriately reflect the Group's and the Bank's exposures to credit risk.</p>

INDEPENDENT AUDITORS' REPORT

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

Key audit matters (cont'd.)

Risk area and rationale	Our response
<p><u><i>Fair value measurement of financial instruments</i></u></p> <p>When fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, they are determined by the Group using a variety of valuation techniques that include the use of financial models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, judgment is required to establish fair values. Judgments include considerations of liquidity and model inputs such as volatility for longer-dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities.</p> <p>Refer to summary of significant accounting policies in Note 3.4(j), significant accounting judgements, estimates and assumptions in Note 4(ii) and the disclosures of fair value of financial instruments in Note 51 to the financial statements.</p>	<p>Our audit procedures included reviewing and evaluating management's rationale for selecting and using the valuation models to assess if the use of such models was appropriate.</p> <p>Our audit procedures also included, among others, testing management's controls related to the development and calibration of any model used, challenged and assessed assumptions used, including reasonableness of market observable inputs.</p> <p>We also reviewed the adequacy of the Group's and Bank's disclosures within the financial statements about those key assumptions to which the fair value is most sensitive.</p>
<p><u><i>Impairment of goodwill</i></u></p> <p>As at 31 December 2019, the goodwill recognised in the financial statements of the Group and of the Bank are RM243.754 million and RM252.909 million, respectively.</p> <p>Goodwill impairment testing of cash generating units ("CGUs") relies on estimates of value-in-use ("VIU") based on estimated future cash flows. The Group and the Bank are required to annually test the amount of goodwill for impairment.</p> <p>These involve management judgement and are based on assumptions that are affected by expected future market and economic conditions.</p> <p>Refer to summary of significant accounting policies in Note 3.4(e)(i), significant accounting estimates and judgment in Note 4(i) and the disclosure of intangible assets in Note 17 to the financial statements.</p>	<p>Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group and the Bank in performing the impairment assessment.</p> <p>We tested the basis of preparing the cash flow forecasts taking into account the back testing results on the accuracy of previous forecasts and the historical evidence supporting underlying assumptions.</p> <p>We assessed the appropriateness of the other key assumptions, such as the growth rates used to extrapolate the cash flows and the discount rates applied, by comparing against internal information, and external economic and market data.</p> <p>We assessed the sensitivity analysis performed by management on the key inputs to the impairment models, to understand the impact that reasonable alternative assumptions would have on the overall carrying amounts.</p> <p>We also reviewed the adequacy of the Group's and the Bank's disclosures within the financial statements about those key assumptions to which the VIU is most sensitive.</p>

INDEPENDENT AUDITORS' REPORT

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

Information other than the financial statements and auditors' report thereon

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

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

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

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

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

Responsibilities of directors for the financial statements

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

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

Auditors' responsibility for the audit of the financial statements

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

INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT

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

OTHER MATTERS

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



Ernst & Young PLT.
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants



Ng Sue Ean
03276/07/2020 J
Chartered Accountant

Kuala Lumpur, Malaysia
16 March 2020

SHARIAH COMMITTEE'S REPORT

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

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

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Skim Perbankan Islam of Kenanga Investment Bank Berhad ("KIBB SPI") during the financial year ended 31 December 2019. We have also conducted our review to form an opinion as to whether KIBB SPI has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

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

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

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

In our opinion:

- (1) The contracts, transactions and dealings entered into by KIBB SPI during the financial year ended 31 December 2019 that we have reviewed are in compliance with the Shariah principles;
- (2) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;
- (3) Money which derived from the gharamah (penalty) shall be channeled to the eligible beneficiaries;
- (4) Relating to the financial year 2018, KIBB SPI has made a zakat payment on its business to two (2) states zakat authorities and the zakat is computed using the profit and loss method. The beneficiaries of the zakat fund were Pusat Pungutan Zakat Majlis Agama Islam Wilayah Persekutuan and Lembaga Zakat Selangor; and
- (5) Nothing has come to the Shariah committee's attention that causes the Shariah committee to believe that the operations, business, affairs and activities of KIBB SPI involve any material Shariah non-compliances.

SHARIAH COMMITTEE'S REPORT

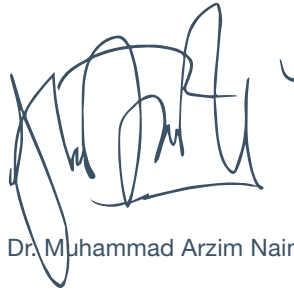
We, the members of the Shariah Committee of KIBB, do hereby confirm that the operations of KIBB SPI for the financial year ended 31 December 2019 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee:



Dr. Kamaruzaman Noordin

Shariah Committee Member:



Dr. Muhammad Arzim Naim

Shariah Committee Member:



Dr. Mohd Fuad Md Sawari

Shariah Committee Member:



Dr. Mohammad Firdaus Mohammad Hatta

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

Group	Note	2019 RM'000	2018 RM'000
Assets			
Cash and bank balances	5	2,063,057	1,351,260
Financial assets at fair value through profit or loss	6	328,680	189,224
Debt instruments at fair value through other comprehensive income	7(a)	793,993	1,659,922
Equity instruments at fair value through other comprehensive income	7(a)	1,088	1,754
Debt instruments at amortised cost	7(b)	112,756	121,256
Derivative financial assets	8	65,174	71,992
Loans, advances and financing	9	2,064,674	2,004,915
Balances due from clients and brokers	10	280,357	296,323
Other assets	11	201,785	175,873
Statutory deposit with Bank Negara Malaysia	12	99,164	116,619
Tax recoverable		24,155	25,428
Investments in associates	14	64,642	58,809
Investment in a joint venture company	15	15,801	14,077
Property, plant and equipment	16	170,450	186,322
Intangible assets	17	317,387	266,222
Right-of-use assets	18	24,656	-
Deferred tax assets	19	2,955	6,532
Total assets		6,630,774	6,546,528
Liabilities			
Deposits from customers	20	4,065,494	4,562,104
Deposits and placements of banks and other financial institutions	21	650,718	95,016
Balances due to clients and brokers	22	537,393	481,932
Derivative financial liabilities	23	13,416	12,693
Other liabilities	24	322,952	308,722
Obligations on securities sold under repurchase agreements	25	-	83,067
Borrowings	26	96,600	119,300
Lease liabilities	18	24,429	-
Provision for taxation and zakat		14,793	12,688
Deferred tax liabilities	19	690	-
Total liabilities		5,726,485	5,675,522
Equity			
Share capital	27	246,249	246,249
Treasury shares	27	(16,990)	(16,808)
Reserves	28	675,030	641,565
Total equity attributable to equity holders of the Bank		904,289	871,006
Total liabilities and shareholders' equity		6,630,774	6,546,528
Commitments and contingencies	42	3,041,684	3,120,704

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

Bank	Note	2019 RM'000	2018 RM'000
Assets			
Cash and bank balances	5	1,877,150	1,116,117
Financial assets at fair value through profit or loss	6	326,560	188,576
Debt instruments at fair value through other comprehensive income	7(a)	793,993	1,659,922
Equity instruments at fair value through other comprehensive income	7(a)	1,088	1,754
Debt instruments at amortised cost	7(b)	112,756	121,256
Derivative financial assets	8	65,174	71,992
Loans, advances and financing	9	2,039,517	1,975,765
Balances due from clients and brokers	10	280,357	296,323
Other assets	11	122,564	85,413
Statutory deposit with Bank Negara Malaysia	12	99,164	116,619
Tax recoverable		20,246	18,114
Investments in subsidiaries	13	70,135	70,428
Investment in an associate	14	56,235	56,235
Investment in a joint venture company	15	40,000	30,000
Property, plant and equipment	16	166,710	183,131
Intangible assets	17	320,712	305,409
Right-of-use assets	18	23,745	-
Deferred tax assets	19	-	3,666
Total assets		6,416,106	6,300,720
Liabilities			
Deposits from customers	20	4,119,352	4,613,788
Deposits and placements of banks and other financial institutions	21	650,718	95,016
Balances due to clients and brokers	22	304,880	221,083
Derivative financial liabilities	23	13,416	12,693
Other liabilities	24	269,026	258,080
Obligations on securities sold under repurchase agreements	25	-	83,067
Borrowings	26	66,600	77,800
Lease liabilities	18	23,436	-
Provision for taxation and zakat		12,052	11,963
Deferred tax liabilities	19	657	-
Total liabilities		5,460,137	5,373,490
Equity			
Share capital	27	246,249	246,249
Treasury shares	27	(16,990)	(16,808)
Reserves	28	726,710	697,789
Total equity		955,969	927,230
Total liabilities and shareholders' equity		6,416,106	6,300,720
Commitments and contingencies	42	3,127,341	3,245,541

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

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Group		Bank	
		2019 RM'000	2018 RM'000 (Restated) (Note 53)	2019 RM'000	2018 RM'000 (Restated) (Note 53)
Operating revenue	29	650,823	669,368	549,955	591,347
Interest income	30	244,152	260,851	236,401	251,921
Interest expense	31	(158,731)	(177,851)	(162,896)	(176,603)
Net interest income		85,421	83,000	73,505	75,318
Net income from Islamic banking operations	52(b)	17,982	15,760	17,982	15,760
Other operating income	32	346,628	353,286	247,913	284,687
Net income		450,031	452,046	339,400	375,765
Other operating expenses	33	(418,187)	(400,684)	(315,121)	(319,078)
Operating profit		31,844	51,362	24,279	56,687
Credit loss reversal/(expenses)	34	15,216	(29,823)	12,926	(29,848)
Bad debts recovered	35	3,464	13,860	3,464	13,860
Allowance for impairment on investments in subsidiaries	13	-	-	(293)	(2,136)
		50,524	35,399	40,376	38,563
Share of results of associates and a joint venture	14, 15	(7,573)	(6,548)	-	-
Profit before taxation and zakat		42,951	28,851	40,376	38,563
Taxation and zakat	40	(16,565)	(16,940)	(14,071)	(15,216)
Profit for the financial year		26,386	11,911	26,305	23,347
Other comprehensive income:					
Items that will not be reclassified subsequently to profit or loss:					
Fair value loss on equity instruments at fair value through other comprehensive income ("FVOCI")		(666)	-	(666)	-
Share of other comprehensive income/(loss) in associates		5,457	(4,506)	-	-
Income tax related to the above		160	-	160	-
Items that will be reclassified subsequently to profit or loss:					
Foreign exchange differences on consolidation		(994)	1,385	-	-
Fair value gain on debt instruments at FVOCI		11,626	7,948	11,626	7,948
Other comprehensive income c/f:		15,583	4,827	11,120	7,948

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Group		Bank	
		2019 RM'000	2018 RM'000 (Restated) (Note 53)	2019 RM'000	2018 RM'000 (Restated) (Note 53)
Other comprehensive income b/f:		15,583	4,827	11,120	7,948
Income tax relating to the components of other comprehensive income	19	(2,790)	(1,907)	(2,790)	(1,907)
Other comprehensive income for the financial year, net of tax		12,793	2,920	8,330	6,041
Total comprehensive income for the financial year, net of tax		39,179	14,831	34,635	29,388
Earnings per share attributable to equity holders of the Bank:					
Basic (sen)	41	3.78	1.67		
Diluted (sen)	41	3.78	1.67		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Group	Non-distributable								Total attributable to equity holders
	Ordinary shares (Note 27) RM'000	Capital reserve (Note 28) RM'000	Fair value (deficit)/ reserve (Note 28) RM'000	Regulatory reserve (Note 28) RM'000	Exchange reserve (Note 28) RM'000	ESS reserve (Note 28) RM'000	Treasury shares (Note 27) RM'000	Retained profits (Note 28) RM'000	
At 1 January 2019	246,249	88,938	(4,120)	25,488	18,783	2,588	(16,808)	509,888	871,006
Net profit for the financial year	-	-	-	-	-	-	-	26,386	26,386
Share of other comprehensive gain of associates	-	-	2,278	-	-	-	-	3,179	5,457
Other comprehensive income/(loss)	-	-	8,330	-	(994)	-	-	-	7,336
Total comprehensive income/(loss) for the financial year	-	-	10,608	-	(994)	-	-	29,565	39,179
Share-based payment under ESS scheme	-	-	-	-	-	1,972	-	-	1,972
Buy-back of shares	-	-	-	-	-	-	(182)	-	(182)
Transfer from regulatory reserve	-	-	-	(44)	-	-	-	44	-
Dividend paid (Note 45)	-	-	-	-	-	-	-	(7,686)	(7,686)
At 31 December 2019	246,249	88,938	6,488	25,444	17,789	4,560	(16,990)	531,811	904,289

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Group	Non-distributable							Retained profits (Note 28) RM'000	Total attributable to equity holders RM'000
	Ordinary shares (Note 27) RM'000	Capital reserve (Note 28) RM'000	Fair value (deficit)/ reserve (Note 28) RM'000	Regulatory reserve (Note 28) RM'000	Exchange reserve (Note 28) RM'000	ESS reserve (Note 28) RM'000	Treasury shares (Note 27) RM'000		
At 1 January 2018	246,137	88,938	(5,655)	25,277	17,398	-	-	519,824	891,919
Net profit for the financial year	-	-	-	-	-	-	-	11,911	11,911
Share of other comprehensive loss of associates	-	-	(4,506)	-	-	-	-	-	(4,506)
Other comprehensive income	-	-	6,041	-	1,385	-	-	-	7,426
Total comprehensive income for the financial year	-	-	1,535	-	1,385	-	-	11,911	14,831
Share-based payment under ESS scheme	-	-	-	-	-	2,605	-	-	2,605
Issue of shares pursuant to exercise of ESS (Note 27)	112	-	-	-	-	-	-	-	112
Buy-back of shares	-	-	-	-	-	-	(16,808)	-	(16,808)
Transfer from regulatory reserve	-	-	-	211	-	-	-	(211)	-
Transfer to retained profits	-	-	-	-	-	(17)	-	17	-
Dividend paid (Note 45)	-	-	-	-	-	-	-	(21,653)	(21,653)
At 31 December 2018	246,249	88,938	(4,120)	25,488	18,783	2,588	(16,808)	509,888	871,006

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Bank	Non-distributable							
	Ordinary shares (Note 27) RM'000	Regulatory reserve (Note 28) RM'000	Capital reserve (Note 28) RM'000	Fair value reserve (Note 28) RM'000	ESS reserve (Note 28) RM'000	Treasury shares (Note 27) RM'000	Retained profits (Note 28) RM'000	Total equity RM'000
At 1 January 2019	246,249	25,488	153,863	2,175	2,588	(16,808)	513,675	927,230
Net profit for the financial year	-	-	-	-	-	-	26,305	26,305
Other comprehensive income	-	-	-	8,330	-	-	-	8,330
Total comprehensive income for the financial year	-	-	-	8,330	-	-	26,305	34,635
Share-based payment under ESS scheme	-	-	-	-	1,972	-	-	1,972
Buy-back of shares	-	-	-	-	-	(182)	-	(182)
Transfer from regulatory reserve	-	(44)	-	-	-	-	44	-
Dividend paid (Note 45)	-	-	-	-	-	-	(7,686)	(7,686)
At 31 December 2019	246,249	25,444	153,863	10,505	4,560	(16,990)	532,338	955,969
At 1 January 2018	246,137	25,277	153,863	(3,866)	-	-	512,175	933,586
Net profit for the financial year	-	-	-	-	-	-	23,347	23,347
Other comprehensive income	-	-	-	6,041	-	-	-	6,041
Total comprehensive income for the financial year	-	-	-	6,041	-	-	23,347	29,388
Share-based payment under ESS scheme	-	-	-	-	2,605	-	-	2,605
Issue of shares pursuant to exercise of ESS (Note 27)	112	-	-	-	-	-	-	112
Buy-back of shares	-	-	-	-	-	(16,808)	-	(16,808)
Transfer to regulatory reserve	-	211	-	-	-	-	(211)	-
Transfer to retained profits	-	-	-	-	(17)	-	17	-
Dividend paid (Note 45)	-	-	-	-	-	-	(21,653)	(21,653)
At 31 December 2018	246,249	25,488	153,863	2,175	2,588	(16,808)	513,675	927,230

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash flows from operating activities					
Profit before taxation and zakat		42,951	28,851	40,376	38,563
Adjustments for:					
Depreciation of property, plant and equipment	33	10,724	13,843	10,046	13,342
Amortisation of intangible assets - software licence	33	4,305	213	4,030	-
Amortisation of right-of-use assets		9,769	-	8,864	-
Lease interest expenses	31	1,236	-	1,177	-
ESS expenses	33	1,733	2,319	1,733	2,319
Credit loss (reversal)/expense	34	(15,216)	29,823	(12,926)	29,848
Allowance for impairment on investments in subsidiary	13	-	-	293	2,136
Property, plant and equipment written off	33	37	7	37	5
Bad debts written off	35	266	55	266	55
Other assets written off		-	32	-	32
Gross dividend income from investments	32(b)	(1,384)	(1,302)	(1,243)	(1,098)
Gain on disposal of property, plant and equipment	32(c)	(23)	(93)	(23)	(93)
Net gain from sale of financial assets at fair value through profit or loss and derivatives		(56,878)	(35,300)	(56,878)	(35,300)
Net gain from sale of financial instruments at FVOCI		(12,072)	(2,816)	(12,072)	(2,816)
Unrealised loss/(gain) on revaluation of financial assets at fair value through profit or loss and derivatives		17,326	(14,950)	19,758	(15,640)
Share of results of associates and a joint venture		6,905	6,548	-	-
Operating gain before working capital changes		9,679	27,230	3,438	31,353

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash flows from operating activities (cont'd.)					
(Increase)/decrease in operating assets:					
Loans, advances and financing		(46,069)	160,299	(50,677)	173,680
Other assets		(19,960)	(57,625)	(39,075)	(19,018)
Statutory deposit with Bank Negara Malaysia		17,455	(433)	17,455	(433)
Balances due from clients and brokers		16,764	198,525	16,764	198,525
Trust monies and deposits	5	30,590	(50,447)	2,343	(2,060)
(Decrease)/increase in operating liabilities:					
Other liabilities		(4,597)	(20,064)	9,531	15,293
Balances due to clients and brokers		55,461	(142,680)	83,797	(195,877)
Deposits from customers		(496,610)	328,190	(494,436)	335,640
Deposits and placements of banks and other financial institutions		555,702	(115,746)	555,702	(115,746)
Obligations on securities sold under repurchase agreements		(83,067)	8,074	(83,067)	8,074
Cash generated from operations		35,348	335,323	21,775	429,431
Taxation and zakat paid		(11,473)	(20,733)	(14,421)	(20,275)
Rental/lease payment (Interest)		(1,235)	-	(1,177)	-
Net cash generated from operating activities		22,640	314,590	6,177	409,156

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash flows from investing activities					
Net cash outflow on acquisition of a subsidiary	13	(25,383)	-	-	-
Dividend income from investments	32(b)	1,384	1,302	1,243	1,098
Purchase of property, plant and equipment	16	(9,143)	(10,330)	(8,344)	(9,500)
Purchase of intangible assets	17	(4,701)	(21)	(4,651)	-
Proceeds from disposal of property, plant and equipment and intangible assets		23	93	23	93
Additional investment in a joint venture	15	(10,000)	(10,000)	(10,000)	(10,000)
Net sale/(purchase) of securities		806,475	(333,290)	805,515	(339,785)
Net cash generated from/(used in) investing activities		758,655	(352,246)	783,786	(358,094)
Cash flows from financing activities					
Dividend paid	45	(7,686)	(21,653)	(7,686)	(21,653)
Issuance of new shares	27	-	112	-	112
Rental/lease payments (principal)		(8,341)	-	(7,519)	-
Net (repayment)/drawdown of borrowings		(22,700)	29,300	(11,200)	8,800
Buy-back of shares	27	(182)	(16,808)	(182)	(16,808)
Net cash used in financing activities		(38,909)	(9,049)	(26,587)	(29,549)
Net increase/(decrease) in cash and cash equivalents					
		742,386	(46,705)	763,376	21,513
Effect of exchange rate differences					
		1	1	-	-
Cash and cash equivalents at beginning of financial year					
		1,096,373	1,143,077	1,053,573	1,032,060
Cash and cash equivalents at end of financial year					
	5	1,838,760	1,096,373	1,816,949	1,053,573
Cash and cash equivalents comprise the followings (Note 5):					
Cash and balances with banks		1,990,155	1,260,864	1,777,150	1,116,117
Deposits and placements with banks and other financial institutions		72,902	90,396	100,000	-
Less: Monies and short-term deposits held in trust on behalf of dealers' representatives		(60,201)	(62,544)	(60,201)	(62,544)
Less: Segregated funds from customers		(164,096)	(192,343)	-	-
		1,838,760	1,096,373	1,816,949	1,053,573

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

1. CORPORATE INFORMATION

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

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

The principal activities of the subsidiaries are described in Note 13. There have been no significant changes in the nature of the principal activities during the financial year.

The financial statements of the Bank have been approved and authorised for issue in accordance with a resolution of the Board of Directors on 16 March 2020.

2. CHANGES IN ACCOUNTING POLICIES AND REGULATORY REQUIREMENT

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

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended MFRSs, which became effective for the Group and the Bank on 1 January 2019:

MFRS 16: *Leases*

Amendments to MFRS 9: *Prepayment Features with Negative Compensation*

Amendments to MFRS 128: *Long-term interests in Associates and Joint Ventures*

IC Interpretation 23: *Uncertainty Over Income Tax Treatments*

Amendments to MFRS 3: *Business Combinations contained in the documents entitled*

“Annual Improvements to MFRS Standards 2015-2017 Cycle”

Amendments to MFRS 11: *Joint Arrangements contained in the documents entitled*

“Annual Improvements to MFRS Standards 2015-2017 Cycle”

Amendments to MFRS 112: *Income Tax Consequences of Payments on Financial*

Instruments Classified as Equity contained in the documents entitled “Annual Improvements to MFRS Standards 2015-2017 Cycle”

Capitalisation contained Amendments to MFRS 123: *Borrowing Costs Eligible for in the documents entitled*

“Annual Improvements to MFRS Standards 2015-2017 Cycle”

Amendments to MFRS 119: *Plan Amendment, Curtailment or Settlement*

The adoption of the new and amended MFRSs did not have any significant impact on the financial position or performance of the Group and of the Bank other than the impacts disclosed below:

(a) MFRS 16 *Leases*

MFRS 16 supersedes MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Leases-Incentives* and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

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

2.1 New and amended Malaysian Financial Reporting Standards ("MFRSs") adopted (cont'd.)

(a) MFRS 16 Leases (cont'd.)

The Group adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IFRS 17 and IFRIC 4 at the date of initial application.

The Group has lease contracts for various branches and equipment. Before the adoption of MFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 3.4 (p) for the accounting policy prior to 1 January 2019.

Upon adoption of MFRS 16, assets and liabilities were recognised for all leases with a term of more than 12 months, unless the underlying assets were low-value assets. Refer to Note 3.4 (p) for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group and the Bank.

The Group and the Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group and the Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

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

2.1 New and amended Malaysian Financial Reporting Standards ("MFRSs") adopted (cont'd.)

(a) MFRS 16 Leases (cont'd.)

Based on the above, as at 1 January 2019:

- Right-of-use assets of RM14.0 million were recognised and presented in the statement of financial position.
- Additional lease liabilities of RM14.0 million were recognised.
- The adoption of MFRS 16 had no impact on the Bank's retained earnings and no material impact on its Common Equity Tier 1 ratio.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	Group RM'000	Bank RM'000
Operating lease commitment as at 31 December 2018	14,486	13,877
Weighted average incremental borrowing rate as at 1 January 2019	5.82%	5.88%
Discounted operating lease commitment as at 1 January 2019	13,314	12,742
Add: Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	9,733	9,415
Lease liability as at 1 January 2019	23,047	22,157

(b) Amendments to MFRS 9: *Prepayment Features with Negative Compensation*

Under MFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to MFRS 9 clarify that a financial asset can pass the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. Where the prepayment is made at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instruments, the Bank assesses the specific contractual cash flows for the relevant debt instruments in order to determine whether they meet the SPPI criterion. These amendments had no impact on the financial statements of the Group and the Bank.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

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

2.2 Standards issued but not yet effective

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

Description	Effective for annual periods beginning on or after
Amendments to MFRS 3: <i>Definition of a Business</i>	1 January 2020
Amendments to MFRS 9, MFRS 139 and MFRS 7: <i>Interest Rate Benchmark Reform</i>	1 January 2020
Amendments to MFRS 101 and MFRS 108: <i>Definition of Material</i>	1 January 2020
MFRS 17: <i>Insurance Contracts</i>	1 January 2021
Amendments to MFRS 10 and MFRS 128: <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	To be announced by MASB

The directors expect that the adoption of the above standards will have no material impact on the financial statements in the period of initial application.

3. ACCOUNTING POLICIES

3.1 Basis of preparation

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

3.2 Statement of compliance

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

3.3 Functional and presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

3.4 Summary of significant accounting policies

(a) Basis of consolidation

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

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

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

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with MFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 9, it is measured in accordance with the appropriate MFRS.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(b) Subsidiaries

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

(c) Investment in associates

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(c) Investment in associates (cont'd.)

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

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

(d) Investment in jointly controlled entity

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

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

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

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

(e) Goodwill and intangible assets

(i) Goodwill

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

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

(i) Goodwill (cont'd.)

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

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

(ii) Other intangible assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

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

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

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

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

Computer software and licence	14.28% to 33.33%
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(f) Financial instruments – initial recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to clients, are initially recognised on the trade date, i.e., the date that the Group and the Bank become a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to clients when settlement has yet to be made on outstanding contracts which have entered into on behalf of the clients.

(i) Initial recognition and subsequent measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 3.4(g)(i). Financial instruments are initially measured at their fair value (as defined in Note 3.4(j)), except in the case of financial assets and financial liabilities recorded at fair value through profit or loss ("FVTPL"), transaction costs are added to, or subtracted from this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

(ii) Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group and the Bank recognise the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(f) Financial instruments – initial recognition (cont'd.)

(iii) Measurement categories of financial assets and liabilities

The Group and the Bank classify all of their financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- (a) Amortised cost, as explained in Note 3.4(g)(i)
- (b) FVOCI, as explained in Notes 3.4(g)(v) and 3.4(g)(vi)
- (c) FVTPL, as explained in Notes 3.4(g)(iv) and 3.4 (g)(viii)

The Group and the Bank classify and measure their derivative and trading portfolio at FVTPL as explained in Notes 3.4(g)(ii) and 3.4(g)(iv). The Group and the Bank may designate financial instruments at FVTPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 3.4(g)(viii).

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 3.4(g)(viii).

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

(g) Financial assets and liabilities

(i) Due from banks, loans and advances to customers, financial investments at amortised cost

The Group and the Bank measure due from banks, loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(g) Financial assets and liabilities (cont'd.)

(i) Due from banks, loans and advances to customers, financial investments at amortised cost (cont'd.)

The details of these conditions are outlined below.

(1) Business model assessment

The Group and the Bank determine their business model at the level that best reflects how they manage groups of financial assets to achieve their business objective.

The Group's and the Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the key entity's management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- The expected frequency, value and timing of sales are also important aspects of the Group's and the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's and the Bank's original expectations, the Group and the Bank do not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward, unless it has been determined that there has been a change in the original business model.

(2) The SPPI test

The Group and the Bank assess the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(g) Financial assets and liabilities (cont'd.)

(i) Due from banks, loans and advances to customers, financial investments at amortised cost (cont'd.)

(2) The SPPI test (cont'd.)

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. For the SPPI assessment, the Group and the Bank apply judgement and consider relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

(ii) Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e. the 'underlying');
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors; and
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include equity swaps, forward foreign exchange contracts and options on foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(g) Financial assets and liabilities (cont'd.)

(iii) Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives embedded in financial liability or a non-financial host are separated from the host and accounted for as separate derivatives if:

- a) the economic characteristics and risks are not closely related to the host;
- b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative (as defined above); and
- c) the hybrid contract is not measured at fair value through profit or loss.

Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Financial assets are classified based on the business model and SPPI assessments as outlined in Notes 3.4(g)(i)(1) and 3.4(g)(i)(2).

(iv) Financial assets or financial liabilities held for trading

The Group and the Bank classify financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense are recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities and short positions that have been acquired principally for the purpose of selling or repurchasing in the near term.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(g) Financial assets and liabilities (cont'd.)

(v) Debt instruments at FVOCI

The Group and the Bank classify debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost as explained in Note 3.4(s)(ii). The ECL calculation for debt instruments at FVOCI is explained in Note 3.4(k)(ii). Where the Group and the Bank hold more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

(vi) Equity instruments at FVOCI

Upon initial recognition, the Group and the Bank have the option to elect to classify irrevocably some of their equity investments as equity instruments at FVOCI when they meet the definition of Equity under MFRS 132 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Equity instruments classified as FVOCI are measured at fair value. Any gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Group and the Bank benefit from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

(vii) Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost ("AC").

Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the effective interest rate ("EIR"). A compound financial instrument which contains both a liability and an equity component is separated at the issue date in the issuer's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(g) Financial assets and liabilities (cont'd.)

(viii) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under MFRS 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative is prohibited.

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value.

Changes in fair value are recorded in profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in other operating income, respectively, using the EIR, taking into account any discount/premium and qualifying transaction costs being an integral part of instrument.

(ix) Undrawn loan commitments

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Group and the Bank are required to provide a loan or financing with pre-specified terms to the customer. These contracts fall under the scope of the ECL requirements.

The nominal contractual value of undrawn loan commitments, where the loan or financing agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 9.2(d).

The Group and the Bank occasionally issue loan commitments at below market interest rates drawdown. Such commitments are subsequently measured at the higher of the amount of the ECL allowance (as explained in Notes 3.4(k)(i) and 50(a) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(h) Reclassification of financial assets and liabilities

The Group and the Bank have not reclassified their financial assets and financial liabilities subsequent to their initial recognition, apart from the exceptional circumstances in which the Group and the Bank acquire, dispose of, or terminate a business line.

(i) Derecognition of financial assets and liabilities

(a) Derecognition due to substantial modification of terms and conditions

The Group and the Bank derecognise a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated substantially to the extent that, it becomes a new loan, with the difference in fair value recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be Purchased or Originated Credit Impaired ("POCI").

When assessing whether or not to derecognise a loan to a customer, amongst others, the Group and the Bank consider the following factors:

- Introduction of an equity feature;
- Change in counterparty; and
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(i) Derecognition of financial assets and liabilities (cont'd.)

(b) Derecognition other than for substantial modification - Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group and the Bank also derecognise the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition as follows:

- The Group and the Bank have transferred their contractual rights to receive cash flows from the financial asset; or
- They retain the rights to the cash flows, but have assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Group and the Bank retain the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group and the Bank have no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Group and the Bank cannot sell or pledge the original asset other than as security to the eventual recipients; and
- The Group and the Bank have to remit any cash flows it collect on behalf of the eventual recipients without material delay. In addition, the Group and the Bank are not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group and the Bank have transferred substantially all the risks and rewards of the asset; or
- The Group and the Bank have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

The Group and the Bank consider control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(i) Derecognition of financial assets and liabilities (cont'd.)

(b) Derecognition other than for substantial modification - Financial assets (cont'd.)

When the Group and the Bank have neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's and the Bank's continuing involvement, in which case, the Group and the Bank also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and the Bank have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group and the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group and the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(c) Derecognition other than for substantial modification - Financial liabilities

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

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

(j) Determination of fair value

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(j) Determination of fair value (cont'd.)

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

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

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

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

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

(k) Impairment of financial assets

(i) Overview of the ECL principles

As described in Note 2.1(b), the adoption of MFRS 9 has fundamentally changed the Group's and the Bank's loan and receivable impairment method by replacing MFRS 139's incurred loss approach with a forward-looking ECL approach. The Group and the Bank have been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under MFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the financial instruments (the lifetime expected credit loss or "LTECL"), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss ("12mECL") as outlined in Note 3.4(k)(ii).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group and the Bank have established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 50(a).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

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

(i) Overview of the ECL principles (cont'd.)

General approach

The Group and the Bank group their loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans or assets are first recognised, the Group and the Bank recognise an allowance based on 12mECLs. Stage 1 loans or assets also include facilities where the credit risk has improved and the loan or the assets has been reclassified from Stage 2.
- Stage 2: When a loan or an asset has shown a significant increase in credit risk ("SICR") since origination, the Group and the Bank record an allowance for the LTECLs. Stage 2 loans or assets also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans or assets which considered credit-impaired (as outlined in Note 50(a)). The Group and the Bank record an allowance for the LTECLs.
- POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Group and the Bank have no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Simplified approach

The simplified approach does not require tracking change in credit risk, but instead requires a loss allowance to be recognised based on lifetime ECLs at each reporting date.

The simplified approach is required for trade receivables or contract assets that do not contain a significant financing component.

However, either the general approach or the simplified approach can be applied separately, as an accounting policy choice, for:

- All trade receivables or contract assets that result from transactions within the scope of MFRS 15 *Revenue from Contracts with Customers* and that contain a significant financing component.
- All lease receivables that result from transaction that are within the scope of MFRS 16 *Leases*.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

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

(ii) The calculation of ECLs

The Group and the Bank calculate ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at original EIR. A cash shortfall is the difference between the cash flows that are due to the Group and the Bank in accordance with the contract and the cash flows that the Group and the Bank expect to receive.

The key elements of the ECL calculations are outlined as follows:

- **PD** The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PD is further explained in Note 50(a).
- **EAD** The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 50(a).
- **LGD** The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 50(a).

When estimating the ECLs, the Group and the Bank consider three scenarios (a base case, an upside or a downside). When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group and the Bank have the legal right to call it earlier, or when the asset is revolving in nature, as further explained in note 50(a).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

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

(ii) The calculation of ECLs (cont'd.)

The mechanics of the ECL method are summarised below:

- **Stage 1:** The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group and the Bank calculate the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date.

These expected 12-month default probabilities (PD) are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

- **Stage 2:** When a loan or an asset has shown a SICR since origination, the Group and the Bank record an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PD and LGD are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- **Stage 3:** For loans or assets considered credit-impaired, the Group and the Bank recognise the lifetime expected credit losses for these loans or assets. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- **POCI** POCI assets are financial assets that are credit impaired on initial recognition. The Group and the Bank only recognise the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the three scenarios, discounted by the credit adjusted EIR.
- **Loan commitments** When estimating LTECLs for undrawn loan commitments, the Group and the Bank estimate the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within provisions.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

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

(iii) Debt instruments measured at FVOCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets.

(iv) Purchased or originated credit impaired financial assets ("POCI")

For POCI financial assets, the Group and the Bank only recognise the cumulative changes in LTECL since initial recognition in the loss allowance.

(v) Forward looking information

In their ECL models, the Group and the Bank rely on a broad range of forward looking information as economic inputs, such as:

- Gross Domestic Products ("GDP") growth rate; and
- Kuala Lumpur Composite Index ("KLCI").

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and multiple-scenario analysis are provided in Note 50(a).

(vi) Collateral valuation

To mitigate its credit risks on financial assets, the Group and the Bank seek to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Group's and the Bank's accounting policy for collateral assigned to it through its lending arrangements under MFRS 9 is the same as it was under MFRS 139. Collateral, unless repossessed, is not recorded on the Group's and the Bank's statement of financial position.

However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a monthly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Group and the Bank use active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as real estate valuers, or based on housing price indices.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

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

(vii) Collateral repossessed

The Group's and the Bank's accounting policy under MFRS 9 remains the same as it was under MFRS 139. The Group's and the Bank's policy are to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in line with the Group's and the Bank's policy.

In its normal course of business, the Group and the Bank do not physically repossess properties or other assets in their retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

(viii) Write-offs

The Group's and the Bank's accounting policy under MFRS 9 remains the same as it was under MFRS 139. Financial assets are written off either partially or in their entirety only when the Group and the Bank have stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

(ix) Forborne and modified loans

The Group and the Bank sometimes make concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or otherwise enforce collection of collateral. The Group and the Bank consider a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's and the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. The Group's and the Bank's policy is to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

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

(ix) Forborne and modified loans (cont'd.)

When the loan has been renegotiated or modified but not derecognised, the Group and the Bank also reassess whether there has been a significant increase in credit risk, as set out in Note 50(a). The Group and the Bank also consider whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 6 months probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of half year has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period; and
- The customer does not have any contract that is more than 30 days past due.

(l) Impairment of non-financial assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(l) Impairment of non-financial assets (cont'd.)

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

(m) Cash and cash equivalents

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

(n) Provisions

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

(o) Property, plant and equipment and depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

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

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

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

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

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

(p) Leases

(Policy applicable before 1 January 2019)

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

(i) Finance leases

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(p) Leases (cont'd.)

(Policy applicable before 1 January 2019) (cont'd.)

(i) Finance leases (cont'd.)

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

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

(ii) Operating leases

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

(Policy applicable from 1 January 2019)

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented in Note 18 and are subject to impairment in line with the Bank's policy as described in Note 3.4 (l).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(p) Leases (cont'd.)

(Policy applicable before 1 January 2019) (cont'd.)

(ii) Lease liabilities

At the commencement date of the lease, the Group and the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

(q) (i) Share capital

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared. The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(ii) Treasury Shares

When the Bank re-acquires its own equity shares, the amount of the consideration paid, including directly attributable costs, is recognised in equity. Shares re-acquired are held as treasury shares and presented as a deduction from equity. No gain or loss is recognised in profit or loss on the sale, re-issuance or cancellation of the treasury shares. Should such treasury shares be reissued by re-sale in the open market, the difference between the sales consideration and the carrying amount are shown as a movement in equity, as appropriate.

(r) Derivative financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(s) Income recognition

(i) The effective interest rate ("EIR") method

Under both MFRS 9 and MFRS 139, interest income is recorded using the effective interest rate method for all financial instruments measured at amortised cost and financial instruments designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI under MFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under MFRS 139 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Group and the Bank recognise interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through interest and similar income in the income statement.

(ii) Interest and similar income

The Group and the Bank calculate interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired (as set out in Note 3.4 (k)(i)) and is, therefore, regarded as 'Stage 3', the Group and the Bank calculate interest income by applying the effective interest rate to the net amortised cost of the financial asset.

For POCI financial assets (as set out in Note 3.4(k)(iv)), the Group and the Bank calculate interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI financial assets.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVTPL is recognised using the contractual interest rate in net trading income and net gains or losses on financial assets at FVTPL, respectively.

(iii) Fee and other income

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(s) Income recognition (cont'd.)

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

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

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

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

Rollover fee is recognised upon the rollover of specific contracts under share margin financing.

Gain or loss on disposal of investments is recognised upon the transfer of risks and rewards of ownership.

(iv) Islamic banking income

Income from Islamic banking scheme is recognised on an accrual basis in accordance with Shariah principles.

(v) Other income

Dividend income is recognised when the right to receive the payment is established.

All other income items are recognised on an accrual basis.

(t) Interest, financing and profit expense

Interest expense on deposits from customers, placements of financial institutions and borrowings is recognised using EIR.

(u) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Group and the Bank and recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(u) Foreign currency (cont'd.)

(i) Foreign currency transactions (cont'd.)

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into RM at the rates of exchange ruling at the reporting date and income and expenses are translated at exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income and accumulated in equity under foreign currency translation reserve relating to that particular foreign operation is recognised in profit or loss.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the reporting date.

(v) Income taxes

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(ii) Zakat

This represents business zakat payable by the Group and the Bank in compliance with Shariah principles and as approved by the Group's and the Bank's Shariah Committee.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(v) Income taxes (cont'd.)

(iii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the financial year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(w) Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the financial year in which the associated services are rendered by employees of the Group and of the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in profit or loss as incurred. Once the contributions have been paid, the Group and the Bank have no further payment obligations.

(iii) Kenanga's Group Employees' share scheme ("ESS")

Employees (including Executive Directors and senior management) of the Group and the Bank receive a remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are set out in Note 55. ESS cost is recognised in staff costs (Note 33), together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Service performance conditions are reflected within the grant date fair value.

Where the terms of equity-settled awards are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ACCOUNTING POLICIES (CONT'D.)

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

(x) Segment information

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Group and the Bank who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 49, including the factors used to identify the reportable segments and the measurement basis of segment information.

(y) Contingent liabilities and contingent assets

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

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Bank. The Group and the Bank do not recognise any contingent asset but disclose its existence where inflows of economic benefits are probable, but not virtually certain.

(z) Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in fiduciary capacity are not recognised as assets of the Group other than those recognised in Note 5.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in accordance with MFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amount of revenues, expenses, assets and liabilities, the accompanying disclosures and the disclosure of contingent liabilities. Judgements, estimates and assumptions are continually evaluated and are based on past experience, reasonable expectations of future events and other factors. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)

In the process of applying the Group's and the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's and the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

- (i) The Group and the Bank determine whether goodwill and other intangible assets are impaired at least on an annual basis. This requires an estimation of the value-in-use of the CGU to which goodwill and other intangible assets are allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More detailed disclosures on the assessment of impairment of goodwill and other intangible assets are disclosed in Note 17.
- (ii) The fair value of financial assets at fair value through profit or loss (Note 6), financial investments measured at FVOCI (Note 7), derivative financial assets (Note 8) and derivative financial liabilities (Note 23) are derived from quoted and observable market prices. However, if the financial instruments are not traded in an active market, fair value may be established by using a valuation technique which includes but is not limited to using recent arm's length market transactions between knowledgeable, willing parties, and reference to the current fair value of another instrument that is substantially the same. The Group and the Bank use acceptable valuation technique which involves making assumptions based on market conditions and other factors as of the reporting date.
- (iii) The measurement of impairment losses under MFRS 9 financial assets subject to impairment assessment requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Under MFRS 9, the Group's and the Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's and the Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Group's and the Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Group's and the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)

- (iv) The Group and the Bank estimate the useful lives of property, plant and equipment and software based on factors such as the expected level of usage due to physical wear and tear, future technological developments and legal or other limits on the use of the relevant assets. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment, and software would increase the recorded depreciation and decrease their carrying value. The total carrying amounts of property, plant and equipment, and software are disclosed in Notes 16 and 17 respectively.
- (v) Deferred tax assets are recognised for all unutilised tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the tax losses and unabsorbed capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. As at financial year end, the total carrying value of unutilised tax losses and unabsorbed capital allowances are disclosed in Note 19.
- (iv) The Group and the Bank assess whether there is any indication that investments in subsidiaries and investments in associates may be impaired at each reporting date.

If indicators are present, these assets are subject to impairment review. The impairment review comprises comparison of the carrying amount of the investment and the investment's estimated recoverable amount.

Judgements made by management in the process of applying the Group's and the Bank's accounting policies in respect of investments in subsidiaries and investments in an associate are as follows:

- The Bank determines whether its investments are impaired following certain indications of impairment such as, amongst others, significant changes with adverse effects on the investments and deteriorating financial performance of the investments due to observed changes and fundamentals.
- Depending on their nature and the industries in which the investments relate to, judgements are made by management to select suitable methods of valuation such as, amongst others, discounted cash flows and realisable net asset value.

Once a suitable method of valuation is selected, management makes certain assumptions concerning the future to estimate the recoverable amount of the investment. These assumptions and other key sources of estimation uncertainty at the reporting date may have a significant risk of causing material adjustment to the carrying amounts of the investments within the next financial year. Depending on the specific individual investment, assumptions made by management may include, amongst others, assumptions on expected future cash flows, revenue growth, discount rate used for purposes of discounting future cash flows which incorporates the relevant risks, and expected future outcome of certain past events.

Investments in subsidiaries and associates of the Group are disclosed in Notes 13 and 14 respectively.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

5. CASH AND BANK BALANCES

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash and balances with banks and other financial institutions	408,089	257,762	291,599	144,307
Money at call and deposit placements	1,654,968	1,093,498	1,585,551	971,810
	2,063,057	1,351,260	1,877,150	1,116,117
Included in cash and bank balances are:				
Cash and cash equivalents	1,838,760	1,096,373	1,816,949	1,053,573
Monies held in trust on behalf of dealer's representatives and segregated funds for customers	224,297	254,887	60,201	62,544
	2,063,057	1,351,260	1,877,150	1,116,117

Monies held in trust on behalf of clients of RM623,581,000 (2018: RM689,222,000) in respect of the stockbroking business are excluded from the cash and bank balances of the Group and the Bank in accordance with Financial Reporting Standards Implementation Committee ("FRSIC") Consensus 18.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At fair value				
Quoted securities:				
Shares in Malaysia	193,566	37,491	193,566	37,491
Shares outside Malaysia	-	147	-	147
Unquoted securities:				
Shares and funds in Malaysia	135,114	131,725	132,994	131,077
Unquoted debt securities in Malaysia:				
Islamic Corporate Bills	-	19,861	-	19,861
	328,680	189,224	326,560	188,576

NOTES TO THE FINANCIAL STATEMENTS

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7. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FVTPL

	Group and Bank	
	2019 RM'000	2018 RM'000
(a) Financial instruments at Fair Value Through Other Comprehensive Income ("FVOCI"):		
Debt instruments:		
Malaysian Government Securities	30,550	40,182
Malaysian Government Investment Certificates	72,649	195,055
Negotiable Instruments of Deposits	-	50,000
Islamic Negotiable Instruments of Deposits	59,550	629,165
Islamic Corporate Sukuk	458,204	584,853
Corporate Bonds	173,040	160,667
	793,993	1,659,922
Equity instruments:		
Unquoted Shares in Malaysia	1,088	1,754
Total financial instruments at FVOCI	795,081	1,661,676

Impairment losses on financial instruments subject to impairment assessment

Debt instruments at FVOCI

The table below shows the fair value of the Group's and the Bank's debt instruments measured at FVOCI by credit risk, based on the Group's and the Bank's internal credit rating system and year-end stage classification. Details of the Group's and the Bank's internal grading system are explained in Note 50(a).

Group and Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Investment grade	793,993	-	-	793,993

Group and Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Investment grade	1,659,922	-	-	1,659,922

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

7. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FVTPL (CONT'D.)

(a) Financial instruments at FVOCI (cont'd.):

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

Debt instruments at FVOCI (cont'd.)

An analysis of changes in the fair value and the corresponding ECLs is as follows:

Group and Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
As at 1 January	1,659,922	-	-	1,659,922
New assets originated or purchased	4,318,783	-	-	4,318,783
Assets derecognised or matured (excluding write-offs)	(5,182,368)	-	-	(5,182,368)
Change in fair value	(2,344)	-	-	(2,344)
As at 31 December	793,993	-	-	793,993

Group and Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
As at 1 January	1,009,677	-	-	1,009,677
New assets originated or purchased	867,028	-	-	867,028
Assets derecognised or matured (excluding write-offs)	(221,366)	-	-	(221,366)
Change in fair value	4,583	-	-	4,583
As at 31 December	1,659,922	-	-	1,659,922

Group and Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total ECL RM'000
ECL allowances				
As at 1 January	225	-	-	225
New assets originated or purchased	18	-	-	18
Assets derecognised or matured (excluding write-offs)	(181)	-	-	(181)
Impact of re-measurement of ECL	(26)	-	-	(26)
As at 31 December	36	-	-	36

Group and Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total ECL RM'000
ECL allowances				
As at 1 January	17	-	-	17
New assets originated or purchased	208	-	-	208
As at 31 December	225	-	-	225

NOTES TO THE FINANCIAL STATEMENTS

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7. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FVTPL (CONT'D.)

(b) Financial instruments at amortised cost:

	Group and Bank	
	2019 RM'000	2018 RM'000
Debt instruments:		
Malaysian Government Investment Certificates	9,892	9,876
Corporate Bonds	20,030	20,038
Islamic Corporate Sukuk	83,172	92,202
	113,094	122,116
Less: Allowance for ECL	(338)	(860)
Total financial instruments at amortised cost	112,756	121,256

Debt instrument measured at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's and the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Group's and the Bank's internal grading system are explained in Note 50(a).

Group and Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Investment grade	100,094	-	-	100,094
Non investment grade	-	13,000	-	13,000
	100,094	13,000	-	113,094

Group and Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Investment grade	100,116	-	-	100,116
Non investment grade	-	22,000	-	22,000
	100,116	22,000	-	122,116

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

7. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FVTPL (CONT'D.)

(b) Financial instruments at amortised cost (cont'd.):

An analysis of changes in the gross carrying amount and the corresponding ECLs is as follows:

Group and Bank	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	RM'000	RM'000	RM'000	RM'000
As at 1 January	100,116	22,000	-	122,116
Assets derecognised or matured (excluding write-offs)	-	(9,000)	-	(9,000)
Change in fair value	(22)	-	-	(22)
As at 31 December	100,094	13,000	-	113,094

Group and Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	RM'000	RM'000	RM'000	RM'000
As at 1 January	10,001	28,000	-	38,001
New assets purchased	100,116	-	-	100,116
Assets derecognised or matured (excluding write-offs)	(10,001)	(6,000)	-	(16,001)
As at 31 December	100,116	22,000	-	122,116

Group and Bank	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL allowances	RM'000	RM'000	RM'000	RM'000
As at 1 January	-	860	-	860
Assets derecognised or matured (excluding write-offs)	-	(156)	-	(156)
Impact of net re-measurement of ECL	-	(366)	-	(366)
As at 31 December	-	338	-	338

Group and Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
ECL allowances	RM'000	RM'000	RM'000	RM'000
As at 1 January	64	952	-	1,016
Impact of net re-measurement of ECL	(64)	(92)	-	(156)
As at 31 December	-	860	-	860

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

7. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FVTPL (CONT'D.)

(b) Financial instruments at amortised cost (cont'd.):

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

	Group and Bank	
	2019 RM'000	2018 RM'000
Corporate Bond (Note 25)	-	83,067
	-	83,067

8. DERIVATIVE FINANCIAL ASSETS

	Group and Bank	
	2019 RM'000	2018 RM'000
At fair value		
Dual currency investment - Options	11	115
Equity related contracts - Options	58,659	69,585
Equity related contracts - Swap	3,602	2,292
Synthetic protected forward	2,902	-
	65,174	71,992
Contract/Notional amount		
Dual currency investment - Options	4,509	13,636
Equity related contracts - Options	66,528	100,319
Equity related contracts - Swap	52,340	14,771
Synthetic protected forward	77,667	-
	201,044	128,726

The contractual or underlying notional amounts of derivative financial assets held at fair value through profit or loss reflect the value of transactions outstanding as at reporting date, and do not represent amounts at risk.

NOTES TO THE FINANCIAL STATEMENTS

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9. LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At amortised cost				
Term loans	665,323	554,282	722,404	577,312
Share margin financing	1,320,106	1,419,617	1,320,106	1,419,617
Other lending and factoring receivables	97,317	62,735	-	-
Advances to group employees	17	60	17	60
Subordinated term loan*	-	-	15,417	10,278
Gross loans, advances and financing	2,082,763	2,036,694	2,057,944	2,007,267
Less: Allowance for ECL				
- Stage 1 - 12-month ECL	(1,312)	(898)	(2,366)	(1,402)
- Stage 2 - Lifetime ECL not credit impaired	-	(8,847)	-	(8,847)
- Stage 3 - Lifetime ECL credit impaired	(16,777)	(22,034)	(16,061)	(21,253)
Net loans, advances and financing	2,064,674	2,004,915	2,039,517	1,975,765

* Subordinated term loan to a subsidiary.

The subordinated loan granted to a subsidiary company, Kenanga Futures Sdn Bhd, is unsecured with effective interest rate of 6.30% per annum (2018: 6.06%) and is repayable by November 2021.

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Domestic business enterprises				
- Small and medium enterprises	256,545	233,392	208,259	213,770
- Others	744,067	587,463	816,565	587,463
Individuals	1,052,269	1,149,370	1,003,238	1,139,565
Foreign enterprises	29,882	66,469	29,882	66,469
	2,082,763	2,036,694	2,057,944	2,007,267

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
In Malaysia	2,040,133	1,944,629	2,015,314	1,915,202
Outside Malaysia	42,630	92,065	42,630	92,065
	2,082,763	2,036,694	2,057,944	2,007,267

NOTES TO THE FINANCIAL STATEMENTS

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9. LOANS, ADVANCES AND FINANCING (CONT'D.)

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Fixed rate				
- Other fixed rate loans	1,417,423	1,482,352	1,320,105	1,419,617
Variable rate				
- Other variable rates	646,871	535,855	719,370	569,163
- Base lending rate plus	18,452	18,427	18,452	18,427
Interest free	17	60	17	60
	2,082,763	2,036,694	2,057,944	2,007,267

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Purchase of securities	1,639,548	1,715,237	1,638,853	1,704,785
Working capital	195,864	154,549	221,271	159,238
Others	247,351	166,908	197,820	143,244
	2,082,763	2,036,694	2,057,944	2,007,267

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Within one year	1,657,891	1,656,272	1,686,370	1,640,660
More than one year	424,872	380,422	371,574	366,607
	2,082,763	2,036,694	2,057,944	2,007,267

NOTES TO THE FINANCIAL STATEMENTS

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9. LOANS, ADVANCES AND FINANCING (CONT'D.)

9.1 Movements in impaired loans, advances and financing ("Impaired LAF")

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At beginning of the financial year	59,068	2,737	58,283	1,910
Impaired during the financial year	32,032	57,814	32,032	57,814
Amount written off against allowance for ECL	-	(1,441)	-	(1,441)
Amount recovered	(42,220)	(42)	(42,155)	-
At end of the financial year	48,880	59,068	48,160	58,283
Less: Allowance for ECL	(16,777)	(22,034)	(16,061)	(21,253)
Net impaired LAF	32,103	37,034	32,099	37,030
Net impaired LAF as a % of gross loans, advances and financing less allowance	1.55%	1.85%	1.57%	1.87%

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
9.1.1 Impaired LAF by geographical distribution				
Outside Malaysia	12,759	47,205	12,759	47,205
Malaysia	36,121	11,863	35,401	11,078
Gross impaired LAF	48,880	59,068	48,160	58,283
9.1.2 Impaired LAF by purpose				
Working capital	720	785	-	-
Purchase of securities	48,160	58,283	48,160	58,283
	48,880	59,068	48,160	58,283

NOTES TO THE FINANCIAL STATEMENTS

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9. LOANS, ADVANCES AND FINANCING (CONT'D.)

9.2 Impairment allowance for loans, advances and financing are as follows:

(a) Term loans and subordinated term loan

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's and the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of ECL allowances. Details of the Group's and the Bank's internal grading system are explained in Note 50(a).

Group	2019			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade	RM'000	RM'000	RM'000	RM'000
Performing:				
Strong	3,840	-	-	3,840
Satisfactory	426,008	36,347	-	462,355
Substandard	192,681	6,447	-	199,128
Total	622,529	42,794	-	665,323

Group	2018			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade	RM'000	RM'000	RM'000	RM'000
Performing:				
Strong	3,840	-	-	3,840
Satisfactory	433,965	-	-	433,965
Substandard	110,060	6,417	-	116,477
Total	547,865	6,417	-	554,282

Bank	2019			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade	RM'000	RM'000	RM'000	RM'000
Performing:				
Strong	3,840	-	-	3,840
Satisfactory	498,506	36,347	-	534,853
Substandard	192,681	6,447	-	199,128
Total	695,027	42,794	-	737,821

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

9.2 Impairment allowance for loans, advances and financing are as follows (cont'd.):

(a) Term loans and subordinated term loan (cont'd.)

Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade	RM'000	RM'000	RM'000	RM'000
Performing:				
Strong	3,840	-	-	3,840
Satisfactory	467,273	-	-	467,273
Substandard	110,060	6,417	-	116,477
Total	581,173	6,417	-	587,590

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to term loan is as follows:

Group	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	RM'000	RM'000	RM'000	RM'000
As at 1 January	547,865	6,417	-	554,282
New assets originated or purchased	372,275	1,743	-	374,018
Assets derecognised or repaid (excluding write-offs)	(261,264)	(1,713)	-	(262,977)
Transfers of stages	(36,347)	36,347	-	-
As at 31 December	622,529	42,794	-	665,323

Group	2018			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	RM'000	RM'000	RM'000	RM'000
As at 1 January	588,800	-	-	588,800
New assets originated or purchased	221,750	-	-	221,750
Assets derecognised or repaid (excluding write-offs)	(256,268)	-	-	(256,268)
Transfers of stages	(6,417)	6,417	-	-
As at 31 December	547,865	6,417	-	554,282

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

9.2 Impairment allowance for loans, advances and financing are as follows (cont'd.):

(a) Term loans and subordinated term loan (cont'd.)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to term loan is as follows (cont'd.):

Bank	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	RM'000	RM'000	RM'000	RM'000
As at 1 January	581,173	6,417	-	587,590
New assets originated or purchased	414,674	1,743	-	416,417
Assets derecognised or repaid (excluding write-offs)	(264,473)	(1,713)	-	(266,186)
Transfers of stages	(36,347)	36,347	-	-
As at 31 December	695,027	42,794	-	737,821

Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	RM'000	RM'000	RM'000	RM'000
As at 1 January	624,739	-	-	624,739
New assets originated or purchased	233,160	-	-	233,160
Assets derecognised or repaid (excluding write-offs)	(270,309)	-	-	(270,309)
Transfers of stages	(6,417)	6,417	-	-
As at 31 December	581,173	6,417	-	587,590

Group	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL allowances	RM'000	RM'000	RM'000	RM'000
As at 1 January	815	-	-	815
New assets originated or purchased	1,018	-	-	1,018
Assets derecognised or repaid (excluding write-offs)	(650)	-	-	(650)
As at 31 December	1,183	-	-	1,183

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

9.2 Impairment allowance for loans, advances and financing are as follows (cont'd.):

(a) Term loans and subordinated term loan (cont'd.)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to term loan is as follows (cont'd.):

Group	2018			
	Stage 1	Stage 2	Stage 3	Total
ECL allowances	RM'000	RM'000	RM'000	RM'000
As at 1 January	1,302	-	-	1,302
New assets originated or purchased	1,048	-	-	1,048
Assets derecognised or repaid (excluding write-offs)	(1,535)	-	-	(1,535)
As at 31 December	815	-	-	815

Bank	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL allowances	RM'000	RM'000	RM'000	RM'000
As at 1 January	1,201	-	-	1,201
New assets originated or purchased	1,601	-	-	1,601
Assets derecognised or repaid (excluding write-offs)	(691)	-	-	(691)
As at 31 December	2,111	-	-	2,111

Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
ECL allowances	RM'000	RM'000	RM'000	RM'000
As at 1 January	1,720	-	-	1,720
New assets originated or purchased	1,048	-	-	1,048
Assets derecognised or repaid (excluding write-offs)	(1,567)	-	-	(1,567)
As at 31 December	1,201	-	-	1,201

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

9.2 Impairment allowance for loans, advances and financing are as follows (cont'd.):

(b) Share margin financing

Group and Bank Internal rating grade	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Performing:				
Strong	365,224	-	-	365,224
Satisfactory	748,857	-	-	748,857
Substandard	108,784	-	-	108,784
Non-performing:				
Default	-	-	48,161	48,161
Non-rated	49,080	-	-	49,080
Total	1,271,945	-	48,161	1,320,106

Group and Bank Internal rating grade	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Performing:				
Strong	442,927	-	-	442,927
Satisfactory	709,054	30,417	-	739,471
Substandard	119,458	-	-	119,458
Non-performing:				
Default	-	-	58,284	58,284
Non-rated	59,477	-	-	59,477
Total	1,330,916	30,417	58,284	1,419,617

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to share margin financing is as follows:

Group and Bank Gross carrying amount	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
As at 1 January	1,330,916	30,417	58,284	1,419,617
New assets originated or purchased	793,423	411	106	793,940
Assets derecognised or repaid (excluding write-offs)	(828,789)	(6,471)	(41,985)	(877,245)
Transfers of stages	(7,523)	(24,403)	31,926	-
Effect of movement of cash collateral	(16,082)	46	(170)	(16,206)
As at 31 December	1,271,945	-	48,161	1,320,106

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

9.2 Impairment allowance for loans, advances and financing are as follows (cont'd.):

(b) Share margin financing (cont'd.)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to share margin financing is as follows (cont'd.):

Group and Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	RM'000	RM'000	RM'000	RM'000
As at 1 January	1,557,649	-	-	1,557,649
New assets originated or purchased	945,207	-	-	945,207
Assets derecognised or repaid (excluding write-offs)	(1,097,143)	-	-	(1,097,143)
Transfers of stages	(88,701)	30,417	58,284	-
Effect of movement of cash collateral	13,904	-	-	13,904
As at 31 December	1,330,916	30,417	58,284	1,419,617

Group and Bank	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL allowances	RM'000	RM'000	RM'000	RM'000
As at 1 January	-	8,847	21,253	30,100
New assets originated or purchased	-	-	14,839	14,839
Transfer of stages	-	(8,847)	8,847	-
Assets derecognised or repaid (excluding write-offs)	-	-	(28,878)	(28,878)
As at 31 December	-	-	16,061	16,061

Group and Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
ECL allowances	RM'000	RM'000	RM'000	RM'000
As at 1 January	-	-	1,441	1,441
New assets originated or purchased	-	8,847	21,253	30,100
Amount written off	-	-	(1,441)	(1,441)
As at 31 December	-	8,847	21,253	30,100

NOTES TO THE FINANCIAL STATEMENTS

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9. LOANS, ADVANCES AND FINANCING (CONT'D.)

9.2 Impairment allowance for loans, advances and financing are as follows (cont'd.):

(c) Other lending and factoring receivables and advances to group employees

Other lending and factoring receivables

Group	2019			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade	RM'000	RM'000	RM'000	RM'000
Performing:				
Strong	26,598	-	-	26,598
Satisfactory	67,855	-	-	67,855
Substandard	2,148	-	-	2,148
Non-performing:				
Individually impaired	-	-	716	716
Total	96,601	-	716	97,317

Group	2018			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade	RM'000	RM'000	RM'000	RM'000
Performing:				
Strong	4,721	-	-	4,721
Satisfactory	28,602	-	-	28,602
Substandard	28,631	-	-	28,631
Non-performing:				
Individually impaired	-	-	781	781
Total	61,954	-	781	62,735

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to other financing is as follows:

Group	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	RM'000	RM'000	RM'000	RM'000
As at 1 January	61,954	-	781	62,735
New assets originated or purchased	127,921	-	-	127,921
Assets derecognised or repaid (excluding write-offs)	(93,274)	-	(65)	(93,339)
As at 31 December	96,601	-	716	97,317

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

9.2 Impairment allowance for loans, advances and financing are as follows (cont'd.):

(c) Other lending and factoring receivables and advances to group employees (cont'd.)

Other lending and factoring receivables (cont'd.)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to other financing is as follows (cont'd.):

Group	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount				
As at 1 January	51,161	-	823	51,984
New assets originated or purchased	116,194	-	-	116,194
Assets derecognised or repaid (excluding write-offs)	(105,401)		(42)	(105,443)
As at 31 December	61,954	-	781	62,735

Group	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowances				
As at 1 January 2019	23	-	781	804
Assets derecognised or repaid (excluding write-offs)	(23)	-	(65)	(88)
As at 31 December 2019	-	-	716	716

Group	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowances				
As at 1 January 2019	21	-	823	844
New assets originated or purchased	2	-	-	2
Assets derecognised or repaid (excluding write-offs)	-	-	(42)	(42)
As at 31 December 2019	23	-	781	804

Advances to group employees

Group and Bank	2019 RM'000	2018 RM'000
Gross carrying amount	17	60

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

9.2 Impairment allowance for loans, advances and financing are as follows (cont'd.):

(d) Undrawn commitment

Group	2019			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade	RM'000	RM'000	RM'000	RM'000
Performing:				
Strong	76,174	-	-	76,174
Satisfactory	23,665	-	-	23,665
Substandard	361	-	-	361
Total	100,200	-	-	100,200

Group	2018			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade	RM'000	RM'000	RM'000	RM'000
Performing:				
Strong	76,174	-	-	76,174
Satisfactory	47,231	-	-	47,231
Total	123,405	-	-	123,405

Bank	2019			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade	RM'000	RM'000	RM'000	RM'000
Performing:				
Strong	76,174	-	-	76,174
Satisfactory	91,665	-	-	91,665
Substandard	361	-	-	361
Total	168,200	-	-	168,200

Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade	RM'000	RM'000	RM'000	RM'000
Performing:				
Strong	76,174	-	-	76,174
Satisfactory	154,231	-	-	154,231
Total	230,405	-	-	230,405

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

9.2 Impairment allowance for loans, advances and financing are as follows (cont'd.):

(d) Undrawn commitment (cont'd.)

An analysis of changes in the outstanding exposure and the corresponding ECL allowances in relation to undrawn commitment is as follows:

Group	2019			
	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure	RM'000	RM'000	RM'000	RM'000
As at 1 January	123,405	-	-	123,405
New exposures	240,557	-	-	240,557
Exposures derecognised or matured/lapsed (excluding write-offs)	(263,762)	-	-	(263,762)
As at 31 December	100,200	-	-	100,200

Group	2018			
	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure	RM'000	RM'000	RM'000	RM'000
As at 1 January	32,485	-	-	32,485
New exposures	116,920	-	-	116,920
Exposures derecognised or matured/lapsed (excluding write-offs)	(26,000)	-	-	(26,000)
As at 31 December	123,405	-	-	123,405

Bank	2019			
	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure	RM'000	RM'000	RM'000	RM'000
As at 1 January	230,405	-	-	230,405
New exposures	240,557	-	-	240,557
Exposures derecognised or matured/lapsed (excluding write-offs)	(302,762)	-	-	(302,762)
As at 31 December	168,200	-	-	168,200

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

9.2 Impairment allowance for loans, advances and financing are as follows (cont'd.):

(d) Undrawn commitment (cont'd.)

An analysis of changes in the outstanding exposure and the corresponding ECL allowances in relation to undrawn commitment is as follows (cont'd.):

Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure	RM'000	RM'000	RM'000	RM'000
As at 1 January	136,985	-	-	136,985
New exposures	119,420	-	-	119,420
Exposures derecognised or matured/lapsed (excluding write-offs)	(26,000)	-	-	(26,000)
As at 31 December	230,405	-	-	230,405

Group	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL allowances	RM'000	RM'000	RM'000	RM'000
As at 1 January	60	-	-	60
New exposures	85	-	-	85
Exposures derecognised or repaid (excluding write-offs)	(16)	-	-	(16)
As at 31 December	129	-	-	129

Group	2018			
	Stage 1	Stage 2	Stage 3	Total
ECL allowances	RM'000	RM'000	RM'000	RM'000
As at 1 January	13	-	-	13
New exposures	60	-	-	60
Exposures derecognised or repaid (excluding write-offs)	(13)	-	-	(13)
As at 31 December	60	-	-	60

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

9.2 Impairment allowance for loans, advances and financing are as follows (cont'd.):

(d) Undrawn commitment (cont'd.)

An analysis of changes in the outstanding exposure and the corresponding ECL allowances in relation to undrawn commitment is as follows (cont'd.):

Bank	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL allowances	RM'000	RM'000	RM'000	RM'000
As at 1 January	201	-	-	201
New exposures	95	-	-	95
Exposures derecognised or repaid (excluding write-offs)	(41)	-	-	(41)
As at 31 December	255	-	-	255

Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
ECL allowances	RM'000	RM'000	RM'000	RM'000
As at 1 January	154	-	-	154
New exposures	60	-	-	60
Exposures derecognised or repaid (excluding write-offs)	(13)	-	-	(13)
As at 31 December	201	-	-	201

10. BALANCES DUE FROM CLIENTS AND BROKERS

	Group and Bank	
	2019	2018
	RM'000	RM'000
Balances due from clients and brokers	294,014	310,778
Less: Allowance for ECL	(13,657)	(14,455)
	280,357	296,323

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

10. BALANCES DUE FROM CLIENTS AND BROKERS (CONT'D.)

10.1 ECL allowance for balance due from clients and brokers are as follows:

An analysis of changes in the ECL allowances in relation to balances due from clients and brokers is as follows:

Group and Bank	Non-Credit Impaired RM'000	Credit- Impaired RM'000	Total RM'000
2019			
<u>ECL allowances</u>			
As at 1 January 2019	1,517	12,938	14,455
New assets originated or purchased	214	503	717
Assets derecognised or repaid (excluding write-offs)	(215)	(1,300)	(1,515)
As at 31 December 2019	1,516	12,141	13,657

Group and Bank	Non-Credit Impaired RM'000	Credit- Impaired RM'000	Total RM'000
2018			
<u>ECL allowances</u>			
As at 1 January 2018	1,516	12,904	14,420
New assets originated or purchased	103	218	321
Assets derecognised or repaid (excluding write-offs)	(102)	(184)	(286)
As at 31 December 2018	1,517	12,938	14,455

NOTES TO THE FINANCIAL STATEMENTS

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11. OTHER ASSETS

	Note	Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Assets segregated for customers	(a)	86,376	78,127	-	-
Interest/income receivable		11,641	12,847	11,401	12,456
Amounts due from subsidiary companies	(b)	-	-	30,599	289
Amounts due from related parties	(c)	33	31	33	31
Prepayments and deposits		19,378	18,666	17,771	17,439
Other debtors	(d)	39,166	31,528	17,873	19,153
Treasury trade receivables		49,842	39,530	49,842	39,530
		206,436	180,729	127,519	88,898
Allowance for ECL					
- Other debtors	11.1	(4,651)	(4,856)	(4,651)	(3,485)
- Amount due from subsidiary companies	11.2	-	-	(304)	-
		201,785	175,873	122,564	85,413

11.1 ECL allowance for other assets are as follows:

Group	2019		
	Non-Credit Impaired RM'000	Credit- Impaired RM'000	Total RM'000
ECL allowances			
As at 1 January	259	4,597	4,856
New assets originated or purchased	1,207	1,222	2,429
Assets derecognised or repaid (excluding write-offs)	-	(2,446)	(2,446)
Written off	(9)	(179)	(188)
Transfer of stages	(1,277)	1,277	-
As at 31 December	180	4,471	4,651

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11. OTHER ASSETS (CONT'D.)

11.1 ECL allowance for other assets are as follows (cont'd.):

Group	2018		
	Non-Credit Impaired RM'000	Credit-Impaired RM'000	Total RM'000
ECL allowances			
As at 1 January	473	4,267	4,740
New assets originated or purchased	96	97	193
Assets derecognised or repaid (excluding write-offs)	-	(77)	(77)
Transfer of stages	(310)	310	-
As at 31 December	259	4,597	4,856

Bank	2019		
	Non-Credit Impaired RM'000	Credit-Impaired RM'000	Total RM'000
ECL allowances			
As at 1 January	259	3,226	3,485
New assets originated or purchased	1,207	1,222	2,429
Assets derecognised or repaid (excluding write-offs)	-	(1,075)	(1,075)
Written off	(9)	(179)	(188)
Transfer of stages	(1,277)	1,277	-
As at 31 December	180	4,471	4,651

Bank	2018		
	Non-Credit Impaired RM'000	Credit-Impaired RM'000	Total RM'000
ECL allowances			
As at 1 January	473	2,879	3,352
New assets originated or purchased	96	97	193
Assets derecognised or repaid (excluding write-offs)	-	(60)	(60)
Transfer of stages	(310)	310	-
As at 31 December	259	3,226	3,485

NOTES TO THE FINANCIAL STATEMENTS

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11. OTHER ASSETS (CONT'D.)

11.2 ECL allowance for amount due from subsidiaries are as follows:

Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowances				
As at 1 January	-	-	-	-
New assets originated or purchased	304	-	-	304
As at 31 December	304	-	-	304

(a) Assets segregated for customers

These represent margin deposits paid by a subsidiary to Bursa Malaysia Derivatives Clearing Berhad.

(b) Amounts due from subsidiary companies

Included in the amount due from subsidiary companies is the term loan offered to a subsidiary company, Kenanga Investors Berhad. The loan is unsecured and bear interest of 1.0% per annum above cost of funds. The tenure for the loan is 6 years from 5 July 2019.

(c) Amounts due from related parties

Amounts due from all related parties comprise payments of expenses made on behalf of these related parties and are unsecured, non-interest bearing and repayable on demand.

(d) Other debtors

Included in other debtors are receivables from corporate advisory billings which are non-interest bearing and generally on 90 day (2018: 90 day) terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

12. STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA ("BNM")

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

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13. INVESTMENTS IN SUBSIDIARIES

	Bank	
	2019 RM'000	2018 RM'000
Unquoted shares:		
At beginning of the financial year	70,428	72,564
Less: Impairment losses	(293)	(2,136)
At end of the financial year	70,135	70,428

- (i) On 8 July 2019, the Bank's asset management subsidiary, Kenanga Investors Berhad ("KIB") completed the acquisition of 100% equity stake in Libra Invest Berhad ("LIB").

- (ii) Business combinations

Pursuant to the SPA, the acquisition involves KIB acquiring shares of LIB for an aggregate purchase consideration of RM50.6 million. The purchase consideration was fully paid by cash.

Accounting for acquisition at the Group level

At the Group level, the Group's acquisition of the assets and liabilities of LIB was accounted for using the acquisition method of accounting in accordance with MFRS 3 *Business Combinations*.

	Fair value RM'000
Recognised amounts of identifiable assets and liabilities:	
Cash and bank balances	25,233
Other receivables	3,837
Tax recoverable	211
Property, plant and equipment	428
Intangible assets	1,087
Right-of-use assets	55
Other payables	(15,046)
Deferred tax liabilities	(133)
Lease liabilities	(56)
Total net assets	15,616
Goodwill	35,000
	50,616
Consideration settled in cash	50,616
Less: Cash and cash equivalents of subsidiary acquired	(25,233)
Net cash outflow on acquisition	25,383

NOTES TO THE FINANCIAL STATEMENTS

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13. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

(ii) Business combinations (cont'd.)

Accounting for acquisition at the Group level (cont'd.)

	RM'000
Acquisition-related cost included in administration and general expenses in the statements of profit or loss and other comprehensive income	1,229

Since 1 July 2019, the profit before tax included in the statements of profit or loss and other comprehensive income contributed by LIB was RM1.2 million.

Had LIB been consolidated from 1 January 2019, the statements of profit or loss and other comprehensive income would show profit before tax of RM2.0 million and profit after tax of RM1.6 million.

Details of the subsidiary companies are as follows:

		Effective equity interest	
		2019 %	2018 %
Name	Principal activities		
<u>Local subsidiary companies</u>			
Kenanga Futures Sdn Bhd (“KF”)	Futures broker	100	100
Kenanga Nominees (Asing) Sdn Bhd	Provision of nominee services	100	100
Kenanga Nominees (Tempatan) Sdn Bhd	Provision of nominee services	100	100
Kenanga Private Equity Sdn Bhd	Private equity management	100	100
ECML Berhad	Dealings in securities and derivatives, and provision of corporate finance and other advisory services	100	100
ECML Nominees (Tempatan) Sdn Bhd	Provision of nominee services	100	100
Avenue Kestrel Sdn Bhd	Stock broking business	100	100
K & N Kenanga Holdings Berhad	Investment holding	100	100
The subsidiary company of K & N Kenanga Holdings Berhad is:			
SSSB Management Services Sdn Bhd	Stock broking business	100	100
Kenanga Management & Services Sdn Bhd	Investment in property and provision of management and maintenance services	100	100

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

13. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

Details of the subsidiary companies are as follows (cont'd.):

		Effective equity interest	
		2019 %	2018 %
Name	Principal activities		
<u>Local subsidiary companies (cont'd.)</u>			
Kenanga Investors Berhad	Promotion and management of collective investment schemes and management of investment fund	100	100
The subsidiary companies of Kenanga Investors Berhad are:			
Kenanga Islamic Investors Berhad	Management of Islamic collective investment schemes and Islamic investment funds	100	100
Libra Invest Berhad	Management in unit trust funds and the provision of fund management services	100	-
KUT Nominees (Tempatan) Sdn Bhd	Provision of nominee services	100	100
KUT Nominees (Asing) Sdn Bhd	Provision of nominee services	100	100
Kenanga Funds Berhad	Promotion and management of unit trust funds and the management of investment funds	100	100
Kenanga Capital Sdn Bhd	Licensed money lender	100	100
The subsidiary company of Kenanga Capital Sdn Bhd is:			
Kenanga Capital Islamic Sdn Bhd	Islamic factoring and leasing	100	100
Kenanga Singapore Pte. Ltd.*	Dealing in securities, advising in corporate finance, securities financing and providing custodial services for securities	100	100

* Audited by affiliate of Messrs. Ernst & Young PLT.

NOTES TO THE FINANCIAL STATEMENTS

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14. INVESTMENTS IN ASSOCIATES

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Unquoted shares at cost	88,644	88,644	68,435	68,435
Share of post acquisition losses	(18,061)	(22,611)	-	-
Share of changes in other comprehensive loss	(4,017)	(6,295)	-	-
Dividends received	(102)	(102)	-	-
Foreign exchange differences	17,788	18,783	-	-
	84,252	78,419	68,435	68,435
Less: Accumulated impairment losses	(19,610)	(19,610)	(12,200)	(12,200)
	64,642	58,809	56,235	56,235
Represented by:				
Share of net tangible assets	64,642	58,809		

(a) Details of the associates are as follows:

Name	Place of incorporation	Principal activities	Effective equity interest	
			2019 %	2018 %
Kenanga Investment Corporation Ltd*	Sri Lanka	Investment banking related activities	45.0	45.0
Al Wasatah Al Maliah Company* ("Wasatah Capital")	Kingdom of Saudi Arabia	Dealing as principal and provision of underwriting, arranging, managing investment funds and custodian services	29.6	29.6
Kenanga Vietnam Securities Joint Stock Corporation**	Vietnam	Securities, brokerage depository and advisory business	49.0	49.0

* Audited by firms other than Messrs. Ernst & Young PLT.

^ Equity accounted for using unaudited management accounts.

The Group and the Bank carried out an impairment assessment on the associates in accordance with the accounting policy stated in Note 3.4(l). The recoverable amount is based on the Group's share of net tangible assets of the associates. Based on management's assessment, the Group and the Bank have made adequate provision for impairment loss on the investments as at the financial year end.

(b) Summarised financial information of the material associate is as follows:

The summarised financial information represents the amounts in the MFRS financial statements of the material associate and not the Group's share of those amounts.

NOTES TO THE FINANCIAL STATEMENTS

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14. INVESTMENTS IN ASSOCIATES (CONT'D.)

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

(i) Summarised statement of financial position

	Wasatah Capital	
	2019 RM'000	2018 RM'000
Current assets	80,447	76,748
Non-current assets	127,573	119,217
Total assets	208,020	195,965
Current liabilities*	5,520	10,000
Non-current liabilities	3,015	2,706
Total liabilities	8,535	12,706
Net assets	199,485	183,259

* The net asset is net of zakat expense which is not shared by non-Saudi shareholders in accordance with the regulations of Zakat department of Zakat & Income Tax as applicable in the Kingdom of Saudi Arabia. Therefore, the net assets will not representing the Group's and the Bank's share of net assets in Wasatah Capital that disclosed in Note 14(b)(iii) below. The difference will be the total zakat expenses that was fully borne by the Saudi shareholders.

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

	Wasatah Capital	
	2019 RM'000	2018 RM'000
Revenue	14,820	24,644
Profit before taxation	1,119	9,044
Tax credit/(expense)	1,314	(1,872)
Other comprehensive income/(loss)	18,966	(15,223)
Total comprehensive income/(loss)	21,399	(8,051)

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14. INVESTMENTS IN ASSOCIATES (CONT'D.)

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

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

	Wasatah Capital	
	2019 RM'000	2018 RM'000
Net assets at 1 January	218,234	216,677
Profit before taxation	1,119	9,044
Other comprehensive income/(loss)	18,966	(15,223)
Movement of foreign exchange reserve	(3,333)	5,134
Impact of adopting new accounting standard	-	2,602
Audit adjustments:		
- Profit before taxation	(1,163)	-
- Other comprehensive income	(12,937)	-
- Retained profits	12,407	-
Net assets at 31 December	233,293	218,234
Interest in Wasatah Capital	29.60%	29.60%
Share of net assets at 31 December	69,055	64,598
Accumulated Bank's share of tax credit/(expense)	(670)	(1,984)
Accumulated impairment losses	(4,549)	(4,549)
Carrying value of the Group's interest in associate	63,836	58,065

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

	2019 RM'000	2018 RM'000
The Group's share of results in associates, representing share of total comprehensive loss	70	83

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15. INVESTMENT IN A JOINT VENTURE COMPANY

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Unquoted shares				
At beginning of the financial year	30,000	20,000	30,000	20,000
Add: Subscription of new shares in a joint venture company	10,000	10,000	10,000	10,000
	40,000	30,000	40,000	30,000
Cumulative share of results	(24,199)	(15,923)	-	-
At the end of financial year	15,801	14,077	40,000	30,000

- (a) The summarised income and expenses of the joint venture company are as follows:

Group	2019 RM'000	2018 RM'000
Revenue	6,292	5,841
Loss after taxation	(16,478)	(18,286)

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

Group	2019 RM'000	2018 RM'000
Total assets	182,247	345,287
Total liabilities	150,645	317,135

The net asset included the transaction between the Bank and the joint venture company which have been eliminated at group level. Therefore, the net assets will not representing the Group's and the Bank's share of net assets in joint venture. The difference will be the net adjustment of the inter-company transactions that was 50% shared by the Bank.

- (c) Details of the joint venture company held by the Bank are as follows:

Name	Percentage (%) of equity held		Principal activities
	2019	2018	
Rakuten Trade Sdn Bhd	50	50	Dealing in securities restricted to listed securities and investment advice

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16. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM'000	Building RM'000	Motor vehicles RM'000	Computer hardware* RM'000	Office equipment* RM'000	Furniture and fittings RM'000	Renovations RM'000	Capital work-in-progress RM'000	Total RM'000
2019									
Cost									
At 1 January 2019	81,910	46,830	5,983	59,397	26,840	45,382	31,539	1,257	299,138
Transfer*	-	-	-	(34,216)	-	-	-	-	(34,216)
Acquisition of subsidiary	-	-	15	852	36	746	137	-	1,786
Additions	-	-	-	5,569	163	229	256	2,926	9,143
Reclassification	-	-	-	861	793	(479)	446	(1,621)	-
Disposals/write-off	-	-	(70)	(1,882)	(577)	(286)	(119)	-	(2,934)
At 31 December 2019	81,910	46,830	5,928	30,581	27,255	45,592	32,259	2,562	272,917
Accumulated depreciation									
At 1 January 2019	-	2,564	5,477	39,331	12,263	35,927	17,254	-	112,816
Transfer*	-	-	-	(19,534)	-	-	-	-	(19,534)
Acquisition of assets and liabilities of LIB	-	-	15	816	20	487	20	-	1,358
Depreciation charge for the financial year (Note 33)	-	936	196	3,231	2,084	1,524	2,753	-	10,724
Reclassification	-	-	-	-	467	(513)	46	-	-
Disposals/write-off	-	-	(70)	(1,881)	(576)	(253)	(117)	-	(2,897)
At 31 December 2019	-	3,500	5,618	21,963	14,258	37,172	19,956	-	102,467
Net carrying amount									
At 31 December 2019	81,910	43,330	310	8,618	12,997	8,420	12,303	2,562	170,450

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

16. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Group	Freehold land RM'000	Building RM'000	Motor vehicles RM'000	Plant and office equipment* RM'000	Furniture and fittings RM'000	Renovations RM'000	Capital work-in- progress RM'000	Total RM'000
2018								
Cost								
At 1 January 2018	81,910	46,830	6,632	76,480	45,166	29,334	3,746	290,098
Additions	-	-	362	7,643	244	1,816	265	10,330
Reclassification	-	-	-	2,328	18	408	(2,754)	-
Disposals/write-off	-	-	(1,011)	(214)	(46)	(19)	-	(1,290)
At 31 December 2018	81,910	46,830	5,983	86,237	45,382	31,539	1,257	299,138
Accumulated depreciation								
At 1 January 2018	-	1,627	6,302	43,429	34,256	14,642	-	100,256
Depreciation charge for the financial year (Note 33)	-	937	186	8,371	1,720	2,629	-	13,843
Reclassification	-	-	-	6	(6)	-	-	-
Disposals/write-off	-	-	(1,011)	(212)	(43)	(17)	-	(1,283)
At 31 December 2018	-	2,564	5,477	51,594	35,927	17,254	-	112,816
Net carrying amount								
At 31 December 2018	81,910	44,266	506	34,643	9,455	14,285	1,257	186,322

NOTES TO THE FINANCIAL STATEMENTS

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16. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Bank	Freehold land RM'000	Building RM'000	Motor vehicles RM'000	Computer hardware* RM'000	Office equipment* RM'000	Furniture and fittings RM'000	Renovations RM'000	Capital work-in- progress RM'000	Total RM'000
2019									
Cost									
At 1 January 2019	81,910	46,830	5,803	57,670	25,898	43,826	28,605	939	291,481
Transfer*	-	-	-	(34,216)	-	-	-	-	(34,216)
Additions	-	-	-	5,408	119	214	238	2,365	8,344
Reclassification	-	-	-	861	612	(669)	57	(861)	-
Disposals/write-off	-	-	(70)	(1,868)	(549)	(286)	(36)	-	(2,809)
At 31 December 2019	81,910	46,830	5,733	27,855	26,080	43,085	28,864	2,443	262,800
Accumulated depreciation									
At 1 January 2019	-	2,563	5,299	37,921	11,628	34,904	16,035	-	108,350
Transfer*	-	-	-	(19,534)	-	-	-	-	(19,534)
Depreciation charge for the financial year (Note 33)	-	937	195	3,020	1,995	1,404	2,495	-	10,046
Reclassification	-	-	-	-	467	(513)	46	-	-
Disposals/write-off	-	-	(70)	(1,868)	(548)	(253)	(33)	-	(2,772)
At 31 December 2019	-	3,500	5,424	19,539	13,542	35,542	18,543	-	96,090
Net carrying amount									
At 31 December 2019	81,910	43,330	309	8,316	12,538	7,543	10,321	2,443	166,710

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

16. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Bank	Freehold land RM'000	Building RM'000	Motor vehicles RM'000	Plant and office equipment* RM'000	Furniture and fittings RM'000	Renovations RM'000	Capital work-in- progress RM'000	Total RM'000
2018								
Cost								
At 1 January 2018	81,910	46,830	6,452	74,018	43,637	26,594	3,713	283,154
Additions	-	-	362	7,388	205	1,730	(185)	9,500
Reclassification	-	-	-	2,309	(9)	289	(2,589)	-
Disposals/write-off	-	-	(1,011)	(147)	(7)	(8)	-	(1,173)
At 31 December 2018	81,910	46,830	5,803	83,568	43,826	28,605	939	291,481
Accumulated depreciation								
At 1 January 2018	-	1,627	6,124	41,542	33,260	13,623	-	96,176
Depreciation charge for the financial year (Note 33)	-	936	186	8,147	1,655	2,418	-	13,342
Reclassification	-	-	-	6	(6)	-	-	-
Disposals/write-off	-	-	(1,011)	(146)	(5)	(6)	-	(1,168)
At 31 December 2018	-	2,563	5,299	49,549	34,904	16,035	-	108,350
Net carrying amount								
At 31 December 2018	81,910	44,267	504	34,019	8,922	12,570	939	183,131

* Computer hardware, computer software and office equipment were categorised as plant and office equipment in 2018. Reclassification was made to transfer computer software from plant and office equipment to intangible assets in 2019.

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17. INTANGIBLE ASSETS

		Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Total intangible assets					
Goodwill	(a)	243,754	208,754	252,909	252,909
Merchant banking licence	(b)	52,500	52,500	52,500	52,500
Fund management contracts	(c)	4,169	4,169	-	-
Computer software	(d)	16,548	383	15,303	-
Trading and clearing rights for derivatives broking	(e)	416	416	-	-
At end of the financial year		317,387	266,222	320,712	305,409
(a) Goodwill					
Cost					
At beginning of the financial year		244,521	244,521	288,676	288,676
Goodwill arising from acquisition of subsidiary		35,000	-	-	-
Accumulated impairment loss					
- at beginning/end of the financial year		(35,767)	(35,767)	(35,767)	(35,767)
At end of the financial year		243,754	208,754	252,909	252,909
(b) Merchant banking licence					
Cost					
At beginning/end of the financial year		52,500	52,500	52,500	52,500
(c) Fund management contracts					
Cost					
At beginning/end of the financial year		4,169	4,169	-	-
(d) Computer software					
Cost					
At beginning of the financial year		4,880	4,859	2,281	2,281
Transfer from property, plant and equipment		34,216	-	34,216	-
Acquisition of subsidiary		2,657	-	-	-
Additions		4,701	21	4,651	-
At end of the financial year		46,454	4,880	41,148	2,281

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31 DECEMBER 2019

17. INTANGIBLE ASSETS (CONT'D.)

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
(d) Computer software (cont'd.)				
Accumulated amortisation				
At beginning of the financial year	4,497	4,284	2,281	2,281
Transfer from property, plant and equipment	19,534	-	19,534	-
Acquisition of subsidiary	1,570	-	-	-
Amortisation (Note 33)	4,305	213	4,030	-
At end of the financial year	29,906	4,497	25,845	2,281
Net carrying amount	16,548	383	15,303	-
(e) Trading and clearing rights for derivatives broking				
Cost				
At beginning/end of the financial year	416	416	-	-

(f) Impairment test on intangible assets

The intangible assets consist of:

Goodwill

Goodwill has been allocated to the following CGUs:

	Group	
	2019 RM'000	2018 RM'000
Stockbroking	147,459	147,459
Investment banking*	55,651	37,101
Treasury*	-	18,550
Investment management	40,644	5,644
	243,754	208,754

* In order to better align with the business segment of the KIBB Group, the Group's former treasury CGU have been merged into one single investment banking CGU during the financial year.

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31 DECEMBER 2019

17. INTANGIBLE ASSETS (CONT'D.)

(f) Impairment test on intangible assets (cont'd.)

Merchant banking licence

- Merchant banking licence which is allocated to the Bank's stockbroking and investment banking CGUs represents contribution to BNM for a licence to carry on merchant banking business to transform the Bank from a Universal Broker into an Investment Bank.

Fund management contracts

- Intangible asset relating to fund management contracts arising from the acquisition of one of the Bank's subsidiary operations is allocated to the unit trust and asset management (investment management) CGU.

Trading and clearing rights

- The value of trading and clearing rights issued by Bursa Malaysia Derivatives Berhad which is allocated to the futures broking CGU.

All of the above intangible assets have an indefinite useful life and an annual impairment review has been carried out on all the intangible assets with an indefinite useful life in accordance with MFRS 136 *Impairment of Assets* and MFRS 138 *Intangible Assets*.

Key assumptions used in value-in-use calculations

For annual impairment testing purposes, the recoverable amounts of the CGUs, which are reportable business segments, are determined based on their value-in-use. The value-in-use is computed by discounting the future cash flows of the unit, which is based on financial budget and projections approved by the Board.

The following describes key assumptions on which management has based its cash flow projections to undertake impairment testing of intangible assets:

(i) Cash flow projections and growth rates

Cash flow projections for the first to third year are based on the most recent three years financial budget and business plan approved by the Board, taking into account projected regulatory capital requirements. Cash flows for the fourth to fifth year are extrapolated using growth rates in revenue and expenses of the business. Cash flows beyond the fifth year are projected to remain constant and estimated as a terminal value by discounting future cash flows to present value.

(ii) Discount rate

The discount rate used is based on the business units' pre-tax weighted average cost of capital plus an appropriate risk premium at the date of assessment at 7.06% (2018: 8.06%) per annum.

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17. INTANGIBLE ASSETS (CONT'D.)

(g) Sensitivity to changes in assumptions

Management believes that a reasonably possible change in any of the above key assumptions would not cause, in overall basis, the recoverable amounts of the intangible assets to be lower than the carrying values of the CGUs.

18. RIGHT-OF-USE ASSETS

Group	Building RM'000	Equipment RM'000	Total RM'000
2019			
Cost			
Effect of adoption of MFRS 16:			
At 1 January 2019	24,445	290	24,735
Acquisition of a subsidiary	73	-	73
Additions	9,664	-	9,664
Derecognition	(29)	-	(29)
At 31 December 2019	34,153	290	34,443
Accumulated amortisation			
At 1 January 2019	-	-	-
Acquisition of a subsidiary	18	-	18
Amortisation for the financial year (Note 33)	9,588	210	9,798
Derecognition	(29)	-	(29)
At 31 December 2019	9,577	210	9,787
Net carrying amount			
At 31 December 2019	24,576	80	24,656

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

18. RIGHT-OF-USE ASSETS (CONT'D.)

Bank	Building/ total RM'000
2019	
Cost	
Effect of adoption of MFRS 16:	
At 1 January 2019	23,843
Additions	8,795
Derecognition	(29)
At 31 December 2019	32,609
Accumulated depreciation	
At 1 January 2019	-
Amortisation for the financial year (Note 33)	8,893
Derecognition	(29)
At 31 December 2019	8,864
Net carrying amount	
At 31 December 2019	23,745

Lease Liabilities

	Group	Bank
	2019	2019
	RM'000	RM'000
As at 1 January- effect of adoption of MFRS 16	23,047	22,157
Acquisition of assets and liabilities of LIB	56	-
Addition	9,695	7,167
Accretion of interest	1,236	1,177
Payments	(9,576)	(7,036)
Derecognition	(29)	(29)
As at 31 December	24,429	23,436

The maturity analysis of lease liabilities are disclosed as below:

	Group	Bank
	2019	2019
	RM	RM
Within 1 year	16,961	16,727
Between one and five years	7,468	6,709
	24,429	23,436

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19. DEFERRED TAXATION

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At 1 January	6,532	10,107	3,666	7,980
Acquisition of a subsidiary (Note 13(ii))	(133)	-	-	-
Recognised in profit or loss (Note 40)	(1,504)	(1,668)	(1,693)	(2,407)
Recognised in other comprehensive income	(2,630)	(1,907)	(2,630)	(1,907)
At end of the financial year	2,265	6,532	(657)	3,666
Deferred tax assets	2,955	6,532	-	3,666
Deferred tax liabilities	(690)	-	(657)	-
	2,265	6,532	(657)	3,666

Deferred tax assets and liabilities prior to offsetting are summarised as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Deferred tax assets	17,290	12,986	14,159	9,900
Deferred tax liabilities	(15,025)	(6,454)	(14,816)	(6,234)
	2,265	6,532	(657)	3,666

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax liabilities of the Group:

	Fair value reserve RM'000	Excess of capital allowances over depreciation RM'000	Right-of-use asset RM'000	Total RM'000
At 1 January 2019	-	(6,454)	-	(6,454)
Acquisition of a subsidiary (Note 13(ii))	-	(133)	-	(133)
Recognised in profit or loss	-	578	(5,699)	(5,121)
Recognised in other comprehensive income	(3,317)	-	-	(3,317)
At 31 December 2019	(3,317)	(6,009)	(5,699)	(15,025)
At 1 January 2018	-	(5,947)	-	(5,947)
Recognised in profit or loss	-	(507)	-	(507)
At 31 December 2018	-	(6,454)	-	(6,454)

NOTES TO THE FINANCIAL STATEMENTS

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19. DEFERRED TAXATION (CONT'D.)

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows (cont'd.):

Deferred tax assets of the Group:

	Fair value reserve RM'000	Impairment allowance and provisions RM'000	Unabsorbed capital allowances and tax losses RM'000	Lease liabilities RM'000	Total RM'000
2019					
At 1 January 2019	(535)	12,458	1,063	-	12,986
Recognised in profit or loss	-	(2,152)	144	5,625	3,617
Recognised in other comprehensive income	687	-	-	-	687
At 31 December 2019	152	10,306	1,207	5,625	17,290
At 1 January 2018	1,372	14,215	467	-	16,054
Recognised in profit or loss	-	(1,757)	596	-	(1,161)
Recognised in other comprehensive income	(1,907)	-	-	-	(1,907)
At 31 December 2018	(535)	12,458	1,063	-	12,986

Deferred tax liabilities of the Bank:

	Fair value reserve RM'000	Excess capital allowances over depreciation	Right-of-use assets	Total RM'000
At 1 January 2019	-	(6,234)	-	(6,234)
Recognised in profit or loss	-	434	(5,699)	(5,265)
Recognised in other comprehensive income	(3,317)	-	-	(3,317)
At 31 December 2019	(3,317)	(5,800)	(5,699)	(14,816)
At 1 January 2018	-	(5,649)	-	(5,649)
Recognised in profit or loss	-	(585)	-	(585)
At 31 December 2018	-	(6,234)	-	(6,234)

NOTES TO THE FINANCIAL STATEMENTS

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19. DEFERRED TAXATION (CONT'D.)

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows (cont'd.):

Deferred tax assets of the Bank:

	Fair value reserve RM'000	Impairment allowance and provisions RM'000	Lease liabilities RM'000	Total RM'000
At 1 January 2019	(687)	10,587	-	9,900
Recognised in profit or loss	-	(2,053)	5,625	3,572
Recognised in other comprehensive income	687	-	-	687
At 31 December 2019	-	8,534	5,625	14,159
At 1 January 2018	1,220	12,409	-	13,629
Recognised in profit or loss	-	(1,822)	-	(1,822)
Recognised in other comprehensive income	(1,907)	-	-	(1,907)
At 31 December 2018	(687)	10,587	-	9,900

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2019 RM'000	2018 RM'000
Unutilised tax losses carried forward	5,650	3,878
Unutilised capital allowances carried forward	1,761	1,730
	7,411	5,608

The Public Ruling No.6/2016 *Group Relief for Companies* states that the provision of group relief allows a company in a group to surrender not more than 70% of its adjusted losses in the basis period for a year of assessment to one or more related companies within the same group. The Bank's subsidiaries' have surrendered tax losses amounting to a total of RM2,047,860 to the Bank for set-off against the aggregate income for year of tax assessment 2018.

NOTES TO THE FINANCIAL STATEMENTS

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20. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Fixed term deposits	3,282,087	3,645,634	3,312,129	3,683,800
Short term money deposits	657,880	782,435	681,696	795,578
Negotiable instruments of deposits	54,160	45,789	54,160	46,164
Call money deposits	71,367	88,246	71,367	88,246
	4,065,494	4,562,104	4,119,352	4,613,788
(i) The maturity structure is as follows:				
Due within six months	2,911,025	3,332,226	2,964,883	3,383,910
Six months to one year	727,267	1,014,878	727,267	1,014,878
More than one year	427,202	215,000	427,202	215,000
	4,065,494	4,562,104	4,119,352	4,613,788
(ii) The deposits are from the following types of customers:				
Government and statutory bodies	786,494	972,649	786,494	972,649
Individuals	124,805	125,692	124,805	125,692
Business enterprises	776,876	1,076,432	776,876	1,076,432
Non-bank financial institutions	2,265,852	2,315,172	2,265,852	2,315,172
Subsidiaries and related companies	111,467	72,159	165,325	123,843
	4,065,494	4,562,104	4,119,352	4,613,788

21. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2019 RM'000	2018 RM'000
Licensed investment banks	50,000	50,000
Other financial institutions	600,718	45,016
	650,718	95,016

NOTES TO THE FINANCIAL STATEMENTS

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22. BALANCES DUE TO CLIENTS AND BROKERS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Balances due to clients and brokers	537,393	481,932	304,880	221,083

Balances due to clients and brokers represent amounts payable in respect of outstanding contracts entered into on behalf of these clients where settlements have yet to be made. These balances are generally on 1 to 2 trading days (2018: 1 to 3 trading days) term.

23. DERIVATIVE FINANCIAL LIABILITIES

	Group and Bank	
	2019 RM'000	2018 RM'000
At fair value		
Dual currency investment - Options	14	111
Equity related contracts - Options	13,402	12,559
Equity related contract - Swaps	-	23
	13,416	12,693
Contract/notional amount		
Dual currency investment - Options	4,509	13,636
Equity related contracts - Options	72,413	122,122
Equity related contract - Swaps	-	5,900
	76,922	141,658

The contractual or underlying notional amounts of derivative financial liabilities held at fair value through profit or loss reflect the value of transactions outstanding as at reporting date, and do not represent amounts at risk.

NOTES TO THE FINANCIAL STATEMENTS

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24. OTHER LIABILITIES

	Note	Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Interest/income payable		35,878	35,902	35,375	35,563
Retention for contra losses		17	487	17	487
Structured products		5,399	37,222	5,399	37,222
Treasury trade payables		49,842	19,458	49,842	19,458
Accruals and provisions	(i)	70,989	64,374	35,484	37,871
Amount held in trust on behalf of:					
- Dealer's representative		60,201	62,544	60,201	62,544
Securities borrowing and lending		3,040	-	3,040	-
Deposits and other creditors		84,975	67,929	79,400	64,476
Amount due to trustee		12,611	20,806	-	-
Amount due to subsidiaries		-	-	268	459
		322,952	308,722	269,026	258,080

(i) Included in accruals and provisions, the movements in the provisions are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
As at 1 January	17,163	22,993	12,932	19,423
Provision made, net	16,320	14,090	11,681	9,312
Utilisation	(14,859)	(19,920)	(9,809)	(15,803)
As at 31 December	18,624	17,163	14,804	12,932

The nature of the provisions made above are for provision for annual leave, bonus, potential liabilities and directors' fee.

25. OBLIGATIONS ON SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	Group and Bank	
	2019 RM'000	2018 RM'000
Financial investments at FVOCI (Note 7)	-	83,067
	-	83,067

NOTES TO THE FINANCIAL STATEMENTS

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26. BORROWINGS

	Note	Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Short term borrowings					
Secured:					
Revolving bank loan	(a)	41,600	52,800	41,600	52,800
Unsecured:					
Revolving bank loans	(b)	30,000	41,500	-	-
Subordinated notes	(c)	25,000	25,000	25,000	25,000
		96,600	119,300	66,600	77,800

- (a) The revolving bank loan amounting to RM41.6 million (2018: RM52.8 million) bear interest of 0.5% (2018: 0.5%) per annum above cost of funds. The loan is secured by a first party legal charge over Kenanga Tower, the corporate office building of Kenanga Investment Bank Berhad. The tenure for the loan is 7 years from 24 May 2016.
- (b) The revolving bank loans bear interest of 1.50% to 2.00% over cost of fund (2018: 1.50% to 2.00% over cost of fund) plus cost of maintaining statutory reserve and liquidity requirements and are payable on maturity of the loans. The maximum tenure for the loans is 3 months (2018: 3 months).
- (c) On 27 March 2017, the Bank established a RM250 million Tier 2 Subordinated Note Programme in nominal value which has a tenure of up to thirty (30) years.

The outstanding subordinated notes under this programme as at 31 December 2019 are as follows:

Issue date	Tranches	RM'000	Rate (p.a.)	Tenure
20 April 2017	1	5,000	6.25%	10 years (non-callable) 5 years
29 January 2018	2	10,000	6.60%	
18 September 2018	3	10,000	6.40%	
		25,000		

NOTES TO THE FINANCIAL STATEMENTS

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27. SHARE CAPITAL

	Group and Bank			
	Number of Ordinary Shares		Amount	
	2019 '000	2018 '000	2019 RM'000	2018 RM'000
Issued and fully paid:				
Ordinary shares				
At 1 January	722,741	722,547	246,249	246,137
Issuance of shares pursuant to ESS exercise	-	194	-	112
At 31 December	722,741	722,741	246,249	246,249

Treasury shares

	Group and Bank			
	Number of Ordinary Shares		Amount	
	2019 '000	2018 '000	2019 RM'000	2018 RM'000
At 1 January	23,744	-	16,808	-
Share buy back	310	23,744	182	16,808
At 31 December	24,054	23,744	16,990	16,808

The shareholders of the Bank, via an ordinary resolution passed at the Annual General Meeting held on 30 May 2019, had approved its plan to purchase its own shares up to 10% of existing total issued and paid-up share capital.

During the financial year, the Bank bought back 310,000 (2018: 23,743,900) ordinary shares, at an average price of RM0.5786 (2018:RM0.7046) from the open market. The share buy-back transactions were financed by internally generated funds. As at 31 December 2019, the total number of shares bought was 24,053,900 and were held as treasury shares in accordance with the provisions of Section 127 of the Companies Act, 2016. Accordingly the adjusted issued and paid-up share capital of the Company (excluding 24,053,900 treasury shares) as at 31 December 2019 was RM229,258,908 (2018: RM229,439,987) comprising 698,687,499 (2018: 698,997,499) shares.

NOTES TO THE FINANCIAL STATEMENTS

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28. RESERVES

	Note	Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Non-distributable:					
Capital reserve		88,938	88,938	153,863	153,863
Fair value reserve	(a)	6,488	(4,120)	10,505	2,175
Exchange reserve	(b)	17,789	18,783	-	-
Regulatory reserve	(c)	25,444	25,488	25,444	25,488
ESS reserve		4,560	2,588	4,560	2,588
		143,219	131,677	194,372	184,114
Distributable:					
Retained profits		531,811	509,888	532,338	513,675
		675,030	641,565	726,710	697,789

The nature and purpose of each category of reserves are as follows:

- (a) Fair value reserve is in respect of unrealised fair value gains and losses on financial investments at FVOCI, net of tax.
- (b) The exchange reserve represents foreign exchange differences arising from the translation of the financial statements of the associated company.
- (c) Regulatory reserve is maintained in addition to the impairment allowance for non-impaired credit exposures that has been assessed and recognised in accordance with MFRS in compliance with BNM requirements.

29. OPERATING REVENUE

Revenue of the Bank comprises all types of revenue derived from brokerage, lending, treasury, investment and trading and other banking activities undertaken by the Bank.

Revenue of the Group comprises all types of revenue derived from brokerage, lending, treasury, investment, trading and investment management and other banking activities undertaken by the Group.

NOTES TO THE FINANCIAL STATEMENTS

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30. INTEREST INCOME

	Group		Bank	
	2019 RM'000	2018 RM'000 Restated	2019 RM'000	2018 RM'000 Restated
Loans, advances and financing				
- Interest income other than from recoveries from impaired loans	137,948	150,508	134,035	144,342
Money at call and deposit placements with financial institutions	50,794	52,617	46,971	49,865
Financial investments measured at FVOCI	35,857	37,299	35,857	37,299
Financial investments at amortised cost	4,159	4,020	4,159	4,020
Others	15,394	16,407	15,379	16,395
	244,152	260,851	236,401	251,921

31. INTEREST EXPENSE

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Deposits from customers	144,968	165,143	148,309	166,767
Deposits and placements from banks and other financial institutions	4,701	2,227	4,701	2,227
Borrowings	5,848	6,549	3,630	3,677
Lease interest expense	1,236	-	1,177	-
Others	1,978	3,932	5,079	3,932
	158,731	177,851	162,896	176,603

NOTES TO THE FINANCIAL STATEMENTS

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32. OTHER OPERATING INCOME

	Group		Bank	
	2019 RM'000	2018 RM'000 Restated	2019 RM'000	2018 RM'000 Restated
(a) Fee income:				
Brokerage fees	144,453	172,253	144,900	172,253
Corporate advisory fees	12,671	9,518	12,788	9,558
Processing fees on loans, advances and financing	4,021	6,285	3,335	5,074
Underwriting commission	1,241	1,491	1,241	1,491
Placement fees	9,002	13,782	8,100	12,183
Commissions	6,890	6,998	-	-
Management fee income	82,755	55,991	1,445	525
Other fee income	14,653	12,753	6,902	8,076
Other	1,679	2,243	582	1,303
	277,365	281,314	179,293	210,463
(b) Investment and trading income:				
Net gain from sale of financial assets at fair value through profit or loss and derivatives	55,590	35,597	55,590	35,597
Unrealised (loss)/gain revaluation of financial assets at fair value through profit or loss and derivatives	(17,264)	14,704	(19,696)	15,394
Net gain from sale of financial investments at FVOCI	10,827	1,728	10,827	1,728
Gross dividend income from:				
- Financial assets at fair value through profit or loss	1,064	1,012	923	808
- Financial investments at FVOCI	320	290	320	290
Interest Income from financial assets at FVTPL	2,137	5,386	2,137	5,386
	52,674	58,717	50,101	59,203
(c) Other income:				
Foreign exchange gain, net	6,800	5,602	6,825	5,618
Gain on disposal of property, plant and equipment	23	93	23	93
Other operating income	1,004	1,253	1,474	1,547
Other non-operating income				
- Rental income	2,828	2,689	4,658	4,392
- Others	5,934	3,618	5,539	3,371
	16,589	13,255	18,519	15,021
Total other operating income	346,628	353,286	247,913	284,687

NOTES TO THE FINANCIAL STATEMENTS

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33. OTHER OPERATING EXPENSES

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Personnel costs				
- Salaries, allowances and bonuses	143,504	127,467	111,093	99,099
- EPF	18,006	17,147	14,309	13,374
- ESS	1,972	2,605	1,733	2,319
- Others	21,621	19,560	12,936	11,878
	185,103	166,779	140,071	126,670
Establishment costs				
- Depreciation of property, plant and equipment (Note 16)	10,724	13,843	10,046	13,342
- Amortisation of intangible assets (Note 17(d))	4,305	213	4,030	-
- Amortisation of right-of-use assets* (Note 18)	9,769	-	8,864	-
- Rental of premises:*				
- Current year	730	9,441	463	8,642
- Over accrual in prior year	(1,617)	-	(1,617)	-
- Rental of equipment*	469	645	306	282
- Repairs and maintenance	5,691	3,957	3,879	3,079
- Information technology expenses	12,630	10,267	12,537	10,184
- Others	6,653	6,665	3,624	3,874
	49,354	45,031	42,132	39,403

* Rental expense is now reclassified as amortisation of right-of-use assets. Please refer to Note 2.1 (a) of changes in accounting policies and regulatory requirements.

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33. OTHER OPERATING EXPENSES (CONT'D.)

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Marketing expenses				
- Promotion and advertisement	10,587	7,628	4,591	5,219
- Travel and entertainment	4,600	6,145	2,687	3,226
- Others	759	1,163	637	1,091
	15,946	14,936	7,915	9,536
Administration and general expenses				
- Communication expenses	5,210	4,636	4,462	4,015
- Regulatory charges	21,760	21,384	19,563	19,563
- Printing and stationery	1,502	1,560	973	1,022
- Administrative expenses	13,415	14,420	11,470	12,779
- Professional fees and legal fees	4,741	4,177	4,189	3,704
- Fees and brokerage	121,156	127,761	84,346	102,386
	167,784	173,938	125,003	143,469
Total other operating expenses	418,187	400,684	315,121	319,078
Included in the other operating expenses are the following:				
Auditors' remuneration				
- Statutory audit	523	462	335	300
- Assurance related	60	61	60	61
- Other services	208	215	81	116
Directors' remuneration (Note 39)	4,178	4,023	3,916	3,826
Property, plant and equipment written off (Note 16)	37	7	37	5

NOTES TO THE FINANCIAL STATEMENTS

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34. CREDIT LOSS REVERSAL/(EXPENSES)

The table below shows the ECL charges on financial instruments for the financial year recorded in the income statement:

Group

(a) Movement in ECLs on debt instruments, loan commitments and loans, advances and financing:

2019	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Debts instruments at FVOCI (Note 7(a))	189	-	-	189
Debts instruments at amortised cost (Note 7(b))	-	522	-	522
Loans, advances and financing (Note 9.2)	(345)	-	14,104	13,759
Loan commitments (Note 9.2(d))	(69)	-	-	(69)
Credit loss (expenses)/reversal	(225)	522	14,104	14,401

2018	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Debts instruments at FVOCI (Note 7(a))	(208)	-	-	(208)
Debts instruments at amortised cost (Note 7(b))	64	92	-	156
Loans, advances and financing (Note 9.2)	485	(8,847)	(21,211)	(29,573)
Loan commitments (Note 9.2(d))	(47)	-	-	(47)
Credit reversal/(expenses)	294	(8,755)	(21,211)	(29,672)

(b) Movement in ECLs on other financial assets:

2019	Non- Credit Impaired RM'000	Credit- Impaired RM'000	Total RM'000
Balances due from clients and brokers (Note 10.1)	1	797	798
Other debtors (Note 11.1)	(1,207)	1,224	17
Credit loss (expenses)/reversal	(1,206)	2,021	815

2018	Non- Credit Impaired RM'000	Credit- Impaired RM'000	Total RM'000
Balances due from clients and brokers (Note 10.1)	(1)	(34)	(35)
Other debtors (Note 11.1)	(96)	(20)	(116)
Credit loss (expenses)/reversal	(97)	(54)	(151)

NOTES TO THE FINANCIAL STATEMENTS

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34. CREDIT LOSS REVERSAL/(EXPENSES) (CONT'D.)

Bank

(a) Movement in ECLs on debt instruments, loan commitments and loans, advances and financing:

2019	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Debts instruments at FVOCI (Note 7(a))	189	-	-	189
Debts instruments at amortised cost (Note 7(b))	-	522	-	522
Loans, advances and financing (Note 9.2)	(910)	-	14,039	13,129
Loan commitments (Note 9.2(d))	(54)	-	-	(54)
Amount due from subsidiaries	(304)	-	-	(304)
Credit loss (expenses)/reversal	(1,079)	522	14,039	13,482

2018	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Debts instruments at FVOCI (Note 7(a))	(208)	-	-	(208)
Debts instruments at amortised cost (Note 7(b))	64	92	-	156
Loans, advances and financing (Note 9.2)	519	(8,847)	(21,253)	(29,581)
Loan commitments (Note 9.2(d))	(47)	-	-	(47)
Credit loss reversal/(expenses)	328	(8,755)	(21,253)	(29,680)

(b) Movement in ECLs on other financial assets:

2019	Non- Credit Impaired RM'000	Credit- Impaired RM'000	Total RM'000
Balances due from clients and brokers (Note 10.1)	1	797	798
Other debtors (Note 11.1)	(1,207)	(147)	(1,354)
Credit loss (expenses)/reversal	(1,206)	650	(556)

2018	Non- Credit Impaired RM'000	Credit- Impaired RM'000	Total RM'000
Balances due from clients and brokers (Note 10.1)	(1)	(34)	(35)
Other debtors (Note 11.1)	(96)	(37)	(133)
Credit loss (expenses)/reversal	(97)	(71)	(168)

NOTES TO THE FINANCIAL STATEMENTS

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35. BAD DEBTS RECOVERED/(WRITTEN OFF)

	Group and Bank	
	2019 RM'000	2018 RM'000
- Loans, advances and financing	3,534	13,730
- Balances due from clients and brokers	196	185
- Other debtors	(266)	(55)
	3,464	13,860

36. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

In addition to the transactions detailed elsewhere in the financial statements, the Group and the Bank had the following transactions with related parties during the financial year.

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Transactions				
Income earned:				
Brokerage fees:				
- Key management personnel	-	1	-	1
- Related company	895	325	895	325
Corporate advisory fees:				
- Subsidiaries	-	-	117	66
Processing fees on loans, advances and financing:				
- Subsidiaries	-	-	250	349
Management fee income:				
- Subsidiary	-	-	92	17
Other income:				
- Subsidiary	-	-	216	128
- Related company	302	313	302	313
Interest on loans, advances and financing:				
- Subsidiaries	-	-	4,146	4,282
Group support services charged:				
- Subsidiaries	-	-	5,221	4,992

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36. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D.)

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Transactions (cont'd.)				
Income earned (cont'd.):				
Rental of premises:				
- Subsidiaries	-	-	1,944	1,887
- Related company	348	247	348	247
Service charge:				
- Subsidiary	-	-	267	294
Expenditure incurred:				
Interest on deposits and placements:				
- Subsidiaries	-	-	1,901	1,624
- Key management personnel	21	25	21	25
- Other related company	2,882	2,185	2,882	2,185
- Other related party	1,135	4,640	1,135	4,640
Group support services incurred:				
- Subsidiary	-	-	3,101	1,717
Staff training cost:				
- Subsidiaries	-	-	147	121
Direct placement cost				
- Subsidiary	-	-	902	1,600
Incentive fees - management fees income (WM)				
- Subsidiary	-	-	4,194	3,496
Incentive fees - agent (Kenwealth)				
- Subsidiary	-	-	2,785	927
Service charge:				
- Subsidiary	-	-	1,790	256

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36. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D.)

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Transactions (cont'd.)				
Balances				
Amount due from:				
Loans, advances and financing:				
- Subsidiaries	-	-	72,000	33,000
Commitment receivable:				
- Subsidiaries	-	-	17	29
Amount due to:				
Deposits and placements:				
- Subsidiaries (Note 20)	-	-	53,859	51,684
- Related company (Note 20)	51,466	72,159	51,466	72,159
- Other related party	33,000	151,000	33,000	151,000
- Key management personnel	190	722	190	722
Balances due to clients and brokers:				
- Key management personnel	323	385	323	385
Interest receivable on loan, advances and financing:				
- Subsidiaries	-	-	499	308
Interest payable on deposits:				
- Subsidiaries	-	-	106	69
- Related company	151	210	151	210
- Other related party	17	159	17	159
Deposit for Index trading	-	-	548	-

NOTES TO THE FINANCIAL STATEMENTS

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36. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D.)

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or if one other party controls both. The related parties of the Bank are:

(i) Subsidiaries

Details of the subsidiaries are shown in Note 13.

(ii) Associates

Details of the associates are as disclosed in Note 14.

(iii) Joint Venture

Details of the joint venture are disclosed in Note 15.

(iv) Other related parties

Name	Relationship
CMS Capital Sdn Bhd	Substantial shareholder of the Bank
Cahya Mata Sarawak Berhad	Holding company of a substantial shareholder of the Bank

The directors are of the opinion that the above transactions were entered into in the normal course of business and have been established under terms that are no less favourable than those obtainable in transactions with unrelated parties.

37. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	Group and Bank	
	2019 RM'000	2018 RM'000
Outstanding credit exposures with connected parties	171,387	164,104
Percentage of outstanding credit exposures to connected parties:		
- as a proportion of total credit exposures	5.06%	4.97%
- which is impaired or in default	-	-

NOTES TO THE FINANCIAL STATEMENTS

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37. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES (CONT'D.)

The disclosure on Credit Transactions and Exposures with Connected Parties above is presented in accordance with paragraph 9.1 of BNM's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which became effective on 1 January 2008.

Based on these guidelines, connected parties refer to the following:

- (i) Directors of the Bank and their close relatives;
- (ii) Controlling shareholder and his close relatives;
- (iii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;
- (iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
- (v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
- (vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

38. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of Directors and other members of key management during the financial year was as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Group Managing Director				
- Short term employee benefits	2,246	3,036	2,246	3,036
- Post-employment benefits: EPF	345	438	345	438
Senior Management				
- Short term employee benefits	14,287	14,530	10,659	11,398
- Post-employment benefits: EPF	2,180	2,246	1,629	1,759
	19,058	20,250	14,879	16,631

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly including all executive directors and senior management.

NOTES TO THE FINANCIAL STATEMENTS

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39. DIRECTORS' REMUNERATION

Remuneration in aggregate for Directors for the financial year is as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Directors of the Bank:				
Non-executive directors' remuneration:				
- Fees	3,479	3,365	3,265	3,185
- Other remuneration, including meeting allowance	596	569	548	552
Total directors' remuneration	4,075	3,934	3,813	3,737
Estimated money value of benefits-in-kind	103	89	103	89
Total for directors of the Bank (Note 33)	4,178	4,023	3,916	3,826

The total remuneration (including benefits-in-kind) of the directors of the Bank are as follows:

	Remuneration received from the Group				
	Fees RM'000	Salaries RM'000	Other emolument RM'000	Benefits- in-kind RM'000	Group Total RM'000
31 December 2019					
Non-Executive Directors:					
Izlan Bin Izhab	510	-	56	84	650
Datuk Syed Ahmad Alwee Alsree	510	-	68	19	597
Dato' Richard Alexander John Curtis	310	-	48	-	358
Luigi Fortunato Ghirardello	390	-	78	-	468
Ismail Harith Merican	300	-	40	-	340
Luk Wai Hong, William	389	-	86	-	475
Jeremy Bin Nasrulhaq	350	-	70	-	420
Norazian Binti Ahmad Tajuddin	376	-	84	-	460
Kanagaraj Lorenz	344	-	66	-	410
Total Directors' remuneration	3,479	-	596	103	4,178

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

39. DIRECTORS' REMUNERATION (CONT'D.)

The total remuneration (including benefits-in-kind) of the directors of the Bank are as follows (cont'd.):

	Remuneration received from the Group				
	Fees RM'000	Salaries RM'000	Other emolument RM'000	Benefits- in-kind RM'000	Group Total RM'000
31 December 2018					
Non-Executive Directors:					
Izlan Bin Izhab	518	-	59	57	634
Datuk Syed Ahmad Alwee Alsree	510	-	47	32	589
Dato' Richard Alexander John Curtis	293	-	54	-	347
Luigi Fortunato Ghirardello	387	-	83	-	470
Ismail Harith Merican	300	-	54	-	354
Luk Wai Hong, William	380	-	84	-	464
Jeremy Bin Nasrulhaq	347	-	70	-	417
Norazian Binti Ahmad Tajuddin	315	-	62	-	377
Kanagaraj Lorenz	315	-	56	-	371
Total Directors' remuneration	3,365	-	569	89	4,023

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

40. TAXATION AND ZAKAT

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Current income tax:				
Tax expense for the financial year	14,345	12,189	11,695	11,623
Under provision in prior years	343	2,668	326	846
	14,688	14,857	12,021	12,469
Deferred tax (Note 19):				
Relating to origination and reversal of temporary differences	75	564	265	1,159
Over provision of deferred tax assets in prior years	1,429	1,104	1,428	1,248
	1,504	1,668	1,693	2,407
Zakat	373	415	357	340
Total income tax expense	16,565	16,940	14,071	15,216

Domestic income tax is calculated at the statutory tax rate of 24% (2018: 24%) on the estimated chargeable profit for the financial year.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

40. TAXATION AND ZAKAT (CONT'D.)

A reconciliation of taxation applicable to profit before taxation at the statutory income tax rate to taxation at the effective tax rate of the Group and of the Bank is as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit before taxation and zakat	42,951	28,851	40,376	38,563
Taxation at Malaysian statutory income tax rate of 24% (2018: 24%)	10,308	6,924	9,690	9,255
Effect of income not subject to tax	(688)	(1,527)	(405)	(399)
Effect of expenses not deductible for tax purposes	2,549	4,671	2,675	3,926
Loss not deductible for tax purposes	1,818	3,083	-	-
Utilisation of previously unrecognised tax loss and unabsorbed capital allowances	(110)	(398)	-	-
Deferred tax asset not recognised on unutilised business losses	525	-	-	-
Deferred tax asset not recognised on unabsorbed capital allowances	18	-	-	-
Over provision of deferred tax assets in prior years	1,429	1,104	1,428	1,248
Under provision of income tax expense in prior years	343	2,668	326	846
Tax expense for the year	16,192	16,525	13,714	14,876
Zakat	373	415	357	340
Tax expense and zakat for the financial year	16,565	16,940	14,071	15,216

NOTES TO THE FINANCIAL STATEMENTS

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41. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing profit for the financial year attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2019	2018
Profit for the financial year attributable to equity holders of the Bank (RM'000)	26,386	11,911
Weighted average number of ordinary shares in issue excluding treasury shares ('000)	698,702	713,185
Effects of dilution ('000)	-	1,566
Adjusted weighted average number of ordinary shares in issue ('000)	698,702	714,751
Earnings per share (sen)		
- basic	3.78	1.67
- fully diluted	3.78	1.67

Diluted earnings per share was the same as basic earnings per share as there were no dilutive potential ordinary shares during the financial year ended 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

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42. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank enter into various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

As at reporting date, the commitment and contingencies are as follows:

	Group		Bank	
	2019 Principal amount RM'000	2018 Principal amount RM'000	2019 Principal amount RM'000	2018 Principal amount RM'000
Commitments to extend credit with maturity of less than 1 year:				
- share margin financing	1,892,577	1,871,277	1,892,577	1,871,277
- foreign exchange related contracts	30,356	58,155	30,356	58,155
- equity exchange related contracts	108,435	105,036	108,435	105,036
Commitments to extend credit with maturity of more than 1 year:				
- equity exchange related contracts	520	2,113	520	2,113
Other commitments with an original maturity of less than 1 year:				
- corporate loans	23,742	25,551	66,742	102,551
Other commitments with an original maturity of more than 1 year:				
- corporate loans	76,458	97,854	101,458	127,854
Monies held in trust for client (Note 5)	623,581	689,222	623,581	689,222
Securities borrowing and lending	2,705	-	2,705	-
Derivative financial assets (Note 8):				
- dual currency investment - options	4,509	13,636	4,509	13,636
- equity related contracts - options	66,528	100,319	66,528	100,319
- equity related contracts - swap	52,340	14,771	52,340	14,771
- synthetic protected forward	77,667	-	77,667	-
Derivative financial liabilities (Note 23):				
- dual currency investment - options	4,509	13,636	4,509	13,636
- equity related contracts - options	72,413	122,122	72,413	122,122
- equity related contracts - swaps	-	5,900	-	5,900
Capital commitment:				
- Authorised and contracted for	5,344	1,112	5,147	1,095
Investment in equity funds	-	-	17,854	17,854
	3,041,684	3,120,704	3,127,341	3,245,541

NOTES TO THE FINANCIAL STATEMENTS

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43. CONTINGENT LIABILITIES

Group and Bank

	2019 RM'000
(a) On 27 November 2019, the Bank was served with a sealed Writ of Summons and Statement of Claim filed by Lai Sing Foo ("the Plaintiff"). The Plaintiff is alleging that, inter alia, the 2nd Defendant (who is a Dealer's Representative ("DR") of KIBB) has arranged for the Plaintiff to purchase shares of a public listed company with a promise to buy back at a higher price from the 3rd Defendant (a third party). The Plaintiff alleges that the 3rd Defendant has failed to buy back the said shares which caused the Plaintiff to suffer losses and claims, inter alia, the difference between the sale proceeds of the said shares and RM3.6 million. The Plaintiff's claims against KIBB are on the basis that, inter alia, the 2nd Defendant is a DR with KIBB. In this regard, KIBB will contest the Plaintiff's claim in the Court. The matter is fixed for case management on 6 March 2020 and the trial dates are from 19-22 April 2021.	3,600
(b) On 18 December 2019, the Bank was served with a sealed Writ of Summons and Statement of Claim filed by Opes Capital Berhad ("the Plaintiff"). The Plaintiff is alleging that, inter alia, the 1st Defendant (who was a dealer representative of KIBB) and another third (3rd) party had failed to purchase certain shares of a public listed company on its behalf upon transmitting a total of RM16,000,000, and had caused the Plaintiff to suffer losses. KIBB's solicitors are of the view that the claim against KIBB is without merit and KIBB will contest the claim in the court. The matter is fixed for case management on 11 March 2020 and the trial dates are from 26-29 July 2021.	16,000

Based on legal advice obtained, the Board of Directors are of the opinion that the Bank has good grounds to defend these claims and that no provisions are necessary as at reporting date.

NOTES TO THE FINANCIAL STATEMENTS

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44. OPERATING LEASE ARRANGEMENTS

Operating lease payments represent rentals payable for the use of office equipment and premises. A summary of the non-cancellable operating leases contracted for as at reporting date but not recognised as liabilities and sub-lease receipts expected to be received under non-cancellable sublease are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Future minimum rental payable:				
Within one year	-	8,114	-	7,706
Between one and five years	-	6,372	-	6,171
	-	14,486	-	13,877

With effect from 1 January 2019 operating leases are recognised on balance sheet as right-of-use assets in accordance with MFRS 16 *Leases*. Please refer to Note 2.1 (a) of changes in accounting policies and regulatory requirements.

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Future minimum sub lease receipts:				
Subsidiaries	-	-	2,945	2,945
External parties	4,458	4,458	4,458	4,458
	4,458	4,458	7,403	7,403

45. DIVIDEND

During the financial year, an interim single tier dividend of 1.10 sen (2018 final single tier dividend: 3.0 sen) per ordinary share on 698,687,499 ordinary shares (2018: 721,761,599 ordinary shares) in respect of the financial year ended 31 December 2018 (2018: financial year ended 31 December 2017), which amounted to RM7,685,562 (2018: RM21,652,848) was paid on 19 April 2019 (2018: paid on 31 May 2018).

Subsequent to financial year end, on 2 March 2020 the Directors declared an interim dividend in respect of the current financial year ended 31 December 2019 of 3.25 sen amounting to a dividend payable of approximately RM22,707,344. This is computed based on issued and paid-up capital as of 31 December 2019 of 698,687,499 ordinary shares (excluding 24,053,900 treasury shares).

The financial statements for the current financial year do not reflect this interim dividend. Such dividend will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2020.

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46. OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

	Gross amounts of recognised financial asset/ liability RM'000	Gross amounts of recognised financial liability set off in the statements of financial position RM'000	Net amounts of recognised financial assets presented in the statements of financial position RM'000	Related accounts not set off in the statements of financial position:		
				Financial instruments RM'000	Cash collateral received RM'000	Net amount RM'000
Group						
2019						
Balances due from clients and brokers (Note 10)	672,622	(392,265)	280,357	(1,700,504)	(145,968)	-
Balances due to clients and brokers (Note 22)	1,234,537	(697,144)	537,393	-	-	537,393
2018						
Balances due from clients and brokers (Note 10)	720,753	(424,430)	296,323	(2,520,360)	(128,111)	-
Balances due to clients and brokers (Note 22)	1,127,446	(645,514)	481,932	-	-	481,932
Bank						
2019						
Balances due from clients and brokers (Note 10)	672,622	(392,265)	280,357	(1,700,504)	(145,968)	-
Balances due to clients and brokers (Note 22)	1,002,024	(697,144)	304,880	-	-	304,880
2018						
Balances due from clients and brokers (Note 10)	720,753	(424,430)	296,323	(2,520,360)	(128,111)	-
Balances due to clients and brokers (Note 22)	866,597	(645,514)	221,083	-	-	221,083

NOTES TO THE FINANCIAL STATEMENTS

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47. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

Capital management

The Group and the Bank maintain an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's and the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by BNM in supervising the Bank.

The primary objectives of the Group's and the Bank's capital management are to ensure that the Group and the Bank comply with regulatory capital requirements and the Group and the Bank maintain strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group and the Bank manage its capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group and the Bank may adjust the amount of dividend payments to its shareholders, return capital to its shareholders or issue capital securities. Nevertheless, it is under constant scrutiny of the Board.

Capital adequacy

The capital adequacy ratios of the Group and the Bank are computed in accordance with BNM's revised Risk-Weighted Capital Adequacy Framework ("RWCAF"). The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk (Basel II). The minimum regulatory capital adequacy requirements for Common Equity Tier 1 ("CET 1"), Tier 1 and Total Capital are 4.5%, 6.0% and 8.0% of total risk weighted assets.

(i) Components of Tier 1 and Tier 2 capital:

The capital adequacy ratios of the Group and Bank are as follows:

	Group		Bank	
	2019	2018	2019	2018
Before deducting interim dividend*				
CET 1 capital ratio	21.309%	23.237%	20.730%	21.714%
Tier 1 capital ratio	21.309%	23.237%	20.730%	21.714%
Total capital ratio	23.184%	25.257%	22.725%	23.869%
After deducting interim dividend*				
CET 1 capital ratio	20.289%	22.750%	19.655%	21.190%
Tier 1 capital ratio	20.289%	22.750%	19.655%	21.190%
Total capital ratio	22.164%	24.769%	21.650%	23.346%

* Refer to interim dividends declared subsequent to the financial year end.

NOTES TO THE FINANCIAL STATEMENTS

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47. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY (CONT'D.)

Capital adequacy (cont'd.)

(i) Components of Tier 1 and Tier 2 capital (cont'd.):

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
CET 1 capital/Tier 1 capital				
Paid-up share capital	246,249	246,249	246,249	246,249
Retained profits	531,811	509,888	532,338	513,675
Other reserves	143,219	131,677	194,372	184,114
Less: Goodwill	(243,754)	(208,754)	(252,909)	(252,909)
55% of cumulative gains on financial investments at FVOCI	(3,568)	-	(5,777)	(1,196)
Deferred tax assets	(2,955)	(6,532)	-	(3,666)
Other intangibles	(73,633)	(57,468)	(67,803)	(52,500)
Regulatory reserve	(25,444)	(25,488)	(25,444)	(25,488)
Treasury shares	(16,990)	(16,808)	(16,990)	(16,808)
Deduction in excess of Tier 2*	(80,442)	(72,885)	(166,170)	(156,462)
Total CET 1/Tier 1 capital	474,493	499,879	437,866	435,009
Tier 2 Capital				
Subordinated obligations capital	25,000	25,000	25,000	25,000
Collective allowance and regulatory reserve	16,752	18,447	17,151	18,180
Total Tier 2 capital	41,752	43,447	42,151	43,180
Total Capital	516,245	543,326	480,017	478,189

* The portion of regulatory adjustments not deducted from Tier 2 (as the Group and the Bank does not have enough Tier 2 to satisfy the deduction) is deducted from the next higher level of capital; as per paragraph 31.1 of the BNM's Capital Adequacy Framework (Capital Components).

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47. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY (CONT'D.)

Capital adequacy (cont'd.)

(i) Components of Tier 1 and Tier 2 capital (cont'd.):

Breakdown of risk weighted assets in the various categories of risks are as follows:

	2019		2018	
	Notional RM'000	Risk- weighted RM'000	Notional RM'000	Risk- weighted RM'000
Group				
Credit risk	5,116,298	1,340,143	5,267,199	1,475,789
Market risk	-	219,406	-	59,609
Operational risk	-	604,853	-	586,419
Large exposure risk	-	62,367	-	29,385
Total Risk Weighted Assets	5,116,298	2,226,769	5,267,199	2,151,202
Bank				
Credit risk	4,919,418	1,372,091	4,980,663	1,454,395
Market risk	-	204,614	-	42,180
Operational risk	-	473,201	-	477,424
Large exposure risk	-	62,367	-	29,385
Total Risk Weighted Assets	4,919,418	2,112,273	4,980,663	2,003,384

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48. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts and the fair values of the financial assets and liabilities of the Group and the Bank are as follows:

Group	2019		2018	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Cash and bank balances	2,063,057	2,063,057	1,351,260	1,351,260
Financial assets at fair value through profit or loss ("FVTPL")	328,680	328,680	189,224	189,224
Financial investments at fair value through other comprehensive income ("FVOCI")	795,081	795,081	1,661,676	1,661,676
Financial investments at amortised cost ("AC")	112,756	117,673	121,256	125,156
Derivative financial assets	65,174	65,174	71,992	71,992
Loans, advances and financing	2,064,674	2,064,990	2,004,915	2,002,626
Balances due from clients and brokers	280,357	280,357	296,323	296,323
Other assets, excluding prepayments	182,407	182,407	157,207	157,207
Statutory deposit with Bank Negara Malaysia	99,164	99,164	116,619	116,619
Financial liabilities				
Deposits from customers	4,065,494	4,065,494	4,562,104	4,562,104
Deposits and placements of banks and other financial institutions	650,718	650,718	95,016	95,016
Balances due to clients and brokers	537,393	537,393	481,932	481,932
Derivative financial liabilities	13,416	13,416	12,693	12,693
Other liabilities, excluding deposits	283,739	283,739	260,541	260,541
Obligations on securities sold under repurchase agreements	-	-	83,067	83,067
Borrowings	96,600	92,144	119,300	114,409

NOTES TO THE FINANCIAL STATEMENTS

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48. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

The carrying amounts and the fair values of the financial assets and liabilities of the Group and the Bank are as follows (cont'd.):

Bank	2019		2018	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Cash and bank balances	1,877,150	1,877,150	1,116,117	1,116,117
Financial assets at fair value through profit or loss	326,560	326,560	188,576	188,576
Financial investments at fair value through other comprehensive income	795,081	795,081	1,661,676	1,661,676
Financial investments at amortised cost	112,756	112,756	121,256	125,156
Derivative financial assets	65,174	65,174	71,992	71,992
Loans, advances and financing	2,039,517	2,040,578	1,975,765	1,973,758
Balances due from clients and brokers	280,357	280,357	296,323	296,323
Other assets, excluding prepayments	104,793	104,793	67,974	67,974
Statutory deposit with Bank Negara Malaysia	99,164	99,164	116,619	116,619
Financial liabilities				
Deposits from customers	4,119,352	4,119,352	4,613,788	4,613,788
Deposits and placements of banks and other financial institutions	650,718	650,718	95,016	95,016
Balances due to clients and brokers	304,880	304,880	221,083	221,083
Derivative financial liabilities	13,416	13,416	12,693	12,693
Other liabilities, excluding deposits	233,633	233,633	220,934	220,934
Obligations on securities sold under repurchase agreements	-	-	83,067	83,067
Borrowings	66,600	62,148	77,800	72,908

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

48. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

The methods and assumptions used in estimating the fair values of financial instruments are as follows:

(i) Financial assets/liabilities for which fair value approximates carrying value

The carrying amounts of financial assets and financial liabilities that have a short-term maturity and deposits/accounts without a specific maturity, approximate fair values.

(ii) Financial assets at FVTPL, FVOCI, AC.

The fair values are estimated based on quoted or observable market prices at the reporting date. Where such quoted or observable market prices are not available, the fair values are estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the expected future cash flows are discounted using prevailing market rates for a similar instrument at the reporting date.

(iii) Derivatives

Fair values are estimated based on quoted or observable market prices at the reporting date.

Derivative products valued using a valuation technique are valued using the Black-Scholes model for options and discounted cash flow techniques for swaps. The model incorporates various market and non-observable assumptions including market rate volatility.

(iv) Loans, advances and financing

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with remaining maturity of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at applicable prevailing rates at the reporting date offered to new borrowers with similar credit profiles.

(v) Deposits from customers

The fair values of deposit liabilities payable on demand (demand and savings deposits), or deposits with maturity of less than one year are estimated to approximate their carrying amounts. The fair values of fixed deposits with remaining maturities of more than one year are estimated based on expected future cash flows discounted at applicable prevailing rates offered for deposits of similar remaining maturities. The fair values of Islamic deposits are deemed to approximate their carrying amounts as profit rates are determined at the end of their holding periods based on the profit generated from the assets invested.

(vi) Deposits and placements of banks and other financial institutions

The carrying values of these financial instruments with remaining maturity of less than one year approximate their carrying amounts due to the relatively short maturity of the financial instruments. For deposits and placements with maturities of one year and above, the estimated fair value is based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

48. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

The methods and assumptions used in estimating the fair values of financial instruments are as follows (cont'd.):

(vii) Borrowings

The fair values of borrowings approximate their carrying amounts as these are variable rate borrowings.

49. SEGMENTAL REPORTING

The business segment results are prepared based on the Group's internal management reporting, which reflect the organisation's management reporting structure. The Group is organised into six major operating divisions. The division form the basis of which the Group reports its segment information.

- (i) Investment banking - Investment banking business, treasury and related financial services;
- (ii) Stockbroking - Dealings in securities and investment related services;
- (iii) Futures broking - Futures broker business;
- (iv) Money lending and financing - Money lending, Islamic factoring and leasing;
- (v) Investment and wealth management - Management of funds and unit trusts; and
- (vi) Corporate and others - Support services comprising all middle and back office functions costs that are not allocated out to business segments and include business operations conducted by the Group's associates in the Kingdom of Saudi Arabia and Sri Lanka and joint venture company, Rakuten Trade Sdn Bhd.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which, in certain respects as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group income taxes are managed on group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The following table provides an analysis of the Group's revenue, results, assets, liabilities and other information by operating segments:

[illegible]

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

49. SEGMENTAL REPORTING (CONT'D.)

2019 (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	Eliminations RM'000	Total RM'000
Other information								
Net interest and finance income	25,106	40,595	3,975	3,292	3,204	7,537	4,593	88,302
Depreciation and amortisation	785	12,484	634	143	2,603	9,670	(1,521)	24,798
Non cash items								
- Unrealised (losses)/ gains on revaluation of financial assets at fair value through profit or loss and derivatives	(134)	(17,541)	-	-	2,432	(2,083)	-	(17,326)

2019	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	Eliminations RM'000	Total RM'000
Assets							
Investments in associate companies	-	-	-	-	64,642	-	64,642
Investment in a joint venture company	-	-	-	-	15,801	-	15,801
Addition to property, plant and equipment and intangible assets	12,994	18	12	35,820	-	-	48,844
Segment assets	6,416,106	81	104,156	141,884	286,879	(318,332)	6,630,774
Liabilities							
Segment liabilities	5,460,137	250,708	91,621	86,359	1,656	(163,996)	5,726,485

The following table provides an analysis of the Group's revenue, results, assets, liabilities and other information by operating segments:

[illegible]

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

49. 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	Eliminations RM'000	Total RM'000
2018 (cont'd.)								
Other information								
Net interest and finance income	32,229	47,160	4,276	2,799	4,781	8,521	-	99,766
Depreciation and amortisation	668	5,304	101	34	626	7,323	-	14,056
Non cash items								
- Unrealised (losses)/gains on revaluation of financial assets at fair value through profit or loss and derivatives	(176)	(3,114)	-	-	-	18,930	(690)	14,950
	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	Eliminations RM'000	Total RM'000	
2018								
Assets								
Investments in associate companies	-	-	-	-	-	58,809	-	58,809
Investment in a joint venture company	-	-	-	-	-	14,077	-	14,077
Addition to property, plant and equipment and intangible assets	9,500	73	63	715				10,351
Segment assets	6,300,720	297,326	80,604	83,221	16,753	(232,096)		6,546,528
Liabilities								
Segment liabilities	5,373,491	273,280	68,871	47,394	4,909	(92,423)		5,675,522

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

49. SEGMENTAL REPORTING (CONT'D.)

Notes

A Additions to non-current assets consist of:

	2019 RM'000	2018 RM'000
Property, plant and equipment		
- Additions during the financial year (Note 16)	9,143	10,330
Intangible assets		
- Additions during the financial year (Note 17)	39,701	21
	48,844	10,351

B The following items are deducted from segment assets to arrive at total assets reported in the consolidated statement of financial position:

	2019 RM'000	2018 RM'000
Investments in subsidiaries	(94,942)	(70,428)
Investments in associates and joint venture	(16,536)	(14,093)
Intangible assets	(40,095)	(40,095)
Inter-segment assets	(166,759)	(107,480)
	(318,332)	(232,096)

C The following items are deducted from segment liabilities to arrive at total liabilities reported in the consolidated statement of financial position:

	2019 RM'000	2018 RM'000
Deposits accepted from subsidiaries	(53,859)	(51,684)
Inter-segment liabilities	(110,137)	(40,739)
	(163,996)	(92,423)

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT

The Group and the Bank adopt a proactive and continuous approach in managing risk and has established a risk management framework to ensure that adequate policies and processes are in place to identify and manage risk within defined policies and guidelines approved by the Board of Directors.

The Group's and the Bank's financial risks are centrally managed by the various committees within the delegated authority by the Board of Directors. These committees formulate, review and approve policies and limits to monitor and manage risk exposures under their respective supervision. The major policy decisions and proposals approved by these committees are subject to further review by Group Board Risk Committee and Board of Directors.

The Risk Management Division assumes the independent oversight of risks undertaken by the Group and the Bank, and takes the lead in the formulation of risk policies, controls and processes. This is further enhanced by the periodic risk assessment audit carried out by the Group's and the Bank's Internal Audit.

The main risk areas faced by the Group and the Bank and the guidelines and policies adopted to manage them are as follows:

(a) Credit risk

Credit risk or the risk of counterparties defaulting, are minimised by the application of credit approvals, limits and monitoring procedures. Balance due from clients and brokers are monitored on an ongoing basis via periodic management reporting. The Group and the Bank through its directors and management, review all significant exposures to individual customers and counterparties, as well as any major concentration of credit risk related to any financial instrument.

The Group and the Bank have risk management procedures in place to manage these risks to ensure that all the procedures and principles relating to risk management are adhered to.

Credit-related commitments risks

The Group and the Bank enter into various commitments which include commitments to extend credit lines and obligation under underwriting agreements. Such commitments expose the Group and the Bank to similar risks to loans and financing and are mitigated by the same processes and policies.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Impairment assessment

For the purpose of determining the risk of default occurring, default is defined based on credit risk management practises.

Portfolio	Default
Loans, advances and financing	Declaration of event of default
Share margin financing	Margin of financing below 100% or declaration of event of default
Trade receivables - stockbroking	More than 30 days past due from contra losses
Other receivables - advisory fees	More than 30 days past due
Other receivables - factoring	More than 30 days past due
Debt securities at amortised cost or FVOCI	Declaration of event of default

In the context of the Group and the Bank, two approaches as specified in MFRS 9 shall be applied in the measurement of ECL i.e. general approach and simplified approach.

General approach recognises impairment based on a three-stage process which is intended to reflect the deterioration in credit quality of a financial instrument.

General approach

- 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Impairment assessment (cont'd.)

General approach (cont'd.)

Low Credit Risk

The Group and the Bank shall adopt practical expedients for its applicable portfolios as detailed in the table below:

Practical Expedient	Low Credit Risk
Applicable portfolio	Government and quasi-government bonds, commercial paper, interbank deposit placement/lending.
Criteria	<ul style="list-style-type: none"> the financial instrument has a low risk of default; the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations
Measurement	12-month ECL
Methodology	PD x LGD x EAD formula

Definition of 12-month ECL

12-month expected credit losses are a portion of the lifetime expected credit losses that represent the ECLs that result from probable default events on a financial instrument occurring in the next 12 months. They are weighted by the probability of such a default occurring.

Measurement of ECL by General Approach:

Stage 1

- For financial instruments in stage 1, the Group and the Bank are required to recognise 12 month ECL. For financial instruments that are deemed as low credit risk, 12 month ECL is recognised.

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 Group and the Bank will continue to recognise lifetime ECL but based on specific provision approach.

The expected credit loss under general approach can be written in the formula below:

$$\text{ECL} = \text{PD} \times \text{LGD} \times \text{EAD}$$

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Impairment assessment (cont'd.)

General approach (cont'd.)

Key Components of ECL Measurement

Probability of Default (PD)

PD is an estimate of the likelihood of default over a given time horizon, in this case, 12 months. It is estimated as at a point in time. The calculation is based on internal credit risk rating model, comprising both quantitative and qualitative factors. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

The Bank decides to adopt external PD published by local rating agency i.e. Malaysia Rating Corporate Berhad (MARC) as proxy, following adequate assessment and analysis on the suitability of data application i.e. rating mapping exercise due to lack of sufficient size and history.

Loss Given Default (LGD)

The rating mapping exercise involves the process whereby the Group's and the Bank's existing Internal Credit Risk Rating ("ICRR") rating is mapped against MARC rating for the same counterparty. The Group and the Bank assess the definition of each ICRR rating band and makes reference to the definition of MARC credit rating band. Overall, both of the rating models have the same rating band i.e. AAA, AA, A, BBB, BB, B, C & D with BBB as the lowest investment grade category and BB and below as non-investment grade. The detailed rating characteristic for each rating band is similar in which AAA indicates superior or extremely high repayment capability and will be rated 'D' upon default. For unrated corporate loans, a default rating of 'BBB2' is applied (as per existing computation).

Details on mapping of the Group's and the Bank's internal credit risk grades to external ratings are presented in Note 50(a)(i).

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral.

Exposure at Default (EAD)

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Impairment assessment (cont'd.)

Simplified approach

The Group and the Bank shall adopt two practical expedients for their applicable portfolios as detailed in the table below:

Practical Expedient	Provision Matrix
Applicable portfolio	Trade receivables, contract assets and lease receivables; balances due to clients and brokers; factoring.
Criteria	<ul style="list-style-type: none">• Contract assets without significant financing component• Trade receivables without a significant financing component
Measurement	Lifetime ECL
Methodology	Based on the 'age' of receivables i.e. aging bucket

Definition of Lifetime ECL

Lifetime expected credit losses are the losses that result from all possible default of events at any point during the expected life of the financial instrument.

Measurement of ECL by Simplified Approach

For financial instruments that apply the provision matrix, aging bucket based on definition of default is established and incorporates the forward-looking element.

Period over which ECL is measured

The Group and the Bank measure ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as revolving credit facilities that include both a loan and an undrawn commitment component, the Group's and the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's and the Bank's exposure to credit losses to the contractual notice period. For such financial instruments, the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period.

Significant increase in credit risk ("SICR")

Significant increase in credit risk ("SICR") is defined as a significant change in the estimated default risk over the remaining expected life of the financial instrument. A SICR event triggers the measurement of loss allowance at an amount equal to lifetime expected credit losses instead of the 12-month expected credit losses estimate.

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Impairment assessment (cont'd.)

Significant increase in credit risk ("SICR") (cont'd.)

The indicators for significant increase in credit risk are established to facilitate the staging assessment (from stages 1 to 2) for portfolios that apply the general approach in the measurement of ECL. An asset moves from 12-month expected credit losses (stage 1) to lifetime expected credit losses (stage 2) when there is a significant deterioration in credit quality after initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

An asset classified under stage 2 can potentially be transferred to stage 3 if the credit quality further deteriorates. It is also possible that an asset classified under stage 1 experiences drastic credit deterioration and requires to be transferred out to stage 3 directly. Accordingly, different stage transfer criteria/triggers are established to satisfy the mentioned staging assessment.

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all the above portfolios. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Group Risk Management.

Grouping financial assets measured on a collective basis

Asset classes where the Bank calculates ECL on a collective basis include:

- Debt instruments at fair value through other comprehensive income
- Debt instruments at cost
- Loans, advances and financing
- Balances due from clients and brokers
- Other receivables

The Group and the Bank group these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the financial assets, as described below:

For debt instruments these are:

- Internal grade
- Exposure value

For loan and financing these are:

- Product type (corporate loan, factoring and share margin)
- Internal credit grade
- Exposure value
- Collateral type
- Borrower's industry

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Impairment assessment (cont'd.)

Grouping financial assets measured on a collective basis (cont'd.)

For balance due from clients and broker and other receivables these are:

- Exposure value
- Collateral type

Forward-looking and probability-weighted

To determine unbiased probability-weighted amount of ECL which considers range of possible outcomes and use of information about economic conditions, the Group and the Bank use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group and the Bank apply probabilities to the forecast scenarios. The Group and the Bank have identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These are reviewed and monitored for appropriateness on a quarterly basis.

Pearson's Correlation Test

Pearson's Correlation model is used to test the linkage between each possible macroeconomic indicators and credit risk. The Group and the Bank will then select the relevant macroeconomic indicator(s) that show significant correlation (P-value) to default rate and has the most dynamic impact to credit risk.

Multiple-scenario Analysis

The Group and the Bank generate a 'base case' scenario of the future direction of relevant economic variables, as well as a representative range of other possible forecast scenarios. The Group and the Bank then use these forecasts, which are probability-weighted, to adjust their estimates of PDs.

The scenarios by state of economy namely, "Booming", "Normal" and "Downside" were used as defined in below table:

State of Economy	GDP Growth Rate (annual)	KLCI Index (annual %)
Downturn (D)	<4.0%	>-15.0%
Normal (N)	4.0%-6.0%	>+15% or >-15%
Booming (B)	>6.0%	>+15%

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Impairment assessment (cont'd.)

Forward-looking and probability-weighted (cont'd.)

Multiple-scenario Analysis (cont'd.)

The assumptions used for the ECL estimates as at 31 December 2019 are set out below.

Economic Factor	Scenario	2019	2020	2021
GDP Growth Rate	1	N	N	N
	2	N	N	N
	3	D	D	N
KLCI Index	1	N	N	N
	2	N	N	N
	3	N	N	N

The assumptions used for the ECL estimates as at 31 December 2018 are set out below.

Economic Factor	Scenario	2018	2019	2020
GDP Growth Rate	1	D	N	B
	2	N	N	N
	3	N	D	D
KLCI Index	1	D	N	B
	2	N	N	N
	3	N	D	D

The weightings assigned to each state of economy as at 31 December 2019 were as follows:

All portfolios	State of Economy		Weighting
	B		10%
	N		60%
	D		30%

The weightings assigned to each state of economy as at 31 December 2018 were as follows:

All portfolios	State of Economy		Weighting
	B		30%
	N		50%
	D		20%

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Impairment assessment (cont'd.)

Expert judgement

Expert credit judgement is used to complement the assumptions made in the absence of sufficient data during the model development process and incorporation of forward-looking element over a range of possible scenarios into the expected credit loss. The exercise of such judgement - together with any separately-calculated adjustments to model results to address limitations in the core modelling approach - will require particular attention in the governance process.

Therefore, the use of expert judgement shall be applied as and when necessary and shall be governed by the following:

- I. All expert judgments need to be properly documented and backed by reasonable and supportable information that is available without undue cost or effort.
- II. Any expert judgment including new proposal, changes or updates, is required to be endorsed in accordance with the governance process as stipulated in this Framework.
- III. The Group and the Bank intend to apply expert judgment including but not limited to below areas:
 - a. Definition of macroeconomic scenario and its probability for ECL measurement;
 - b. Assumptions made during modelling process in relation to expected credit loss due to data limitations;
 - c. Others as decided by relevant committee.
- IV. Any management adjustment made shall be tabled to Group Credit Committee for concurrence.

Risk concentration: maximum exposure to credit risk without taking account of any collateral and other credit enhancement

The Group's and the Bank's concentration risk is managed by counterparty and by industry sector. The Group and the Bank apply single counterparty exposure limits ("SCEL") to protect against unacceptably large exposures to single counterparty risk.

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography before the effect of mitigation through the use of master netting and collateral agreements is not presented as the Group's and the Bank's activities are principally conducted in Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Industry analysis as at 31 December 2019

Group	Primary agriculture RM'000	Manufacturing (incl. agri-based) RM'000	Electricity, gas & water supply RM'000	Wholesale & retail trade, and hotel & restaurant RM'000	Real estate RM'000	Transport, storage and communications RM'000	Finance and insurance RM'000	Household RM'000	Others RM'000	Total RM'000
Financial assets										
Cash and bank balances	-	-	-	-	-	-	2,063,057	-	-	2,063,057
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	99,164	-	-	99,164
Balances due from clients and brokers	-	-	-	-	-	-	-	154,600	125,757	280,357
Financial assets at FVTPL										
Unquoted shares and unit trust funds in Malaysia	-	-	-	-	-	-	-	-	135,114	135,114
Derivative financial assets	-	-	-	-	30,263	65	-	31,870	2,976	65,174
Net loans, advances and financing										
Term loans	-	-	-	35,885	37,566	-	-	36,058	392,371	501,880
Islamic term loans	-	-	-	-	-	-	-	20,057	142,074	162,131
Share margin financing	-	8,803	-	1,312	27,394	-	-	933,160	326,352	1,297,021
Islamic share margin financing	-	-	-	-	-	-	-	7,024	-	7,024
Others	-	-	-	5,286	30,478	7,708	9,539	17	43,590	96,618
Financial investments at FVOCI										
Malaysian Government Securities	-	-	-	-	-	-	30,550	-	-	30,550
Malaysian Government Investment Certificates	-	-	-	-	-	-	72,649	-	-	72,649
Islamic Negotiable Instruments of Deposits	-	-	-	-	-	-	59,550	-	-	59,550
Corporate Bonds	-	-	15,857	-	-	-	45,847	-	111,336	173,040
Islamic Corporate Sukuk	5,017	-	71,945	-	10,157	30,677	298,835	-	41,573	458,204
Unquoted equities	-	-	-	-	-	-	-	-	1,088	1,088
Financial investments at AC										
Corporate Bonds	-	-	-	-	-	-	20,030	-	-	20,030
Malaysian Government Investment Certificates	-	-	-	-	-	-	9,892	-	-	9,892
Islamic Corporate Sukuk	-	-	-	12,662	-	-	70,172	-	-	82,834
Other assets	-	-	-	-	-	-	-	-	182,407	182,407
	5,017	8,803	87,802	55,145	135,858	38,450	2,779,285	1,182,786	1,504,638	5,797,784

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Industry analysis as at 31 December 2018

Group	Primary agriculture RM'000	Manufacturing (incl. agri-based) RM'000	Electricity, gas & water supply RM'000	Wholesale & retail trade, and hotel & restaurant RM'000	Real estate RM'000	Transport, storage and communications RM'000	Finance and insurance RM'000	Household RM'000	Others RM'000	Total RM'000
Financial assets										
Cash and bank balances	-	-	-	-	-	-	1,351,260	-	-	1,351,260
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	116,619	-	-	116,619
Balances due from clients and brokers	-	-	-	-	-	-	-	99,305	197,018	296,323
Financial assets at FVTPL										
Islamic Corporate Bills	-	-	-	-	19,861	-	-	-	-	19,861
Unquoted shares and unit trust funds in Malaysia	-	-	-	-	-	-	131,725	-	-	131,725
Derivative financial assets	-	1	-	210	32,298	-	1	33,858	5,624	71,992
Net loans, advances and financing										
Term loans	-	-	-	20,959	23,025	-	-	-	343,305	387,289
Islamic term loans	-	-	-	-	-	-	-	25,079	141,039	166,118
Share margin financing	-	5,830	-	-	35,770	-	-	974,623	365,501	1,381,724
Islamic share margin financing	-	-	-	-	-	-	-	7,793	-	7,793
Others	-	-	-	9,964	17,399	-	15,047	70	19,511	61,991
Financial investments at FVOCI										
Malaysian Government Securities	-	-	-	-	-	-	40,182	-	-	40,182
Malaysian Government Investment Certificates	-	-	-	-	-	-	195,055	-	-	195,055
Negotiable Instruments of Deposits	-	-	-	-	-	-	50,000	-	-	50,000
Islamic Negotiable Instruments of Deposits	-	-	-	-	-	-	629,165	-	-	629,165
Corporate Bonds	-	-	-	-	-	-	-	-	160,667	160,667
Islamic Corporate Sukuk	4,998	-	105,924	-	44,786	74,650	220,180	-	134,315	584,853
Unquoted equities	-	-	-	-	-	-	-	-	1,754	1,754
Financial investments at AC										
Corporate Bonds	-	-	-	-	-	-	20,038	-	-	20,038
Malaysian Government Investment Certificates	-	-	-	-	-	-	9,876	-	-	9,876
Islamic Corporate Sukuk	-	-	15,000	21,140	-	-	34,995	-	20,207	91,342
Other assets	-	-	-	-	-	-	-	-	157,206	157,206
	4,998	5,831	120,924	52,273	173,139	74,650	2,814,143	1,140,728	1,546,147	5,932,833

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Industry analysis as at 31 December 2019

Bank	Primary agriculture RM'000	Manufacturing (incl. agri-based) RM'000	Electricity, gas & water supply RM'000	Wholesale & retail trade, and hotel & restaurant RM'000	Real estate RM'000	Transport, storage and communications RM'000	Finance and insurance RM'000	Household RM'000	Others RM'000	Total RM'000
Financial assets										
Cash and bank balances	-	-	-	-	-	-	1,877,150	-	-	1,877,150
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	99,164	-	-	99,164
Balances due from clients and brokers	-	-	-	-	-	-	-	154,600	125,757	280,357
Financial assets at FVTPL										
Unquoted shares and unit trust funds in Malaysia	-	-	-	-	-	-	-	-	132,994	132,994
Derivative financial assets	-	-	-	-	30,263	65	-	31,870	2,976	65,174
Net loans, advances and financing										
Term loans	-	-	-	35,885	37,566	-	56,311	36,058	407,504	573,324
Islamic term loans	-	-	-	-	-	-	-	20,057	142,074	162,131
Share margin financing	-	8,803	-	1,312	27,394	-	-	933,160	326,352	1,297,021
Islamic share margin financing	-	-	-	-	-	-	-	7,024	-	7,024
Others	-	-	-	-	-	-	-	17	-	17
Financial investments at FVOCI										
Malaysian Government Securities	-	-	-	-	-	-	30,550	-	-	30,550
Malaysian Government Investment Certificates	-	-	-	-	-	-	72,649	-	-	72,649
Islamic Negotiable Instruments of Deposits	-	-	-	-	-	-	59,550	-	-	59,550
Corporate Bonds	-	-	15,857	-	-	-	45,847	-	111,336	173,040
Islamic Corporate Sukuk	5,017	-	71,945	-	10,157	30,677	298,835	-	46,573	458,204
Unquoted equities	-	-	-	-	-	-	-	-	1,088	1,088
Financial investments at AC										
Corporate Bonds	-	-	-	-	-	-	20,030	-	-	20,030
Malaysian Government Investment Certificates	-	-	-	-	-	-	9,892	-	-	9,892
Islamic Corporate Sukuk	-	-	-	12,662	-	-	70,172	-	-	82,834
Other assets	-	-	-	-	-	-	-	-	104,793	104,793
	5,017	8,803	87,802	49,859	105,380	30,742	2,640,150	1,182,786	1,396,447	5,506,986

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Industry analysis as at 31 December 2018

Bank	Primary agriculture RM'000	Manufacturing (incl. agri-based) RM'000	Electricity, gas & water supply RM'000	Wholesale & retail trade, and hotel & restaurant RM'000	Real estate RM'000	Transport, storage and communications RM'000	Finance and insurance RM'000	Household RM'000	Others RM'000	Total RM'000
Financial assets										
Cash and bank balances	-	-	-	-	-	-	1,116,117	-	-	1,116,117
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	116,619	-	-	116,619
Balances due from clients and brokers	-	-	-	-	-	-	-	99,305	197,018	296,323
Financial assets at FVTPL										
Islamic Corporate Bills	-	-	-	-	19,861	-	-	-	-	19,861
Unquoted shares and unit trust funds in Malaysia	-	-	-	-	-	-	131,077	-	-	131,077
Derivative financial assets	-	1	-	210	32,298	-	1	33,858	5,624	71,992
Net loans, advances and financing										
Term loans	-	-	-	20,959	23,025	-	22,741	121,301	232,044	420,070
Islamic term loans	-	-	-	-	-	-	-	25,079	141,039	166,118
Share margin financing	-	5,830	-	-	35,770	-	-	974,623	365,501	1,381,724
Islamic share margin financing	-	-	-	-	-	-	-	7,793	-	7,793
Others	-	-	-	-	-	-	-	60	-	60
Financial investments at FVOCI										
Malaysian Government Securities	-	-	-	-	-	-	40,182	-	-	40,182
Malaysian Government Investment Certificates	-	-	-	-	-	-	195,055	-	-	195,055
Negotiable Instruments of Deposits	-	-	-	-	-	-	50,000	-	-	50,000
Islamic Negotiable Instruments of Deposits	-	-	-	-	-	-	629,165	-	-	629,165
Corporate Bonds	-	-	-	-	-	-	-	-	160,667	160,667
Islamic Corporate Sukuk	4,998	-	105,924	-	44,786	74,650	220,180	-	134,315	584,853
Unquoted equities	-	-	-	-	-	-	-	-	1,754	1,754
Financial investments at AC										
Corporate Bonds	-	-	-	-	-	-	20,038	-	-	20,038
Malaysian Government Investment Certificates	-	-	-	-	-	-	9,876	-	-	9,876
Islamic Corporate Sukuk	-	-	15,000	21,140	-	-	34,995	-	20,207	91,342
Other assets	-	-	-	-	-	-	-	-	67,973	67,973
	4,998	5,831	120,924	42,309	155,740	74,650	2,586,046	1,262,019	1,326,142	5,578,659

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- (i) Cash;
- (ii) Charges over financial instruments;
- (iii) Securities;
- (iv) Charges over real estate properties, inventory and trade receivables;
- (v) Mortgages over properties; or
- (vi) Financial guarantees.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(i) Internal Credit Risk Ratings

The table below provides a mapping of the Group's and the Bank's internal credit risk grades to external ratings:

Notches	KIBB Obligor Rating	External Rating	Classification of Credit Risk Grade	Description
1	AAA	AAA	Investment Grade	Superior capacity to meet its financial obligation.
2	AA1	AA		Strong capacity to meet its financial obligations. The entity is resilient against adverse changes in circumstances, economic conditions and/or operating environments.
3	AA2			
4	AA3			
5	A1	A		Adequate capacity to meet its financial obligations. The entity is more susceptible to adverse changes in circumstances, economic and/or operating environments.
6	A2			
7	A3			
8	BBB1	BBB		Moderate capacity to meet its financial obligations. The entity is more likely to be weakened by adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories.
9	BBB2			
10	BBB3			
11	BB1	BB	Non- Investment Grade	Weak capacity to meet its financial obligations. The entity is highly vulnerable to adverse changes in circumstances, economic conditions and/or operating environments.
12	BB2			
13	BB3			
14	B1	B		Very weak capacity to meet its financial obligations. The entity has a limited ability to withstand adverse changes in circumstances, economic conditions and/or operating environments.
15	B2			
16	B3			
17	C1	C		High likelihood of defaulting on its financial obligations. The entity is highly dependent on favourable changes in circumstances, economic conditions and/or operating environments, the lack of which would likely result in it defaulting on its financial obligations.
18	C2			
19	C3			
20	D	D	Default	Currently in default on either all or a substantial portion of its financial obligations, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the entity that could jeopardize the payment of financial obligations.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(ii) Credit quality by class of financial assets

The credit quality of financial assets is managed by the Group and the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group's and the Bank's internal credit rating system.

Credit quality of financial assets neither past due nor impaired

The credit quality of financial assets is managed by the Group and the Bank using internal ratings which aim to reflect the relative ability of counterparties to fulfil, on time, their credit-related obligations, and is based on their current probability of default.

Internal rating	
Strong credit profile	Customers that have demonstrated superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. This rating broadly corresponds to ratings "AAA" to "AA" of RAM Rating Services Berhad ("RAM") and Malaysian Rating Corporation Berhad ("MARC") respectively.
Satisfactory risk	Customers that have consistently demonstrated sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings. This rating broadly corresponds to ratings "A" to "BBB" of RAM and MARC respectively.
Substandard but not past due nor impaired	Customers that have demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. This rating broadly corresponds to ratings "BB" to "C" of RAM and MARC respectively.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(ii) Credit quality by class of financial assets (cont'd.)

Group	Neither past due nor impaired								
	Strong credit profile	Satisfactory risk	Sub-standard*	Non rated		Default/ impaired	ECL on individually impaired	ECL on collectively impaired	
	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 3			Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2019									
Cash and bank balances	2,063,057	-	-	-	-	-	-	-	2,063,057
Statutory deposit with Bank Negara Malaysia	99,164	-	-	-	-	-	-	-	99,164
Financial assets at FVTPL									
Unquoted shares and unit trust funds in Malaysia	131,114	-	-	4,000	-	-	-	-	135,114
Net loans, advances and financing									
Term loans	3,840	297,037	158,876	-	42,794	-	-	(667)	501,880
Islamic term loans	-	128,971	33,805	-	-	-	-	(645)	162,131
Share margin financing	365,221	748,802	101,818	49,080	-	48,161	(16,061)	-	1,297,021
Islamic share margin financing	3	56	6,965	-	-	-	-	-	7,024
Others	26,598	67,854	2,149	17	-	716	(716)	-	96,618
Financial investments at FVOCI									
Debt instruments:									
Malaysian Government Securities	30,550	-	-	-	-	-	-	-	30,550
Malaysian Government Investment Certificates	72,649	-	-	-	-	-	-	-	72,649
Islamic Corporate Sukuk	458,204	-	-	-	-	-	-	-	458,204
Corporate bonds	173,040	-	-	-	-	-	-	-	173,040
Islamic Negotiable Instruments of Deposits	59,550	-	-	-	-	-	-	-	59,550
Equity instrument:									
Unquoted equities	-	-	-	1,088	-	-	-	-	1,088
Financial investments at AC									
Corporate Bonds	20,030	-	-	-	-	-	-	-	20,030
Malaysian Government Investment Certificates	9,892	-	-	-	-	-	-	-	9,892
Islamic Corporate Sukuk	70,172	-	-	13,000	-	-	-	(338)	82,834
Derivative financial assets	-	-	-	65,174	-	-	-	-	65,174
Balances due from clients and brokers	274,815	-	-	-	-	19,199	(12,141)	(1,516)	280,357
Other assets	178,971	-	-	-	-	8,087	(4,471)	(180)	182,407
Total	4,036,870	1,242,720	303,613	132,359	42,794	76,163	(33,389)	(3,346)	5,797,784

* Majority of the sub-standard rating profile credits are from share margin and structured loan financing portfolio in which the credit risks are mitigated with guarantor with acceptable financial strength and adequate collateral coverage. These accounts are monitored on a daily basis in terms of their ability in meeting the minimum security coverage requirements and appropriate actions such as force selling or indulgence are considered to manage the exceptions.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(ii) Credit quality by class of financial assets (cont'd.)

Group	Neither past due nor impaired									Total RM'000
	Strong credit profile	Satisfactory risk	Sub- standard*	Non rated		Default/ impaired	ECL on individually	ECL on collectively		
	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 3	impaired	impaired		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
31 December 2018										
Cash and bank balances	1,351,260	-	-	-	-	-	-	-	-	1,351,260
Statutory deposit with Bank Negara Malaysia	116,619	-	-	-	-	-	-	-	-	116,619
Financial assets at FVTPL										
Islamic Corporate Bills	19,861	-	-	-	-	-	-	-	-	19,861
Unquoted shares and unit trust funds in Malaysia	131,725	-	-	-	-	-	-	-	-	131,725
Net loans, advances and financing										
Term loans	3,840	327,897	50,010	-	6,417	-	-	(875)	387,289	
Islamic term loans	-	106,068	60,050	-	-	-	-	-	166,118	
Share margin financing	442,927	709,011	111,708	59,477	30,417	58,284	(21,253)	(8,847)	1,381,724	
Islamic share margin financing	-	43	7,750	-	-	-	-	-	7,793	
Others	4,721	28,602	28,631	60	-	781	(781)	(23)	61,991	
Financial investments at FVOCI										
Debt instruments:										
Malaysian Government Securities	40,182	-	-	-	-	-	-	-	40,182	
Malaysian Government Investment Certificates	195,055	-	-	-	-	-	-	-	195,055	
Islamic Corporate Sukuk	584,853	-	-	-	-	-	-	-	584,853	
Corporate bonds	160,667	-	-	-	-	-	-	-	160,667	
Negotiable Instruments of Deposits	50,000	-	-	-	-	-	-	-	50,000	
Islamic Negotiable Instruments of Deposits	629,165	-	-	-	-	-	-	-	629,165	
Equity instrument:										
Unquoted equities	-	-	-	1,754	-	-	-	-	1,754	
Financial investments at AC										
Corporate Bonds	20,038	-	-	-	-	-	-	-	20,038	
Malaysian Government Investment Certificates	9,876	-	-	-	-	-	-	-	9,876	
Islamic Corporate Sukuk	70,202	-	-	-	22,000	-	-	(860)	91,342	
Derivative financial assets	-	-	-	71,992	-	-	-	-	71,992	
Balances due from clients and brokers	-	297,840	-	-	-	12,938	(12,938)	(1,517)	296,323	
Other assets	154,920	-	-	-	-	7,143	(4,597)	(259)	157,207	
Total	3,985,911	1,469,461	258,149	133,283	58,834	79,146	(39,569)	(12,381)	5,932,834	

* Majority of the sub-standard rating profile credits are from share margin and structured loan financing portfolio in which the credit risks are mitigated with guarantor with acceptable financial strength and adequate collateral coverage. These accounts are monitored on a daily basis in terms of their ability in meeting the minimum security coverage requirements and appropriate actions such as force selling or indulgence are considered to manage the exceptions.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(ii) Credit quality by class of financial assets (cont'd.)

Bank	Neither past due nor impaired					Default/ impaired Stage 3 RM'000	ECL on individually impaired RM'000	ECL on collectively impaired RM'000	Total RM'000
	Strong credit profile Stage 1 RM'000	Satisfactory risk Stage 1 RM'000	Sub- standard* Stage 1 RM'000	Non rated Stage 1 RM'000	Stage 2 RM'000				
	RM'000	RM'000	RM'000	RM'000	RM'000				
31 December 2019									
Cash and bank balances	1,877,150	-	-	-	-	-	-	-	1,877,150
Statutory deposit with Bank Negara Malaysia	99,164	-	-	-	-	-	-	-	99,164
Financial assets at FVTPL									
Unquoted shares and unit trust funds in Malaysia	128,994	-	-	4,000	-	-	-	-	132,994
Net loans, advances and financing									
Term loans	3,840	369,535	158,876	-	42,794	-	-	(1,721)	573,324
Islamic term loans	-	128,971	33,805	-	-	-	-	(645)	162,131
Share margin financing	365,221	748,802	101,818	49,080	-	48,161	(16,061)	-	1,297,021
Islamic share margin financing	3	56	6,965	-	-	-	-	-	7,024
Others	-	-	-	17	-	-	-	-	17
Financial investments at FVOCI									
Debt instruments:									
Malaysian Government Securities	30,550	-	-	-	-	-	-	-	30,550
Malaysian Government Investment Certificates	72,649	-	-	-	-	-	-	-	72,649
Islamic Corporate Sukuk	458,204	-	-	-	-	-	-	-	458,204
Corporate Bonds	173,040	-	-	-	-	-	-	-	173,040
Islamic Negotiable Instruments of Deposits	59,550	-	-	-	-	-	-	-	59,550
Equity instrument:									
Unquoted equities	-	-	-	1,088	-	-	-	-	1,088
Financial investments at AC									
Corporate Bonds	20,030	-	-	-	-	-	-	-	20,030
Malaysian Government Investment Certificates	9,892	-	-	-	-	-	-	-	9,892
Islamic Corporate Sukuk	70,172	-	-	13,000	-	-	-	(338)	82,834
Derivative financial assets	-	-	-	65,174	-	-	-	-	65,174
Balances due from clients and brokers	274,815	-	-	-	-	19,199	(12,141)	(1,516)	280,357
Other assets	101,661	-	-	-	-	8,087	(4,471)	(484)	104,793
Total	3,744,935	1,247,364	301,464	132,359	42,794	75,447	(32,673)	(4,704)	5,506,986

* Majority of the sub-standard rating profile credits are from share margin and structured loan financing portfolio in which the credit risks are mitigated with guarantor with acceptable financial strength and adequate collateral coverage. These accounts are monitored on a daily basis in terms of their ability in meeting the minimum security coverage requirements and appropriate actions such as force selling or indulgence are considered to manage the exceptions.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(ii) Credit quality by class of financial assets (cont'd.)

Bank	Neither past due nor impaired									Total RM'000
	Strong credit profile	Satisfactory risk	Sub- standard*	Non rated	Stage 2 RM'000	Default/ impaired	ECL on individually	ECL on collectively		
	Stage 1	Stage 1	Stage 1	Stage 1		Stage 3	impaired	impaired		
	RM'000	RM'000	RM'000	RM'000		RM'000	RM'000	RM'000		
31 December 2018										
Cash and bank balances	1,116,117	-	-	-	-	-	-	-	-	1,116,117
Statutory deposit with Bank Negara Malaysia	116,619	-	-	-	-	-	-	-	-	116,619
Financial assets at FVTPL										
Islamic Corporate Bills	19,861	-	-	-	-	-	-	-	-	19,861
Unquoted shares and unit trust funds in Malaysia	131,077	-	-	-	-	-	-	-	-	131,077
Net loans, advances and financing										
Term loans	3,840	361,205	50,010	-	6,417	-	-	(1,402)		420,070
Islamic term loans	-	106,068	60,050	-	-	-	-	-		166,118
Share margin financing	442,927	709,011	111,708	59,477	30,417	58,284	(21,253)	(8,847)		1,381,724
Islamic share margin financing	-	43	7,750	-	-	-	-	-		7,793
Others	-	-	-	60	-	-	-	-		60
Financial investments at FVOCI										
Debt instruments:										
Malaysian Government Securities	40,182	-	-	-	-	-	-	-		40,182
Malaysian Government Investment Certificates	195,055	-	-	-	-	-	-	-		195,055
Islamic Corporate Sukuk	584,853	-	-	-	-	-	-	-		584,853
Corporate Bonds	160,667	-	-	-	-	-	-	-		160,667
Negotiable Instruments of Deposits	50,000	-	-	-	-	-	-	-		50,000
Islamic Negotiable Instruments of Deposits	629,165	-	-	-	-	-	-	-		629,165
Equity instrument:										
Unquoted equities	-	-	-	1,754	-	-	-	-		1,754
Financial investments at AC										
Corporate Bonds	20,038	-	-	-	-	-	-	-		20,038
Malaysian Government Investment Certificates	9,876	-	-	-	-	-	-	-		9,876
Islamic Corporate Sukuk	70,202	-	-	-	22,000	-	-	(860)		91,342
Derivative financial assets	-	-	-	71,992	-	-	-	-		71,992
Balances due from clients and brokers	-	297,840	-	-	-	12,938	(12,938)	(1,517)		296,323
Other assets	65,687	-	-	-	-	5,772	(3,226)	(259)		67,974
Total	3,656,166	1,474,167	229,518	133,283	58,834	76,994	(37,417)	(12,885)		5,578,660

* Majority of the sub-standard rating profile credits are from share margin and structured loan financing portfolio in which the credit risks are mitigated with guarantor with acceptable financial strength and adequate collateral coverage. These accounts are monitored on a daily basis in terms of their ability in meeting the minimum security coverage requirements and appropriate actions such as force selling or indulgence are considered to manage the exceptions.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(iii) Credit risk exposure for each internal credit risk rating

Internal credit rating	Group Total	Bank Total
	2019 RM'000	2019 RM'000
Strong		
AAA	3,441,713	3,168,682
AA	593,326	574,119
Satisfactory		
A	1,100,081	1,047,360
BBB	177,809	234,119
Substandard		
BB	201,277	199,128
B	108,594	108,594
C	189	189
Default		
D	42,774	42,774
Non-rated	132,021	132,021
	5,797,784	5,506,986

Internal credit rating	Group Total	Bank Total
	2018 RM'000	2018 RM'000
Strong		
AAA	3,229,883	2,904,859
AA	755,939	751,241
Satisfactory		
A	1,291,799	1,285,267
BBB	195,643	206,354
Substandard		
BB	116,477	116,477
B	147,756	119,125
C	333	333
Default		
D	39,577	39,577
Non-rated	155,427	155,427
	5,932,834	5,578,660

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

(iv) Aging analysis of financial assets which are past due but not impaired

	Less than 1 month RM'000	1 to 12 months RM'000	>12 months RM'000	Total RM'000
Group				
2019				
Share margin financing	-	949	4,832	5,781
Corporate loans	-	42,794	-	42,794
Other assets	7	-	77	84
Total	-	43,743	4,909	48,659
2018				
Share margin financing	-	1,262	-	1,262
Corporate loans	-	6,417	-	6,417
Other assets	-	-	78	78
Total	-	7,679	78	7,757
Bank				
2019				
Share margin financing	-	949	4,832	5,781
Corporate loans	-	42,794	-	42,794
Other assets	7	-	77	84
Total	-	43,743	4,909	48,659
2018				
Share margin financing	-	1,262	-	1,262
Corporate loans	-	6,417	-	6,417
Other assets	-	-	78	78
Total	-	7,679	78	7,757

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

- (v) Estimated value of collateral and other charges related to financial assets that are past due and individually impaired

	Cash and securities RM'000	Real estate RM'000	Other RM'000	Total value of collateral RM'000	Credit exposure RM'000	Unsecured portion of credit exposure RM'000
Group						
2019						
Loans, advances and financing						
Share margin financing	18,105	8,214	2,937	29,256	45,317	16,061
Others	-	-	-	-	-	-
Balances due from clients and brokers	-	-	-	-	12,141	12,141
Other assets	-	-	3,616	3,616	8,087	4,471
	18,105	8,214	6,553	32,872	65,545	32,673
2018						
Loans, advances and financing						
Share margin financing	21,642	7,500	-	29,142	50,395	21,253
Others	-	-	-	-	781	781
Balances due from clients and brokers	-	-	-	-	12,938	12,938
Other assets	-	-	2,546	2,546	7,143	4,597
	21,642	7,500	2,546	31,688	71,257	39,569

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Credit risk (cont'd.)

- (v) Estimated value of collateral and other charges related to financial assets that are past due and individually impaired (cont'd.)

	Cash and securities RM'000	Real estate RM'000	Other RM'000	Total value of collateral RM'000	Credit exposure RM'000	Unsecured portion of credit exposure RM'000
Bank						
2019						
Loans, advances and financing						
Share margin financing	18,105	8,214	2,937	29,256	45,317	16,061
Balances due from clients and brokers	-	-	-	-	12,141	12,141
Other assets	-	-	3,616	3,616	8,087	4,471
	18,105	8,214	6,553	32,872	65,545	32,673
2018						
Loans, advances and financing						
Share margin financing	21,642	7,500	-	29,142	50,395	21,253
Balances due from clients and brokers	-	-	-	-	12,938	12,938
Other assets	-	-	2,546	2,546	5,772	3,226
	21,642	7,500	2,546	31,688	69,105	37,417

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk

Market risk is the risk of loss arising from changes in prices of equity instruments and other financial instruments in the markets in which the Group and the Bank operate. The Group and the Bank also engage in bond proprietary trading to generate revenue in anticipation of changes in prices that may occur in the debt capital market.

The Group and the Bank manage the risk of unfavourable price changes by cautious reviews of investments and collaterals held with continuous monitoring of their performance and risk profiles by qualified personnel.

(i) Interest rate risk

In macro terms, interest rate risk refers to the overall sensitivity of the Group's and the Bank's earnings and/or economic values of the Group's and the Bank's portfolio to changes in interest rates. Interest rate risk is managed through various risk management techniques including re-pricing gap, net interest income simulation and stress testing.

The Group and the Bank are exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The effect of changes in the levels of interest rates on the market value of securities is monitored regularly and the outcome of mark-to-market valuations is escalated to management regularly. The table below summarises the effective interest rates at the reporting date and the periods in which the financial instruments will reprice or mature, whichever is the earlier.

Interest rate sensitivity analysis

The Board has established limits on the trading and non-trading interest rate gaps activities. In accordance with the Group's and the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The sensitivity of interest rate to the statements of profit and loss and other comprehensive income and equity is the effect of the assumed changes in interest rates level on the profit and loss for the financial year, based on the financial assets and financial liabilities held as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk (cont'd.)

(i) Interest rate risk (cont'd.)

Group 2019	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and bank balances	1,447,060	207,908	-	-	-	408,089	-	2,063,057	3.16
Financial assets at FVTPL	-	-	-	-	-	-	328,680	328,680	4.25
Financial instruments at FVOCI	-	59,550	135,583	438,013	160,847	1,088	-	795,081	4.18
Financial instruments at AC	-	12,662	-	70,206	29,888	-	-	112,756	4.77
Derivative financial assets	-	-	-	-	-	65,174	-	65,174	
Loans, advances and financing	1,952,346	21,251	22,346	68,714	-	17	-	2,064,674	7.43
Balances due from clients and brokers	-	-	-	-	-	280,357	-	280,357	
Other assets	86,376	-	-	-	-	115,409	-	201,785	
Other non interest sensitive balances	-	-	-	-	-	719,210	-	719,210	
Total assets	3,485,782	301,371	157,929	576,933	190,735	1,589,344	328,680	6,630,774	
Liabilities									
Deposits from customers	2,263,216	943,772	658,506	200,000	-	-	-	4,065,494	3.59
Deposits and placement of banks and other financial institutions	310,518	340,200	-	-	-	-	-	650,718	3.59
Borrowings	67,600	4,000	-	-	25,000	-	-	96,600	5.11
Derivative financial liabilities	-	-	-	-	-	13,416	-	13,416	
Balances due to clients and brokers	-	-	-	-	-	537,393	-	537,393	
Structured product	5,399	-	-	-	-	-	-	5,399	12.25
Other non interest sensitive balances	-	-	-	-	-	357,465	-	357,465	
Total liabilities	2,646,733	1,287,972	658,506	200,000	25,000	908,274	-	5,726,485	
Equity	-	-	-	-	-	904,289	-	904,289	
Total liabilities and shareholders' equity	2,646,733	1,287,972	658,506	200,000	25,000	1,812,563	-	6,630,774	
On-balance sheet interest sensitivity gap	839,049	(986,601)	(500,577)	376,933	165,735	(223,219)	328,680	-	
Cumulative interest sensitivity gap	839,049	(147,552)	(648,129)	(271,196)	(105,461)	(328,680)	-	-	

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk (cont'd.)

(i) Interest rate risk (cont'd.)

Group 2018	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and bank balances	897,263	196,235	-	-	-	257,762	-	1,351,260	3.31
Financial assets at FVTPL	-	-	-	-	-	-	189,224	189,224	4.35
Financial instruments at FVOCI	679,164	-	180,278	401,405	399,075	1,754	-	1,661,676	4.10
Financial instruments at AC	-	8,716	-	62,461	50,079	-	-	121,256	4.96
Derivative financial assets	-	-	-	-	-	71,992	-	71,992	
Loans, advances and financing	1,923,847	19,820	33,441	27,747	-	60	-	2,004,915	7.61
Balances due from clients and brokers	-	-	-	-	-	296,323	-	296,323	
Other assets	79,401	-	-	-	-	96,472	-	175,873	
Other non interest sensitive balances	-	-	-	-	-	674,009	-	674,009	
Total assets	3,579,675	224,771	213,719	491,613	449,154	1,398,372	189,224	6,546,528	
Liabilities									
Deposits from customers	2,526,837	892,512	942,755	200,000	-	-	-	4,562,104	3.72
Deposits and placement of banks and other financial institutions	95,016	-	-	-	-	-	-	95,016	3.72
Borrowings	82,300	12,000	-	-	25,000	-	-	119,300	5.09
Obligations on securities sold under repurchase agreements	83,067	-	-	-	-	-	-	83,067	
Derivative financial liabilities	-	-	-	-	-	12,693	-	12,693	
Balances due to clients and brokers	-	-	-	-	-	481,932	-	481,932	
Structured product	13,636	-	23,586	-	-	-	-	37,222	14.50
Other non interest sensitive balances	-	-	-	-	-	284,188	-	284,188	
Total liabilities	2,800,856	904,512	966,341	200,000	25,000	778,813	-	5,675,522	
Equity	-	-	-	-	-	871,006	-	871,006	
Total liabilities and shareholders' equity	2,800,856	904,512	966,341	200,000	25,000	1,649,819	-	6,546,528	
On-balance sheet interest sensitivity gap									
	778,819	(679,741)	(752,622)	291,613	424,154	(251,447)	189,224	-	
Cumulative interest sensitivity gap									
	778,819	99,078	(653,544)	(361,931)	62,223	(189,224)	-	-	

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk (cont'd.)

(i) Interest rate risk (cont'd.)

Bank 2019	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and bank balances	1,430,551	155,000	-	-	-	291,599	-	1,877,150	3.16
Financial assets at FVTPL	-	-	-	-	-	-	326,560	326,560	4.25
Financial instruments at FVOCI	-	59,550	135,583	438,013	160,847	1,088	-	795,081	4.18
Financial instruments at AC	-	12,662	-	70,206	29,888	-	-	112,756	4.77
Derivative financial assets	-	-	-	-	-	65,174	-	65,174	
Loans, advances and financing	2,023,790	15,710	-	-	-	17	-	2,039,517	7.43
Balances due from clients and brokers	-	-	-	-	-	280,357	-	280,357	
Other assets	-	-	-	-	29,696	92,868	-	122,564	
Other non interest sensitive balances	-	-	-	-	-	796,947	-	796,947	
Total assets	3,454,341	242,922	135,583	508,219	220,431	1,528,050	326,560	6,416,106	
Liabilities									
Deposits from customers	2,292,032	968,814	658,506	200,000	-	-	-	4,119,352	3.59
Deposits and placement of banks and other financial institutions	310,518	340,200	-	-	-	-	-	650,718	3.59
Borrowings	41,600	-	-	-	25,000	-	-	66,600	4.94
Derivative financial liabilities	-	-	-	-	-	13,416	-	13,416	
Balances due to clients and brokers	-	-	-	-	-	304,880	-	304,880	
Structured product	5,399	-	-	-	-	-	-	5,399	12.25
Other non interest sensitive balances	-	-	-	-	-	299,772	-	299,772	
Total liabilities	2,649,549	1,309,014	658,506	200,000	25,000	618,068	-	5,460,137	
Equity	-	-	-	-	-	955,969	-	955,969	
Total liabilities and shareholders' equity	2,649,549	1,309,014	658,506	200,000	25,000	1,574,037	-	6,416,106	
On-balance sheet interest sensitivity gap	804,792	(1,066,092)	(522,923)	308,219	195,431	(45,987)	326,560	-	
Cumulative interest sensitivity gap	804,792	(261,300)	(784,223)	(476,004)	(280,573)	(326,560)	-	-	

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk (cont'd.)

(i) Interest rate risk (cont'd.)

Bank 2018	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and bank balances	846,810	125,000	-	-	-	144,307	-	1,116,117	3.31
Financial assets at FVTPL	-	-	-	-	-	-	188,576	188,576	4.35
Financial instruments at FVOCI	679,164	-	180,278	401,405	399,075	1,754	-	1,661,676	4.10
Financial instruments at AC	-	8,716	-	62,461	50,079	-	-	121,256	4.96
Derivative financial assets	-	-	-	-	-	71,992	-	71,992	
Loans, advances and financing	1,956,628	19,077	-	-	-	60	-	1,975,765	7.61
Balances due from clients and brokers	-	-	-	-	-	296,323	-	296,323	
Other assets	-	-	-	-	-	85,413	-	85,413	
Other non interest sensitive balances	-	-	-	-	-	783,602	-	783,602	
Total assets	3,482,602	152,793	180,278	463,866	449,154	1,383,451	188,576	6,300,720	
Liabilities									
Deposits from customers	2,568,521	902,512	942,755	200,000	-	-	-	4,613,788	3.72
Deposits and placement of banks and other financial institutions	95,016	-	-	-	-	-	-	95,016	3.72
Borrowings	52,800	-	-	-	25,000	-	-	77,800	4.92
Obligations on securities sold under repurchase agreements	83,067	-	-	-	-	-	-	83,067	
Derivative financial liabilities	-	-	-	-	-	12,693	-	12,693	
Balances due to clients and brokers	-	-	-	-	-	221,083	-	221,083	
Structured product	13,636	-	23,586	-	-	-	-	37,222	14.50
Other non interest sensitive balances	-	-	-	-	-	232,821	-	232,821	
Total liabilities	2,813,040	902,512	966,341	200,000	25,000	466,597	-	5,373,490	
Equity	-	-	-	-	-	927,230	-	927,230	
Total liabilities and shareholders' equity	2,813,040	902,512	966,341	200,000	25,000	1,393,827	-	6,300,720	
On-balance sheet interest sensitivity gap									
	669,562	(749,719)	(786,063)	263,866	424,154	(10,376)	188,576	-	
Cumulative interest sensitivity gap									
	669,562	(80,157)	(866,220)	(602,354)	(178,200)	(188,576)	-	-	

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk (cont'd.)

(i) Interest rate risk (cont'd.)

Interest rate sensitivity analysis

The following table demonstrates the impact of a +/- 100 basis points change in interest rates, ceteris paribus, on the Group's profit or loss and equity.

Change in Interest Rates 2019	Impact on Profit or Loss 2019	Impact on Equity* 2019	Change in Interest Rates 2018	Impact on Profit or Loss 2018	Impact on Equity 2018
	RM'000	RM'000		RM'000	RM'000
+100	(3,553)	(18,240)	+100	(2,487)	(34,101)
-100	3,553	18,240	-100	2,487	34,101

* exclude tax impact.

(ii) Foreign currency exchange risk

Foreign currency risk is the risk of financial loss due to adverse movements in foreign exchange rates.

The Group and the Bank are exposed to currency risk primarily through trading activities that are governed by the FX Proprietary Trading Policy.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk (cont'd.)

(ii) Foreign currency exchange risk (cont'd.)

Currency rate sensitivity analysis

The following table shows the impact of a 5% movement of MYR, ceteris paribus, on the Group's profit/loss:

Currency	Changes in Foreign Exchange Rates	Impact on Profit or Loss 2019 RM'000	Impact on Equity 2019 RM'000	Changes in Foreign Exchange Rates	Impact on Profit or Loss 2018 RM'000	Impact on Equity 2018 RM'000
AUD	5%	63	-	5%	116	-
CHF	5%	(8)	-	5%	(2)	-
CNY	5%	(3)	-	5%	3	-
EUR	5%	22	-	5%	15	-
GBP	5%	82	-	5%	(47)	-
HKD	5%	45	-	5%	27	-
IDR	5%	0.06	-	5%	0.22	-
JPY	5%	(102)	-	5%	(28)	-
NZD	5%	11	-	5%	12	-
PHP	5%	0.44	-	5%	0.50	-
SGD	5%	450	-	5%	65	-
THB	5%	3	-	5%	1	-
USD	5%	182	-	5%	(472)	-

Arising from the Group's investment in the associate company in Saudi Arabia, there is a natural position held in foreign currency exposure in Riyal. The following shows the profit or loss impact of a 5% price movement on this position:

Currency	Changes in Foreign Exchange Rates	Impact on Profit or Loss 2019 RM'000	Impact on Equity 2019 RM'000	Changes in Foreign Exchange Rates	Impact on Profit or Loss 2018 RM'000	Impact on Equity 2018 RM'000
SAR	5%	-	(3,192)	5%	-	(2,903)

(iii) Equity price sensitivity analysis

Equity price risk is the risk of financial loss arising from adverse changes in prices of equities and equity derivatives.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Market risk (cont'd.)

(iii) Equity price sensitivity analysis (cont'd.)

The following table demonstrates the impact of a +/- 30% change in equity prices across the board on the Group's profit or loss and equity.

Percentage Change in Equity Price 2019	Impact on Profit or Loss 2019	Impact on Equity 2019	Percentage Change in Equity Price 2018	Impact on Profit or Loss 2018	Impact on Equity 2018
	RM'000	RM'000		RM'000	RM'000
+30%	47,992	-	+30%	4,482	-
-30%	(57,164)	-	-30%	(11,337)	-

From risk management perspective, a risk limits framework governing the activities of equity and equity derivatives trading has been established, primarily intended to:

- 1) Prevent excessive exposures to a single risk factor or a group of risk factors; and
- 2) Constrain the general level of risk taking for a business.

Additionally, other components of limit framework including loss trigger, issuance size, permitted products, management oversights etc. were put in place for better governance, as well as to embrace best practices of market risk management. The risk framework was designed in accordance to the Group's and the Bank's risk appetite and a closely controlled risk parameter, e.g. loss trigger, will ensure losses arising from the course of trading are limited.

In addition, the Group's associate company has made some equity investments in Saudi Arabia, with a total mark-to-market value of SAR 18.1 million. The impact of a +/- 30% change in equity prices on the Group's profit or loss arising from these investments are shown as follows:

Percentage Change in Equity Price 2019	Impact on Profit or Loss 2019	Impact on Equity 2019	Percentage Change in Equity Price 2018	Impact on Profit or Loss 2018	Impact on Equity 2018
	RM'000	RM'000		RM'000	RM'000
+30%	-	7,369	+30%	-	5,862
-30%	-	(7,369)	-30%	-	(5,862)

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Liquidity risk

Liquidity risk is the risk of loss as a result of the Group's or the Bank's inability to meet cash flow obligations on a timely and cost effective manner. Liquidity risk is managed through the Liquidity Coverage Ratio Framework ("LCR") issued by BNM, internal policies and management oversight by Group Risk Committee. A Contingency Funding Plan ("CFP") has been formulated covering across the policies, procedures, roles and responsibilities, funding strategies and notwithstanding, the deployment of such in a liquidity event.

The Group and the Bank actively manage their operating cash flows and the availability of funding so as to ensure that all funding needs are being met. As part of its overall prudent liquidity management, the Group and the Bank maintain sufficient levels of cash or cash convertible investments to meet its working capital requirements in addition to maintaining available banking facilities, to meet any immediate operating cash flow requirements.

In accordance with BNM's Liquidity Coverage Ratio guideline, the Group and the Bank maintain a portfolio of highly marketable and diverse assets which are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group and the Bank maintain a statutory deposit with BNM equal to 3.0% of net eligible liabilities.

(i) Analysis of assets and liabilities by remaining contractual maturities

The table below summarises the contractual maturity profile of the Group's assets and liabilities as at 31 December 2019. The contractual maturity profile often may not reflect the actual behavioural patterns.

Group 2019	On demand RM'000	Up to 1 months RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Assets								
Cash and bank balances	408,089	1,447,060	207,908	-	-	-	-	2,063,057
Financial assets at FVTPL	-	-	-	-	-	-	328,680	328,680
Financial instruments at FVOCI	-	-	59,550	5,017	130,566	598,860	1,088	795,081
Financial instruments at AC	-	-	12,662	-	-	100,094	-	112,756
Derivative financial assets	-	34,926	-	307	29,876	65	-	65,174
Loans, advances and financing	314,868	1,247,734	5,541	8,753	63,614	424,147	17	2,064,674
Balances due from clients and brokers	-	280,357	-	-	-	-	-	280,357
Other assets	3,717	8,632	52,686	1,927	-	-	48,447	115,409
Assets segregated by customers	-	86,376	-	-	-	-	-	86,376
Others	-	495	1,420	2,093	4,024	16,624	694,554	719,210
Total assets	726,674	3,105,580	339,767	18,097	228,080	1,139,790	1,072,786	6,630,774

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Liquidity risk (cont'd.)

(i) Analysis of assets and liabilities by remaining contractual maturities (cont'd.)

Group 2019	On demand RM'000	Up to 1 months RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Liabilities								
Deposits from customers	71,367	2,191,849	943,772	548,270	110,236	200,000	-	4,065,494
Deposits and placements of banks and other financial institutions	-	310,518	340,200	-	-	-	-	650,718
Derivative financial liabilities	-	57	1,911	1,765	9,683	-	-	13,416
Balances due to clients and brokers	-	537,393	-	-	-	-	-	537,393
Borrowings	-	26,000	6,800	2,800	5,600	55,400	-	96,600
Other liabilities balances	413	76,102	67,276	10,321	4,962	31,387	172,403	362,864
Total liabilities	71,780	3,141,919	1,359,959	563,156	130,481	286,787	172,403	5,726,485
Net maturity mismatch	654,894	(36,339)	(1,020,192)	(545,059)	97,599	853,003	900,383	904,289

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

Group 2019	On demand RM'000	Up to 1 months RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Miscellaneous commitments	623,581	-	-	-	-	-	-	623,581
Total commitments and guarantees	623,581	-	-	-	-	-	-	623,581

NOTES TO THE FINANCIAL STATEMENTS

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50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Liquidity risk (cont'd.)

(i) Analysis of assets and liabilities by remaining contractual maturities (cont'd.)

The table below summarises the contractual maturity profile of the Group's assets and liabilities as at 31 December 2018. The contractual maturity profile often may not reflect the actual behavioural patterns.

Group 2018	On demand RM'000	Up to 1 months RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Assets								
Cash and bank balances	257,762	897,263	196,235	-	-	-	-	1,351,260
Financial assets at FVTPL	-	-	14,171	-	-	-	175,053	189,224
Financial instruments at FVOCI	-	679,164	-	20,015	160,263	800,480	1,754	1,661,676
Financial instruments at AC	-	-	8,716	-	-	112,540	-	121,256
Derivative financial assets	-	35,213	-	10,934	25,635	210	-	71,992
Loans, advances and financing	167,330	1,424,009	3,710	8,933	44,856	356,017	60	2,004,915
Balances due from clients and brokers	-	296,323	-	-	-	-	-	296,323
Other assets	4,104	6,556	200	14	1,297	46,400	39,175	97,746
Assets segregated by customers	-	78,127	-	-	-	-	-	78,127
Others	-	-	-	-	-	-	674,009	674,009
Total assets	429,196	3,416,655	223,032	39,896	232,051	1,315,647	890,051	6,546,528
Liabilities								
Deposits from customers	88,246	2,438,591	892,512	568,763	373,992	200,000	-	4,562,104
Deposits and placements of banks and other financial institutions	-	95,016	-	-	-	-	-	95,016
Obligations on securities sold under repurchase agreements	-	83,067	-	-	-	-	-	83,067
Derivative financial liabilities	-	111	1,178	9,327	2,077	-	-	12,693
Balances due to clients and brokers	-	481,932	-	-	-	-	-	481,932
Borrowings	-	41,500	2,800	2,800	5,600	66,600	-	119,300
Other liabilities balances	4	89,352	16,036	20,777	10,188	34,103	150,950	321,410
Total liabilities	88,250	3,229,569	912,526	601,667	391,857	300,703	150,950	5,675,522
Net maturity mismatch	340,946	187,086	(689,494)	(561,771)	(159,806)	1,014,944	739,101	871,006

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

Group 2018	On demand RM'000	Up to 1 months RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Miscellaneous commitments	689,222	-	-	-	-	-	-	689,222
Total commitments and guarantees	689,222	-	-	-	-	-	-	689,222

NOTES TO THE FINANCIAL STATEMENTS

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50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Liquidity risk (cont'd.)

(i) Analysis of assets and liabilities by remaining contractual maturities (cont'd.)

The table below summarises the contractual maturity profile of the Bank's assets and liabilities as at 31 December 2019. The contractual maturity profile often may not reflect the actual behavioural patterns.

Bank 2019	On demand RM'000	Up to 1 months RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Assets								
Cash and bank balances	291,599	1,430,551	155,000	-	-	-	-	1,877,150
Financial assets at FVTPL	-	-	-	-	-	-	326,560	326,560
Financial instruments at FVOCI	-	-	59,550	5,017	130,566	598,860	1,088	795,081
Financial instruments at AC	-	-	12,662	-	-	100,094	-	112,756
Derivative financial assets	-	34,926	-	307	29,876	65	-	65,174
Loans, advances and financing	314,868	1,304,044	-	-	50,021	370,567	17	2,039,517
Balances due from clients and brokers	-	280,357	-	-	-	-	-	280,357
Other assets	4,317	8,392	52,686	1,927	-	29,696	25,546	122,564
Others	-	412	1,255	1,883	3,712	16,483	773,202	796,947
Total assets	610,784	3,058,682	281,153	9,134	214,175	1,115,765	1,126,413	6,416,106
Liabilities								
Deposits from customers	71,367	2,220,665	968,814	548,270	110,236	200,000	-	4,119,352
Deposits and placements of banks and other financial institutions	-	310,518	340,200	-	-	-	-	650,718
Obligations on securities sold under repurchase agreements	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	57	1,911	1,765	9,683	-	-	13,416
Balances due to clients and brokers	-	304,880	-	-	-	-	-	304,880
Borrowings	-	-	2,800	2,800	5,600	55,400	-	66,600
Other liabilities balances	413	75,489	67,116	10,064	4,644	31,238	116,207	305,171
Total liabilities	71,780	2,911,609	1,380,841	562,899	130,163	286,638	116,207	5,460,137
Net maturity mismatch	539,004	147,073	(1,099,688)	(553,765)	84,012	829,127	1,010,206	955,969

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

Bank 2019	On demand RM'000	Up to 1 months RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Miscellaneous commitments	623,581	-	-	-	-	-	-	623,581
Total commitments and guarantees	623,581	-	-	-	-	-	-	623,581

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Liquidity risk (cont'd.)

(i) Analysis of assets and liabilities by remaining contractual maturities (cont'd.)

The table below summarises the contractual maturity profile of the Bank's assets and liabilities as at 31 December 2018. The contractual maturity profile often may not reflect the actual behavioural patterns.

Bank 2018	On demand RM'000	Up to 1 months RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Assets								
Cash and bank balances	144,307	846,810	125,000	-	-	-	-	1,116,117
Financial assets at FVTPL	-	-	19,861	-	-	-	168,715	188,576
Financial instruments at FVOCI	-	679,164	-	20,015	160,263	800,480	1,754	1,661,676
Financial instruments at AC	-	-	8,716	-	-	112,540	-	121,256
Derivative financial assets	-	35,213	-	10,934	25,635	210	-	71,992
Loans, advances and financing	167,330	1,389,517	2,967	4,978	44,856	366,057	60	1,975,765
Balances due from clients and brokers	-	296,323	-	-	-	-	-	296,323
Other assets	4,105	6,165	490	14	1,297	46,400	26,942	85,413
Others	-	-	-	-	-	-	783,602	783,602
Total assets	315,742	3,253,192	157,034	35,941	232,051	1,325,687	981,073	6,300,720
Liabilities								
Deposits from customers	88,246	2,480,275	902,512	568,763	373,992	200,000	-	4,613,788
Deposits and placements of banks and other financial institutions	-	95,016	-	-	-	-	-	95,016
Obligations on securities sold under repurchase agreements	-	83,067	-	-	-	-	-	83,067
Derivative financial liabilities	-	111	1,178	9,327	2,077	-	-	12,693
Balances due to clients and brokers	-	221,083	-	-	-	-	-	221,083
Borrowings	-	-	2,800	2,800	5,600	66,600	-	77,800
Other liabilities balances	4	89,013	16,036	20,777	10,188	34,102	99,923	270,043
Total liabilities	88,250	2,968,565	922,526	601,667	391,857	300,702	99,923	5,373,490
Net maturity mismatch	227,492	284,627	(765,492)	(565,726)	(159,806)	1,024,985	881,150	927,230

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

Bank 2018	On demand RM'000	Up to 1 months RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Miscellaneous commitments	689,222	-	-	-	-	-	-	689,222
Total commitments and guarantees	689,222	-	-	-	-	-	-	689,222

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Liquidity risk (cont'd.)

(ii) Maturity analysis of financial liabilities on an undiscounted basis

The following tables show the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The financial liabilities in the tables below will not agree to the balances reported in the statements of financial position as the tables incorporate all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

Group	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 month RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
2019							
Financial liabilities							
Deposits from customers	2,329,083	1,031,809	577,606	133,138	261,504	-	4,333,140
Deposits and placements of banks and other financial institutions	311,762	342,878	-	-	-	-	654,640
Derivative financial liabilities	57	1,911	1,765	9,683	-	-	13,416
Balances due to clients and brokers	537,393	-	-	-	-	-	537,393
Borrowings	26,125	6,882	2,829	5,659	71,849	-	113,344
Other liabilities balances	76,515	67,276	10,321	4,962	31,387	172,403	362,864
Total undiscounted financial liabilities	3,280,935	1,450,756	592,521	153,442	364,740	172,403	6,014,797
2018							
Financial liabilities							
Deposits from customers	2,537,381	914,799	582,386	389,105	236,575	-	4,660,246
Deposits and placements of banks and other financial institutions	95,340	-	-	-	-	-	95,340
Obligations on securities sold under repurchase agreements	83,546	-	-	-	-	-	83,546
Derivative financial liabilities	111	1,178	9,327	2,077	-	-	12,693
Balances due to clients and brokers	481,932	-	-	-	-	-	481,932
Borrowings	41,787	2,827	2,828	5,658	83,155	-	136,255
Other liabilities balances	89,356	16,036	20,777	10,188	34,103	150,950	321,410
Total undiscounted financial liabilities	3,329,453	934,840	615,318	407,028	353,833	150,950	5,791,422

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Liquidity risk (cont'd.)

(ii) Maturity analysis of financial liabilities on an undiscounted basis (cont'd.)

Bank	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 month RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
2019							
Financial liabilities							
Deposits from customers	2,300,230	1,006,768	577,606	133,138	261,504	-	4,279,245
Deposits and placements of banks and other financial institutions	311,762	342,878	-	-	-	-	654,640
Obligations on securities sold under repurchase agreements	-	-	-	-	-	-	-
Derivative financial liabilities	57	1,911	1,765	9,683	-	-	13,416
Balance due to clients and brokers	304,880	-	-	-	-	-	304,880
Borrowings	-	2,829	2,829	5,659	71,849	-	83,167
Other liabilities balances	75,902	67,116	10,064	4,644	31,238	116,207	305,171
Total undiscounted financial liabilities	2,992,831	1,421,502	592,264	153,124	364,591	116,207	5,640,519
2018							
Financial liabilities							
Deposits from customers	2,579,179	924,894	582,386	389,105	236,575	-	4,712,139
Deposits and placements of banks and other financial institutions	95,340	-	-	-	-	-	95,340
Obligations on securities sold under repurchase agreements	83,546	-	-	-	-	-	83,546
Derivative financial liabilities	111	1,178	9,327	2,077	-	-	12,693
Balances due to clients and brokers	221,083	-	-	-	-	-	221,083
Borrowings	-	2,827	2,828	5,658	83,155	-	94,468
Other liabilities balances	89,017	16,036	20,777	10,188	34,103	99,923	270,044
Total undiscounted financial liabilities	3,068,276	944,935	615,318	407,028	353,833	99,923	5,489,313

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. FINANCIAL RISK MANAGEMENT (CONT'D.)

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or resulting from external events.

Operational risk is managed through an effective operational risk management framework which include development of policies, processes and procedures for managing operational risk in the Group's and the Bank's products, activities, processes and system, effective internal audit function, monitoring and reporting by independent risk management function and oversight by the management and Board of Directors.

The operational risk management processes include identifying and assessing operational risks inherent in the Group's and the Bank's existing, as well as new products, activities, processes and systems, monitoring of operational risk profiles and reporting of material exposures, documented policies, processes and procedures to control and mitigate material operational risks and contingency and business continuity plans.

51. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurement

The Group and the Bank use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 - quoted (unadjusted) market prices in active for identical assets or liabilities.
- Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3 - techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

51. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

Fair value measurement (cont'd.)

Group 2019	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets measured at fair value				
Financial assets at FVTPL				
- Debt securities	-	96,741	-	96,741
- Equity securities	193,566	9,379	28,994	231,939
Financial investments at FVOCI				
- Debt securities	-	793,993	-	793,993
- Equity securities	-	-	1,088	1,088
Derivative financial assets	-	65,174	-	65,174
Financial assets for which fair values are disclosed				
Financial investments at AC	-	117,673	-	117,673
Loans, advances and financing	-	-	2,064,990	2,064,990
	193,566	1,082,960	2,095,072	3,371,598
Financial liability measured at fair value				
Derivative financial liabilities	13,395	21	-	13,416
Financial liabilities for which fair values are disclosed				
Borrowings	-	92,144	-	92,144
	13,395	92,165	-	105,560

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

51. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

Fair value measurement (cont'd.)

Group 2018	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets measured at fair value				
Financial assets at FVTPL				
- Debt securities	-	114,171	-	114,171
- Equity securities	37,638	6,338	31,077	75,053
Financial investments at FVOCI				
- Debt securities	-	1,659,922	-	1,659,922
- Equity securities	-	-	1,754	1,754
Derivative financial assets	-	71,992	-	71,992
Financial assets for which fair values are disclosed				
Financial investments at AC	-	125,156	-	125,156
Loans, advances and financing	-	-	2,002,626	2,002,626
	37,638	1,977,579	2,035,457	4,050,674
Financial liability measured at fair value				
Derivative financial liabilities	1,854	10,839	-	12,693
Financial liabilities for which fair values are disclosed				
Obligations on securities sold under repurchase agreements	-	83,067	-	83,067
Borrowings	-	114,409	-	114,409
	1,854	208,315	-	210,169

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

51. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

Fair value measurement (cont'd.)

Bank 2019	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets measured at fair value				
Financial assets at FVTPL				
- Debt securities	-	100,000	-	100,000
- Equity securities	193,566	4,000	28,994	226,560
Financial investments at FVOCI				
- Debt securities	-	793,993	-	793,993
- Equity securities	-	-	1,088	1,088
Derivative financial assets	-	65,174	-	65,174
Financial assets for which fair values are disclosed				
Financial investments at AC	-	117,673	-	117,673
Loans, advances and financing	-	-	2,040,578	2,040,578
	193,566	1,080,840	2,070,660	3,345,066
Financial liability measured at fair value				
Derivative financial liabilities	13,395	21	-	13,416
Financial liabilities for which fair values are disclosed				
Borrowings	-	62,148	-	62,148
	13,395	62,169	-	75,564

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

51. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

Fair value measurement (cont'd.)

Bank 2018	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets measured at fair value				
Financial assets at FVTPL				
- Debt securities	-	119,861	-	119,861
- Equity securities	37,638	-	31,077	68,715
Financial investments at FVOCI				
- Debt securities	-	1,659,922	-	1,659,922
- Equity securities	-	-	1,754	1,754
Derivative financial assets	-	71,992	-	71,992
Financial assets for which fair values are disclosed				
Financial investments at AC	-	125,156	-	125,156
Loans, advances and financing	-	-	1,973,758	1,973,758
	37,638	1,976,931	2,006,589	4,021,158
Financial liability measured at fair value				
Derivative financial liabilities	1,854	10,839	-	12,693
Financial liabilities for which fair values are disclosed				
Obligations on securities sold under repurchase agreements	-	83,067	-	83,067
Borrowings	-	72,908	-	72,908
	1,854	166,814	-	168,668

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

51. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

Fair value measurement (cont'd.)

There have been no transfers between Level 1 and Level 2 during the financial years.

The methods and assumptions used to estimate the fair value of the financial instruments not measured at fair value are as disclosed in Note 48.

Movements in Level 3 financial instruments measured at fair value

The level of the fair value hierarchy of financial instruments is determined at the beginning of each reporting period. The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	Group and Bank	
	Equity securities at FVTPL RM'000	Equity securities at FVOCI RM'000
2019		
Balance at the beginning of the financial year	31,077	1,754
Revaluation loss during the financial year	(2,083)	(666)
Balance at the end of the financial year	28,994	1,088
2018		
Balance at the beginning of the financial year	10,208	490
Acquisition of investments during the financial year	1,938	-
Revaluation gain during the financial year	18,931	1,264
Balance at the end of the financial year	31,077	1,754

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING

The Islamic banking operations of the Bank are as follows:

(a) Statements of financial position as at 31 December 2019

		Group and Bank	
		2019	2018
	Note	RM'000	RM'000
Assets			
Cash and bank balances	(e)	982,933	420,144
Financial assets at FVTPL	(f)	100,000	119,861
Financial investments at FVOCI	(g)(i)	157,374	774,466
Financial investments at AC	(g)(ii)	30,087	30,102
Financing and advances	(h)	169,155	173,911
Balances due from clients and brokers		410	929
Other assets	(i)	4,692	26,489
Property, plant and equipment		28	89
Intangible assets		12	-
Total assets		1,444,691	1,545,991
Liabilities			
Deposits from customers	(j)	1,174,263	1,274,758
Balances due to clients and brokers		2,670	1,712
Other liabilities	(k)	98,311	114,945
Deferred tax liabilities		1,121	92
Provision for taxation and zakat		3,822	3,432
Total liabilities		1,280,187	1,394,939
Islamic banking capital funds			
Islamic banking funds		120,000	120,000
Reserves		44,504	31,052
Total Islamic banking capital funds		164,504	151,052
Total liabilities and Islamic banking capital funds		1,444,691	1,545,991

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(b) Statements of profit or loss and other comprehensive income For the financial year ended 31 December 2019

	Note	Group and Bank	
		2019 RM'000	2018 RM'000
Income derived from investment of depositors' funds	(l)	60,810	53,401
Income derived from investment of shareholders' funds	(m)	8,096	9,199
Credit loss (expense)/reversal		(680)	386
Total attributable income		68,226	62,986
Profit distributed to the depositors	(n)	(48,668)	(43,734)
Net Income		19,558	19,252
Finance cost		(2,256)	(3,106)
Personnel expenses	(o)	(747)	(676)
Other overhead expenses	(o)	(2,719)	(2,280)
Profit before taxation and zakat		13,836	13,190
Taxation and Zakat		(3,822)	(3,432)
Profit for the financial year		10,014	9,758
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Fair value gain on debt instruments at FVOCI		4,461	49
Income tax related to the above items		(1,029)	(12)
Total other comprehensive income for the financial year, net of tax		13,446	9,795

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

	Group and Bank	
	2019 RM'000	2018 RM'000
Income derived from investment of depositors' funds	60,810	53,401
Income derived from investment of shareholders' funds	8,096	9,199
Total income before impairment allowances and overhead expenses	68,906	62,600
Profit distributed to depositors	(48,668)	(43,734)
Finance cost	(2,256)	(3,106)
Income from Islamic Banking Window operations reported in the statements of profit or loss of the Group and the Bank	17,982	15,760

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(c) Statements of cash flows

For the financial year ended 31 December 2019

	Group and Bank	
	2019 RM'000	2018 RM'000
Cash flows from operating activities		
Profit before taxation and zakat	13,836	13,190
Adjustments for:		
Depreciation of plant and equipment (Note 52(o)(ii))	6	45
Amortisation of intangible assets (Note 52(o)(ii))	43	-
Credit loss expense/(reversal)	680	(386)
Realised (gain)/loss from sale of financial assets at FVTPL	(1,288)	297
Realised gain from sale of financial investments at FVOCI (Note 52(l))	(1,245)	(1,088)
Unrealised loss/(gain) on revaluation of financial assets at fair value through profit or loss	62	(246)
Operating profit before working capital changes	12,094	11,812
Changes in operating assets:		
Financing and advances	4,111	(1,728)
Balances due from clients and brokers	519	6,568
Other assets	21,745	(3,664)
Changes in operating liabilities:		
Deposits from customers	(100,495)	455,462
Balances due to clients and brokers	958	334
Other liabilities	(19,720)	17,152
Cash (used in)/generated from operating activities	(80,788)	485,936
Taxation and zakat paid	(340)	(2,177)
Net cash (used in)/generated from operating activities	(81,128)	483,759
Cash flows from investing activity		
Purchase of plant and equipment	-	(30)
Net purchase of securities	643,917	(596,248)
Net cash flows generated from/(used in) investing activities	643,917	(596,278)
Net change in cash and cash equivalents	562,789	(112,519)
Cash and cash equivalents at beginning of the financial year	420,144	532,663
Cash and cash equivalents at end of the financial year	982,933	420,144

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(d) Statements of changes in Islamic banking funds For the financial year ended 31 December 2019

Group and Bank	Non-distributable				Distributable		Total RM'000
	Islamic banking fund RM'000	Fair value reserve RM'000	Regulatory reserve RM'000	ESS reserve RM'000	Capital reserve* RM'000	Retained profits RM'000	
At 1 January 2019	120,000	85	3,335	9	5,248	22,375	151,052
Profit for the financial year	-	-	-	-	-	10,014	10,014
Other comprehensive income for the financial year	-	3,432	-	-	-	-	3,432
Issuance of shares pursuant to ESOS	-	-	-	6	-	-	6
Transfer to regulatory reserve	-	-	(832)	-	-	832	-
At 31 December 2019	120,000	3,517	2,503	15	5,248	33,221	164,504
At 1 January 2018	120,000	48	1,928	-	5,248	14,024	141,248
Profit for the financial year	-	-	-	-	-	9,758	9,758
Other comprehensive income for the financial year	-	37	-	-	-	-	37
Issuance of shares pursuant to ESOS	-	-	-	9	-	-	9
Transfer to regulatory reserve	-	-	1,407	-	-	(1,407)	-
At 31 December 2018	120,000	85	3,335	9	5,248	22,375	151,052

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(e) Cash and bank balances

	Group and Bank	
	2019 RM'000	2018 RM'000
Current account with BNM and banks	22,933	1,644
Money at call and deposit placements with:		
Licensed banks	140,000	368,500
Domestic non-bank financial institutions	470,000	50,000
Bank Negara Malaysia	350,000	-
	982,933	420,144

(f) Financial assets at FVTPL

	Group and Bank	
	2019 RM'000	2018 RM'000
At fair value		
Unquoted securities in Malaysia:		
Funds	100,000	100,000
Corporate Bills	-	19,861
	100,000	119,861

(g) Financial investments other than those measured at FVTPL

(i) Financial investments at Fair Value Through Other Comprehensive Income ("FVOCI"):

	Group and Bank	
	2019 RM'000	2018 RM'000
Debt instruments:		
Malaysian Government Investment Certificates	41,373	81,766
Negotiable Instruments of Deposits	-	549,173
Corporate Sukuk	116,001	143,527
Total financial investments at FVOCI	157,374	774,466

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

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

(ii) Financial investments at amortised cost:

	Group and Bank	
	2019 RM'000	2018 RM'000
Debt instruments:		
Corporate Sukuk	30,087	30,102
Total financial investments at amortised cost	30,087	30,102
Total financial investments other than those measured at FVTPL	187,461	804,568

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

Debt instrument at amortised cost ("AC"):

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

	Group and Bank	
	2019 RM'000 Stage 1	RM'000 Total
<u>Movement in ECLs</u>		
As at 1 January and 31 December	-	-

	Group and Bank	
	2018 RM'000 Stage 1	RM'000 Total
<u>Movement in ECLs</u>		
As at 1 January	(32)	(32)
Impact of net re-measurement of ECL	32	32
As at 31 December	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(h) Financing and advances at AC

	Group and Bank	
	2019 RM'000	2018 RM'000
Commodity Murabahah revolving credit		
- Shariah contract - others	-	15,043
Commodity Murabahah term financing		
- Shariah contract - others	162,776	151,075
Commodity Murabahah share margin financing		
- Shariah contract - others	7,024	7,793
Gross financing and advances	169,800	173,911
Less: Allowance for ECL	(645)	-
Net financing and advances	169,155	173,911
(i) Gross financing and advances analysed by type of customer are as follows:		
Domestic business enterprises	142,719	141,039
Individuals	27,081	32,872
	169,800	173,911
(ii) Gross financing and advances analysed by geographical distribution are as follows:		
In Malaysia	169,800	173,911
(iii) Gross financing and advances analysed by profit rate sensitivity are as follows:		
Fixed rate	7,024	7,793
Variable rate - Cost plus	162,776	166,118
	169,800	173,911
(iv) Gross financing and advances analysed by economic purpose are as follows:		
Purchase of securities	40,829	107,969
Working capital	45,707	-
Others	83,264	65,942
	169,800	173,911
(v) Gross financing and advances analysed by residual contractual maturity are as follows:		
Within one year	73,343	32,864
More than one year	96,457	141,047
	169,800	173,911

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(h) Financing and advances at AC (cont'd.)

(vi) Impairment allowance for financing and advances are as follows:

	Group & Bank	
	2019	
	Stage 1	Total
ECL allowances	RM'000	RM'000
As at 1 January	-	-
New assets originated	728	728
Assets derecognised or repaid (excluding write-offs)	(83)	(83)
As at 31 December	645	645

(i) Other assets

	Group and Bank	
	2019	2018
	RM'000	RM'000
Income receivables	4,651	4,431
Prepayment	1	5
Other receivables	100	22,061
Less: Allowance for impairment	(60)	(8)
	4,692	26,489

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(j) Deposits from customers

	Group and Bank	
	2019 RM'000	2018 RM'000
(i) By type of deposit:		
Tawarruq (Commodity Murabahah deposits)	1,174,263	1,274,758
(ii) By type of customers:		
Government and statutory bodies	200,000	200,000
Domestic non-bank institutions	875,842	755,520
Business enterprises	96,923	318,249
Individuals	1,498	989
	1,174,263	1,274,758
(iii) By maturity:		
Due within six months	915,150	1,005,258
Due more than six months	259,113	269,500
	1,174,263	1,274,758

(k) Other liabilities

	Group and Bank	
	2019 RM'000	2018 RM'000
Mudarabah Specific Investment Account	54,200	54,000
Profit payables	4,133	4,423
Other payables	39,978	56,522
	98,311	114,945

Included in other payables is funds pending distribution to charitable organisations:

	Group and Bank	
	2019 RM'000	2018 RM'000
Balance as at 1 January	-	-
Gharamah charges	7	-
Distribution during the year	-	-
Balance as at 31 December	7	-

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(l) Income derived from investment of depositors' funds

	Group and Bank	
	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advances	4,432	4,312
Deposits and placements with financial institutions	21,387	10,085
Financial investments other than those measured at FVTPL	20,600	28,291
Accretion of discount	(710)	(716)
	45,709	41,972
Other operating income		
Net gain/(loss) on sale of financial assets at FVTPL	1,226	(51)
Net gain on sale of financial investments other than those measured at FVTPL	1,245	1,088
Fees on financing and advances	1,788	1,922
Brokerage fee	2,517	1,376
Profit income	8,287	7,051
Advisory fee	217	313
Placement fee	90	27
Direct trading fees	(313)	(302)
Other non-operating income	44	5
	15,101	11,429
	60,810	53,401

(m) Income derived from investment of shareholders' funds

	Group and Bank	
	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advances	7,476	8,835
Financial investments other than those measured at FVTPL	687	334
Accretion of (premium)/discount	(67)	30
	8,096	9,199

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(n) Profit distributed to depositors

	Group and Bank	
	2019 RM'000	2018 RM'000
Deposits from customers and financial institutions		
- Murabahah Fund	44,567	43,627
Others	4,101	107
	48,668	43,734

(o) Other operating expenses

	Group and Bank	
	2019 RM'000	2018 RM'000
(i) Personnel costs		
- salaries, wages, allowances and bonus	563	518
- EPF	86	79
- other staff related expense	98	79
	747	676
(ii) Other overhead expenses		
Establishment costs		
- depreciation	6	3
- amortisation	43	42
- office rental	57	57
- repair and maintenance	3	2
- others	5	5
	114	109
Marketing and trading expenses		
- advertisement and promotions	4	22
- travelling and entertainment expenses	5	3
	9	25
Administration and general expenses		
- Fees and brokerage	307	145
- Support service charges	1,794	1,534
- Shariah committee expenses	222	200
- Others	273	267
	2,596	2,146
Total other overhead expenses	2,719	2,280

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(p) Shariah Committees' remuneration

Remuneration in aggregate for Shariah Committees for the financial year is as follows:

Group and Bank	Remuneration received		
	Fees RM'000	Other emolument RM'000	Total RM'000
Committees members:			
31 December 2019			
Dr. Kamaruzaman Noordin	54,000	6,000	60,000
Dr. Muhammad Arzim Naim	49,000	6,000	55,000
Dr. Mohd Fuad Md Sawari	43,000	6,000	49,000
Dr. Mohammad Firdaus Mohammad Hatta	6,000	1,000	7,000
Dr. Ahmad Sufian Che Abdullah	45,000	5,000	50,000
	197,000	24,000	221,000
31 December 2018			
Dr. Kamaruzaman Noordin	54,000	3,000	57,000
Dr. Muhammad Arzim Naim	48,000	3,000	51,000
Dr. Mohd Fuad Md Sawari	42,000	2,500	44,500
Dr. Ahmad Sufian Che Abdullah	44,000	3,000	47,000
	188,000	11,500	199,500

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(q) Capital adequacy

	Group and Bank	
	2019 RM'000	2018 RM'000
CET 1/Tier 1 capital		
Islamic banking funds	120,000	120,000
Retained profits	33,221	22,375
Reserves	11,283	8,677
Less:		
Intangible assets	(12)	-
55% of cumulative gains on financial investments at FVOCI	(1,935)	-
Regulatory reserve	(2,503)	(3,335)
Total CET 1/Tier 1 capital	160,054	147,717
Tier 2 capital		
Impairment provision	3,151	3,335
Total Tier 2 capital	3,151	3,335
Total capital	163,205	151,052
CET 1 capital ratio	45.304%	40.155%
Tier 1 capital ratio	45.304%	40.155%
Total capital ratio	46.196%	41.061%

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

Group and Bank	2019		2018	
	Principal RM'000	Risk- weighted RM'000	Principal RM'000	Risk- weighted RM'000
Credit risk	1,359,665	327,481	1,451,588	344,078
Market risk	-	-	-	1,119
Operational risk	-	25,804	-	22,673
Total risk weighted assets	1,359,665	353,285	1,451,588	367,870

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(r) Commitments and contingencies

In the normal course of business, the Group and the Bank enter into various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

As at reporting date, the commitment and contingencies are as follows:

	Group and Bank	
	2019 Principal amount RM'000	2018 Principal amount RM'000
Commitments to extend credit with maturity of less than 1 year:		
- share margin financing	8,676	7,507
- corporate financing	5,000	-
Commitments to extend credit with maturity of more than 1 year:		
- corporate financing	-	5,250
	13,676	12,757

(s) Recognition and measurement by main class of Shariah contracts

The recognition and measurement of each main class of Shariah contracts is dependent on the nature of the products, either financing or deposit product.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(t) Liquidity risk

Analysis of assets and liabilities by remaining contractual maturities

The table below summarises the contractual maturity profile of the Islamic banking operation's assets and liabilities as at 31 December 2019. The contractual maturity profile often may not reflect the actual behavioural patterns.

Group and Bank 2019	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Assets								
Cash and bank balances	22,933	860,000	100,000	-	-	-	-	982,933
Financial assets at FVTPL	-	-	-	-	-	-	100,000	100,000
Financial instruments at FVOCI	-	-	-	-	25,228	132,146	-	157,374
Financial instruments at AC	-	-	-	-	-	30,087	-	30,087
Financing and advances	65,892	7,023	-	-	-	96,240	-	169,155
Balances due from clients and brokers	-	410	-	-	-	-	-	410
Other assets	-	3,491	437	763	-	-	1	4,692
Others	-	-	-	-	-	-	40	40
Total assets	88,825	870,924	100,437	763	25,228	258,473	100,041	1,444,691
Liabilities								
Deposits from customers	-	910,248	9,902	1,000	53,113	200,000	-	1,174,263
Balances due to clients and brokers	-	2,670	-	-	-	-	-	2,670
Other liabilities balances	-	847	78	28	721	2,458	99,122	103,254
Total liabilities	-	913,765	9,980	1,028	53,834	202,458	99,122	1,280,187
Net maturity mismatch	88,825	(42,841)	90,457	(265)	(28,606)	56,015	919	164,504

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

52. OPERATIONS OF ISLAMIC BANKING (CONT'D.)

(t) Liquidity risk (cont'd.)

Analysis of assets and liabilities by remaining contractual maturities (cont'd.)

Group and Bank 2018	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 year RM'000	Non specific maturity RM'000	Total RM'000
Assets								
Cash and bank balances	1,644	418,500	-	-	-	-	-	420,144
Financial assets at FVTPL	-	-	19,861	-	-	-	100,000	119,861
Financial instruments at FVOCI	-	549,174	-	15,013	20,191	190,088	-	774,466
Financial instruments at AC	-	-	-	-	-	30,102	-	30,102
Financing and advances	15,035	7,793	-	-	25,079	126,004	-	173,911
Balances due from clients and brokers	-	929	-	-	-	-	-	929
Other assets	72	2,638	-	10	205	21,648	1,916	26,489
Others	-	-	-	-	-	-	89	89
Total assets	16,751	979,034	19,861	15,023	45,475	367,842	102,005	1,545,991
Liabilities								
Deposits from customers	-	1,001,106	4,152	-	69,500	200,000	-	1,274,758
Balances due to clients and brokers	-	1,712	-	-	-	-	-	1,712
Other liabilities balances	-	1,067	32	-	868	5,878	110,624	118,469
Total liabilities	-	1,003,885	4,184	-	70,368	205,878	110,624	1,394,939
Net maturity mismatch	16,751	(24,851)	15,677	15,023	(24,893)	161,964	(8,619)	151,052

53. PRIOR YEAR RECLASSIFICATION

In previous years, the interest and profit income earned from the financial assets measured at FVTPL have been recorded as interest and profit income instead of under a separate line item as other operating income on the statements of profit or loss and other comprehensive income.

Interest and profit income earned from financial assets measured at FVTPL in the financial year ended 31 December 2018 has been restated to be consistent with presentation in financial year ended 31 December 2019 and these resulted in reduction of interest and profit income and increase of other operating income by RM12.4 million respectively. The reclassification was the effect of the consequential amendment that MFRS 9 made to paragraph 82(a) of MASB 101. The MASB 101 requires separate presentation, interest or profit income calculated using the effective interest method, on the face of profit and loss statement. This implies that interest or profit income on those financial assets that are not measured at amortised cost or fair value through other comprehensive income (subject to the effect of applying hedge accounting to derivatives in designated hedge relationship) will no longer be included in interest.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

54. DIRECTORS OF SUBSIDIARIES OF THE GROUP

The following is the list of Directors who served on the Boards of the subsidiaries of the Group since the beginning of the financial year to the date of the Directors' report:

No	Name of subsidiaries	Name of Directors
1	Kenanga Futures Sdn Bhd	Luigi Fortunato Ghirardello Izlan Bin Izhab Emmanuel, Dominique, Martial, Georges, Faure Sree Kumar A/L C K Nayar Lum Chee Wah Azila Binti Abdul Aziz
2	Kenanga Nominees (Asing) Sdn Bhd	Lee Kok Khoo Lum Chee Wah Ng Yoke Mun Nuryasmin Lee Binti Abdullah Cheong Boon Kak Wong Mee Hong Ruslan Bin Md Nor
3	Kenanga Nominees (Tempatan) Sdn Bhd	Lee Kok Khoo Lum Chee Wah Ng Yoke Mun Nuryasmin Lee Binti Abdullah Cheong Boon Kak Wong Mee Hong Ruslan Bin Md Nor
4	Kenanga Private Equity Sdn Bhd	Datuk Chay Wai Leong Megat Mizan Nicholas Denney Cheong Boon Kak Lum Chee Wah
5	ECML Berhad	Lee Kok Khoo Lum Chee Wah
6	ECML Nominees (Tempatan) Sdn Bhd	Lee Kok Khoo Lum Chee Wah Ng Yoke Mun Tan Tong Nam Chan Tuck Kiong Nuryasmin Lee Binti Abdullah
7	Avenue Kestrel Sdn Bhd	Lee Kok Khoo Lum Chee Wah

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

54. DIRECTORS OF SUBSIDIARIES OF THE GROUP (CONT'D.)

No	Name of subsidiaries	Name of Directors
8	K & N Kenanga Holdings Berhad	Datuk Chay Wai Leong Datuk Roslan Bin Hj Tik Cheong Boon Kak
9	SSSB Management Services Sdn Bhd	Megat Mizan Nicholas Denney Lem Siow Hui
10	Kenanga Management & Services Sdn Bhd	Megat Mizan Nicholas Denney Lum Chee Wah
11	Kenanga Investors Berhad	Datuk Syed Ahmad Alwee Alsree Syed Zafilen Bin Syed Alwee Peter John Rayner Imran Devindran Bin Abdullah Ismitz Matthew De Alwis Norazian Binti Ahmad Tajuddin (appointed on 1 March 2019)
12	Kenanga Islamic Investors Berhad	YM Tan Sri Dato' Paduka Tengku Noor Zakiah Binti Tengku Ismail Datuk Syed Ahmad Alwee Alsree Dato' Zuraidah Binti Atan Ismitz Matthew De Alwis Megat Mizan Nicholas Denney (Alternate to YM Tan Sri Dato' Paduka Tengku Noor Zakiah Binti Tengku Ismail) Zulkifli Bin Ishak (appointed on 1 March 2019)
13	KUT Nominees (Tempatan) Sdn Bhd	Lee Kok Khee Ismitz Matthew De Alwis
14	KUT Nominees (Asing) Sdn Bhd	Lee Kok Khee Ismitz Matthew De Alwis
15	Kenanga Funds Berhad	Cheong Boon Kak Ismitz Matthew De Alwis
16	Kenanga Capital Sdn Bhd	Datuk Roslan Bin Hj Tik Megat Mizan Nicholas Denney Lee Kok Khee Dato' Azlan Bin Abu Rais @ A Rais Al Noah
17	Kenanga Capital Islamic Sdn Bhd	Datuk Roslan Bin Hj Tik Megat Mizan Nicholas Denney Dato' Azlan Bin Abu Rais @ A Rais Al Noah

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

54. DIRECTORS OF SUBSIDIARIES OF THE GROUP (CONT'D.)

No	Name of subsidiaries	Name of Directors
18	Kenanga Singapore Pte. Ltd.	Luk Wai Hong, William Lee Kok Khee
19	Libra Invest Berhad	Syed Zafilen Bin Syed Alwee (appointed on 8 July 2019) Imran Devindran Bin Abdullah (appointed on 1 August 2019) Ismitz Matthew De Alwis (appointed on 8 July 2019) Muhammad Helmi Bin Hamzah (appointed on 8 July 2019 and resigned on 12 February 2020) Datuk Kamarudin bin Md Ali (resigned on 8 July 2019) Mahadzir bin Azizan (resigned on 8 July 2019) Khairudin bin Ibrahim (resigned on 8 July 2019) Ong Lei Hua (resigned on 8 July 2019) Lee Wei Chung (resigned on 8 July 2019)

55. EQUITY COMPENSATION BENEFITS

Kenanga's Group Employees' Share Scheme ("ESS")

The Bank has established and implemented an ESS for the employees of the Bank and its non-dormant subsidiary companies. The ESS consists of two types of awards in the form of ESOS and ESGP.

(1) ESOS

Under the ESOS award, the ESS Committee may, within the period of the Scheme and at its discretion, offer to the eligible employees a certain number of ESOS options to subscribe for the Bank's shares at the exercise prices subject to the applicable terms and conditions of the by-laws.

Subject to acceptance, the participants will be vested the options which can then be exercised within a period of three years, provided that all the vesting conditions are fulfilled.

Key features of the ESOS awards granted during the financial year are as follow:

On 2 January 2018, the Bank has offered 49,579,000 of options under ESOS to the eligible employees of the Group ("ESOS First Offer"). The exercise price of the ESOS First Offer is RM0.575. Out of the 49,579,000 options offered, 2,218,000 and 13,320,000 options have been vested on 1 March 2018 and 2 May 2019 respectively. These options are exercisable within three (3) years from date of vesting.

On 31 May 2018, the Bank has offered 10,000,000 of options under ESOS ("ESOS Second Offer"). The exercise price of the ESOS Second Offer is RM0.630. Out of the 10,000,000 options offered, 3,000,000 options have been vested on 2 May 2019.

On 2 May 2019, the Bank has offered 5,791,000 of options under ESOS ("ESOS Third Offer"). The exercise price of the ESOS Third Offer is RM0.605. Out of the 5,791,000 options offered, 386,000 options have been vested on 1 June 2019 and are exercisable within three (3) years from date of vesting.

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31 DECEMBER 2019

55. EQUITY COMPENSATION BENEFITS (CONT'D.)

Kenanga's Group Employees' Share Scheme ("ESS") (cont'd.)

(1) ESOS (cont'd.)

On 17 June 2019, the Bank has offered 750,000 of options under ESOS ("ESOS Fourth Offer"). The exercise price of the ESOS Fourth Offer is RM0.595. None of these options have been vested as at the reporting date.

Details of share options granted under ESOS:

Offer date	Vesting date	Number of options ('000)	Exercise price	Number of exercisable options ('000)	Exercise period
02.1.2018	01.03.2018	2,218,000	0.575	1,865,600	01.03.2018 - 28.02.2021
02.1.2018	02.05.2019	14,161,500	0.575	13,132,500	02.05.2019 - 01.05.2022
02.1.2018	N/A*	33,043,500	0.575	N/A	N/A
31.5.2018	02.05.2019	3,000,000	0.630	3,000,000	02.05.2019 - 01.05.2022
31.5.2018	N/A*	7,000,000	0.630	N/A	N/A
02.05.2019	01.06.2019	386,000	0.605	362,000	01.06.2019 - 31.05.2022
02.05.2019	N/A*	5,295,000	0.605	N/A	N/A
17.06.2019	N/A*	750,000	0.595	N/A	N/A

* Based on 3-year cliff vesting from the offer date and performance metrics.

The following table illustrates the number and weighted average exercise price ("WAEP") of, and movement in, share options during the financial year:

ESOS First Offer

2019

Offer date	Opening	Movement during the financial year			Outstanding
	As at 1.1.2019	Granted	Exercised	Forfeited/ Cancelled/ Lapsed	As at 31.12.2019
02.1.2018	1,989,600	-	-	124,000	1,865,600
02.1.2018	45,760,000	-	-	1,365,500	44,394,500
WAEP (RM)	0.575	-	-	-	0.575

2018

Offer date	Opening	Movement during the financial year			Outstanding
	As at 1.1.2018	Granted	Exercised	Forfeited/ Cancelled/ Lapsed	As at 31.12.2018
02.1.2018	-	2,218,000	194,400	34,000	1,989,600
02.1.2018	-	47,205,000	-	1,445,000	45,760,000
WAEP (RM)	N/A	0.575	0.575	-	0.575

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

55. EQUITY COMPENSATION BENEFITS (CONT'D.)

Kenanga's Group Employees' Share Scheme ("ESS") (cont'd.)

(1) ESOS (cont'd.)

ESOS Second Offer

2019

Offer date	Opening	Movement during the financial year			Outstanding
	As at 1.1.2019	Granted	Exercised	Forfeited/ Cancelled/ Lapsed	As at 31.12.2019
31.5.2018	10,000,000				10,000,000
WAEP (RM)	0.630	-	-	-	0.630

2018

Offer date	Opening	Movement during the financial year			Outstanding
	As at 1.1.2018	Granted	Exercised	Forfeited/ Cancelled/ Lapsed	As at 31.12.2018
31.5.2018	-	10,000,000	-	-	10,000,000
WAEP (RM)	N/A	0.630	-	-	0.630

ESOS Third Offer

2019

Offer date	Opening	Movement during the financial year			Outstanding
	As at 1.1.2019	Granted	Exercised	Forfeited/ Cancelled/ Lapsed	As at 31.12.2019
02.5.2019	-	5,681,000	-	304,000	5,377,000
WAEP (RM)	N/A	0.605	-	-	0.605

ESOS Fourth Offer

2019

Offer date	Opening	Movement during the financial year			Outstanding
	As at 1.1.2019	Granted	Exercised	Forfeited/ Cancelled/ Lapsed	As at 31.12.2019
17.06.2019	-	750,000	-	-	750,000
WAEP (RM)	N/A	0.595	-	-	0.595

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

55. EQUITY COMPENSATION BENEFITS (CONT'D.)

Kenanga's Group Employees' Share Scheme ("ESS") (cont'd.)

(1) ESOS (cont'd.)

The fair values of share options granted were estimated using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options are granted. The fair values of share options and the key inputs for share options valuation are as follows:

ESOS First Offer

	Tranches of vesting:			
	First tranche	Second tranche	Third tranche	Fourth tranche
Fair value of share options (RM)	0.0856	0.0963	0.1012	0.0991
Share price at offer date (RM)	0.550	0.550	0.550	0.550
Exercise price (RM)	0.575	0.575	0.575	0.575
Expected volatility (%)	26.92%	26.92%	27.16%	26.96%
Risk free rate (%)	3.688%	3.688%	3.688%	3.688%
Expected dividend yield (%)	4.00%	4.00%	4.00%	4.00%

The exercise period is 3 years from vesting date or 20 September 2022, whichever is earlier.

ESOS Second Offer

	Tranches of vesting:		
	First tranche	Second tranche	Third tranche
Fair value of share options (RM)	0.1031	0.1087	0.1159
Share price at offer date (RM)	0.595	0.595	0.595
Exercise price (RM)	0.630	0.630	0.630
Expected volatility (%)	28.07%	28.13%	30.09%
Risk free rate (%)	3.883%	3.883%	3.883%
Expected dividend yield (%)	4.00%	4.00%	4.00%

The exercise period is 3 years from vesting date or 20 September 2022, whichever is earlier.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

55. EQUITY COMPENSATION BENEFITS (CONT'D.)

Kenanga's Group Employees' Share Scheme ("ESS") (cont'd.)

(1) ESOS (cont'd.)

ESOS Third Offer

	Tranches of vesting:			
	First tranche	Second tranche	Third tranche	Fourth tranche
Fair value of share options (RM)	0.1103	0.1156	0.1217	0.1183
Share price at offer date (RM)	0.580	0.580	0.580	0.580
Exercise price (RM)	0.605	0.605	0.605	0.605
Expected volatility (%)	28.10%	27.98%	29.57%	28.72%
Risk free rate (%)	3.610%	3.610%	3.610%	3.610%
Expected dividend yield (%)	1.80%	1.80%	1.80%	1.80%

The exercise period is 3 years from vesting date or 20 September 2022, whichever is earlier.

ESOS Fourth Offer

	Tranches of vesting:		
	First tranche	Second tranche	Third tranche
Fair value of share options (RM)	0.1090	0.1110	0.1141
Share price at offer date (RM)	0.570	0.570	0.570
Exercise price (RM)	0.595	0.595	0.595
Expected volatility (%)	27.67%	28.21%	29.08%
Risk free rate (%)	3.460%	3.460%	3.460%
Expected dividend yield (%)	1.80%	1.80%	1.80%

The exercise period is 3 years from vesting date or 20 September 2022, whichever is earlier.

(2) ESGP

Under the ESGP award, the ESS Committee may, within the period of the Scheme and at its discretion, grant to the eligible employees an ESGP awards, in the form of Restricted Share Plan ("RSP") and/or Performance Share Plan ("PSP").

Subject to acceptance, the awards will be vested to the grantees at no consideration, provided all the vesting conditions as determined by the ESS Committee are fulfilled, in accordance with the terms of the by-laws and taking into account the objectives of the RSP and the PSP as stipulated.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

55. EQUITY COMPENSATION BENEFITS (CONT'D.)

Kenanga's Group Employees' Share Scheme ("ESS") (cont'd.)

(2) ESGP (cont'd.)

Key features of the RSP and PSP awards are as follow:

(a) RSP

The RSP is a restricted share incentive plan, in recognition of the loyalty and individual contributions of the eligible employees towards the development, growth and success of the Group.

The vesting conditions are stipulated and determined by the ESS Committee, which may include, amongst others, the achievement of individual performance as measured by both qualitative and quantitative key performance indicators ("KPIs"), during such period as stipulated in the ESGP award.

(b) PSP

The PSP is a performance share plan in recognition of the contribution of the eligible employees as drivers of the growth and performance of the Group.

The PSP is intended to promote the alignment in the strategic achievements of the Group with that of the eligible employees to drive the creation of shareholders' value and the growth of long term financial performance of the Group.

The vesting conditions are stipulated and determined by the ESS Committee, which may include, amongst others, the achievement of relevant service objectives and specific performance targets as measured by both qualitative and quantitative KPIs, during such period as stipulated in the ESGP award.

On 2 January 2018, 3,612,735 units of share grant were allocated under PSP but there has been no grant vested as at 31 December 2019.

The fair value of share grant allocated on 2 January 2018 would be the market value of the shares of the entity, adjusted to take into account vesting conditions.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

56. SIGNIFICANT AND SUBSEQUENT EVENTS

- (a) There was no significant event during the financial year ended 31 December 2019 other than the following:

Acquisition of Libra Invest Berhad

Kenanga Investors Berhad (“KIB”), a wholly-owned subsidiary of the Bank, had on 28 March 2019 entered into a conditional SPA with ECM Libra Financial Group Berhad (“Vendor”) to acquire the entire issued share capital of LIB comprising 6,500,000 ordinary shares in LIB held by the Vendor, subject to the terms and conditions as stipulated in the SPA (“Proposed Acquisition”).

BNM had approved the Bank’s and KIB’s application for the proposed acquisition on 24 May 2019 and 29 May 2019 respectively subject to KIB obtaining the necessary approval from the Securities Commission Malaysia.

Securities Commission Malaysia had on 31 May 2019 approved KIB’s application for the Proposed Acquisition subject to the following conditions:

- (1) KIB is to fulfil the representations made and ensure that the acquisition is managed effectively and does not adversely affect the clients of the licensed entities;
- (2) KIB is to ensure that:
 - (i) the merger and integration of the operations are managed effectively with no disruption to the functioning of the licensed entities;
 - (ii) the soundness of the licensed entities is not adversely affected; and
 - (iii) any potential risks are addressed and managed on an on-going basis.

Following the approval from the shareholders of the Vendor on 27 June 2019 for the disposal of the entire issued share capital of LIB held by the Vendor to KIB, all conditions precedent pursuant to the conditional SPA dated 28 March 2019 have been fulfilled and hence, the SPA has become unconditional.

On 8 July 2019, KIB had completed the Proposed Acquisition. The recognised amounts of identifiable assets and liabilities arising from the acquisition is disclosed in Note 13 (ii).

- (b) There was no significant event subsequent to the financial year ended 31 December 2019.

ANALYSIS OF SHAREHOLDINGS

As at 15 April 2020

SHARE CAPITAL

Total Number of Issued Shares : 722,741,399 ordinary shares (including treasury shares of 24,053,900)
Class of Shares : Ordinary Shares
Voting Rights : One (1) vote per Ordinary Share

DISTRIBUTION OF SHAREHOLDINGS

Size of Holdings	No. of Shareholders	% of Shareholders	No. of Ordinary Shares Held	% of Shareholdings
Less than 100	7,052	30.27	186,717	0.03
100 to 1,000	5,416	23.25	2,404,305	0.34
1,001 to 10,000	9,029	38.75	29,501,531	4.22
10,001 to 100,000	1,592	6.83	45,385,330	6.50
100,001 to less than 5% of Issued Shares	207	0.89	330,372,047	47.28
5% and above of Issued Shares	3	0.01	290,837,569	41.63
Total	23,299	100.00	698,687,499⁽¹⁾	100.00

Note:

⁽¹⁾ Excluding 24,053,900 treasury shares retained by the Company as at 15 April 2020.

ANALYSIS OF SHAREHOLDINGS

As at 15 April 2020

LIST OF THIRTY (30) LARGEST SHAREHOLDERS

No.	Name	Holdings	%
1	CMS Capital Sdn Bhd	153,353,000	21.95
2	Tan Sri Dato' Paduka Tengku Noor Zakiah Binti Tengku Ismail	100,969,770	14.45
3	HSBC Nominees (Asing) Sdn Bhd Exempt AN for Tokai Tokyo Securities Co., Ltd.	36,514,799	5.23
4	HSBC Nominees (Asing) Sdn Bhd Exempt AN for Bank Julius Baer & Co. Ltd. (Singapore Bch)	30,114,427	4.31
5	Cahaya Mata Sarawak Berhad	30,070,000	4.30
6	Infotech Mark Sdn Bhd	30,053,040	4.30
7	Abdul Aziz Bin Hashim	29,753,712	4.26
8	Aiza Binti Abdul Aziz	26,467,156	3.79
9	Kenanga Nominees (Tempatan) Sdn Bhd Koon Poh Keong	21,825,500	3.12
10	TMF Trustees Malaysia Berhad Channel Knowledge Sdn Bhd	21,404,301	3.06
11	TMF Trustees Malaysia Berhad Naungan Efektif Sdn Bhd	14,610,000	2.09
12	Inter-Pacific Equity Nominees (Tempatan) Sdn Bhd Inter-Pacific Capital Sdn Bhd	11,046,000	1.58
13	Lim Kuan Gin	10,138,815	1.45
14	HSBC Nominees (Asing) Sdn Bhd Exempt AN for Credit Suisse	10,044,752	1.44
15	CIMB Group Nominees (Asing) Sdn Bhd Exempt AN for DBS Bank Ltd	7,643,400	1.09
16	Kenanga Nominees (Tempatan) Sdn Bhd Kenanga Investors Berhad for ECM Libra Foundation	6,399,649	0.92
17	Rescom International Limited	4,320,000	0.62
18	Public Nominees (Asing) Sdn Bhd Pledged Securities Account for Syed Hizam Alsagoff	3,000,000	0.43
19	CGS-CIMB Nominees (Tempatan) Sdn Bhd Exempt AN for CGS-CIMB Securities (Singapore) Pte. Ltd. (Retail Clients)	2,920,416	0.42
20	Datuk Chay Wai Leong	2,500,000	0.36
21	Raja Karib Shah Bin Shahrudin	2,137,642	0.31
22	Khor Keng Saw @ Khaw Ah Soay	1,628,700	0.23
23	Lim Su Tong @ Lim Chee Tong	1,626,833	0.23
24	CGS-CIMB Nominees (Asing) Sdn Bhd Exempt AN for CGS-CIMB Securities (Singapore) Pte. Ltd. (Retail Clients)	1,620,209	0.23
25	CIMSEC Nominees (Asing) Sdn Bhd CIMB for Ng Koh Lip (PB)	1,619,999	0.23
26	Ong Geok Hwa	1,611,100	0.23
27	Kim Poh Holdings Sdn Bhd	1,503,000	0.22
28	Syed Budriz Putra Jamalullail	1,387,000	0.20
29	Yeoh Phek Leng	1,155,133	0.17
30	CIMSEC Nominees (Asing) Sdn Bhd CIMB for Dato' Richard Alexander John Curtis (PB)	1,100,000	0.16
Total		568,538,353	81.38

ANALYSIS OF SHAREHOLDINGS

As at 15 April 2020

SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND GROUP MANAGING DIRECTOR'S INTERESTS IN SECURITIES

Substantial Shareholders' Interests in Shares

Name of Substantial Shareholders	No. of Ordinary Shares Held			
	Direct Interest	Percentage (%)	Indirect Interest	Percentage (%)
CMS Capital Sdn Bhd	153,353,000	21.95	-	-
Cahaya Mata Sarawak Berhad	30,070,000	4.30	153,353,000 ⁽¹⁾	21.95
Tan Sri Dato' Paduka Tengku Noor Zakiah Binti Tengku Ismail	100,969,770	14.45	43,500 ⁽²⁾	0.01
Tokai Tokyo Financial Holdings, Inc.	36,514,799	5.23	-	-

Notes:

⁽¹⁾ Deemed interest pursuant to Section 8(4) of the Companies Act 2016 by virtue of shares held by CMS Capital Sdn Bhd.

⁽²⁾ Deemed interest by virtue of shares held by person connected.

Directors' Interests in Shares

Name of Directors	Direct Interest		Indirect Interest	
	No. of Shares	Percentage (%)	No. of Shares	Percentage (%)
Dato' Richard Alexander John Curtis	1,100,000	0.16	-	-
Luigi Fortunato Ghirardello	631,700	0.09	-	-
Norazian Ahmad Tajuddin	10,000	*	-	-
Kanagaraj Lorenz	42,000	0.01	-	-

Note:

* Negligible

Group Managing Director's Interests in Securities⁽¹⁾

Name of Group Managing Director	No. of Ordinary Shares Held				No. of Options Held under the Employees' Share Option Scheme
	Direct Interest	Percentage (%)	Indirect Interest	Percentage (%)	
Datuk Chay Wai Leong ⁽²⁾	2,500,000	0.36	-	-	10,000,000

Notes:

⁽¹⁾ Securities cover shares and options.

⁽²⁾ The Group Managing Director is not a Director of the Company.

Equity Broking Branches

KUALA LUMPUR

Kenanga Investment Bank Berhad ("KIBB") Kuala Lumpur

Level 15, Kenanga Tower,
237, Jalan Tun Razak,
50400 Kuala Lumpur, Malaysia

T : +603 2172 2949

F : +603 2172 2955

KIBB Damansara Heights

1st Floor, West Wing, Bangunan ECM Libra,
8, Jalan Damansara Endah,
Damansara Heights, 50490 Kuala Lumpur

T : +603 2089 2888

F : +603 2089 2801

KIBB Pandan Indah

M3-A-7 & M3-A-8,
Jalan Pandan Indah 4/3A,
Pandan Indah,
55100 Kuala Lumpur

T : +603 4297 8806

F : +603 4297 8809

SELANGOR

KIBB Bandar Baru Klang

35, Ground Floor & 1st Floor,
Jalan Tiara 3, Bandar Baru Klang,
41150 Klang, Selangor

T : +603 3348 8080

F : +603 3348 8880

KIBB The Curve

Lot 240, 2nd Floor,
No. 6, Jalan PJU 7/3,
The Curve, Mutiara Damansara,
47800 Petaling Jaya, Selangor

T : +603 7725 9095

F : +603 7725 9079

KIBB Subang Jaya

Level 1, East Wing, Wisma Consplant 2,
No. 7, Jalan SS16/1,
47500 Subang Jaya, Selangor

T : +603 5621 2118

F : +603 5621 1748

KIBB USJ

55C (2nd Floor), Jalan USJ 10/1F,
47610 UEP Subang Jaya,
Selangor

T : +603 8024 1773

F : +603 8024 1787

PENANG

KIBB Penang – Menara Boustead

7th, 8th & 16th Floor,
Menara Boustead Penang,
39, Jalan Sultan Ahmad Shah,
10050 Penang

T : +604 228 3355

F : +604 227 9634

PERAK

KIBB Ipoh

63, Persiaran Greenhill,
30450 Ipoh, Perak

T : +605 242 2828

F : +605 242 2323

KIBB Sitiawan

Ground Floor, 25 & 25A, Jalan Jaya 2,
Medan Jaya,
32000 Sitiawan, Perak

T : +605 693 9828

F : +605 693 9822

MELAKA

KIBB Bandar Melaka

71 (A & B) and 73 (A & B), Jalan Merdeka,
Taman Melaka Raya,
75000 Melaka

T : +606 288 1700

F : +606 288 1710

KIBB Batu Berendam

22A & 22A-1 and 26 & 26-1,
Jalan MP 10,
Taman Merdeka Permai, Batu Berendam,
75350 Melaka

T : +606 337 2550

F : +606 337 2770

CORPORATE DIRECTORY

Equity Broking Branches (Cont'd)

NEGERI SEMBILAN

KIBB Seremban

1C & 1D, Ground Floor & 1st Floor,
Jalan Tuanku Munawir,
70000 Seremban, Negeri Sembilan

T : +606 765 5998

F : +606 765 5739

JOHOR

KIBB Johor Bahru - Menara Pelangi

Level 2, Menara Pelangi,
Jalan Kuning, Taman Pelangi,
80400 Johor Bahru, Johor

T : +607 333 3600

F : +607 334 3770

KIBB Kluang - Jalan Syed Abdul Hamid Sagaff

33 & 35 A & B, Ground Floor,
Jalan Syed Abdul Hamid Sagaff,
86000 Kluang, Johor

T : +607 777 1161

F : +607 777 1162

KIBB Muar – Jalan Ali

57, 59 & 61,
Jalan Ali,
84000 Muar, Johor

T : +606 953 1222

F : +606 951 6660

KIBB Segamat

34, Jalan Genuang,
85000 Segamat, Johor

T : +607 933 3515

F : +607 933 3505

KIBB Tangkak

Ground Floor, No. 4,
Jalan Dataran 1,
Taman Bandar Tangkak,
84900 Tangkak, Johor

T : +606 978 2292

F : +606 978 2322

KIBB Batu Pahat

24, 24A & 24B, Jalan Penjaja 3,
Kim Park Centre,
83000 Batu Pahat, Johor

T : +607 432 8188

F : +607 432 3388

KIBB Yong Peng

234, Jalan Besar,
Taman Semberong Baru,
83700 Yong Peng, Johor

T : +607 467 8885

F : +607 467 8884

KIBB Pontian

916, Ground Floor,
Jalan Bakek,
82000 Pontian, Johor

T : +607 686 1121

F : +607 686 1151

KIBB Labis Electronic Access Facility

No 33, First Floor,
Jalan Hijau,
Taman Bandar Jaya,
85300 Labis, Johor

T : +607 925 2291

F : +607 925 2291

Equity Broking Branches (Cont'd)

PAHANG

KIBB Kuantan

A15, A17 & A19, Ground Floor,
Jalan Tun Ismail 2, Sri Dagangan 2,
25000 Kuantan, Pahang

T : +609 517 1698

F : +609 513 8996

KIBB Triang Electronic Access Facility

1, Ground Floor,
Jalan Dagangan 6,
Pusat Dagangan Triang,
28300 Triang, Pahang

T : +609 250 1282

F : +609 250 1086

SARAWAK

KIBB Kuching

Level 2-4, Wisma Mahmud,
Jalan Sungai Sarawak,
93100 Kuching, Sarawak

T : +6082 338 000

F : +6082 338 222

KIBB Miri

Lot 1866, Jalan MS 2/5,
Marina Square 2, Marina Parkcity
98000 Miri, Sarawak

T : +6085 435 577

F : +6085 435 511

KIBB Sibu

11-12, Ground Floor & First Floor,
Lorong Kampung Datu 3,
96000 Sibu, Sarawak

T : +6084 313 855

F : +6084 329 735

KIBB Bintulu

Ground Floor, Survey Lot No. 4203,
Parkcity Commerce Square, Phase 6,
Jalan Diwarta,
97000 Bintulu Town District, Sarawak

T : +6086 337 588

F : +6086 338 166

SABAH

KIBB Kota Kinabalu

Level 8, Wisma Great Eastern,
68 Jalan Gaya,
88000 Kota Kinabalu, Sabah

T : +6088 236 188

F : +6088 235 700

KIBB Sandakan

1st Floor, Lot 40 (Corner),
Taman Nasalim, Phase 7A, Batu 5,
Jalan Lintas Utara,
90000 Sandakan, Sabah

T : +6089 464 801

F : +6089 464 804

KIBB Tawau

Lot 66-0 [TB15611-0]
Ground Floor, Kubota Road
91000 Tawau, Sabah

T : +6089 704 892

F : +6089 704 893

CORPORATE DIRECTORY

Investment Management Branches

Kenanga Investors Berhad ("KIB") Kuala Lumpur

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50400 Kuala Lumpur
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T : +603 2172 3123
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KIB Penang

5.04, 5th Floor, Menara Boustead Penang,
39, Jalan Sultan Ahmad Shah,
10050 Penang
T : +604 210 6628
F : +604 210 6644

KIB Ipoh

Suite 1, 2nd Floor,
63 Persiaran Greenhill,
30450 Ipoh, Perak
T : +605 254 7573/7570
F : +605 254 7606

KIB Melaka

No. 25-1, Jalan Kota Laksamana 2/17,
Taman Kota Laksamana, Seksyen 2,
75200 Melaka
T : +606 281 8913/+606-282 0518
F : +606 281 4286

KIB Klang

No.12 Jalan Batai Laut 3,
Taman Intan,
41300, Klang, Selangor
T : +603 3341 8818 / +603 3348 7889
F : +603 3341 8816

KIB Johor Bahru

No. 63, Jalan Molek 3/1,
Taman Molek,
81100 Johor Bahru, Johor
T : +607 288 1683
F : +607 288 1693

KIB Kuching

1st Floor, No. 71,
Lot 10900, Jalan Tun Jugah,
93350 Kuching, Sarawak
T : +6082 572 228
F : +6082 572 229

KIB Kota Kinabalu

Level 8, Wisma Great Eastern,
No.68, Jalan Gaya,
88000 Kota Kinabalu, Sabah
T : +088 203 063
F : +088 203 062

KIB Seremban

2nd Floor, No. 1D-2, Jalan Tuanku Munawir,
70000 Seremban, Negeri Sembilan
T : +606 761 5678
F : +606 761 2242

KIB Miri

2nd Floor, Lot 1264,
Centre Point Commercial Centre,
Jalan Melayu, 98000 Miri, Sarawak
T : +6085 416 866
F : +6085 322 340

KIB Kuantan

Ground Floor Shop,
No. B8, Jalan Tun Ismail 1,
25000 Kuantan, Pahang
T : +609 514 3688
F : +609 514 3838

KIB Petaling Jaya

44B, Jalan SS21/35,
Damansara Utama,
47400 Petaling Jaya,
Selangor
T : +603 7710 8828
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