

CONFIDENTIAL



SERBA DINAMIK HOLDINGS BERHAD

RISK MANAGEMENT GOVERNANCE, FRAMEWORK & PROCESS

(Approved by the Board of Directors on 20 May 2020)

Prepared by:



20 MAY 2020

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1. INTRODUCTION

All activities undertaken by the Group carry an element of risk and the exposure to these risks is managed through the practice of Risk Management.

In managing risk, it is the Group's practice to take advantage of potential opportunities while managing potential adverse effects, and managing risk is the responsibility of everyone in the Group.

The objectives of this Document are:

- Ensure going business concern by avoiding and mitigating losses;
- Improve business performance by informing and improving decision making and planning;
- Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefit the Group is encouraged; and
- Provide a sound basis for integrated risk management and internal control as components of good corporate governance.

This Document outlines the Group's risk management process and sets out the responsibilities of the Board, ARC, Group Managing Director / Chief Executive Director, Risk Management Working Committee, Group Chief Risk Officer, Risk Management Function, Risk Owners, and others within the Group in relation to risk management.

The Board is the policy owner of this Document.

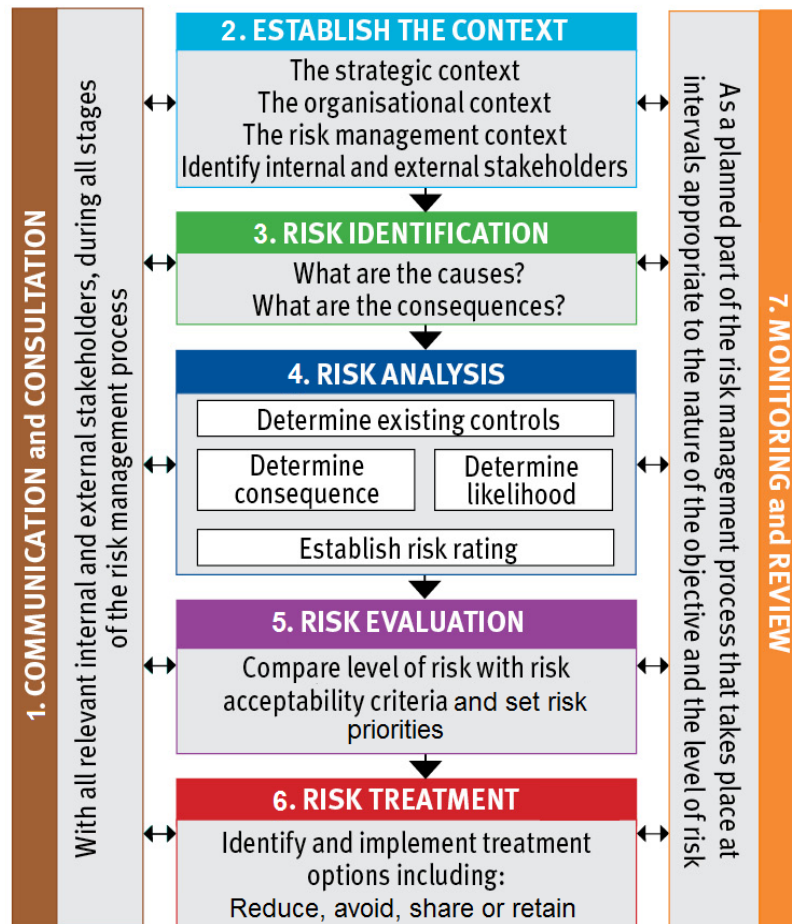
2. RISK GOVERNANCE

NO.	ENTITY	RESPONSIBILITY
1	The Board	The responsibilities of the Board in respect to the Risk Management were defined in the Board Charter.
2	ARC	The responsibilities of ARC in respect to the Risk Management were defined in its Terms of Reference.
3	Group Managing Director / Chief Executive Director	<ul style="list-style-type: none"> • Monitoring compliance with this policy; • Reporting to the Board on compliance with this policy; • Developing, implementing and monitoring systems, management of policies and procedures relevant to the business, including facilitating review by the executive on a regular basis; and • Review the Risk Register and Maintaining the risk register.
4	Risk Management Working Committee	Risk Management Working Committee is undertaking by the MANCO in which responsibilities of the Committee in respect to the Risk Management were defined in its Terms of Reference.
5	Group Chief Risk Officer	<ul style="list-style-type: none"> • Lead the development, implementation and management of the Group Risk Management Framework in accordance with the applicable standards for risk; • Ensure that risk evaluation, monitoring, review and documenting occur in accordance with this Document; • Provide advice to the Board to ensure compliance with relevant legislation, regulations, policies and standards and to build Group's capability to mitigate risk related to human, financial and physical resources; • Produce a consolidated Risk Profile & Risk Register approved by the GMD / CEO for submission on a Quarterly Basis to ARC and the Board for review; • Maintain risk management communication within the Group; and • Coordinate and supply training in risk management.
6	Risk Management Function	<ul style="list-style-type: none"> • Assist GRCO on how well the business units are addressing the requirements set out in Group's Risk Management Framework. • Evaluate and report on the compliance of the business units with Group's Risk Management Framework. • Evaluate controls in key risk areas on an ad-hoc basis. • Evaluate compliance with other Group policies on an ad-hoc basis. • Review and report on the extent to which management has applied Group's risk management framework.

NO.	ENTITY	RESPONSIBILITY
7	Risk Owners	<p>The Risk Owners is responsible for ensuring on a daily basis that the relevant operational procedures and controls implemented to treat each risk area are adequate and effective.</p> <p>If a control or procedure is inadequate and ineffective in treating the risk, the risk owners should report this, with a recommendation for an alternative risk treatment, to the Risk Management Working Committee.</p>
8	Others	<p>Every staff is responsible for effective management of risk including the identification of potential risks.</p> <p>Management is responsible for development of risk mitigation plans and implementation of risk reduction strategies.</p> <p>Risk management processes should be integrated with other planning processes and management activities.</p> <p>Head of Division/Department/Units are accountable for strategic risk management within areas under their control, including the promotion and training of the risk management process to staff.</p>

3. RISK MANAGEMENT FRAMEWORK

The Risk Management Framework outlines foundations and organization arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout Group.



4. RISK MANAGEMENT PROCESS

The risk management system is dynamic and is designed to adapt to the Group's developments and any changes in the risk profile over time.

The risk management system is based on a structured and systemic process which takes into consideration of the Group's internal and external risks.

The main elements of the risk management process are as follows:

NO.	PROCESS	DELIBERATION
1	Communicate and Consult	Communicate and consult with internal and external stakeholders as appropriate at each stage of the risk management process and concerning the process as a whole.
2	Establish the Context	Establish external, internal and risk management context in which the rest of the process will take place – the criteria against which risk will be evaluated should be established and the structure of the analysis defined.
3	Risk Identification	Identify where, when, why and how events could prevent, degrade, delay or enhance the achievement of the Group's objectives.
4	Recognition of Risk	Document the risks that have been identified in the Risk Register.
5	Analysis of the Risk	Determine consequences and likelihood and hence the level of risk by analysing the range of potential consequences and how these could occur.
6	Evaluation of the Risk	Compare estimated levels of risk against the pre-established criteria and consider the balance between potential benefits and adverse outcomes. This enables decisions to be made about the extent and nature of treatments required and about priorities.
7	Treatment of the Risk	Develop and implement specific cost-effective strategies and action plans for increasing potential benefits and reducing potential costs.
8	Monitoring & Review of Risk	Monitor the effectiveness of all steps of the risk management process, for continuous improvement.

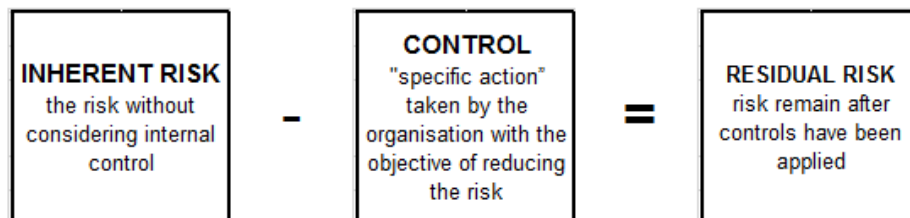
5. SEGMENT & TYPE OF RISK

The Group's risks may come from any internal or external event which, if it occurs, may affect the ability to efficiently and effectively of the Group operation:

NO.	SEGMENT	DELIBERATION
1	Internal risks - Operational Risk	Those risks that specifically relate to the Group's business itself and as such as generally within its control, which include risks such as employee related risks, strategic risks, and financial risks.
2	External risks - Business Risk	Those risks that are outside the control of the Group, and include risks such as market conditions and legislative change.

The risks are defined in 2 types:

NO.	TYPE	DELIBERATION
1	Inherent Risk	Commonly defined as "the risk without considering internal control" or alternatively "a raw risk that has no mitigation factor or treatment applied to it"
2	Residual Risk	Commonly defined as "the level or risk remaining after controls have been applied. An exposure to loss remaining, after other known risk have been countered or eliminated".



6. RESIDUAL RISK RATING

NO.	RATING	DELIBERATION
1	Critical	<p>These are classed as primary risks requiring immediate attention.</p> <p>It may have a high or low likelihood of occurrence, but its potential consequences are such that it must be treated as a high priority.</p> <p>This may mean that mitigation strategies should be developed and put in place to reduce or eliminate the risks, and the risks monitored regularly.</p> <p>Consideration should be given to planning being specific to the risk rather than generic.</p>
2	High	<p>These risks are classed as significant.</p> <p>It may have a high or medium likelihood of occurrence, but its potential consequences are sufficiently serious to warrant consideration after those risks classified as 'very high'.</p> <p>Consideration should be given to developing strategies to reduce or eliminate the risks, and the risks monitored regularly.</p>
3	Medium	<p>These risks are less significant, but may cause upset and inconvenience in the short term.</p> <p>These risks should be monitored to ensure that it is being appropriately managed and consideration given to its being managed under generic planning arrangements.</p>
4	Low	<p>These risks are both unlikely to occur and not significant in its impact.</p> <p>It should be managed using normal or generic planning arrangements and require minimal monitoring and control unless subsequent risk assessments show a substantial change, prompting a move to another risk category.</p>

7. RISK CATEGORY

NO.	RISK CATEGORY	DELIBERATION
1	Environment	<ul style="list-style-type: none"> Risks associated with protection and enhancement of the environment, as well as risks arising from natural disasters such as floods, earthquakes, landslides, tsunamis, hurricanes, adverse weather conditions, etc. This also includes the risk of disruption to business activities due to the spread of pandemics / epidemics.
2	Financial	<ul style="list-style-type: none"> Risks relating to financial management or transactions, such as fraud, theft, conflict of interest, duplicated payments, etc. Includes risks relating to financial budgets and factors affecting budgets, insufficient cash flows, and improper controls over financial operations or processes.
3	Human Resources	<ul style="list-style-type: none"> Risks arising from ineffective organisational capabilities, work environment, and other relating to human resource issues and competencies within the Group such as relating to recruitment, engagement, training and staff development.
4	Information Technology	<ul style="list-style-type: none"> Risks arising from the use and reliance on information by the Group or other external entities, which may impact operations, such as internal systems, external service provider's systems, business / internet Risks relating to the protection of corporate and private information. Risks relating to the security, function or management of technological systems and processes. Risks relating to IT implementation, including mismatch or lack of adequate technology, IT applications and capabilities.
5	Legal, Regulatory & Compliance	<ul style="list-style-type: none"> Risks resulting from non-compliance with internal and external policies, procedures, standards and laws. Risks relating to service and/or product delivery or information or breach of contracts or defaults that result in legal proceedings.
6	Operational	<ul style="list-style-type: none"> Risks associated with a lack of defined policies, processes, procedures or delegations of authority at a functional or business unit level. Risks associated with culture, organizational structure and communication including supporting system, processes and procedures. Risks resulting from the ineffectiveness of operational processes, legal and / or financial impacts and other shortfalls.
7	Stakeholder Management	<ul style="list-style-type: none"> Risks associated with the identification of individuals and organisations with a direct influence on and/or interest in the Group's operations. Risks associated with the need to ensure ongoing and effective communication and consultation with key stakeholders.

NO.	RISK CATEGORY	DELIBERATION
8	Market	<ul style="list-style-type: none"> Risks due to changes or volatility in the market forces affecting the business operation and the Group's competitive position or advantage. Risks relating to the incomplete or total absence or ineffective strategies to position the Group's products and services in the market.
9	Corruption	<ul style="list-style-type: none"> Risk which is equated with the set of institutional vulnerabilities within a system or process which might favor or facilitate corrupt practices.
10	Investment	<ul style="list-style-type: none"> Investment risk can be defined as the probability or likelihood of occurrence of losses relative to the expected return on any particular investment.

8. RISK TREATMENT

There are four (4) principal ways in which we can effectively manage risks, upon obtained of Residual Risk Rating:

RATING	TREATMENT	DELIBERATION	CONTROL EFFECTIVENESS
1	Reduce	The risk can be accepted but require some actions or control measures to lessen its likelihood or impact.	Very Good
2	Spread	The risk can be spread to scatter, share or divide over an area over period of time.	Good
3	Transfer	The risk can be transferred through subscription of Insurance policy and other agreements permit shifting of risks to a counter party.	Satisfactory
4	Avoid	The risks may be eliminated by not engaging in activities / functions.	Non-Satisfactory

SAMPLE OF RISK PROFILE

RISK PROFILE			
RISK CATEGORY	RISK DESCRIPTION	EXISTING CONTROL	PROPOSED RISK MITIGATION

SAMPLE OF RISK REGISTER

No.	Risk ID	Risk Category	Pre-Treatment Score			Risk Treatment	Risk Owner	Control Effectiveness	Post Treatment Score		
			1 Likelihood	2 Impact	3 = 1 x 2 Risk Score				4 Residual Likelihood Rating	5 Residual Impact Rating	6 = 4 x 5 Residual Risk Rating

LIKELIHOOD	THE CHANCE OF EVENT OCCUR WITHIN A YEAR	RATING
Improbable	The event may occur only in exceptional circumstances	1
Unlikely	The event could occur at some time	2
Likely	The event will probably occur in most circumstances	3
Very likely	The event is expected to occur in most circumstances	4

NET ASSET AS 31 DECEMBER 2018: RM2.1 BILLION			
IMPACT	TOLERANCE LEVEL	CRITERIA	RESIDUAL RISK RATING
Low	(<= 1%)	<= RM20 mil OR Manageable by routine procedure	1
Medium	(> 1% ~ 5%)	> RM20 mil ~ RM 100 mil OR Management responsibility is needed	2
High	(> 5% ~ 10%)	>RM100 mil ~ RM 200 mil OR Senior Management attention is needed	3
Critical	(> 10%)	> RM200 mil OR Not acceptable, required further mitigation action	4