



## MARC RATINGS BERHAD

# P R E S S   A N N O U N C E M E N T

FOR IMMEDIATE RELEASE

### MARC RATINGS AFFIRMS KAF INVESTMENT BANK'S FINANCIAL INSTITUTION RATINGS WITH STABLE OUTLOOK

MARC Ratings has affirmed its financial institution (FI) ratings of **AA-/MARC-1** on KAF Investment Bank Berhad (KAF IB) with a **stable** outlook.

KAF IB's longstanding track record of sound performance, strong capitalisation and liquidity levels, underpinned by a conservative investment strategy, remain key rating drivers. The susceptibility of KAF IB's performance to sudden changes in interest rates is a key moderating factor.

KAF IB has a low-risk business model, focusing on short-term high-quality debt securities and money market instruments. Revenue from money market activities, comprising gains from the trading of and interest income from investments in fixed-income securities, contributes about 64% on average (2019-2023) to top line yearly. In terms of assets, as of end-March 2024, the investment portfolio accounted for close to 60%, while cash constituted around 34%.

MARC Ratings continues to note that the investment guidelines for KAF IB's investment portfolio remain conservative, characterised by highly liquid securities with high ratings. This is reflected by the fact that government issuances constituted around 78% of its investment portfolio as at end-March 2024.

For the nine months ended March 31, 2024 (9MFY2024), revenue increased by 3.9% y-o-y to RM215.8 million, supported by higher fee income from fund management activities and a one-off gain from the sale of KAF Equities Sdn Bhd to CIMB Investment Bank Berhad in February 2024. The disposal of the stockbroking entity is not expected to have a material impact on KAF IB's financials, as it contributed to a modest 10% to revenue on average over the past five years (2019-2023). Pre-tax profit, however, declined by 19% y-o-y to RM121.9 million due to costs associated with the development of KAF IB's digital banking arm, which is expected to commence business in 1Q2025, pending Bank Negara Malaysia's review and approval. Contribution from digital banking, however, is not expected to be significant in the near term.

Common Equity Tier 1, Tier 1 capital and total capital ratios stood at 73.3%, 73.3% and 74.1% as at 9MFY2024. KAF IB's high capitalisation level is reflective of its low-risk business model. KAF IB is reliant on short-term wholesale funding. MARC Ratings views this risk to be mitigated by KAF IB's strong liquidity coverage ratio of 130.9% and comfortable net stable funding ratio of 254.3%.

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