GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

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DEAR SHAREHOLDERS,

2019 was a demanding year for the Malaysian capital markets, weighed down by prevailing macro geopolitical uncertainties, the lacklustre Ringgit, scale-back in public spending and muted business sentiments. The FBM KLCI fell below the 1,600-point mark to end at 1,588.76 points for the year, while trading value on the local bourse dipped by over 15%.

Despite these headwinds, Kenanga Investment Bank Berhad continued to make progress against our business priorities and delivered a strong financial performance in 2019. Profit Before Tax ("**PBT**") rose to RM43.0 million, 49% higher relative to same period last year, largely due to higher management fee income and a RM15 million reversal of impairments incurred in FYE2018.

Throughout the year, our priority was anchored on strengthening the business through innovations and technology, expansion of product mix, and enhanced operational productivity – all of which were aimed at driving sustainable enterprise growth, and the creation of long-term shareholder value.

It is encouraging to note a growing sense of shared responsibility and enthusiasm demonstrated across the organisation in accelerating cross-divisional collaboration, which has become the bedrock for our product innovations. Last year, we saw our key businesses – Asset Management, Equity Broking, Listed Derivatives – joined forces to successfully launch the first Leveraged and Inverse Exchange Traded Funds ("**ETF**") in Malaysia that is benchmarked against the FBM KLCI. This product, a result of concerted efforts across the diverse disciplines within the Group, created a multiplier effect on our revenue stream, boosting both trading income and brokerage income.

Organisational agility, speed and out-of-the-box solutions have become prized commodities, in a marketplace characterised by rapidly changing customer demands. To this end, our ability to pool our resources, leverage partnerships, as well as, harness synergies within the Group, will help to further differentiate us in the marketplace.

CORPORATE HIGHLIGHTS

Completion of Acquisition

In the third quarter of 2019, Kenanga Investors Berhad ("**KIB**"), the asset management subsidiary of Kenanga Group, completed its acquisition of 100% equity share in Libra Invest Berhad ("**LIB**"), a fund management arm of ECM Libra Financial Group Berhad.

The acquisition, has increased KIB's total assets under management ("**AUM**") to RM13.5 billion, solidifying its position as one of Malaysia's leading unit trust and asset management companies. Now, with broader product offerings, cost synergies, and widened distribution channels and agency force, the business is primed to fast-track growth, profitability and market leadership.

New Product Line Up

Heeding the call for products that capitalise on market volatility and the need for alternative investment instruments, the Group launched retail securities borrowing and lending ("**SBL**") in July 2019, in a move to boost retail participation in a segment typically reserved for institutional investors.

Through lending of stocks for short-selling, hedging or arbitraging, individual shareholders are now able to optimise their portfolio across varying market conditions.

As mentioned, we successfully listed an innovative, first-of-its-kind ETF on the Main Market of Bursa Malaysia Securities Berhad ("**Bursa Malaysia**") earlier this year, broadening the accessibility of unconventional investment avenues for traders. This new product allows traders to hedge against price swings, amplifying gains even during market corrections.

While both SBL and ETFs are still in their early stages in South East Asia, they have been garnering strong traction and showing tremendous growth potential. Through our continued efforts to promote and raise awareness of these innovative products, we look forward to them becoming mainstream investment options, which will enable our retail investors to make the most of their participation in the capital markets, leading to a more vibrant marketplace.

Digital Innovations

During the year, we continued to make headway on our digital journey, focusing on customer-centric technologies and automation of operational processes.

Working hand-in-hand with our IT partners, we beta tested our Algorithmic Trading platform towards the end of 2019. Combining predictive analytics with data processing speed, this platform is set to transform the trading landscape for our dealers and customers. We aim to fully release it by this year.

Complementing our suite of asset management products, we target to rollout an investment robo-advisory platform for the mass market towards the end of Q4 2020. With rapid consumer shift towards Fintech, especially amongst younger investors, this platform, which provides fully automated, AI-driven financial investment service, will spur the acquisition of an underserved segment in the marketplace.

On the operational front, our approach was predicated on balancing the maintenance of legacy systems, with practical investments in new technologies. We have further harmonised the front and back end systems via Robotic Process Automation and Enterprise Workflow Management, in a bid to build a robust end-to-end IT ecosystem for the Group.

As part of our plan to enable full mobility to our remisiers, we launched a new platform this year which has digitalised most of the core workflows, unlocking new levels of efficiencies. We expect to enable full mobility for our remisiers by end of 2021 – where onboarding clients, trades and settlement, as well as, remisiers' business management can be executed anywhere, through this remisiers' service portal. Further to this, we will be exploring the adoption of Cloud-based solutions this year, which will bring about greater scalability, faster speed-to-market and further cost effectiveness.

Our joint-venture with Japan-based Rakuten Securities Inc., Rakuten Trade Sdn Bhd, which has now been operating for three years as Malaysia's completely online equity broker, continues to record remarkable growth. It doubled its subscription base from the year before, recording 47,500 accounts at the end of 2019, and registering almost RM8 billion in trading value on Bursa Malaysia. This was attributed to three innovative rollouts – Contra 2.0 (enhancement to their Contra Account launched in 2018), ID Linkage in partnership with AirAsia BIG and improved eKYC (e-Know Your Customer).

In a move to advance our digital capabilities, we formalised a three-year Digitisation Roadmap to further streamline focus and resources, accelerate implementation, and ultimately optimise cost structure. Approved by the Board of Directors in 2019, the Roadmap charts a holistic framework that supports the generation of new ideas, in tandem with driving transformative initiatives within our existing businesses.

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Continued Resilience in Our Financial Position

We continued to maintain healthy capital adequacy and liquidity within the Group. As at 31 December 2019, our capital adequacy ratios are at 23.18% and 22.73%, at the Group and Company levels respectively. These remain well above the 10.50% level set by Bank Negara Malaysia, including a capital conservation buffer of up to 2.50%, if imposed.

Liquidity Coverage Ratio remained above 120%, well beyond the regulatory requirement of 100%, while Net Stable Funding Ratio averaged above 100% for the year. This has placed us in a good position to meet the new mandatory ratio of 100% which will take effect in July 2020.

Our RM250 million Tier-2 compliance subordinated debt programme remain in place as part of our capital contingency plan. We have only issued RM25 million of the debt as at 31 December 2019, with room to raise further capital if necessary.

Positive MARC Ratings

We maintained the ratings of A+ and MARC-1 from the Malaysian Rating Corporation Berhad ("**MARC**"). The affirmed ratings are a validation of on our strong competitive position, healthy capital position, profitability metrics and funding profile. We will continue to strive for higher ratings by continuing to improve our financial performance.

Our subsidiaries, Kenanga Investors Berhad and Kenanga Islamic Investors Berhad were affirmed an Investment Manager Rating of IMR-2 by MARC, reflecting its well-established investment processes, sound risk management practices and strong operating track record.

OPERATIONAL REVIEW

Segmental Review: Equity Broking

Our Equity Broking ("**EB**") division registered a PBT of RM9.5 million for FYE2019, against a loss before tax ("**LBT**") of RM13.5 million for the year ended 2018, mainly due to a reversal of provision of impairment, offset by lower brokerage income and interest income in 2019.

Bursa Malaysia ended a volatile year on a dampened note. The KLCI was down 6.02% or 101.82 points, and the KLCI's market capitalisation was reduced to RM1.04 trillion as investors traded on a cautionary stance. The lacklustre sentiments drove total volumes down by over 15%.

Despite the headwinds, our EB division achieved an increased market share of 9.6%, reinforcing Kenanga Group, as the third largest stock broker in the country. Through an expanded product line-up, innovative services, and systems-driven workflow efficiencies, it managed to offset the impacts of reduced trades from institutional clients, as well as, reduction in margin income.

In addition to the rollout of digital platforms catered for younger traders, and new products such as SBL for more sophisticated investors, it also set up a Corporate Client Services unit that provides personalised service to High-Net-Worth individuals and corporate owners – underscoring its multi-pronged approach to pursue the breadth and depth of the retail segment.

Investor literacy remains top of EB division's agenda with workshops, webinars and nationwide roadshows conducted throughout the year.

To get closer to today's digitally connected customers, an app-based instant messaging service, Telegram, was mobilised as a new touchpoint to disseminate trading ideas and opportunities, empowering its followers to make decisions on the go.

Segmental Review: Investment Banking and Treasury

The Investment Banking ("**IB**") and Treasury divisions as a whole registered a PBT of RM24.7 million, an increase of 9.8% from the year before.

Investment Banking

Investment Banking registered a higher PBT of RM12.7 million in FYE2019, relative to the RM20.5 million the year before mainly attributable to higher interest income, and advisory fees income but partially negated by lower placement fees and fees on loans.

Nonetheless, the division achieved a feather in its cap with the listing of Supreme Consolidated Resources Berhad in January 2019 - the first Sarawak-based company to be listed on the LEAP Market. During the year, the IB division also participated as a Joint Underwriter for the Initial Public Offering ("**IPO**") of Leong Hup International Berhad, which raised RM275 million from its re-listing on the Main Market.

In the debt capital market, the IB Division launched a Medium-Term Note ("**MTN**") Programme for Seri Mutiara Development Sdn Bhd. It also achieved another first with the launch of a Commercial Paper/ MTN Programme for Urban DNA Sdn Bhd, which were secured against residential property units. The Programme provides investors with the option to purchase the secured properties, which is unprecedented in the market. The launch of Sunway REIT's Perpetual Note Programme, was another first-of-its-kind by a Malaysian REIT for which the division played a significant role.

Further to these, the Division continued to spearhead Redeemable Convertible Note ("**RCN**") origination with four new issuances and completed several significant Merger and Acquisition ("**M&A**") advisory transactions.

Successful Islamic equity products that were launched included the Redeemable Convertible Cumulative Preference Shares ("**RCPS-i**") and Redeemable Convertible Unsecured Islamic Debt Securities ("**RCUIDS**").

Treasury

The Treasury division recorded a strong performance in FYE2019 with a PBT of RM12.0 million against PBT of RM2.0 million in the previous year. This was primarily driven by improved trading and investment income from its bond portfolio.

The division proved resilient against volatile market conditions, boosted by the positive bond market performance, despite Malaysian bonds being retained on a FTSE Russell watch list for exclusion from the FTSE World Government Bond Index.

The volume of retail Negotiable Instruments of Deposit rose to an average of RM52 million during the year, compared to RM45 million in 2018, increasing further our presence in the retail deposit market. Treasury was able to maintain a stable funding structure, enhancing the bank's short term resilience, as well as resilience over a longer time horizon, resulting in our Liquidity Coverage Ratio remaining above 120%, well beyond the regulatory requirement of 100%, whilst Net Stable Funding Ratio averaged above 100% for the year.

Segmental Review:
Investment Management

Kenanga Investors Group ("**KIG**"), which is comprised of Kenanga Investors Berhad ("**KIB**"), Kenanga Islamic Investors Berhad ("**KIIB**") and Libra Invest Berhad ("**LIB**"), saw its PBT grow to RM6.2 million for the FYE2019, from RM2.24 million in 2018. KIG's total AUM increased to RM13.49 billion from RM7.86 billion in 2018. The increase in both PBT and AUM can be attributed to our long-term strategy to build multiple distribution channels over the last few years. KIG's burgeoning private wealth segment which was established in 2016 has surpassed its growth trajectory for this financial year, while other channels such as the retail, corporate and institutional segments continued to see growth despite a volatile year.

The continued launch of new alternative strategies and products has also been imperative in carving out KIG's presence in the market as a wealth manager with our foray into alternative investment space. The products saw us launching many first-in-the-market solutions for our clients ranging from high-yield to equity-linked structures. One of our conspicuous launches in 2019 which saw over RM150 million in funds raised was our Kenanga Global Unicorn 1 and 2. The funds aimed to provide medium-term capital appreciation by investing primarily in the securities of globally recognised, 'near-term IPO' ready, technology companies, valued at over USD1 billion. The Kenanga Global Unicorn series succeeded in bridging the gap between qualified investors and the international startup community with the first series oversubscribed.

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In line with our strategy of multi segment, multi distribution and multi products, in 2019 KIB acquired LIB, an award-winning asset management company with good fixed income performance track record and established fixed income team. The acquisition exercise was pursued with the intention to complement KIG's strong equity expertise and products offerings. We completed the acquisition in July and the subsequent business consolidation in November. The listing of OneETF by Kenanga ("**OneETF**") on the Main Market of Bursa Malaysia on 13 January 2020, after over 14 months' worth of development and preparation. This signaled our first foray into ETF by means of leveraged and inverse ETFs. The Kenanga KLCI Daily 2X Leveraged ETF (KLCI2XL) and the Kenanga KLCI Daily (-1X) Inverse ETF (KLCI1XI) are the first L&I ETFs to be benchmarked against the FTSE Bursa KLCI ("**KLCI**"), as well as the first ETF listing of the new decade on the local bourse. With the introduction of OneETF, both retail and institutional investors are able to diversify and capture market opportunities whichever way the markets may swing even in volatile environments. All this, adding the 12 retail and four wholesale funds from LIB has now brought the total number of funds managed by KIG to 38 retail funds, 28 wholesale funds and two private retirement schemes.

With the above encouraging growth trajectory, all this will continue to broaden KIG's footprint in the area of asset and wealth management in the country.

Segmental Review:
Listed Derivatives

Impacted by the moderation of the overall volume in the Malaysian derivatives market, the effects of the US monetary policy stance, US-China trade tensions, volatile commodity prices and trade policies surrounding crude palm oil, our Listed Derivatives business, Kenanga Futures Sdn Bhd ("**KF**") recorded a LBT of RM2.9 million from a LBT of RM2.8 million in FYE2018.

Nonetheless, the division succeeded in increasing its overall market share and volume traded on Bursa Malaysia Derivatives Berhad ("**BMD**"). It also registered a two-fold increase in contracts executed on the US exchange - CME Group - in its second year since its launch. To further provide Malaysian investors with a wider selection of trading products, KF launched the access to a second global listed derivatives exchange, the Hong Kong Futures Exchange, in September 2019.

As part of its continuous efforts to build a smart derivatives trading community in Malaysia among retail investors, marketing campaigns, webinars were introduced and a well-resourced new website www.kenangafutures.com.my was launched.

Segmental Review:
Structured Lending and Trade Financing

The Structured Lending and Trade Financing division recorded a growth in PBT to RM833,000 in FYE2019 from RM539,000 in the previous year as a result of loan growth through equity financing. While this mitigated the lack of corporate exercises during the year, the division was also impacted by a contraction in its factoring business due to a slowdown in the small and medium-sized enterprises ("**SME**") sector.

RISK MANAGEMENT

The Group continued to strengthen our risk resilience and risk mitigation, through constant reviews to tighten controls and enhance governance framework.

As an investment bank, the primary risks are predicated on credit and market risks. These risks are managed via a risk management governance oversight, and a management process which encompasses the establishment and enforcement of policies and procedures, the conduct of comprehensive risk assessments, the establishment of the appropriate trading and facility limits for the respective exposures.

During the year a Group Operational Risk Management workshop was conducted to promote a better understanding of risk governance and risk management amongst employees. It also served to instil the importance of employee participation in operational risk mitigation.

Additionally, we enhanced our technology risk management by aligning our technology risk management framework and cyber resilience framework, with industry best practices. On the back of that, we have established a new Board-appointed committee dedicated to drive digital-related matters and technology governance for the Group.

Following the outbreak of the COVID-19 at the start of 2020, we took immediate measures via our established Business Continuity Management Committee to keep employees apprised of updates and precautionary measures, as well as, carry out contingency drills and disaster recovery preparation. In tandem with that, we have heightened monitoring of our market and credit exposure to the sectors likely affected by this pandemic, with the view of managing the related risks.

2020 OUTLOOK

At the time of this statement, the COVID-19 pandemic which started at the end of last year in China, has significantly disrupted economic activities worldwide. This together with the significant drop in oil prices have impacted global capital markets causing huge volatility. Governments in many countries including Malaysia, have sought to counter the negative impact on economic growth from the pandemic through various stimulus packages. This has brought about some stability to the global capital markets but the uncertainty still remains on when the pandemic can be overcome.

Given these uncertainties, we are taking a cautious stance on the market outlook for this year. Our Research Department expects Gross Domestic Product growth to slow down to negative 1.9% in 2020. Inflationary pressure is expected to remain mild, in the wake of weak prices in commodities and soft domestic demand.

While these are unprecedented times, I am confident Kenanga has the resources, experience and fortitude to weather this storm, having grown from strength to strength in Malaysia for almost 50 years. We will continue to exercise prudence in our day to day management of the business, while capitalising on the pockets of opportunities that arise.

As we brace for what is likely to be, one of the most challenging years for the global capital markets, we will be guided by the discipline of maintaining a strong balance sheet, ensuring our core businesses remain resilient, as well as, strengthening and diversifying our revenue stream. Above and beyond that, we will continue to build a robust talent pipeline by developing our people, and enabling them to navigate and shape the future growth of the Company.

APPRECIATION

Allow me to convey my gratitude to our Founder and Adviser, YM Tan Sri Dato' Paduka Tengku Noor Zakiah Tengku Ismail, who remains a beacon of leadership for our Group. I would also like to thank our Chairman, Encik Izlan Izhab and the Board of Directors for their stewardship.

I am especially thankful to the staff of Kenanga Group for their continued diligence and dedication in achieving our goals. Additionally, I would like to express my appreciation to our business partners, valued clients, suppliers and stakeholders for their unwavering support.

Our gratitude is also owed to Bank Negara Malaysia, Securities Commission Malaysia and Bursa Malaysia Berhad for their guidance. We also extend our appreciation to our valued shareholders for their continued trust and support.

DATUK CHAY WAI LEONG
Group Managing Director