



## STATEMENT ON INTERNAL CONTROL

### RESPONSIBILITY OF THE BOARD

The Board of Directors (“the Board”) of Cagamas Holdings Berhad together with the boards of other companies within the Cagamas Group of Companies (“the Group”) affirm their overall responsibility in ensuring that the Group maintains a sound and effective system of internal controls that supports the achievement of the Group’s objectives. The system on internal controls covers, inter alia, risk management, financial, strategy, organisational, operational and compliance controls. However, the Board recognises that such a system is designed to manage and control the risks at acceptable levels in line with the risk appetite set by the Board in achieving business objectives. Therefore, the system provides reasonable, but not absolute assurance, against the occurrence of any material misstatement of financial information.

The role of management is to implement the Board’s policies on risk and internal control by identifying and evaluating the risks faced and designing, operating and monitoring a suitable system of internal controls to mitigate and control these risks.

### RISK MANAGEMENT

The Board Risk Committee (“BRC”) of Cagamas Berhad (“Cagamas”) oversees the management of risks associated with the Group’s business and operations. The BRC oversees the development of risk management strategies, policies, key internal processes and systems to assess, measure, manage, monitor and report risk exposures within the Group. The BRC reports directly to the board of Cagamas which in turn keeps the Board informed of the decisions pertaining to risk reviews and related risk issues.

The BRC is supported by the Risk Management & Compliance Division of Cagamas which provides risk management support and performs risk management reviews on the business and operations of Cagamas, the main operating entity as well as for the other entities within the Group. Result of the risk management reviews and other findings are reported to the Board as well as to the boards of the respective subsidiaries. The Group’s risk management principles are generally based on Bank Negara Malaysia (“BNM”) guidelines and industry best practices.

### KEY INTERNAL CONTROL PROCESSES

The Group’s internal control system encompasses the following key processes:-

#### 1. Authority and Responsibility

- (a) An organisational structure, job descriptions and Key Results Areas which clearly define lines of responsibility and accountability aligned to business and operational requirements.
- (b) Clearly defined lines of responsibility and delegation of authority to the committees of the Board, Management and staff.
- (c) Management has also set up the Management Executive Committee, Asset Liability Committee, Information Technology Steering Committee, Safety & Health Committee and Crisis Management Committee to ensure effective management and supervision of the areas under the respective Committees’ purview.

#### 2. Planning, Monitoring and Reporting

- (a) The Annual Business Plan and Budget is developed, presented and approved by the Board before implementation. In addition, actual performances are reviewed against the targeted results on a quarterly basis allowing timely responses and corrective actions to be taken to mitigate risks. The result of such performance reviews is reported to the Board on a half-yearly basis. Where necessary, the Annual Business Plan and Budget are revised, taking into account any changes in business conditions.
- (b) Regular reports are provided to the Board, the Board of other companies within the Group and the Board Committees. Reports on the financial position, status of loans and financings purchased, bonds and notes issued and interest rate swap transactions are provided to the Board at least once each quarter. Where necessary, other issues such as legal, accounting and other relevant matters are also reported to the Board.
- (c) Regular and comprehensive information is provided to management covering financial and operational reports at least on a monthly basis.



## STATEMENT ON INTERNAL CONTROL

(CONTINUED)

### 3. Policies and Procedures

Clear, formalised and documented internal policies and procedures manuals are in place to ensure compliance with internal controls and relevant laws and regulations. Regular reviews are performed to ensure that documentation remains current and relevant.

### 4. Independent Review by Internal Audit Division

- (a) The Internal Audit Division provides reasonable assurance to the Board by conducting an independent review on the adequacy, effectiveness and integrity of the system of internal controls. It adopts a risk-based audit approach in accordance with the annual audit plan approved by the Group Board Audit Committee ("GBAC"). The results of the audits were presented to the GBAC, which met four times during the financial year ended 31 December 2020.
- (b) The audit plan and audit reports are also submitted to the Board and the respective boards of the other companies within the Group to inform of any weaknesses in the internal controls system. During the financial year, several weaknesses were highlighted, but none resulted in material loss, contingencies or uncertainties or impacted on reputational risk that would require disclosure in the Annual Report.

### 5. Performance Measurement and Staff Competency

- (a) Key Performance Indicators, which are based on the Performance Scorecard approach, are used to track and measure staff performance.
- (b) There are proper guidelines for the hiring and termination of staff, formal training programs and upskilling certification by industry experts for staff, annual performance appraisal and other relevant procedures in place to ensure that staff are competent and adequately trained in carrying out their responsibilities.

### 6. Business Continuity Planning

A Business Continuity Plan, including a Disaster Recovery Plan is in place to ensure continuity of business operations.

### 7. Shariah Governance

Cagamas is guided by Shariah rulings issued by BNM as well as Securities Commission. An internal guideline in the form of Shariah Governance policy has been established to govern and strengthen the management of potential Shariah Non-compliance risk arising from Islamic business activities and operations that include amongst others, key functions of Shariah Compliance Review, Shariah Risk Management and Shariah Audit. In addition, Cagamas had appointed an independent Shariah Advisor ("SA") to provide views and opinions related to Shariah matters, as well as perform an oversight role on Shariah matters related to the Islamic business operations and activities of the Group. These key functions are governed by clear roles and responsibilities, which were established in line with the policy document on Shariah Governance for Islamic Financial Institutions issued by BNM.

## CONCLUSION

The system of internal controls in place for the year under review and up to the date of issuance of the Annual Report and financial statements, is sound and sufficient to safeguard the shareholders' investment as well as the interests of key stakeholders namely regulators, counterparties, employees and the Group's assets.