MANAGING OUR SUSTAINABILITY RISKS

RESPONSE TO ESG AND CLIMATE RISKS

Effective and prudent risk management practices are critical to business long-term viability and maintaining stakeholder confidence. As a responsible and committed financial institution, it is our objective to ensure that the business is being managed in a sustainable manner, taking into consideration of the ESG expectations from our stakeholders.

"Climate risk management is increasingly becoming one of the most crucial elements in ensuring the Group's long-term viability. Our CCRM Framework serves as a fundamental guiding principle and roadmap for the bank's approach to climate risk management. This forward-thinking approach enables the alignment of our portfolio with practical climate goals and strategies."

TAI YAN FEE
Group Chief Risk Officer,
Kenanga Investment Bank Berhad

OUR APPROACH

For effective management of risks, the Group is governed by the Enterprise Risk Management ("**ERM**") Framework and the philosophy adopted is based on the 'Three Lines of Defense' approach. The ERM Framework defines the roles and responsibilities throughout the organisation to ensure accountability and ownership, as well as sets out the principles of sound corporate governance to assess and manage risks to ensure risk-taking activities are aligned with the Group's long-term viability and its capacity to absorb losses. The Group Board Risk Committee is responsible to ensure the Group's activities are consistent with its approved risk appetite, strategies and policies.

ESG factors have rapidly become a critical business driver for organisations in recent years. Kenanga remains committed to integrating ESG considerations into our risk management processes through proactive management, a reinforced ESG risk culture, and robust corporate policies and procedures. For this reporting period, Kenanga has identified ESG-related risks, including climate change, as one of the key emerging risk.

KEY EMERGING RISKS

Risks	The Impact	Our Response
Cyber Security	With the rapid adoption of digital innovation and remote work arrangements, cyber threats are becoming more prevalent.	Our Technology Risk Management Framework and Cyber Resilience Framework incorporate industry best practices in managing various technology-related risks, including cyber security risks.
Climate Change	Climate change may lead to significant financial consequences to our investment and lending practices.	Integrated our Climate Change Risk Management Framework ("**CCRM Framework**") into our multi-disciplinary Entepries Risk Management Framework in FY2022 to guide our investment and lending/financing activities, ESG and climate risk assessment screenings.

For more information on our Risk Management Framework and Governance, please refer to the Statement on Risk Management and Internal Control on pages 110 to 114 of our Annual Report 2022.

MANAGING OUR SUSTAINABILITY RISKS

We recognise the impacts of climate change as a non-diversifiable risk to Kenanga's business activities and financial operations. In 2021, we established the Group's CCRM Framework, which is aligned with the BNM's CCPT. The CCRM Framework is designed to support the Group in implementing a structured approach for assessing and classifying climate change risk associated with our lending, financing and investment activities.

In 2022, we integrated the CCRM Framework to strengthen our climate risk management strategy and business planning. To build on this, we have further aligned our policy and practice by incorporating the new guidelines introduced by BNM in November 2022, including the Climate Risk Management and Scenario Analysis ("**CRMSA**") and JC3's TCFD Application Guide for Malaysian Financial Institutions issued in June 2022 into the Group's business strategies and enterprise risk management framework. The implementation of these guidelines will be completed in phases and it is in line with regulatory timelines by the end of 2024.

Overview of Climate Change Risk Management Framework

In line with Kenanga's commitment to adopting a more sustainable business strategy, the CCRM Framework plays an integral role in supporting the Group as it embarks upon a phased approach towards recognising and addressing climate change risks and opportunities.

THE FRAMEWORK AIMS TO

Provide an overview of how climate change impacts our business, clients and the broader economy	Facilitate the integration of climate change considerations into our existing risk management practices and business activities	Identify and formulate appropriate climate-related strategies, feasible risk appetites and targets to improve our readiness towards climate risk management
Introduce a structured classification methodology to assess and classify our financing and investment activities to ensure they are aligned with the transition to a low-carbon economy	Establish the necessary guiding principles to support our financing and investment activities, ensuring they consider climate risks	Develop appropriate reporting standards for our climate risk management disclosure for internal and external stakeholders

Inculcate awareness amongst our stakeholders on the pertinence of understanding climate risks as well as ensuring they stay abreast of Kenanga's climate ambitions

"In our efforts to be a sustainable and responsible financier, the implementation of the CCRM Framework will integrate climate risk analysis into our decision-making process, where we aim to have a financing portfolio that considers the climate change impact to the environment. We intend to raise awareness and work with our clients to incorporate sustainability measures in their business undertakings."

WOO KING HUAT
Chief Credit Officer,
Kenanga Investment Bank Berhad

Climate Change Risk Management Strategy and Risk Appetite

The Group's climate change risk management strategy is meant to assist the Group in mitigating climate risks and to steer businesses towards managing climate change risks while supporting the global transition towards a low-carbon economy.

STRATEGY AND RISK APPETITE

Fund Allocations for Sustainable Green Economic Activities	Product Offering and Incentives	Reduction Targets	Watchlist - High Climate Change Risk Sectors
OUR FUTURE PLANS			
To allocate appropriate funds to support green economic activities	To continuously develop new products as well as incentives that promote or support green and transitioning economic activities	To ensure that the Group takes initiative to set appropriate targets to reduce and manage climate change risk from its financing and investment activities	To identify and develop a watchlist for sectors that are exposed to high climate change risk as a guide to facilitate Business Units in its conduct of classification and risk assessments

Climate Change Risk Assessment Criteria ("Climate Change RAC")

The Climate Change RAC was developed as part of the CCRM Framework in 2021 with reference to the guiding principles stated in BNM's CCPT, and by referencing industry best practices to support the classification assessment. The Climate Change RAC shall assist Business Units to determine the materiality of 'significant harm to the environment' and effectiveness of 'remedial measure' by incorporating definitive value or benchmark wherever appropriate for their assessment.

OBJECTIVES

Evaluate a potential investment's climate change impact and attaches a rating	The rating system classifies whether the investment contributes to climate change mitigation efforts or is harmful to the environment	Due diligence to assess general ESG practices of the potential investee company

In addition to the CCRM Framework which primarily focuses on the environmental components under ESG considerations, the businesses are also encouraged to put equitable emphasis on the other two (2) components of ESG including Social and Governance in lending or financing and investment activities. Lending, financing and investment that are implicated with serious social and governance issues such as exploitation of labour, corruption and criminal activities involvement shall be avoided.

MANAGING OUR SUSTAINABILITY RISKS

"As the impacts of climate change continue to manifest around the world, it is becoming increasingly clear that financial and climate risks are fundamentally intertwined. Failing to account for climate risks in financial decision-making not only undermines the stability of our financial system but also puts our planet and future generations at risk. By integrating climate risk considerations into our financial decision-making, we can drive sustainable and resilient growth while mitigating risk and ensuring a more sustainable future for all."

DATUK ROSLAN HJ TIK

Executive Director, Head of Group Investment and Islamic Banking, Kenanga Investment Bank Berhad

Our Task Force on Climate-Related Financial Disclosures ("TCFD")

We have been gradually enhancing our disclosures in line with the recommendations of the TCFD, as well as regulatory requirements. Our disclosures are mapped against the prescribed four (4) pillars – Governance, Strategy, Risk Management, as well as Metrics and Targets. The highlights as below:

GOVERNANCE

Climate Change Risk Governance

Board of Directors ("Board")

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Group Board Risk Committee ("GBRC")

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Group Risk Committee ("GRC")

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Group Sustainability Management Committee ("GSMC")

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Group Risk Management ("GRM")

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Business Units ("BUs")

The Board oversees our climate risk management initiatives and is responsible for ensuring that climate risks are well incorporated across our governance, strategy, and business operations.

The Board is assisted by the GBRC and GRC, which monitor and assess Kenanga's climate change concerns.

The GSMC works with the Group's risk management committees and the Board to ensure that sustainability plans, including climate strategies, are consistent with the Group's overall commitment. Through advice and support, GRM plays a critical role in controlling and reducing identified physical and transitional risks, as well as assisting the adoption of climate risk management policies across business divisions. GRM is also responsible for incorporating climate change risk scenario analysis into stress analysis and stress testing exercises, as well as delivering quarterly reports to the GBRC, GRC, and Board on implementation updates and results achieved.

Through the creation and execution of suitable measures to manage and reduce risks in our finance and investment activities, our BUs are in charge of managing climate risks on a day-to-day basis.

MANAGING OUR SUSTAINABILITY RISKS

Our participation in industry committees, that are driving sustainability in various industries solidifies our sustainability leadership, and enables us to participate in climate-related policy decision-making and shape conversations around climate change.

Bursa Malaysia's Sustainability Development Committee ("SDC")

The Group Managing Director of Kenanga Investment Bank Berhad, who is also the Chairman of the Group Sustainability Management Committee, is a member of SDC, a Board Committee of Bursa Malaysia. The Committee oversees the development and implementation of sustainability strategies, as well as to ensure key initiatives are in line with the Malaysian Code on Corporate Governance.

Joint Committee on Climate Change ("JC3")

The Chief Executive Officer ("**CEO**") of Kenanga Investors, a subsidiary of Kenanga Group, is a member of Joint Committee on Climate Change ("**JC3**"), which is a collaborative effort initiated by BNM and the Securities Commission ("**SC**") to unite industry representatives in building climate resilience of the financial sector in Malaysia.

In addition to the above memberships, Kenanga Investors' CEO holds several active memberships in notable industry-relevant councils and committees, such as Institutional Investors Council Malaysia, FTSE Bursa Malaysia Index Advisory Committee, Sustainable Investment Platform Steering Committee and chairs the Malaysian Association of Asset Managers.

In 2022, our Board dedicated over 50 hours across 18 ESG training courses, briefings and workshops. Some of the training topics covered included climate risk management and scenario analysis; setting science-based targets, TCFD climate disclosure, sustainability's implications for organisations and Directors' duties as well as other ESG related topics. Following were climate related topics discussed at board and management levels in 2022:

- Climate-related targets on net-zero and carbon neutrality
- Key regulatory updates on climate-related risk managements
- CCRM Framework implementation including updates on climate scenario analysis plans
- Business unit engagement on Climate Change RAC implementation in assessing investment/ financing portfolio's climate risk exposure

Moving Forward

To further strengthen our climate risk governance structure and management, we will continue to conduct ESG capacity-building sessions including climate risk-related topics, across our business operations. These sessions aim to enhance knowledge and awareness on climate-related risks while we progressively embed climate risk management in our risk governance structure through enhanced internal risk management controls, with the Board overseeing the progress of our climate risk management.

MANAGING OUR SUSTAINABILITY RISKS

STRATEGY

We have maintained the Group's CCRM Framework, which was established in FY2021 to introduce a climate change and principles-based taxonomy for the classification of climate-related risks and opportunities. Our highlight as follows:

- Developed Sustainability Targets and Goals, as well as Sustainability Roadmap 2023-2025 in 2022 which focuses on climate risk management including management of our environmental footprint on GHG emissions, to account Scope 1, 2 and 3, where applicable
- Integrated Climate Change RAC as part of our investment risk assessment process
- Trained relevant senior management and executives, on CCRM Framework and Climate Change RAC application in 2022

Moving Forward

Guided by our Sustainability Roadmap 2023-2025 and regulatory expectation on BNM CCPT implementation, we aim to incorporate climate risk management and scenario analysis into our enterprise risk management framework, in efforts to classify our climate-related risks on our investment and lending activities as guided by BNM's CRMSA.

RISK MANAGEMENT

We are working towards to better understand the climate impact on our business operations and have further expanded our risk exposure analysis.

CLIMATE CHANGE RISKS

Physical Risk

Arises from acute (event-driven) and chronic (long term shift) climate-related events that:-

- Damage property
- Reduce productivity
- Disrupt trade
- Increase financial risk to the Group
- Impacts collateral values

Transition Risk

Occurs as a result of adjustment to a low-carbon economy. The adjustment may translate into:-

- Financial risk
- Reputational risk
- Changes in public policy and strategy
- Increase in operational cost
- Refinancing risk

Liability Risk

Stems from legal risk and claims on damages and losses incurred from inaction or lack of action that results in the effects of physical and transition risks:-

- Legal
- Claims

Moving Forward

We will identify specific climate-related risks and opportunities relevant to our business for each time horizon (short, medium and long-term), and further integrate them across our investment and financing activities.

METRICS & TARGETS

In our previous report, the Group detailed all Scope 1 and 2 GHG emissions in tCO_2e resulting from business operations at our headquarters, Kenanga Tower. We adhere to the GHG Protocol Corporate Standards in the calculations of emissions factor.

We have since expanded our data collection scope for this reporting period to include our 34 branches throughout Malaysia. Additionally, we have also started to include Scope 3 GHG emissions disclosure. As a start, our Scope 3 emission calculations are based on business travel in non-company owned vehicles.

Furthermore, we have established the following mid- and long-term climate-related targets:

Achieve **carbon neutrality** by 2025 by transitioning operational energy needs from renewable sources	Achieve **Net Zero** by 2050

Moving Forward

We aim to develop a Climate Strategy with a focus on enterprise-wide including portfolio decarbonisation strategy. To support this initiative, we aim to engage our Business Units to further understand their portfolio exposure on climate risk as well as overall ESG factors.

"Climate risk has increasingly become an important element in the process of investment decision-making. The key motivation behind the practice of making climate risk as part of the process for investors is to gain an in-depth understanding of the companies in which they invest."

TEH SEAH JADE
Risk Analyst,
Kenanga Investment Bank Berhad

MANAGING OUR SUSTAINABILITY RISKS

Managing Our Supply Chain Risk

Our Group Procurement Policy provides employees with a guiding framework to achieve and maintain high standards of professionalism, transparency, and accountability in our procurement decisions.

Outlined in our Group Procurement Policy, our 'Know Your Vendor Assessment' requires vendors to undergo an extensive due diligence process that reviews risk indicators, culminating in a score that serves as a guide for Kenanga to manage its front-end risk. As part of our corruption risk assessment exercise, all our intermediary including vendors, suppliers and service providers undergo an Anti-Money Laundering ("**AML**") screening for any recorded cases on bribery and corruption. Further to that, we will request for the vendors' own anti-fraud, bribery and corruption policies and declaration on any prior improper practices.

Our 'Know Your Vendor Assessment' allows us to ensure we maintain high standards of ethics and integrity in our business partnerships with contractors, and intermediaries such as consultants, suppliers, agents and individuals who undertake work for the Group.

The Group Code of Conduct for Vendors outlines the obligations as well as standards our vendors are required to adhere to. For example, the policy requires each vendor to have secured whistleblowing channels in place for individuals to lodge reports on malpractice, potential breaches of the Code to encourage an anti-corruption culture and other forms of ethical behaviour.

To prevent corporate crimes, our vendors are required to comply to the Code of Conduct for Vendors, which outlines the adherence to all requirements of any applicable anti-corruption laws including the MACC Act 2009. Vendors are also expected to formally adopt and implement relevant policies, procedures and programmes to prevent money-laundering and terrorism financing through its business and operations, and to ensure compliance with such Anti-Money Laundering/Counter-Terrorism Financing/Targeted Financial Sanctions ("**AML/CFT/TFS**") policies. Vendors are required to adopt and implement adequate procedures internally to prevent bribery and corruption.

SUPPORTING OUR LOCAL SUPPLIERS

We are committed to purchasing locally while supporting local communities and social enterprises where feasible.

Local suppliers

89%

Total procurement spent on local businesses

RM65.9 million

As part of our efforts to optimise efficiency and transparency, we have fully digitalised our procurement process. A declaration on AML is required from our vendor as part of onboarding process. In 2022, 83 vendors were onboarded via our e-procurement system. Any changes to any aspect within the Code of Conduct for Vendors or Group Procurement Policy will be communicated to our vendors accordingly.

Moving Forward

We will be enhancing our vendor assessment framework to integrate environmental and social risk assessments in line with our targets to integrate ESG screening in our supplier onboarding process as well as to increase supplier engagement, and communication and awareness on promoting sustainable procurement.

For more information on our Group Code of Conduct for Vendors, please click the link below:
(https://www.kenanga.com.my/wp-content/uploads/2020/05/Kenanga-Code-of-Conduct-for-Vendors-Website-Statement.pdf).