STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

This statement on Risk Management and Internal Control is made pursuant to Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements which obliges the Board of Directors ("Board") of a listed company to account for the state of its internal control system in the Annual Report.

The Malaysian Code on Corporate Governance 2012 ("Code") also recommends that the Board should maintain a sound risk management and internal control framework in order to safeguard shareholders' investments and the Group's assets.

Pursuant to these requirements, the Board 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 Securities.

BOARD RESPONSIBILITY

The Board reaffirms its overall responsibility for the Group's system of internal controls, including an assurance of its adequacy, integrity, and its alignment with business objectives. The Board is also of the view that, the risk management framework and internal control system in place are designed and have the capacity to manage the Group's risks within the accepted risk appetite thresholds. The Board does not claim nor believes that the controls will totally eliminate the risks emanating from the exercise of poor judgement in decision-making, human error, deliberate circumvention of control processes by employees, and unforeseeable circumstances. It can therefore only provide reasonable, rather than absolute assurance against material misstatement, fraud or loss.

Whilst the Board has the ultimate responsibility for the Group's risk management and internal control systems, it has delegated the immediate oversight and implementation of these internal controls to the management who make regular submissions to the Audit Committee ("AC") and Risk Management Committee on the status of actions taken to mitigate and/or minimize identified risks.

The risk management and internal control system is subject to the Board's regular review via the independent Internal Audit function with a view towards appraising and ascertaining the relevancy, adequacy and effectiveness of the controls in place in key operational and business areas as identified in the annual Audit Plan.

From time to time, the Board receives assurances from the Chief Executive Officer/Group Managing Director ("CEO/GMD") and Group Chief Operating Officer ("GCOO") on the efficacy of the risk management and internal control system and that it sufficiently safeguards the interests of the Group.

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 consideration.

The Committee met four (4) times during the financial year ended December 2016. The attendance record of the members were as follows:

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

During Committee meetings, the members engaged in active discussions with the Group Audit & Risk Department ("GARD") on risk management matters affecting the Group and its operations.

The emphasis during the financial year was on the operations in the Philippines and Australia. The members were of the view that, the risk management function in the operating companies in the two locations was in need of further strengthening. This prognosis was based on the fact that, these entities operate in geographically distant and distinctly different economic environments/structures.

The Group's operations in the Philippines ranked higher in terms of the priority given the decision to convert MAA General Assurance Philippines, Inc ("MAAGAP") into a subsidiary. Hence, while the risk champions there continue to be supported by the outsourced risk management service provider, GARD stepped up the frequency of its visits to MAAGAP to ensure agreed risk mitigation measures are implemented as scheduled.

One of the key initiatives that saw fruition in MAAGAP during the financial year was the production of a pioneer special risk analysis on claims to provide a better insight into underwriting risks. This analysis enabled the management to identify areas in need of further improvement apart from facilitating more informed decision making. Henceforth, this report has been designated to become a standard reporting feature.

Some of the rectification measures that were undertaken pursuant to the tabling of the report included strengthening of the Internal Control Procedures ("ICP") and Standard Operating Procedures ("SOP") relating to claims and underwriting. Steps were also taken to improve co-ordination between Underwriters and Claims Department. To assist Underwriters in reviewing their portfolio risks, a statistician was engaged during the financial year and entrusted with the data crunching responsibility associated data analytics. To further reinforce compliance, a new Compliance Officer with a risk management background (the previous incumbent was a lawyer) was also hired during the financial year.

In the case of Columbus Capital Pty Limited ("CCA"), GARD continued with its visits to the Australia based operations to monitor and encourage more management emphasis on the risk management function.

Consequently, one of the risks added into the current risk register during the annual review was cyber security risk which represents an evolving threat to CCA's operations. The company worked with its IT service provider to reinforce system based security protocols against cyber-attacks. This included fortifying/rewriting current software configurations. In addition, training sessions to enhance staff awareness, and obtaining and publicizing updates on industry insights into cyber security issues/trends were the other initiatives pursued in this regard.

Apart from the update of CCA's risk registers, a special review was also conducted on the effectiveness of the management's strategies in mitigating risks associated with interest rate fluctuations. Interest rate risk is an integral part of CCA's business, and the fluctuations have a decisive influence over the company's profitability. Results of this review brought comfort to the RMC of both CCA and the Group that this risk is being managed effectually.

In order to automate the administration of the company's risk registers to enable easier monitoring, management and timely reporting across the various business units, a customized risk management system was developed in-house by CCA. This initiative is aligned to the strategic operational objective of having operational teams take more active ownership and accountability to review and manage their specific risk profiles; whilst management focuses on oversight and assessment.

While both the above mentioned entities have their own risk management governance structure and risk management matters are reported to their respective Boards, these reports are also escalated to GARD which reviews, assesses and comments on the contents before they are tabled at the RMC.

As for Kasturi Academia Sdn Bhd ("Kasturi") (formerly known as Pusat Tuisyen Kasturi Sdn Bhd) and its subsidiaries, given their rather small scale and relatively simple business model, the risk management function of the entity is handled directly and driven by GARD. During the financial year, the internal controls of Kasturi were further strengthened via the issuance of two new ICPs. The ICP relating to capital expenditure was designed with the objective of setting up a proper and systematic process for the evaluation, authorisation and control of all capex while the expense control ICP was meant to ensure all outgoing payments are properly documented, monitored and disbursed on a timely basis. Kasturi also updated/modernized its payment process i.e. from manual cheque based disbursements to an online platform for greater efficiency and an easily accessible audit trail.

GROUP AUDIT AND RISK

The day-to-day responsibility for the risk management function lies primarily with those entrusted with risk management responsibilities in the operating units. GARD, oversees the implementation of the Enterprise Risk Management ("ERM") framework which is based on the ISO 31000 Risk Management Standard. GARD continued to monitor the adequacy of the risk management practices of the Group including the businesses in the Philippines and Australia to ascertain the extent of compliance with ISO 31000.

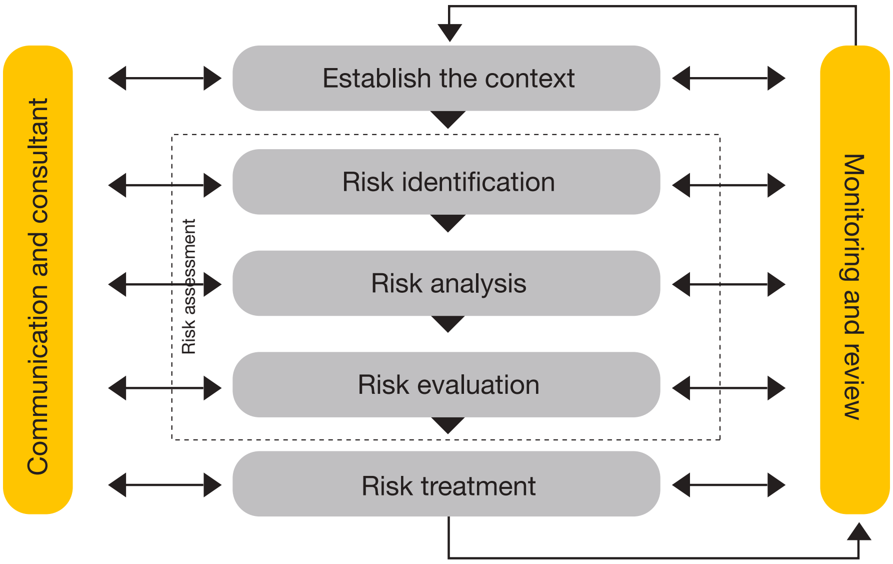
To ensure greater awareness of managing risks amongst the work-force so that it becomes embedded into the work culture, GARD held discussions with departmental heads and the staff on the importance of this responsibility. Sessions were conducted either in classroom settings or through the dissemination of information on risk management practices through the in-house communication channel. They covered areas such as the importance of risk management in the dynamic business environment, risk accountability, methods/techniques of risk identification and evaluation, as well as risk mitigation strategies. A total of 5 of these sessions were held during the financial year. As with the existing risk management guidelines and policies, these information updates were consequently uploaded into GARD's public folder which resides in the Group's portal so that they remain accessible to all at all times.

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 approved by the Board.

The internal control system is periodically assessed to determine its adequacy and level of effectiveness. The evaluation is performed by GARD using the controls rating parameter stated in the risk management framework. Further assurance is provided by Internal Audit. The internal auditors collaborate with risk management to ensure areas with higher risks are assessed more frequently and more intensely. Details on the worked performed by the Internal audit function can be found in the Audit Committee Report on page 60 to 63 of this Annual Report.

The diagram below encapsulates the Risk Management process described in the ERM Framework which serves to inform and provide guidance to the Directors, senior management, and staff on managing risks in the Group:



The ERM framework sets out:

- the fundamentals and principles of risk management that are to be applied in all situations and throughout all levels of the Group;
- the process for identifying, assessing, responding, monitoring and reporting of risks and controls;
- the roles and responsibilities of each level of management in the Group; and
- the mechanisms, tools and techniques for managing risks in the Group.

The GARD ensures that all elements of the Framework are implemented throughout the Group in a consistent fashion. The process includes the systematic application of procedures and practices to the activities of risk identification, assessment, treatment, monitoring and reporting. A quarterly review of risks is undertaken to ensure that the risk profiles remains relevant. This risk management process is applied to all levels of activity in the Group, with the objective of establishing accountability and ensuring mitigation at the point of risk assumption.

The Group is exposed to various financial risks such as credit, interest rate, foreign currency exchange rates, as well as operational risks. The tolerance level for each class of these risks is expressed through the use of a risk impact and likelihood matrix. Once the risk level is determined, the risk owner is obliged to deal with the relevant risks by adhering to the Group's risk treatment guidance on the actions to be taken and target timeline for implementation of the action plan. The Group will only accept a commercial level of risk that provides reasonable assurance on the long term profitability and survival of the Group.

The top three (3) risks (as identified through the application of the above mentioned process) faced by the Group as a whole during 2016 were as follows:

a) **The risk of fraud** which could potentially result in major financial losses and reputational damage. This risk classification owes its origin in the main to the Group's involvement in the financial business where trust and acknowledgment on the security of funds is of paramount importance, the large number and diverse range of stakeholders it interacts with on a daily basis and lastly, its listed status.

   Reflecting this concern, a fraud was discovered to have been perpetrated in one of the subsidiary companies (which has since been divested). In addressing this matter, the Board played a proactive advisory role and all necessary remedial actions were taken including reporting the matter to the relevant authorities, instituting disciplinary action and the engagement of both external and internal auditors to perform the required investigative/forensic audits.

   Based on the findings of the investigations and applying the lessons learnt from this episode, GARD worked with the IT team of MAAGAP to incorporate a more enhanced regime of systems controls. This new system which was implemented during the 4th quarter of 2016, allows for the generation of exception reports to facilitate the early detection of variations from the norm or accepted parameters. Amongst the reports that will be produced are those relating to unusual coverage periods, large claims, high claims frequency history and claims made immediately after/near the inception date of policies.

   GARD has also started on the exercise to emplace a web based whistle blowing platform that will cater for the entire Group. This will allow employees of the Group to lodge reports on any misconduct or weaknesses in operating procedures on a "anywhere, anytime" basis with improved security features to address identity concerns.

b) **Investment risk.** The decision to convert MAAGAP into a subsidiary required the Group to inject a significant amount of capital into the company. In order to protect the invested funds, there is now a greater need for more meticulous supervision and to ensure the internal controls in place are adequate and effective. On account of this priority, GARD together with the Group's Compliance Department has instituted a program/schedule of regular visits to MAAGAP to continually assess and upgrade MAAGAP's capacity and capability to meet the parent Board's expectations on risk management and tolerance.

   One outcome of these interactions was the decision to end the outsourcing of the internal audit function and to bring it in-house. In keeping with best practices, the newly established Internal Audit ("IA") Department reports directly to the AC of MAAGAP and is supervised directly by GARD on operational matters.

   Consequently, the IA Department has been entrusted to confirm, the relevant originators re-visit all existing ICPs and SOPs of MAAGAP with a view to updating them and to ensure consistency with existing Group practices. The exercise which commenced in the 4th quarter of 2016 also involves the construction of new SOP's and ICP's to fill identified gaps in the compliance framework.

   The IA Department has since, tabled its maiden report to the AC of MAAGAP.

c) **The risks associated with the classification of the Company as a PN17 listed issuer.** Until the Regularisation Plan is approved, this status carries the implied risk of the Company losing its listed status which the Board had resolved to maintain. During the previous year, the Board took the view that it would be more beneficial to exit the financial services sector due to the coming into effect of Financial Services Act 2013 ("FSA") which restricted the Company's search for new businesses to the financial sector. As such, following the sale of MAA Takaful Berhad ("MAA Takaful") (now known as Zurich Takaful Malaysia Berhad), the Company no longer has any involvement in the Malaysian financial sector. This development has freed the Company to evaluate business opportunities in a much wider range of economic sectors both locally and externally. The sale also increased the Company's investible funds and has further enhanced its prospects for venturing or acquiring a new core business(es) that will consequently result in the removal of the PN17 classification. This search is being executed in an aggressive but diligent manner and to-date, a total of 30 propositions have been assessed.

The risk profiles of operating entities are different from that of the Group due to their nature of operations.

OTHER KEY ELEMENTS OF INTERNAL CONTROL AND RISK MANAGEMENT

- A comprehensive and detailed set of "SOPs" and "ICPs" encompassing every key activity in all major facets of operations which are constantly revised to reflect changing circumstances. They are also easily accessed for reference purposes through a system based portal. Currently there are 37 SOPs and 18 ICPs in place at the Company level. There were a total of 2 new SOP's/ICP's introduced during the financial year while a further 2 were revised or discarded.

- A Whistleblower Policy providing the channels to anonymously report wrongdoings by employees and/or other stakeholders whilst ensuring the integrity of the process and information and also protecting the rights of informants. Efforts are afoot to migrate the mechanism to a common online platform that will enable reports to be lodged on a "anywhere, anytime" basis besides providing a greater sense of security to reporting parties. There were no reports lodged under the policy during the financial year under review.

- The CEO/GMD and GCOO meet monthly with Senior Management to discuss and review the financial and business performance of all operating entities, new business initiatives and other corporate issues of the Group including any policy papers to be tabled at the parent Board. These management forums relate to the operations of the Company itself, Kasturi and the overseas operations. There were a combined total of 42 such Executive level meetings held in the course of 2016.

- Annual Budgets of all operating subsidiary and associate companies are prepared by the relevant Business/Operating units and evaluated by Head Office before being tabled for approval at the applicable Boards. The budgets which include both operational and financial parameters and longer term initiatives are monitored on a monthly basis at the Management meetings mentioned above.

- A formal and structured Document Sign-Off Policy where a mandatory minimum of four (4) different Department Heads (apart from the originator) must review, comment and sign off on any proposed changes or introduction of new operational policies before it can be submitted to the CEO/GMD or GCOO for endorsement and adoption.

- An AC comprising entirely of Non-Executive Members of the Board, who are also Independent Directors. The AC 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 Group. The AC and the Board is also entitled to seek such other third party independent professional advice deemed necessary to the discharge of its responsibilities. In 2016, the AC exercised this authority once and appointed an external audit firm to investigate an alleged fraud case in a subsidiary.

- Review of all proposals for material capital investment by the Investment Committee and approval of the same by the Board prior to undertaking the said expenditure.

- Reviews by the AC of all risk management and internal control issues identified by the external and internal auditors. Findings are communicated to the Management and the AC with recommendations for improvements. Follow-up action to ascertain the implementation status of the recommended remedial actions is conducted by GARD and the AC is furnished with the relevant update.

- Adoption and implementation of the annual risk-based internal audit plan after it has been approved by the AC.

- Clearly defined terms of reference, authorities and responsibilities of the various committees which include the Audit Committee, Risk Management Committee, Nomination and Remuneration Committee, Investment Committee, Executive Committee and Business Committee.

- A well-defined organisational structure with clear segregation of duties, accountabilities and responsibilities between Senior Management and Department Heads including appropriately formalised and documented financial and non-financial authority limits.

- Distribution of papers at least five (5) days in advance of a scheduled Board or Board Committee meeting so as to allow sufficient time for members to digest the contents and to seek additional information so as to arrive at an informed decision. The Board maintains complete and effective control over the strategies and direction of the Group especially with regard to reserved matters.

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL

The Board is of the opinion that, there were no significant weaknesses identified during the financial year in the system of risk management and internal control, contingencies or uncertainties that could result in material losses and adversely affect the Group. The Group continue to take the necessary measures to strengthen their 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 Securities 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.