

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

The Malaysian Code of Corporate Governance 2012 (“Code”) recommends that the Board of Directors (“the Board”) of listed Companies should maintain a sound risk management and internal control framework in order to safeguard shareholders’ investments and the Company’s and Group’s assets. Bursa Malaysia Securities Berhad’s Listing Requirements also requires the Board of a listed Company to include a statement on the state of their internal controls in their annual reports.

In view of the above, the Board of the Company is pleased to present the following statement that is prepared in accordance with the “Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers” issued by Bursa Malaysia Securities Berhad.

BOARD RESPONSIBILITY

The Board recognises its responsibility for upholding an effective and adequate risk management and internal control system, which contributes materially to good corporate governance. In line with this objective, the Board continually reviews the adequacy and effectiveness of the Group’s risk management and internal control system to ensure it is embedded into all facets of the Group’s activities. The Board reviews the processes, responsibilities and assesses on an on-going basis for reasonable assurance that risks are being managed and remain within the Group’s risk appetite and tolerance range. Towards this end, the Board has agreed to outsource the Group Risk Management function to a specialist third party service provider. This initiative is aimed at eliminating the negative impact of the high personnel turnover experienced in recent years which in turn affected work quality, continuity, and coverage of the planned scope of work.

From time to time, the Board receives assurances from the Chief Executive Officer and Chief Operating Officer that the risk management and internal control system is operating in an adequate and effective manner, and that it is sufficient to safeguard the interests of the Company and the Group.

The Board acknowledges that a sound risk management and internal control system provides reasonable but not absolute assurance, that the Company and the Group will not be hindered in achieving its strategic objectives in the ordinary course of business.

The Board also accepts the fact that a sound internal control system, can only reduce, but not eliminate the risks deriving from poor judgment in decision-making, human error, control processes being deliberately circumvented by employees, and any other unforeseeable circumstances.

As part of the Group’s effort to comply with the Malaysian Code on Corporate Governance as well as to enhance the overall risk governance structure, MAA Takaful Berhad (“MAAT”) as the core operating subsidiary company has a dedicated Risk Management team. The Head of Risk Management of MAAT reports to their Risk Management Committee and Board.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee (“RMC”) was established by the Board to review the effectiveness of the risk management process, to report on key risks and recommend appropriate risk management strategies for the Board’s approval.

The Committee met four (4) times during the financial year. Membership of the Risk Management Committee as at the date of this Annual Report is as follows:

- Chairman : Dato’ Narendrakumar Jasani A/L Chunilal Rugnath - Independent Non-Executive
(Appointed as a member on 5 September 2012 and subsequently as Chairman on 17 April 2014)
- Members : Tan Sri Ahmad bin Mohd Don *(Appointed on 5 September 2012)*
: Tan Sri Datuk Seri Razman Md Hashim *(Appointed on 17 April 2014)*
: Onn Kien Hoe *(Appointed on 17 April 2014)*

- The attendance status at the Risk Management Committee Meetings held during the financial year ended 31 December 2014 were as follows:

Name of Committee Members	Total Meetings Attended
Dato’ Narendrakumar Jasani A/L Chunilal Rugnath <i>(Chairman, Independent Non-Executive Director)</i>	4/4
Onn Kien Hoe <i>(Member, Independent Non-Executive Director)</i>	3/3*
Tan Sri Ahmad bin Mohd Don <i>(Member, Independent Non-Executive Director)</i>	4/4
Tan Sri Datuk Seri Razman Md Hashim <i>(Member, Independent Non-Executive Director)</i>	3/3*

* There were three Risk Management Committee meetings held after the date of appointment (17 April 2014). One meeting was held in February 2014.

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INTERNAL CONTROL STRUCTURE & RISK MANAGEMENT FRAMEWORK

Management acknowledges its responsibility for the management of risks, for developing, operating and monitoring the system of internal controls and for providing assurance to the Board that it has done so in accordance with the policies adopted by the Board. Further assurance is provided by the Internal Audit function which operates across the Group with emphasis on key operating units within the Group. Acknowledging the need for an effective and independent Internal Audit function as an integral part of the control structure and risk management framework of the Company and the Group, the Internal Audit activities is outsourced to an experienced and noted third party service provider. This is an initiative to improve the effectiveness of the Internal Audit function.

The Group's Enterprise Risk Management Framework serves to inform and provide guidance to Directors, senior management, and staff on managing risks in the Group. The Framework sets out the fundamental principles of risk management that are to be applied in all situations and throughout all levels of the organization, the process for identifying, assessing, responding and monitoring of risks and related reporting, the roles and responsibilities of each level of management in the Group, and the mechanisms, tools and techniques for managing risks.

The Board fully understands the contents of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers and through the Risk Management Committee and the Audit Committee, continually reviews the adequacy and effectiveness of the risk management processes in place within the various operating units with the aim of strengthening the risk management functions across the Company and the Group.

The Board and Management also recognises and acknowledge that the development of an effective risk management and internal control system is an on-going process and to this end, maintains a continuous commitment to strengthen the existing risk management and internal control environment of the Company and the Group.

GROUP AUDIT AND RISK

The day-to-day responsibility for risk management is primarily supported by the Group Audit & Risk Department, which is charged with the responsibility of overseeing the implementation of the approved Enterprise Risk Management ("ERM") framework. The Group outsourced its Risk Management activities beginning 2014. The service provider commenced work at the end of 2013 by conducting training for the staff of MAA Group Berhad and MAA Takaful Berhad. The Group's appointed Liaison Officer serves as a key person representing the management in assisting the service provider to perform the engaged tasks.

During 2014, the outsourced service provider performed an assessment and review of the Group's ERM framework which was further enhanced and approved. It now complies with the ISO31000 Risk Management Standard. The implementation of the enhanced framework is ensured by the Group Audit and Risk Department.

Through a series of interviews and discussions, the Group's risk register was developed and risk owners were educated on accountability and the importance of managing risks. The Group's risk register has been embedded into Q-radar, the Risk Management system which serves as an important tool for risk monitoring and risk reporting and which is currently at its final stage of deployment. Following this initiative, the service provider conducted hands-on training on the Q-radar system for the staff of MAA Group Berhad and MAA Takaful Berhad to ensure the smooth adoption and utilisation of the Q-radar system throughout the Group.

To keep the Board updated on the emerging threat of cyber security affecting the business, there was a Cyber Security Awareness Training conducted for the members of the Board and its Committees during the year. The training provided Board members with an insight into the new thinking on information security, issues and how to effectively respond to these threats in an effective manner.

OTHER KEY RISK MANAGEMENT AND INTERNAL CONTROL ELEMENTS

- Clearly defined terms of reference, authorities and responsibilities of the various committees which include the Audit Committee, Risk Management Committee, Nomination and Remuneration Committee and Investment Committee.
- A well defined organisational structure with clear segregation of duties, accountability and the delegation of responsibilities to Senior Management and the respective division heads including appropriate authority limits to ensure accountability and approval responsibility.
- Budgets are prepared annually for the Business/Operating units and approved by the Board. The budgets which include both operational and financial parameters and longer term initiatives are monitored on a quarterly basis.
- The Chief Executive Officer meets monthly with Senior Management to discuss issues pertaining to the financial performance, business initiatives and other management and corporate issues of the Company and the Group.
- There are regular Board meetings and Board papers are distributed in advance to all Board Members. Decisions of the Board are only made after the required information is made available and deliberated on. The Board maintains complete and effective control over the strategies and direction of the Company and the Group.
- The Audit Committee reviews the effectiveness of the system of risk management and internal control of the Company and the Group on behalf of the Board. The Audit Committee comprises entirely of Non-Executive Members of the Board, who are also Independent Directors. The Audit Committee is not restricted in any way in the conduct of its duties and has unrestricted access to the internal and external auditors of the Company and to all employees of the Company and the Group. The Audit Committee is also entitled to seek such other third party independent professional advice deemed necessary to the performance of its responsibilities.

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- Reviews by the Audit Committee of all risk management and internal control issues identified by the external and internal auditors. Findings are communicated to the Management and the Audit Committee with recommendations for improvements and follow up reviews are conducted by the Group Audit and Risk Department to confirm all agreed recommendations are implemented. The internal audit plan is structured on a risk based approach and is reviewed and approved by the Audit Committee.
- Review of all proposals for material capital and investment opportunities by the Investment Committee and approval of the same by the Board prior to undertaking the expenditure.
- Generation of reports in respect of the business and operating units to enable proper review of the operational, financial and regulatory environment. Management Accounts are prepared on a monthly basis and is reviewed by the Chief Executive Officer together with the Senior Management.

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL

The Board is of the opinion that there was no significant weakness identified during the year in the system of risk management and internal control, contingencies or uncertainties that could result in material loss and adversely affect the Company and the Group. The Company and the Group continues to take the necessary measures to strengthen its internal control structure and the management of risks.

REVIEW OF THE STATEMENT BY THE EXTERNAL AUDITOR

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised) issued by the Malaysian Institute of Accountants. RPG 5 (Revised) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.