

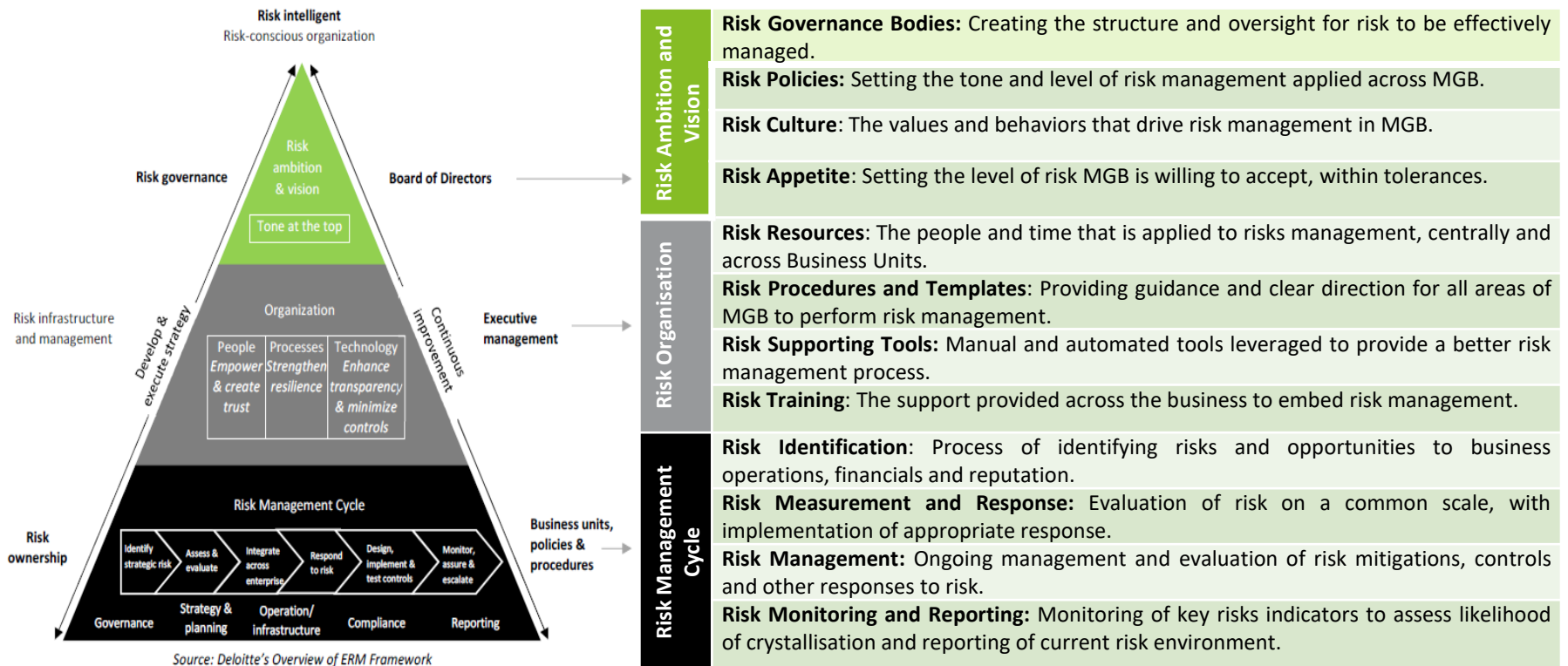
MGB Berhad (“MGB”) Enterprise Risk Management (“ERM”) Framework



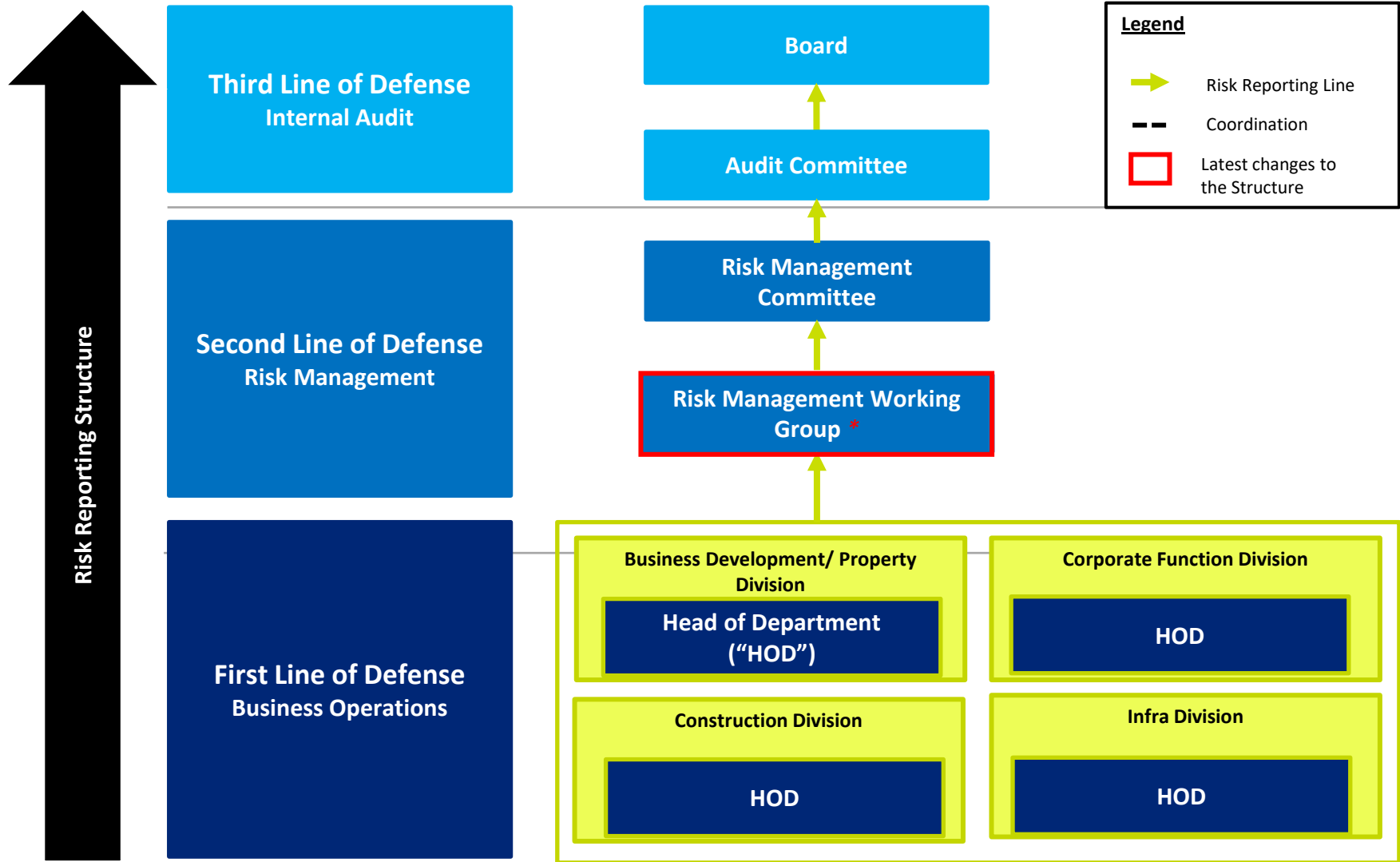
MGB's ERM Architecture - Enhanced

The ERM Framework is based on three (3) key components of effective risk management where it is split further into 12 core building blocks of a successful Risk Management Function.

- **Risk Ambition and Vision:** Determine the nature and extent of the strategic risks that MGB is willing to take to achieve its objectives, led by the Board of Directors (“Board”);
- **Risk Organisation:** Design, implementation, and maintenance of an effective risk management program, led by the Risk Management Working Group and Risk Management Committee (“RMC”); and
- **Risk Management Cycle:** Currently, MGB has implemented the risk management processes from identifying, evaluating, monitoring, managing significant risks and reporting on risks, led by the divisions/ departments. This process is reviewed by the Board, Audit Committee and RMC on a semi-annually basis. All the above-mentioned results are updated in the Risk Register.



Risk Governance Structure



* The RMWG includes the Executive Director ("ED") & Chief Executive Officer ("CEO"), Deputy CEO, Chief Operating Officer ("COO"), Head of Department, i.e., Finance, Project (Office), Human Resource, Operation and Admin, Secretarial, Corporate Affairs and Risk Management Department) and Project Management Officer ("PMO"). The PMO coordinates the ERM exercise conducted by Deloitte.

Risk Likelihood

The risk likelihood measurement guideline has been improvised by revising its description and adding a guideline of potential occurrences within a year.

MGB's Existing Likelihood Measurements:

Likelihood	Level
Almost certain (continually experienced)	5
Likely (will occur frequently)	4
Possible (will occur several times)	3
Unlikely (unlikely but can reasonably expected to occur)	2
Rare (unlikely to occur but possible)	1



Enhanced Likelihood Measurements:

Score		Description	Guideline (<i>Potential Occurrences within a year</i>)
5	Almost Certain	The risk is almost certain to occur	More than 20 times
4	Likely	High likelihood of occurrence	10 to 20 times
3	Possible	This risk may exist to happen but is not certain or probable	5 to 10 times
2	Unlikely	Conceivable, but low potential of occurrence	1 to 5 times
1	Rare	This risk may only occur in very exceptional circumstances.	Less than 1 time

Risk Impact

The risk impact measurement guideline has been improvised by splitting them into financial and non-financial impacts with quantitative and/ or qualitative measurements; *i.e., Financial Losses, Reputation/ Brand, Operational Efficiency, Legal/ Regulatory and Stakeholders.*

Enhanced Impact Measurements:

Score	Financial Losses	Reputation / Brand	Operational Efficiency	Legal/ Regulatory	Stakeholders
1	<ul style="list-style-type: none"> Impact of < 0.5% Profit Before Tax ("PBT*") < RM100k Penalty/ Legal Liability up to RM50K 	No local publicity and local media coverage.	Business interruption of less than one (1) day.	<ul style="list-style-type: none"> No queries or Letter of reprimand issued by the Authorities. No fines or penalties issued by the Authorities. 	<ul style="list-style-type: none"> No impact on staff morale and commitment. Insignificant impact to the Company's ability to meet the requirements of Stakeholders.
2	<ul style="list-style-type: none"> Impact of 0.5% to 2.0% of PBT* RM100k to RM420k RM50K < Penalty/ Legal Liability < RM100K 	Minor negative local publicity and local media coverage.	Business interruption between one (1) to three (3) days.	<ul style="list-style-type: none"> Letter of reprimand issued by the Authorities. No fines or penalties issued by the Authorities. 	<ul style="list-style-type: none"> Minor impact on staff morale and commitment. Minor impact to the Company's ability to meet the requirements of Stakeholders.
3	<ul style="list-style-type: none"> Impact of 2.1% to 5.0% of PBT* RM420k to RM1 mil RM100K < Penalty/ Legal Liability < RM500K 	Moderate negative local publicity and local media coverage.	Business interruption of up to three (3) days.	<ul style="list-style-type: none"> Letter of reprimand issued by the Authorities. Fines or penalties issued by the Authorities. 	<ul style="list-style-type: none"> Moderate impact on staff morale and commitment. Moderate impact on the Company's ability to meet the requirements of Stakeholders.
4	<ul style="list-style-type: none"> Impact of 5.1% to 10.0% PBT* RM1 mil. to RM2mil. RM500K < Penalty/ Legal Liability < RM1 mil. 	Major negative national publicity and national media coverage resulting in queries and investigations by the authorities.	Business interruption of up to one (1) week.	<ul style="list-style-type: none"> Letter of reprimand, issued publicly, by the Authorities. Major fines, penalties issued by the Authorities. Major litigation, with the Government or with the private sectors. 	<ul style="list-style-type: none"> Major impact on staff morale and commitment. Major impact to the Company's ability to comply with the requirements of Stakeholders.
5	<ul style="list-style-type: none"> Impact of > 10.0% of PBT* RM 2mil. Penalty/ Legal Liability > RM1 mil. 	Extensive negative national publicity and national media coverage resulting in queries and investigations by the authorities.	Business interruption of more than one (1) week.	<ul style="list-style-type: none"> Forced closure or cessation of operations by the Authorities. Material fines or penalties by issued by the Authorities. Possible prosecution of Top Management / Board Members. Serious litigation including class actions. 	<ul style="list-style-type: none"> Catastrophic impact on staff morale and commitment. Total failure to comply with requirements of Stakeholders.

* PBT of RM20.00 million is for illustration purpose only. Based on the Annual Report, MGB's PBT in 2019 and 2020 were RM21.00 million and RM23.00 million respectively.

MGB's Existing Impact Measurements:

Consequences	Level
Extreme (Disastrous business or project impact. Business or project survival is at risk.)	5
Major (Significant business or project impact. Operations severely affected.)	4
Moderate (Limited business or project impact. Reasonable time/resources required.)	3
Minor (Slight business or project impact. Some disruption possible.)	2
Insignificant (Negligible business or project impact. Minor issues easily handled by normal day to day processes.)	1



Determining Risk Score

The risk score is derived by using the following formula:

Risk Likelihood
The risk is almost certain to occur
High likelihood of occurrence
This risk may exist to happen but is not certain or probable
Conceivable, but low potential of occurrence
This risk may only occur in very exceptional circumstances.

Inherent Likelihood and Impact:

Root Causes = Likelihood and Impact

X

Risk Impact
Potential Financial Loss
Potential Business Interruption
Potential Reputational Damage
Potential Regulatory Penalty
Potential Stakeholder Confidence Loss and Staff Dissatisfaction

Residual Likelihood and Impact:

*Root Causes vs. Internal Controls
= Likelihood and Impact*

The risk score, that is between 1 and 25, can be visualized using Risk Heat Map in the following page.

Risk Heat Map

The Risk Heat Map has been improvised by splitting further the risk rating from three (3) ratings (*High, Medium and Low*) to five (5) ratings (*Catastrophic, High, Moderate, Low and Very Low*).

MGB's Existing Risk Heat Map:

Risk Matrix			Consequences				
			Insignificant	Minor	Moderate	Major	Catastrophic
			1	2	3	4	5
Likelihood	Rare	1	1	2	3	4	5
	Unlikely	2	2	4	6	8	10
	Possible	3	3	6	9	12	15
	Likely	4	4	8	12	16	20
	Almost certain	5	5	10	15	20	25

Risk Ranking		
Index	Rank	Score
H	HIGH	17 - 25
M	MEDIUM	9 - 16
L	LOW	1 - 8

Enhanced Risk Heat Map:

Risk Heat Map		Risk Impact					
		Insignificant	Minor	Moderate	Major	Catastrophic	
		1	2	3	4	5	
Risk Likelihood	Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
	Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
	Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
	Unlikely	2	Very Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
	Rare	1	Very Low (1)	Very Low (2)	Low (3)	Low (4)	Moderate (5)

Rating	Score	Description
Extreme	17 - 25	Immediate action required from MGB's Head of Division/ Department and/ or RMC.
High	10 - 16	MGB is willing to expose itself to more risk in this area and able to tolerate a degree of loss or failure. MGB recognises that occasional failure is to be expected as it seeks certain types of opportunities.
Moderate	5 - 9	MGB is willing to expose itself to measure risk in this area, when the risk taken is based on a favorable cost/ benefit analysis. MGB recognises that tradeoff decisions must be made to optimise meeting organisational objectives against minimising exposure.
Low	3 - 4	MGB will undertake control measures to the extent that risk exposure is unlikely.
Very Low	1 - 2	MGB is committed to sustain a strong management and control system to ensure that risk exposure is rare.

Risk Movement

