GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

DEAR SHAREHOLDERS,

The COVID-19 pandemic triggered serious challenges to the health of the global economy throughout 2020. Global economic activities were muted, with subsequent waves of the pandemic contributing to uncertainties that are expected to carry-over well into 2021.

DATUK CHAY WAI LEONG
Group Managing Director

SEGMENTAL REVIEW

The situation in Malaysia was no exception: full year Gross Domestic Product (**"GDP"**) contracted by 5.6% - the greatest extent since the Asian Financial Crisis in 1998. In an effort to stimulate the Malaysian economy, Bank Negara Malaysia had lowered the Statutory Reserve Ratio from 3.00% to 2.00% in March, while the Overnight Policy Rate was lowered to 1.75% in July which was then maintained into 2021.

In contrast to the negative impact of the pandemic on global economies, most stock markets around the world experienced a remarkable and protracted surge in trading volumes, primarily in the technology, healthcare and pharmaceutical sectors. Trading volumes in Malaysia was also concentrated in healthcare and technology sectors with record volume in gloves stocks as global demand for healthcare gloves rose significantly due to the pandemic.

Local retail and institutional investors drove trading volumes to record highs during the year, peaking at 27.8 billion shares traded on 11 August. Retail investors dominated the trading ground, with many first-time millennial traders making an entrance to the local bourse, enabled by the ease of online trading platforms such as Rakuten Trade. Average Daily Trading Value (**"ADV"**) of securities on Bursa Malaysia Securities Berhad (**"Bursa Securities"**) for the year doubled to RM4.2 billion.

Kenanga Investment Bank Berhad was buoyed by this intense surge of interest in the stock market. Profit Before Tax (**"PBT"**) rose to a high of RM134.7 million in 2020, vis-à-vis RM43.0 million in 2019. Net profit stood at RM102.3 million, almost five-fold over the previous year.

As Chairman YAM Tan Sri Dato' Seri Syed Anwar Jamalullail mentioned in his statement, this performance is unprecedented in Kenanga Group's history as an investment bank. This was driven by positive results from all our core businesses, particularly the outstanding contribution from our stockbroking and investment banking divisions, as well as, a share of profits from our joint venture, Rakuten Trade, which turned black during the year, ahead of its third anniversary.

NAVIGATING THROUGH CRISIS

Amidst the turmoil brought about by the pandemic, our operational goals during the year, centred on managing the surge in trading volumes coupled with the increase in account related services, while simultaneously transitioning swiftly and seamlessly to work from home arrangements.

This would not have been possible if not for the decision made several years ago, to digitalise and automate our key operations and processes through our Digital Transformation journey. I cannot overemphasise the significance of our efforts and investments in this area that had prepared the necessary systems and pathways to allow our employees and remisiers to operate remotely throughout the intermittent Movement Control Order periods without compromising delivery and performance.

GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

Overall, the events that unfolded in 2020 served as a validation of the Group's persistent focus on digital, as we witnessed the readiness and activation of our business processes and digital infrastructure in responding to the sudden shift in customer behaviours and online interactions that were sparked by the pandemic. It is apparent these changes are here for the long haul and we are committed to ensuring the Group continues to prioritise digital-led growth and transformation as part of our enterprise strategy to be future-ready.

I take this opportunity to commend the Group Business Continuity Management Committee which adopted an all hands-on deck approach, in responding to the threats and uncertainties from the pandemic. A spectrum of initiatives was rapidly rolled out to keep employees and stakeholders informed, engaged and assured – from daily updates, on-site testing of employees and rigorous sanitising of our offices, to developing and enforcing quarantine policies, distribution of masks and sanitisers, contact tracing and all other standard operating procedures set out by the Ministry of Health. In addition to that, the Group also disbursed financial aid to certain employee segments to tide them over this difficult period.

Beyond the importance of process and system efficiencies, the pandemic also showed us the value of collaboration, adaptability, flexibility and speed – all of which will continue to be vital in contributing to the Group's resilience and success in the coming years.

CORPORATE HIGHLIGHTS

Strategic Partnerships

Kenanga Group via its subsidiaries entered into strategic partnerships with several notable digital players during the year, in a bid to fuel growth, fortify our fundamental business model and expand our current offerings.

In August 2020, the Group's subsidiary that offers Islamic Structured Lending & Trade Financing solutions, Kenanga Capital Islamic Sdn Bhd (**"KCI"**) entered into a partnership with the award-winning digital supply chain financing company, Bay Group Holdings Sdn Bhd (**"CapBay"**). KCI's established track record in supply-chain financing to small and medium enterprises (**"SMEs"**) supporting the public sector, coupled with CapBay's recognised experience in the private sector, provides the ideal basis for the introduction of Malaysia's first solution to unify both private and public sector receivables under a single fully digital end-to-end online platform. Besides providing access to an underserved market, this partnership will enhance KCI's position in the factoring market, expand its range of offerings while also improving operational efficiencies. Short-term financing solutions such as this, has become instrumental to many entrepreneurs, at a time where many businesses continue to grapple with the impact of the COVID-19 pandemic outbreak.

In October 2020, the Group acquired a 4.99% equity stake in Merchantrade Asia Sdn Bhd (**"Merchantrade"**), one of the fastest-growing digital payments and money services players in the region. This investment follows our development of Malaysia's first stockbroker e-wallet, Kenanga Money, in partnership with Merchantrade. Kenanga Money will enable our customers to transfer funds from their stock trading accounts to a multi-currency e-wallet and prepaid card for retail payments, remittance and withdrawals on a worldwide basis.

With a shared vision and ambition to reshape the financial space through technology, we look forward to developing greater synergies with Merchantrade in the coming year and the creation of game-changing products and solutions for our customers.

In the same vein, 2021 had kicked off with the acquisition of i-VCAP Management Sdn Bhd, a subsidiary of ValueCAP Sdn Bhd, that is engaged primarily in the provision of Islamic Exchange Traded Fund (**"ETF"**). This move via our Investment and Wealth Management arm, Kenanga Investors Berhad (**"KIB"**), follows a year after KIB's maiden foray into the ETF arena with OneETF by Kenanga, Malaysia's first KLCI-linked leverage and inverse ETFs. This acquisition will augment KIB's position as a leading ETF issuer as it will broaden its geographical reach, product suite and investment expertise, enabling it to provide more solutions to help clients achieve their investment objectives.

With digital continuing to be at the centre of our enterprise growth strategy, reinforced by the ambition to create a robust and extensive ecosystem for our customers, the Group took its first step into the digital assets space in February 2021, via a proposed acquisition of a 19.0% equity stake in Tokenize Technologies (M) Sdn Bhd (**"Tokenize Malaysia"**), which was approved by the Securities Commission Malaysia on 24 March 2021. Tokenize Malaysia is one of three Digital Asset Exchanges (**"DAX"**), licensed by the Securities Commission Malaysia and second largest DAX in the country by traded market share.

Operating under the brand Tokenize Xchange, it is an online exchange that allows the trading of cryptocurrencies like Bitcoin and Ethereum. The emergence of digital assets including cryptocurrencies has been gaining acceptance globally in the last few years, with its presence in Malaysia fast gaining traction. Fund raising through the tokenisation of businesses and assets is anticipated to be a significant part of the capital markets in the future and making an inroad in the digital assets sector with domain experts Tokenize Malaysia, positions Kenanga to meet opportunities in this area.

Financial Position

As at 31 December 2020, our capital adequacy ratios were 24.04% and 24.08% at Group and Company levels respectively. These levels were well above the 10.50% set by Bank Negara Malaysia, including a capital conservation buffer of up to 2.50% if imposed.

Liquidity Coverage Ratio was 154%, above the regulatory requirement of 100%, while Net Stable Funding Ratio averaged above 100%, which became a mandatory level in July 2020.

The Group maintained A+ and MARC-1 ratings from Malaysian Rating Corporation Berhad (**"MARC"**), which demonstrated once again our strong competitive position, sound capital position, profitability and funding profile despite weakened capital market conditions. We will continue to work towards better ratings through ongoing improvements to our financial performance.

At the same time, our subsidiaries KIB and Kenanga Islamic Investors Berhad (**"KIIB"**) maintained MARC's IMR-2 ratings, reflecting well-established investment process and sound risk management practices.

SEGMENTAL REVIEW

Stockbroking

The Stockbroking division, buoyed by the momentum in the stock market, delivered one of its best performance yet with a PBT of RM86.8 million for FYE2020 against PBT of RM9.5 million for FYE2019. This was mainly due to the higher net brokerage income and higher trading income on the back of the significant increase in Bursa Securities trading volume and market volatility.

The COVID-19 pandemic provided a second wind to the stockbroking industry by reigniting retail interest. This segment, which previously represented less than 20% of daily trading volume on the Main Market of Bursa Securities, grew to average of around 50% over the course of the year. As a result, our brokerage and trading incomes rose together with the increased vibrancy of the market, and the Stockbroking division significantly outperformed expectations for the year. Technology investments made in recent years prepared us well for the sudden shift to online trading. It also allowed us to support our remisiers and dealers who were able to service their clients and fulfil surge in volumes remotely. The division clocked a significant 30% growth in its market share to 12.6%, ending the year as the number one retail stockbroker in Malaysia by trading value.

Entering its fourth year as Malaysia's fully online stocktrading platform, our joint venture, Rakuten Trade, was buoyed by hundreds of thousands of traders piling into the stock market, mirroring trends seen in the U.S and other major economies. With all its facilities accessible throughout movement restrictions, Rakuten Trade received record high account opening and trades on its platform, spurring its first profit in April 2020 and has remained profitable ever since. Rakuten Trade currently contributes approximately 20 % of the Group's market volume on a daily basis and we expect this figure to grow in 2021.

As at 31 December 2020, Rakuten Trade has 166,000 trading accounts under its belt, making it the fastest growing stockbroker in the market with a market share of over 2%. Rakumargin, a new margin financing platform was rolled out during the year and customers can look forward to more exciting new value-added products and features on the platform in 2021.

We are also in the process of further digitalising workflows and operational processes affecting remisiers and dealers, integrating mobility with service workflows, digital knowledge centre and business dashboards that will optimise productivity and efficiency for remote work. When this process is completed, our client reach will expand beyond traditional branch network, propelling growth through convenient, seamless and personalised client experience.

As with the years before, investor literacy remains a key priority for the Stockbroking division. We look forward to providing enhanced outreach to clients in 2021 via webinars and social media.

The year in review saw the Stockbroking division continuing to receive a host of awards and accolades. At the prestigious annual Bursa Excellence Awards, the division was awarded under the Best Overall Equities Participating Organisation, Best Structured Warrant Issuer, Best Retail Equities Participating Organisation and Best Institutional Equities Participating Organisation Investment Bank. The recent Bursa Malaysia Salesforce Retail Investor Campaign 2020 also witnessed the division clinching awards under the Top Dealer Category for Highest Traded Value for ETFs and Highest Traded Value for L&I ETFs. It also won under the Top Remisier Category for Highest Traded Value – New Accounts (Conventional), Highest Traded Value for ETFs and Highest Reactivation of – Inactive & Dormant Accounts.

Investment Banking

Against the backdrop of the global COVID-19 pandemic, the Investment Banking (**"IB"**) division as a whole recorded PBT of RM34.0 million over RM24.7 million in 2019, which was attributable to strong performance from the Treasury business, higher net income and reversal of provision for credit loss, which partially offset lower investment banking fee income.

In the equity capital market, the division participated in the listing of Reservoir Link Energy Berhad on the ACE Market - the first O&G listing since 2017. During the year, it also advised on the transfer listing of Nova Wellness Group Berhad from the ACE Market to the Main Market and participated in the biggest Initial Public Offering of 2020, as a Joint Underwriter to the listing of Mr D.I.Y Group (M) Berhad on the Main Market.

Towards the end of the year, it further advised and acted as the principal adviser, managing and joint underwriter for the largest underwritten rights issue in 2020 by JAKS Resources Berhad raising a total of RM238 million, of which RM100 million was underwritten by the IB division. For equity private placement, it acted as the placement agent/manager and sole bookrunner to Komarkcorp Berhad and joint placement agent/manager to KNM Group Berhad.

On the fixed income front, its Debt Capital Markets team was actively involved in various government-guaranteed Sukuk issuances and advised on the maiden issuance of RM3.5 billion Sukuk Murabahah Programme, followed by another issuance of RM1.35 billion and RM1.5 billion respectively by Prasarana Malaysia Berhad. It also advised Malaysia Rail Link Sdn Bhd for its inaugural issuance of RM2.0 billion Sukuk Murabahah Programme. On the corporate side, it advised on a Sukuk Wakalah Programme of RM200 million by SHC Capital Sdn Bhd, with the successful issuance of the first tranche of Islamic medium-term notes of RM80 million.

On our loan assets portfolio, the Corporate Banking team has been actively managing and monitoring our exposure and cautiously growing our portfolio by selectively pursuing lending pipelines generated through our IB channels such as the Merger & Acquisition advisory leads. The team is currently managing a loan portfolio of circa RM655 million as at 31 December 2020 and hoping to grow cautiously in 2021.

As for Islamic Capital Markets, the division will continue exploring innovative Islamic instruments for suitable clients, be it in the form of hybrid debt securities such as Islamic convertible sukuk or equity offerings such as Islamic Redeemable Convertible Preference Shares. With the presence of more fintech players in industry shaping the future of our capital markets, it will also explore the alternative fundraising mode for clients such as the issuance of Shariah-compliant tokenised securities, which is now made possible under the Guidelines on Digital Assets launched by the Securities Commission Malaysia during the year.

The Treasury business achieved outstanding performance in FYE2020 with PBT doubling to RM25.9 million over RM12.0 million in the previous year. This was due to higher revenue from improved trading and investment income, as well as, higher income from foreign exchange and structured product offerings.

In the first quarter of 2020, Bank Negara Malaysia had announced several prudential measures aimed at ensuring that banking institutions remain focused on supporting the economy during exceptional circumstances of the COVID-19 outbreak.

In the midst of such challenging environment, the Treasury division was able to maintain stable funding throughout the year with both our Liquidity Coverage Ratio and Net Stable Funding Ratio remaining above 100%.

The division also gained tremendous traction with the Wealth Management division within the Group, in efforts to increase transaction volumes on products across different asset classes. We anticipate that the division will continue providing this support in the near term with the shared goal of raising business volumes and profitability for the Group.

To further the division's continual growth and in line with Kenanga's overall digitalisation strategy, it embarked on a front-end system automation exercise during the year. The system, which is expected to be ready by the end of this year, will automate the processing of its Dual Currency Investment and Equity-Linked Investment product transactions, taking efficiency, client experience and overall transparency to the next level.

Investment and Wealth Management

Investment and Wealth Management registered a PBT of RM13.6 million, relative to RM5.2 million from the year before, mainly due to higher management and performance fee earned. Despite a turbulent year, assets under administration (**"AUA"**) increased to RM13.83 billion from RM13.49 billion in 2019. The financial performance for Kenanga Investors Group (**"KIG"**), which comprises Kenanga Investors Berhad (**"KIB"**), Kenanga Islamic Investors Berhad (**"KIIB"**), and Libra Invest Berhad (**"LIB"**), in 2020 exceeded expectations, against the backdrop of volatile markets and a weaker economy.

As the investment and wealth management arm of KIBB, KIG provides investment solutions ranging from collective investment schemes, portfolio management services, ETFs, financial planning and alternative investments for retail, high net worth clients, corporate and institutional clients. It is a repeat recipient of distinguished industry accolades such as Refinitiv Lipper, Morningstar, FSMOne Recommended Unit Trusts Awards and Asia Asset Management's Best of the Best Awards.

In 2020, KIG's funds and mandates recorded notable outperformance against its peers and benchmarks. In view of this and other successes, KIG won three awards at the FSMOne Recommended Unit Trusts Awards 2020/21. Its flagship funds—Kenanga Growth Fund and Kenanga Syariah Growth Fund, won awards in the Core Equity-Malaysia and Core Equity-Malaysia (Islamic) categories, and the Kenanga Balanced Fund won an award in the Balanced-Malaysia category. This is the 11th consecutive year that KGF has won the Core Equity title. In 2021, it clinched awards from the Best of the Best Awards for Malaysia – Best Equity Manager, Malaysia – Best Islamic Fund (Equity), Malaysia – CIO of the Year (5th win) and Malaysia – Best House for Alternatives. Additionally, at the Refinitiv Lipper Fund Awards 2021, the Kenanga SyariahEXTRA Fund was awarded "Mixed Asset MYR Balanced – Malaysia" award for 3-years and 5-years in both categories of Malaysia Islamic Funds and Malaysia Provident Funds while the Kenanga Growth Opportunities Fund won "Equity Malaysia Small & Mid Caps" for 3-years under the Malaysia Provident Funds category. Kenanga Investors also won in the overall best Malaysia Islamic Funds Group Awards (Equity) and Malaysia Provident Funds Group Awards (Mixed Assets) categories.

KIG has been a signatory to the Malaysian Code for Institutional Investors (**"Code"**) since 2017 and it recently became a member of the Institutional Investors Council (IIC). KIG is committed to work with asset owners, regulators and a wide range of market participants to deliver on this step change to stewardship and Environmental, Social and Governance (**"ESG"**) considerations, ensuring that it takes its place at the heart of the investment process and to promote the sustainability agenda. In addition to financial considerations, the integration of ESG factors in the investment process is essential to make better informed and holistic investment decisions to ensure long-term sustainable value to stakeholders. The continuous delivery of consistent performance stems from the premise of an effective stewardship and active ownership approach throughout the investment value chain.

For 2020, KIG declared an income repatriation and distribution amounting over RM531 million to its investors, making it the highest pay-out ever.

Futures Broking

Global listed derivatives saw a significant increase in volume in 2020 as volatility fuelled by the COVID-19 pandemic and global political uncertainty drove investors and traders to hedge their portfolios or seek new trading opportunities, respectively. However, growth in the commission income of our listed derivatives business was impaired by a decline in interest income amid the falling interest rate environment. For FYE2020, Kenanga Futures Sdn Bhd (**"KFSB"**) recorded a marginally lower Loss Before Tax (**"LBT"**) of RM2.8 million from LBT of RM2.9 million in FYE2019.

KFSB saw a surge in contracts executed on Bursa Malaysia Derivatives Berhad in line with the rise in overall volume on the exchange. Meanwhile, KFSB continued to register year-on-year increases in contracts executed on both the US Exchange, CME Group, as well as, the Hong Kong Futures Exchange.

With the nationwide Movement Control Order in force in Malaysia from March 2020, KFSB swiftly pivoted to its e-sales channel to maintain strong virtual engagement with clients. Working in the new normal also spurred KFSB to accelerate its digital plan and expand its e-onboarding and e-learning initiatives.

KFSB continued to be recognised as one of the top derivatives brokers in the country in the Bursa Excellence Award 2020. KFSB was awarded the Champion for Best Institutional Derivatives Trading Participant, Best Trading Participant – Equity & Financial Derivatives for the 18th year in a row and was also the second runner up for Best Overall Derivatives Trading Participant.

Money Lending and Financing

The Structured Lending and Trade Financing division doubled its PBT to RM1.86 million in 2020, vis-à-vis a PBT of RM0.83 million in FYE2019. The division increased its market share in equity financing as public listed companies sought to raise funds in response to the economic slowdown in the wake of the pandemic.

A significant development in 2020 was the partnership with CapBay, as mentioned earlier, which represents an important step forward in our efforts to digitalise our businesses. The partnership will provide Malaysian entrepreneurs seamless access to a completely digital supply chain financing solution, which will change the way capital is accessed in Malaysia.

RISK MANAGEMENT

Amid the turbulent economic conditions and unprecedented market volatilities during the year, the Group continued to exercise prudence and diligence in managing its key risks in the context of credit risk and market risk portfolio exposure, especially in view of the increase in Bursa trading volumes and demand for the Group's digital services.

We maintained meticulous risk management oversight and management processes that emphasised the enforcement of established policies and procedures. Throughout the year, we conducted thorough and comprehensive risk assessments and performed rigorous adaptations of appropriate facility and trading strategies in regards to their respective exposures. This proved effective and resulted in well contained and managed credit and market risk portfolios.

The Group remains fully committed to strengthening risk resilience, as well as, enhancing of our risk management approaches, methodologies and skill-sets. We have put in place risk management processes involving identifying, assessing, monitoring and reporting risks, complemented by a robust governance structure, implementation of policies and procedures, established methodologies, as well as, risk processes that are constantly reviewed and enhanced.

In view of heightened operational risks during the year, we made continuous effort to fortify the governance and robustness of our operational risk management at enterprise-wide level through Group Operational Risk Management training. In this respect, we have significantly improved performance over previous years with fewer operational risk events recorded, and the challenge going forward is to reduce operational risk events further, in particular, within our evolving cyber environment.

Cybersecurity threats remain one of the top operational risks to the Group. For this reason, we will continue to apply the Group's Technology Risk Management Framework and Cyber Resilience Framework, which incorporate industry best practises in managing various technology related risks including those arising from new digital innovation businesses, as well as, new operating norms such as working from home. The Group stands guided by the Policy Document on Risk Management in Technology established by Bank Negara Malaysia on 19 June 2020.

In light of the persistence of COVID-19 in the coming year, the Group will remain vigilant and maintain responsive business continuity plans. The Business Continuity Management Team stands ready to take all appropriate measures to mitigate risks of exposure to the contagion, including precautionary measures involving split-team operations and working-from-home arrangements, as well as, disaster recovery and contingency drills. We will continue to hold regular Management briefings and updates on business continuity to address emerging risks, as well as, to conduct periodic pandemic risk assessment and to heighten monitoring of possible exposure to all affected domains.

More information on risk management and internal controls can be found on pages 70 of this report.

2021 OUTLOOK

At the writing of this statement, it has been more than a year since the COVID-19 pandemic began disrupting economic activities around the world. The pace of spread did not slow during the year, with the number of new cases in major economies such as the US and Europe charting record highs daily. In view of the rising rate of infection, the recent success announced by major vaccine developers marks a major breakthrough that should eventually help contain the spread of the virus. In this light, we anticipate a gradual resumption of normality when distribution and vaccination of the general population starts taking place globally by the second half of 2021.

The lockdown measures implemented in many countries globally have resulted in an estimated global GDP contraction of 3.3% in 2020. In Malaysia, 2020 GDP contracted by 5.6%, but with the improved global backdrop in 2021, the rollout of the COVID-19 vaccine, the restoration of global supply chains and the further acceleration of demand for advance technology, we expect GDP recovery of 6.5% in 2021. There have already been early signs of recovery in the final quarter of 2020, with year-to-date gains in prices of oil and crude palm oil, and we anticipate that continued expansionary fiscal and monetary measures and a low base effect will also contribute to improved growth.

This recovery bodes well for the stock market as it provides a basis for the improvement of corporate earnings especially in sectors that have been directly impacted by lockdown measures. In this early phase of economic recovery, we expect interest rates and statutory reserve requirements for banks to remain low for most of 2021. In tandem with these developments, the Government has announced a Budget of RM322.5 billion for 2021, which is the largest ever for Malaysia. With increases in development and operating expenditures of RM19 billion and RM10 billion respectively, we expect infrastructure development to accelerate with a positive multiplier effect on the economy.

As we learn from the new normal of social distancing, work from home, and prioritising the development and wellbeing of our people, I am confident that Kenanga Group will continue to make best use of its resources, expertise and experience to capitalise on emerging opportunities. We expect 2021 to remain volatile and challenging, and we will continue to proactively manage liquidity, credit and market risks, while remaining focused on our objectives of achieving long term growth through our ongoing digital transformation. As always, we will continue to pursue a strategy grounded in prudence, which has served us well through good times and bad for almost half a century.

APPRECIATION

I take this opportunity to express my gratitude to our Founder Emeritus & Adviser, YM Tan Sri Dato' Paduka Tengku Noor Zakiah Tengku Ismail, who has been an example of leadership and compassion throughout this most challenging year. I would like to thank our retired Chairman, Encik Izlan Izhab, for his dedicated service to the Group since 2017, and welcome his successor YAM Tan Sri Dato' Seri Syed Anwar Jamalullail as Chairman.

I thank the Board of Directors for their diligence and stewardship, and I am particularly thankful to the staff of Kenanga Group for their dedication and commitment throughout what were often difficult and uncertain times. Likewise, I express my gratitude to our business partners, valued clients, suppliers and stakeholders for their support during our journey through 2020.

I also wish to register my appreciation for Bank Negara Malaysia, the Securities Commission Malaysia and Bursa Malaysia Berhad for their guidance, and we also extend our appreciation to our valued shareholders for their continued trust and support.

DATUK CHAY WAI LEONG
Group Managing Director