Futures Broking

Given the markets' volatility that led to increase in hedging activities on Derivatives Exchanges, Kenanga Futures Sdn Bhd ("**KFSB**") registered a lower Loss Before Tax ("**LBT**") of RM1.8 million, relative to the LBT of RM2.7 million in FY2020.

KFSB has made best use of this period to rollout several corporate and business development initiatives as part of the Group's long-term sustainability objectives. The first was the launch of a new strategic business blueprint, ASCENT 2023, which will serve as the foundation for KFSB's business development over the next three (3) years.

Over the course of FY2021, KFSB undertook its fifth annual nationwide retail campaign (Accelerate into the Future) to encourage greater retail client trade of Bursa Malaysia Derivatives products as well as those listed on the world's largest financial derivatives exchange, CME Group. Furthermore, KFSB also continued with its popular online public outreach and education efforts, with a series of twenty-eight (28) live webinars and five (5) Facebook Live sessions focusing on futures and derivatives trading in Malaysia. These initiatives also included the April 2021 launch of KF Virtual Trading - a trading simulation platform designed to introduce derivatives trading to retail clients who are new to these products.

KFSB continues to be recognised as top Malaysian futures broker with two (2) awards received during Bursa Excellence Awards 2021, which are the 'Best Institutional Derivatives Trading Participant' (Champion) and 'Best Overall Derivatives Trading Participant' (2nd Runner Up).

Money Lending and Financing

The Group's Structured Lending and Trade Financing division recorded a PBT of RM1.6 million in FY2021 compared to RM1.9 million the preceding year. This was due primarily to the reduction of the financing loan book to RM64.7 million in 2021 from RM71.1 million in 2020 as a result of loan maturity, as well as weaker market demand for asset monetisation and structured lending.

Given these challenges, the division intensified digital marketing efforts over the year, launching a new dedicated website (www.kenangacapital.com.my) and enhancing social media engagement, as well as stakeholder engagement particularly with remisiers and other members of the Kenanga Group. The division also began working in close partnership with CapBay, a leading supply chain financial technology company, to provide seamless access to digital supply chain financing solutions. These efforts are expected to begin yielding positive results moving into 2022 as the economy gradually reopens and normalises once again.

RISK MANAGEMENT

Navigating through the unpredictability and many uncertainties amid the turbulent macro-economic and market conditions during the year, the Group continued to exercise prudence and diligence in our risk management practices. Many challenges were overcome with resilience and agility in managing the key risks particularly in the context of credit risk and market risk portfolio in view of the increased dynamism in trading activities and demand for the Group's digital services.

We continued to maintain meticulous risk management oversight and management processes that emphasise the enforcement of established policies and procedures. In order to promote sustainability and preserve the quality of our assets, we took on a conservative risk approach with a more selective and defensive risk posture to safeguard the health of our portfolios. Throughout the year, we conducted comprehensive risk review assessments, scenario analyses, stress test and performed rigorous adaptations of appropriate facility and trading strategies in regard to their respective exposures. This proved effective as events unfolded 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 strategies. We have put in place risk management processes, 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 2021, our main focus was on providing a secure and safe environment to our employees and customers, persevered the stability of all critical operations to support business continuity, responded swiftly to operational vulnerabilities in our process and minimised disruption in our supply chain. As the pandemic continued to pose risks to our operational resilience arising from digital adoption and a significant shift in working arrangements, efforts were made to fortify the vibrancy of Operational Risk Management and Business Continuity Management of the Group to ensure the preparedness, responsiveness and robustness in managing event risk especially in this unprecedented COVID-19 pandemic environment.

Cybersecurity threats remain as one of the top emerging operational risks to the Group. We continued to enhance our cyber resilience through embracing emerging new technologies and cybersecurity solutions, continuous workforce vigilance and vigorous close monitoring of cyber threats to further strengthen our cyber defence capabilities in a bid to prevent cyber-attack or loss of data arising from unaddressed vulnerabilities.

In light of the on-going pandemic situation, 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 plans.

More information on risk management and internal controls can be found on pages **119 to 122** of this Annual Report.

2022 OUTLOOK

It has now been more than two (2) years since the world began to live with the COVID-19 pandemic. Although disruptions continue to take place in the economies and daily lives of everyone in Malaysia and around the world, there have been several important positive steps in 2021 that should begin bearing fruit in 2022. Despite the emergence of the Omicron variant and its ongoing impact around the world, Malaysia's vaccine response has been highly successful, and we now have one of the world's highest vaccination rates. We expect the public health impact of the Omicron variant to be relatively mild, and that the world will continue its gradual recovery in the second half of 2022.

As more and more economic sectors resume their normal levels of productivity in 2022, and with the continuing progress towards near-universal vaccination in Malaysia, we expect 2022 GDP to grow by 5.0%-5.5%, buoyed by an expected surge in global demand. Key developments will include the reopening of borders to international visitors, the continuation of important national development projects, and the resumption of employment which should see the national unemployment rate fall from 4.6% to 3.9% in 2022.

There have already been early signs of recovery: the labour market continued to grow in January 2022, with employment expanding through sustained job creation while the manufacturing sector posted its fifth consecutive month of growth in February 2022. On the monetary front, we expect Bank Negara Malaysia to maintain its OPR and statutory reserve requirements for banks for the first half of 2022, which is expected to support and complement the Government's Budget of RM332.1 billion for 2022. We expect the record-high fiscal expenditure—RM233.5 billion in operating expenditure and RM75.6 billion in development expenditure—to impact positively on the economy and spur infrastructural development across the board.

Nonetheless, our forecasts are tempered by risks associated with ongoing public health uncertainties stemming from the COVID-19 pandemic and its impact on economy and daily life, domestic political uncertainties in Malaysia, impact of China's lockdown amid its zero-COVID strategy, rising energy prices, global geopolitical tensions brought by the Russia-Ukraine crisis and an aggressive monetary tightening cycle led by the U.S. Federal Reserve to combat rising inflation.

In view of these potentially volatile and challenging conditions, Kenanga will continue its proactive policy of managing liquidity, market and credit risks by continuing to grow and strengthen its client base and sources of income through diversification with a continued emphasis on sustainability. Our digital transformation has served us well in weathering the storms of the pandemic, and in the coming years, it will be our resilience and commitment to sustainability that will allow us to continue to grow and prosper in an increasingly uncertain world. I remain confident that Kenanga will continue to harness its resources and expertise built over almost fifty (50) years of experience to bring all its stakeholders through to a better and more secure future.

APPRECIATION

I would like to express my gratitude to our Founder Emeritus and Adviser, YM Tan Sri Dato' Paduka Tengku Noor Zakiah Tengku Ismail, who continues to serve as a beacon of leadership in these uncertain times.

I thank the Board of Directors for their diligence and stewardship, especially Chairman, Tan Sri Dato' Seri Syed Anwar Jamalullail whose dedicated pursuit of good governance and integrity has been invaluable as we continue to navigate new ways of doing business.

Again, I am particularly thankful to the staff of Kenanga Group for their dedication throughout another difficult year, and I remain grateful to all our business partners, clients, suppliers and stakeholders for continuing to make the journey with us through 2021.

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

DATUK CHAY WAI LEONG
Group Managing Director