

Check and Balance

- 74 Statement on Corporate Governance
- 80 Risk Management
- 86 Statement on Risk Management and Internal Control
- 90 Board Audit Committee Report
- 93 Statement on Internal Audit
- 95 Statement on Investment Risk Management

“ The Investment Panel Risk Committee must be able to identify situations of potential conflict of interest, given its independent role and structure. The members consist of professionals and independent directors with extensive experience who practice good ethical standards and highlight any potential area of conflict. ”

Dato' Sri Mohamed Nazir Abdul Razak
Chairman, Investment Panel Risk Committee

STATEMENT ON CORPORATE GOVERNANCE

Sustainability and responsible investing has been in the limelight in the investment community in 2015 with the rise in corporate governance issues in the region. Sustainability is shaping businesses and investment today and EPF as Malaysia's largest pension fund is striving to be the forefront in championing sustainable investing and incorporating Environmental, Social and Governance in its investment consideration. The EPF believes that a sound corporate governance framework promotes strong leadership by the Board of Directors and good management practices, which will in turn contribute to enhancing accountability, transparency and long term success of the companies.

The EPF continues to regard good governance practices as integral to protect the interest of all stakeholders and the reputation of the Fund. As a trustee with assets of RM684.53 billion, sustainability is a key factor in fortifying the alignment of interests between the EPF as a long-term investor with its fiduciary duties, the Government in its supervisory and developmental role, and its contributing members as beneficiaries. With the continuous innovation and movement in corporate governance and sustainable investing, the EPF has moved in tandem by getting involved in a number of initiatives in championing sound corporate governance. Among others, engagement and active voting is becoming an intrinsic part of our equity investment process. The EPF will engage and vote on any issue affecting the long term sustainability of a company which it has invested in.

During the year, the EPF has also been involved in efforts to enhance corporate governance awareness and the adoption of good corporate governance practices. The initiatives include:

- Corporate Governance Programmes**
 The EPF regularly participates in international forums on corporate governance in order to be up-to-date with current practices such as the ASEAN Annual Corporate Governance Summit by the Malaysian Institute of Corporate Governance (MICG).

- Institutional Investors Council and Working Group Committee of The Malaysian Code for Institutional Investors**

The EPF has been playing an active role in the formation and establishment of the Malaysian Code for Institutional Investors 2014 which was launched on 27 June 2014. This initiative aims to outline broad principles of effective stewardship by institutional investors, accompanied with comprehensive guidelines to implement the principles. In 2015, the EPF was part of the Institutional Investors Council and Working Group committee. This aims to provide a platform for Institutional Investors to discuss issues of common interest.

- ESG Index**

In 2015, EPF pioneered its first in-house Environmental, Social and Governance (ESG) corporate equity rating tool in order to integrate the element of sustainability, governance and integrity into our investment processes. This rating mechanism does not

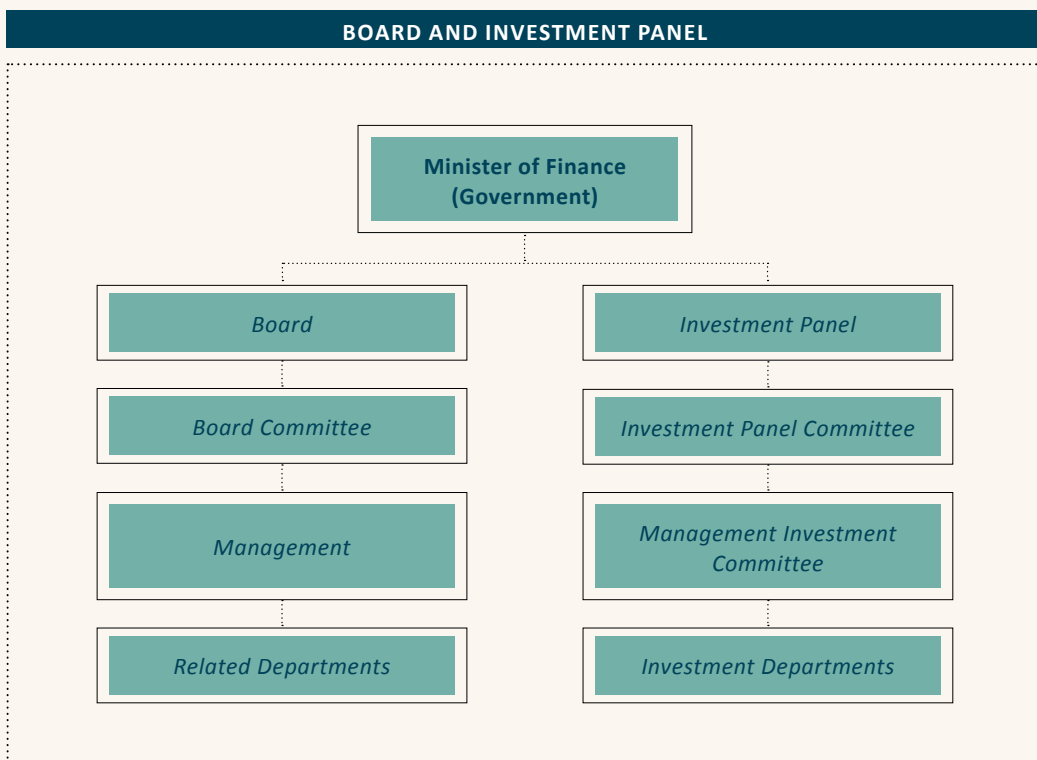
only extend beyond the traditional focus on corporate governance, but also aims to capture a more holistic picture of what and how a company is performing from the perspective of environmental and social needs.

- Corporate Integrity Pledge**

The EPF together with its wholly owned subsidiary KWASA Land Sdn. Bhd. signed a Corporate Integrity Pledge on 7th December 2015 as a continued effort to support best practices in business ethics, in line with the best practices of global governance.

The EPF corporate governance standards are drawn from various best practices, particularly from the following references:

- Malaysian Code on Corporate Governance
- CG Guide: Towards Boardroom Excellence by Bursa Malaysia
- Malaysian Code for Institutional Investors 2014



STATEMENT ON CORPORATE GOVERNANCE

Board Appointment Process

Members of the Board and the Investment Panel, as well as the Chief Executive Officer (CEO), are appointed by the Minister of Finance. The Minister appoints only those who have proven track records of integrity, competency and reliability to undertake their obligations effectively. Appointments are for a two-year term as we recognize the importance of bringing in fresh perspective into the Board. The Minister of Finance also reviews the performance and effectiveness of members of the Board and Investment Panel.

Board Composition

The EPF Act 1991 dictates that its Board membership should not be more than 20 persons, inclusive of the Chairman and CEO. In 2015, there were 18 members on the EPF Board representing various stakeholders which include:

- (i) The Chairman,
- (ii) Five members representing the Government, including a representative of the Ministry of Finance as Deputy Chairman,
- (iii) Four members representing Employers,
- (iv) Four members representing Employees,
- (v) Three professional members from various backgrounds, and
- (vi) The CEO as an ex-officio member.

The Investment Panel, headed by the Chairman of the EPF Board, comprises seven members:

- (i) The Chairman,
- (ii) One representative from the Ministry of Finance as Deputy Chairman,
- (iii) One representative from Bank Negara,
- (iv) Three professional members, and
- (v) The CEO as an ex-officio member.

The EPF Board members consist of individuals with distinguished achievements, diverse skills, competencies and experience.

Roles and Responsibilities of the Board and Investment Panel

The Board assumes a number of specific responsibilities such as overseeing the implementation of policies related to the operations of the EPF, identifying key risk areas and taking appropriate steps to manage these risks, as well as reviewing the adequacy and integrity of the internal control systems.

The EPF Act 1991 provides for the establishment of an Investment Panel to provide strategic direction on investment related issues. The Investment Panel determines and approves investment activities in line with existing guidelines, policies on risk control and asset allocation.

The Board relies on the integrity and due diligence of senior management, external auditors and advisors to oversee the EPF's overall performance and attainment of its objectives, key operational initiatives, financial plans and annual budget, major investments, divestment and funding proposals, financial performance reviews, risk management and corporate governance practices.

Chairman and Chief Executive Officer

The roles and responsibilities of the Chairman and CEO are kept separate in accordance with best practices and to ensure appropriate balance of power and supervision of the management, increased accountability and greater independence.

The Chairman leads and ensures effective and comprehensive discussion on matters brought to the Board, including strategic issues and business plans. The Chairman ensures that the Board's decisions are translated into executive action.

The CEO's primary role is to manage the EPF's operations effectively in accordance with its strategies and policies and provide close oversight, guidance, advice and leadership to senior management.

Board Effectiveness Evaluation (BEE)

The EPF carries out Board Effectiveness Evaluation (BEE) to assess the performance of the Board, including the Chairman and CEO, the Investment Panel, Audit Committee and Risk Management Committee. This is in addition to the self and peer evaluation of the directors. BEE comprises of an overall evaluation of the effectiveness of the Board and Investment Panel. The review is carried out once in every two years by an independent professional body.

Board Diversity

In line with good governance practice, the EPF is committed to ensuring diversity for the efficient functioning of the Board. The Board brings together a diverse range of experience, skills, knowledge, industry backgrounds, ethnicity and gender to optimally achieve its investment objectives and governance performance.

STATEMENT ON CORPORATE GOVERNANCE

Board Attendance

A total of 10 Board and 21 Investment Panel meetings were held in 2015. Details of members' attendance at these meetings are as follows.

| | Board | Audit Committee | Risk Management Committee | Finance & Development Committee | Strategy Committee | Personnel, Appointment & Service Committee | Disciplinary Committee | Disciplinary Appeal Committee |
|---|-------|-----------------|---------------------------|---------------------------------|--------------------|--|------------------------|-------------------------------|
| Tan Sri Samsudin Osman (Chairman) | 10/10 | - | - | 3/3 | - | - | - | 2/2 |
| Government Representatives | | | | | | | | |
| Dato' Mat Noor Nawawi (Service completed with effect from 31 May 2015) | 5/9 | 3/5 | - | 2/3 | - | - | - | - |
| Datuk Dr. Sundaran Annamalai (Appointed with effect from 1 July 2015) | | | | | | | | |
| Datuk Ahmad Badri Mohd Zahir (Alternate Member) | | | | | | | | |
| Tan Sri Mohamad Zabidi Zainal | 10/10 | - | - | - | - | 4/4 | - | - |
| Dato' Mohtar Mohd Abd Rahman (Alternate Member) | | | | | | | | |
| Datuk Seri Haji Saripuddin | 8/10 | - | - | - | 2/3 | - | 2/2 | - |
| Dato' Haji Romli Haji Hassan (Alternate Member) (Service completed with effect from 31 May 2015) | | | | | | | | |
| Dr. Gazali Abas (Alternate Member) (Appointed with effect from 1 September 2015) | | | | | | | | |
| Tan Sri Datuk Amar Haji Mohamad Morshidi Abdul Ghani | 4/10 | - | 2/5 | - | - | - | 1/2 | - |
| Datu Haji Misnu Haji Taha (Alternate Member) | | | | | | | | |
| Tan Sri Haji Sukarti Wakiman | 4/10 | - | - | - | - | - | - | 1/2 |
| Datuk Haji Nordin Siman (Alternate Member) | | | | | | | | |
| Employers Representatives | | | | | | | | |
| Tan Sri Azman Shah Haron | 8/10 | - | 5/5 | - | - | 1/2 | - | - |
| Datuk Mohd Hasnol Ayub | 7/10 | - | - | 2/3 | - | - | - | 1/2 |
| Tan Sri Datuk Yong Poh Kon (Service completed with effect from 30 June 2015) | 3/5 | 1/2 | - | - | 1/1 | - | - | - |
| Tan Sri Dr. Lim Wee Chai (Appointed with effect from 1 July 2015) | 3/4 | - | 1/3 | - | 1/2 | - | - | - |
| Datuk Abang Haji Abdul Karim Tun Abang Haji Openg | 10/10 | 7/8 | - | - | - | - | - | 2/2 |
| Employees Representatives | | | | | | | | |
| Mr. Mohd Khalid Atan | 10/10 | - | - | - | 1/3 | - | - | 2/2 |
| Datuk Lok Yim Pheng | 10/10 | 6/8 | - | - | 3/3 | - | - | 2/2 |
| Ms. Hadiyah Leen | 10/10 | - | - | 3/3 | - | - | 2/2 | - |
| Ms. Catherine Jikunan | 10/10 | - | 4/5 | - | - | 4/4 | - | - |
| Professionals Representatives | | | | | | | | |
| Tan Sri Lee Lam Thye (Service completed with effect from 31 May 2015) | 5/5 | - | - | - | 1/1 | - | - | 1/1 |
| Mr. Zainal Abidin Kassim (Appointed with effect from 1 June 2015) | 5/5 | 2/3 | - | - | 1/2 | - | - | - |
| Tuan Haji Md. Jafar Abdul Carrim | 10/10 | 5/5 | 2/3 | 3/3 | 3/3 | - | - | 1/1 |
| Datuk Thomas George | 10/10 | 8/8 | 1/2 | - | - | 4/4 | 2/2 | - |
| Ex-Officio | | | | | | | | |
| Datuk Shahril Ridza Ridzuan | 10/10 | - | 5/5 | 3/3 | 2/2 | 4/4 | - | - |

STATEMENT ON CORPORATE GOVERNANCE

| | Investment Panel Meeting | Investment Panel Risk Committee |
|--|--------------------------|---------------------------------|
| Tan Sri Samsudin Osman (Chairman) | 21/21 | - |
| Datuk Ahmad Badri Mohd Zahir | 18/21 | - |
| Datuk Nor Shamsiah Mohd Yunus (Resigned on 29 December 2015) | 8/21 | - |
| Dato' Sri Mohamed Nazir Abdul Razak | 13/21 | 6/6 |
| Dato' Mohammad Azlan Hashim (Service Completed with effect from 31 May 2015) | 8/10 | 2/3 |
| Mr. David Lau Nai Pek | 16/21 | 4/6 |
| Puan Rossana Annizah Ahmad Rashid (Appointed with effect from 1 June 2015) | 8/11 | - |
| Datuk Shahril Ridza Ridzuan (Ex-Officio) | 21/21 | 6/6 |

Board Remuneration

Board members are paid a monthly honorarium and attendance allowance for each meeting attended. Details of remuneration of each Board member during the financial year are as follows:

HONORARIUM AND ATTENDANCE ALLOWANCE OF BOARD AND INVESTMENT PANEL MEMBERS

Types of Allowance

| Allowance (RM) | Board | Investment Panel | Board/Investment Panel/Board Audit Committee/Board Risk Management Committee/Investment Panel Risk Committee | Other Board Committees |
|--|-------|------------------|--|------------------------|
| Honorarium (Per Month) | 3,000 | 3,000 | - | - |
| Chairman of Meeting | - | - | 2,000 | 1,500 |
| Meeting Attendance - Including Alternate Members | - | - | 1,500 | 1,300 |

For the year 2015, the total honorarium and allowances paid to the Board and Investment Panel members was RM1,661,550.00.

Emolument of Top Management

| Position | Emolument (RM) |
|---|----------------|
| Chief Executive Officer/Deputy Chief Executive Officers | 4,220,833.07 |

Quality and Supply of Information to the Board

To assist the Board in discharging its duties and to keep members abreast of the EPF's operational and financial performance, key issues, challenges and opportunities, the management releases adequate operations and investment reports as well as financial statements to the Board on a regular and timely basis.

STATEMENT ON CORPORATE GOVERNANCE

BOARD COMMITTEES

The Board and Investment Panel have established various Committees to oversee specific matters pertaining to organisational operations. Each committee operates within clearly defined terms of reference:

| Board Committee | Composition | Function |
|---|---|--|
| Audit Committee | Five members, including the Chairman | <ul style="list-style-type: none"> assists the Board in evaluating the effectiveness of the internal controls, risk management (except in making investment decisions) and governance processes oversees the financial reporting process and quality of financial reporting of the annual and interim financial statements reviews the appropriateness of the EPF's accounting policies and changes held eight meetings in 2015 to deliberate on the reports of the internal and external auditors, review matters including the internal audit functions and the audit plan for the year maintains a formal and professional relationship with the external auditors and convened two meetings with the external auditors them in year 2015 without the presence of the management |
| Risk Management Committee | Six members, including the Chairman | <ul style="list-style-type: none"> responsible for assisting the Board to oversee all operational risk management activities (except for making investment decisions) held five meetings in 2015 |
| Investment Panel Risk Committee | Four members, including the Chairman | <ul style="list-style-type: none"> overseeing investment risk, which includes recommending the aggregate risk appetite for the Investment Panel to sign off, approving risk management policies and limits, reviewing risk exposure and providing direction in relation to risk management practices within the investment function held six meetings in 2015 |
| Finance and Development Committee | Six members, including the Chairman | <ul style="list-style-type: none"> responsible for recommending the annual budget to the Board and oversees the EPF's annual budget assists the Board in approving matters relating to financial impact such as write-offs of losses held three meetings in 2015 |
| Strategy Committee | Eight members, including the Chairman | <ul style="list-style-type: none"> reviewing in detail proposed amendments and policy changes related to the EPF Scheme endorses any recommendations and policy changes to the Board for approval held three meetings in 2015 |
| Personnel, Appointment and Services Committee | Six members, including the Chairman | <ul style="list-style-type: none"> assisting the Board to consider and approve matters relating to employment which includes employment terms and conditions held four meetings in 2015 |
| Disciplinary Committee | Five members, including the Chairman | <ul style="list-style-type: none"> responsible for any disciplinary proceedings and imposes penalties on employees as provided under the EPF Rules and Regulations (Conduct and Discipline) 1993 held two meetings in 2015 |
| Disciplinary Appeal Committee | Seven members, including the Chairman | <ul style="list-style-type: none"> considers any appeal by employees against the decisions made by the Disciplinary Committees held two meetings in 2015 |
| Procurement Board Committee | Consist of representatives from the Ministry of Finance and Public Works Department apart from key personnel management | <ul style="list-style-type: none"> consist of Procurement Board A and Procurement Board B responsible for matters relating to the procurement of works, services and supply of goods held 15 meetings in 2015 |

STATEMENT ON CORPORATE GOVERNANCE

MANAGEMENT COMMITTEES

Apart from the main Board and Investment Panel committees, other management committees have been established and report directly to the CEO or relevant key senior management members.

| Management Committee | Function |
|----------------------------------|--|
| Management Investment Committee | <ul style="list-style-type: none">recommends investment activities to the Investment Panel in line with the EPF's guidelines, policies on risk control and asset allocationconsists of 12 members, including the Chief Executive Officer (or Deputy Chief Executive Officer of Investment in the absence of the CEO) as Chairmanheld 57 meetings in 2015 |
| Management Procurement Committee | <ul style="list-style-type: none">responsible for matters relating to procurement of works, services and supply of goods for contracts valued at less than RM500,000.00consists of key senior management including the Chief Executive Officer as Chairmanheld 13 meetings in 2015 |

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to provide a clear, accurate and comprehensive assessment of the EPF's financial performance and prospects through the annual financial statement. This is in addition to providing transparent and up-to-date disclosures on the EPF's financial performance and prospects through quarterly announcement of results to stakeholders.



Refer to page 103 of this Annual Report.

Risk Management and Internal Control

The Board and management are fully committed to a robust internal control system, procedures and policies to ensure stakeholders' interests and the EPF's assets are safeguarded.



Corporate Responsibility

The EPF believes that there should be a balance between value creation and corporate responsibility.

COMMUNICATION WITH STAKEHOLDERS

The EPF believes that communication with stakeholders forms an important part of the corporate governance framework and acknowledges the need to be transparent to its stakeholders. The EPF discloses quarterly reports on its investment activities comprising information on asset allocation, revenue generated from each asset class, total fund size and outlook for the following quarter. It also discloses the top 30 equity investments on a quarterly basis to ensure transparency and provide stakeholders with information on the EPF's holdings in public listed companies in Malaysia.

The EPF continues to hold dialogues with its investee companies. In 2015, management visited 32 companies (local: 21, overseas: 11). The EPF also attended and voted actively in 108 annual general meetings (AGM) and 49 extraordinary general meetings (EGM) of its investee companies.

As the EPF becomes more active in overseeing its investments, the organisation has appointed nominees on the boards of listed and unlisted companies. As at 31 December 2015, the EPF has nominees in nine listed companies and 44 unlisted companies.

RISK MANAGEMENT

“Effective risk management is critical for the EPF to achieve sustainable returns and long term growth in today’s globalised and interlinked macroeconomic and financial environment.”

1.0 OVERVIEW

The EPF embraces risk management as an integral component of its investments, operations and decision-making process. With its commitment to implement sound risk management practices and governance, the EPF is able to sustain excellent performance in line with its Mission to provide the best retirement savings scheme. Whether the risk relates to strategy, credit, market, liquidity or operations, the EPF continues to leverage on its robust risk management culture and integrated risk management framework to take advantage of potential opportunities in order to counter all possible threats. The EPF adopts a proactive approach in identifying and managing risks in the face of uncertainty in the operating environment and volatilities in the financial market.

The Risk Appetite Statements defines the level of risks that the EPF is willing to tolerate and forms the basis of the allocation of funds for investment. The asset allocation is regularly reviewed to ensure funds are invested within the EPF’s risk appetite.

2.0 RISK MANAGEMENT GOVERNANCE STRUCTURE

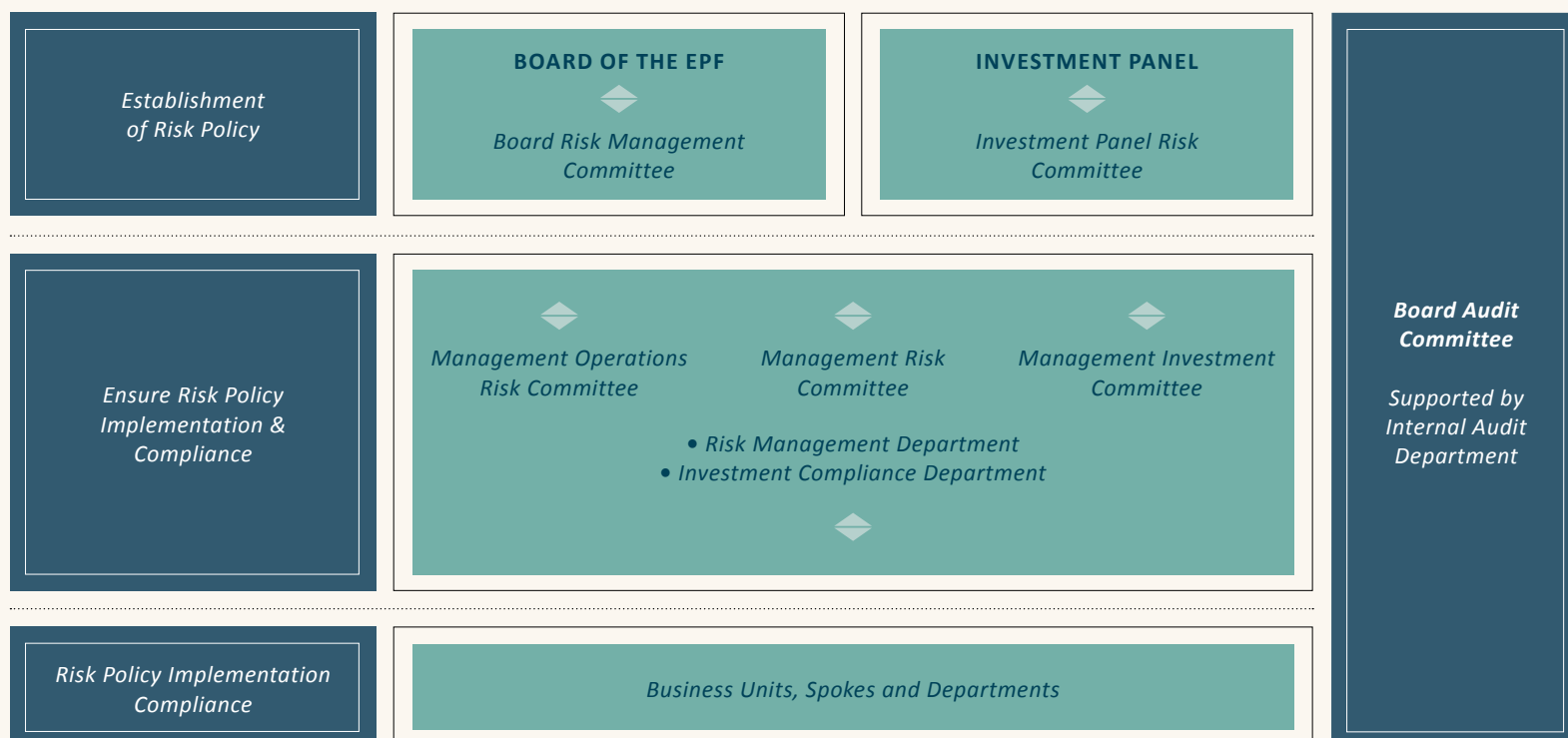
The EPF adopts a ‘top-down’ and ‘bottom-up’ approach, whereby the departments, spokes and management continue to engage in healthy discussions on key risk matters and processes, thus creating a robust risk practising culture. Supporting the risk governance structure, formal policy and procedures are developed to address all key risk areas.

3.0 THE BOARD AND THE INVESTMENT PANEL

The EPF’s risk management structure provides clear lines of responsibility and accountability for the risk management processes as well as outlines the principal risk management and control responsibilities:

The EPF Board has overall responsibility for the organisation’s risk management, except for activities related to investment decisions.

The Investment Panel (IP) is responsible for overseeing risk management pertaining to the EPF’s investment decision making and defines the level of risks that the EPF is willing to tolerate through its Risk Appetite Statements, which forms the basis of the allocation of funds for investment.



RISK MANAGEMENT

3.1 THE BOARD RISK MANAGEMENT COMMITTEE AND INVESTMENT PANEL RISK COMMITTEE

- **The Board Risk Management Committee (BRMC)** is responsible for assisting the Board in overseeing all operational risk management activities except for activities pertaining to making investment decisions and to ensure that the risk management process is in place and functioning effectively.
- **The Investment Panel Risk Committee (IPRC)** is responsible for assisting the IP in recommending the risk appetite and appropriate allocation of the risk 'budget'. The IPRC is delegated with the responsibility to review and approve appropriate risk measurement, policies, processes and limits to ensure their continued effectiveness.

3.2 THE DEDICATED COMMITTEES

- **The Management Operations Risk Committee (MORC)** is established at the Management level to oversee, implement and execute the EPF's operational risk management (which includes strategies, culture, structure, people and processes) and to ensure that the risk management framework is implemented effectively throughout the organisation.
- **The Management Risk Committee (MRC)** is a Management level committee responsible for developing and reviewing risk policies and appropriate limits for managing the EPF's investment risks.
- **The Management Investment Committee (MIC)** is a Management-level committee responsible for evaluating and recommending investment proposals to the IP. It also evaluates and recommends investment strategies and the performance of external fund managers.
- **The Risk Management Department (RMD)** supports the MIC, MRC, MORC, IPRC, BRMC and IP in all risk management matters covering investment risk, operational risk, risk measurement, independent assessment, monitoring and reporting of risk exposures.

- **The Investment Compliance Department** is responsible for monitoring and compliance of all investment related risk policies and limits.
- **The Business Units, Spokes and Departments** being the first line of defence, are responsible for managing risks in their respective functions on a day-to-day basis as well as for escalating significant potential risks to the MORC via the Risk Management Department. Among the principal roles and responsibilities of the business units are to:
 - Identify, assess and manage risks;
 - Constantly review their risk profiles to ensure relevancy and appropriateness;
 - Update the risk status and level of risk management and controls;
 - Develop and implement action plans to manage risks; and
 - Adhere to risk management practices and guidelines.

4.0 INVESTMENT RISK MANAGEMENT

The key elements of investment risk management are as follows:

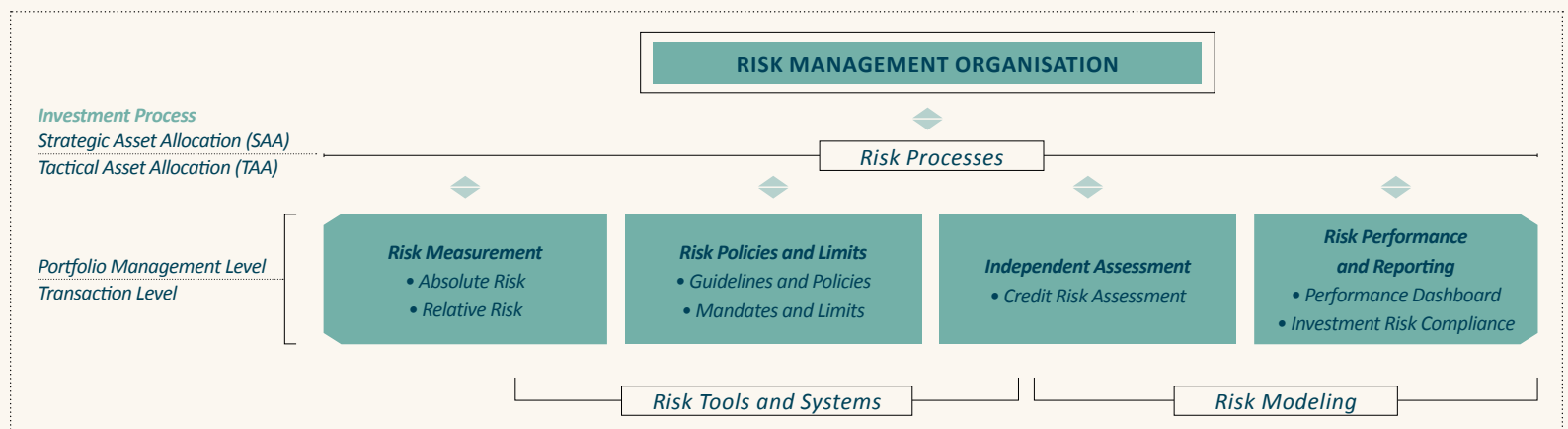
- Framework
- Market Risk Management
- Credit Risk Management
- Liquidity Risk Management

4.1 FRAMEWORK

The Investment Risk Management Framework governs the EPF's investment processes and ensures that effective risk management controls and procedures are in place with regard to investment decision making.

The framework provides an approach to managing and anticipating both existing and potential risks arising in the EPF's investment portfolio, and enables the EPF to have a structured process to measure, assess, monitor and manage its portfolio risks. This ensures the EPF optimises its returns on risk-taking activities within the risk appetite level as approved by the Board.

The risk governance framework is illustrated in the following chart:



RISK MANAGEMENT

4.2 MARKET RISK MANAGEMENT

Market risk is the risk of loss from changes in the value of portfolios and financial instruments due to movements in interest rates, foreign exchange and equity prices.

The objective of market risk management is to ensure that risk exposures undertaken by the EPF are within the risk appetite. This is done through an annual review of various policies and limits, periodic reports to monitor market risk at portfolio level for each asset class and independent validation performed on the underlying risk methodology:

- Name, ownership, country and sector concentration limits - to ensure appropriate diversification of risk exposures.
- Value-at-risk (VaR) - a statistical measure of the potential losses that could occur as a result of movements in market rates and prices over a specified time horizon within a given confidence level.
- Duration - to manage the sensitivity of the price of a fixed income investment arising from interest rate movement.
- Tracking error - a standard deviation of the portfolio's excess returns relative to a benchmark in measuring and benchmarking the performance of the portfolio.
- Backtesting - a validation process performed to check the accuracy of the risk methodology used in computing VaR for both fixed income and equity portfolios.
- Stress testing - an exercise conducted to capture the potential market risk exposure of 'what-if' scenarios. It incorporates factors such as correlation, volatility and returns at different levels.

4.3 CREDIT RISK MANAGEMENT

Credit Risk is the risk of loss caused by a counterparty's or an obligor's failure to meet its payment obligations. Exposure to credit risk arises from the EPF's investing activities in fixed income and real estate. In fixed income activities, credit risk arises from the possibility that the obligors are not able to fulfil their obligation on or before their respective repayment due date. In real estate activities, credit risk arises when counterparties, such as the EPF's investment property tenants are not able to fulfil their rental obligations. Credit risk may also arise where the downgrading of a counterparty's rating causes the fair value of the investment to fall.

The EPF's credit risk management involves thorough credit analysis and prudent underwriting standards. The EPF reviews and updates its credit underwriting standards to commensurate with market place best practices.

At the portfolio level, the following credit risk management has been put in place to manage credit risk exposure:

- Credit risk limits and Management Action Triggers (MATs) incorporating minimum broad credit criteria for investment including name concentration and counterparty exposures.
- Credit portfolio system to measure credit risk of the relevant portfolios using Credit-Value-at Risk (CVaR).
- Periodic review of existing internal credit rating templates for obligors to ensure their relevance.
- Strong credit awareness/culture across the investment personnel in the EPF through active engagement with the investment personnel at all levels.

At the transaction level, the following credit risk management has been put in place to manage credit risk:

- Independent risk assessment is conducted for every new investment proposal presented to the Management Investment Committee and Investment Panel meetings for decision.
- Close monitoring of changes to existing investments via assessments on an ad-hoc as well as periodic basis.
- Credit rating tool to measure the creditworthiness or probability of default (PD) of the obligors, as follows:
 - i. Corporate Rating Template which provides internal risk rating for corporate obligors.
 - ii. Financial institution rating template which provides internal risk rating for financial institution obligors.
 - iii. Credit tool which measures the Expected Default Frequency (EDF) or Probability of Default (PD) to provide early warning signals for the EPF's close monitoring of respective obligors.

4.4 LIQUIDITY RISK MANAGEMENT

Liquidity risk relates to the inability of the EPF to meet its financial commitments and obligations when they fall due. The EPF's liquidity risk is limited as all contributions are mandated by the EPF Act 1991 through the deduction of salaries and members are allowed to make withdrawals under pre-retirement and retirement schemes. The EPF manages its liquidity requirements through:

RISK MANAGEMENT

- Monitoring of its daily cash flow and projecting monthly cash flow on a rolling 12-month basis;
- Allocating 3% of its asset's value for short-term instruments in the form of cash and placements in financial institutions in order to meet members' withdrawals and other financial commitments and obligations; and
- Diversifying its investment portfolio by setting the concentration limits on name, sector and asset type.

Over the medium and longer term, the EPF is able to meet its liquidity requirements through its holdings of liquid investments such as publicly traded equities and available for sale fixed income securities. The maturity profile of the EPF's asset and liability is also monitored within a stipulated level. The Group and the EPF's financial liabilities are categorised into relevant maturity groupings based on the remaining period at the Statement of Financial Position date to the contractual maturity date.

5.0 OPERATIONAL RISK MANAGEMENT

The key elements of operational risk management are as follows:

- Framework
- Operational Risk Management Methodology and Process
- Corporate Risk Scorecard
- Business Continuity Management

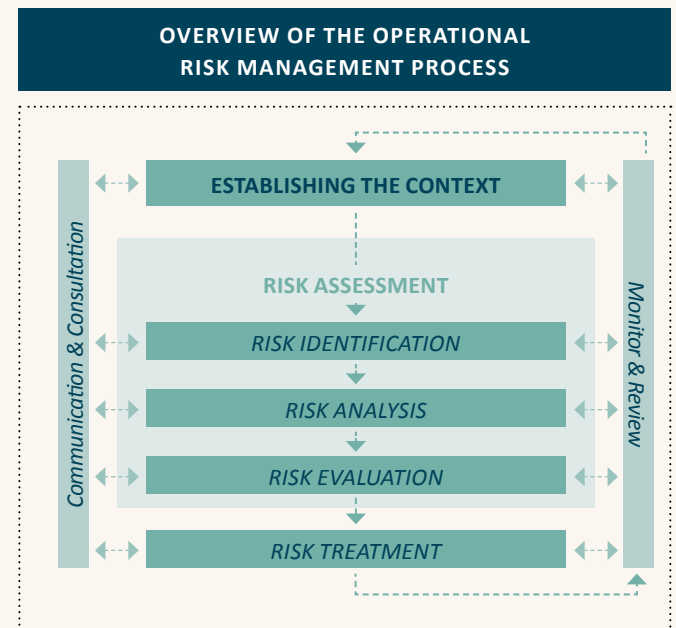
5.1 FRAMEWORK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

The EPF aims to use Operational Risk Management (ORM) to support and enhance its activities in all operational areas. ORM is an integral part of the EPF's decision-making process and corporate culture.

The MS ISO 31000:2010 Risk Management—Principles and Guidelines, a global risk management standard sets the policy, principles, processes and methodology in managing operational risks. EPF adopts the standard as a main practice guide in its framework which is reviewed on a regular basis to ensure its continued application and relevance.

5.2 OPERATIONAL RISK MANAGEMENT METHODOLOGY AND PROCESS



Source: MS ISO 31000: 2010
Risk Management - Principles and Guidelines

The main elements of the operational risk management process as shown in the figure are as follows:

Establishing the context: Articulates the organisation's objectives and defines the external and internal parameters to be taken into account when managing risks.

Risk assessment: The overall process of risk identification, risk analysis and risk evaluation.

Risk treatment: Actions to be taken to prevent, detect or manage the Nett Risks to an acceptable level.

Communication and consultation: The two-way dialogue between Risk Management Department and stakeholders with regards to the existence, nature, form, severity, or acceptability of risks.

Monitoring and review: Both activities are planned and are integral part of the risk management process that involve regular checking or surveillance.

RISK MANAGEMENT

5.3 CORPORATE RISK SCORECARD

The Corporate Risk Scorecard (CRS) methodology, incorporates the Risk and Control Self-Assessment (RCSA) module which allows employees to self-assess and update their risk profiles.

The CRS is implemented through the Operational Risk (ORM) System which records the ownership and details of risks, controls, management actions and incorporates changes to the risk scorecard. All business units use the risk scorecard as a tool to manage their risks effectively.

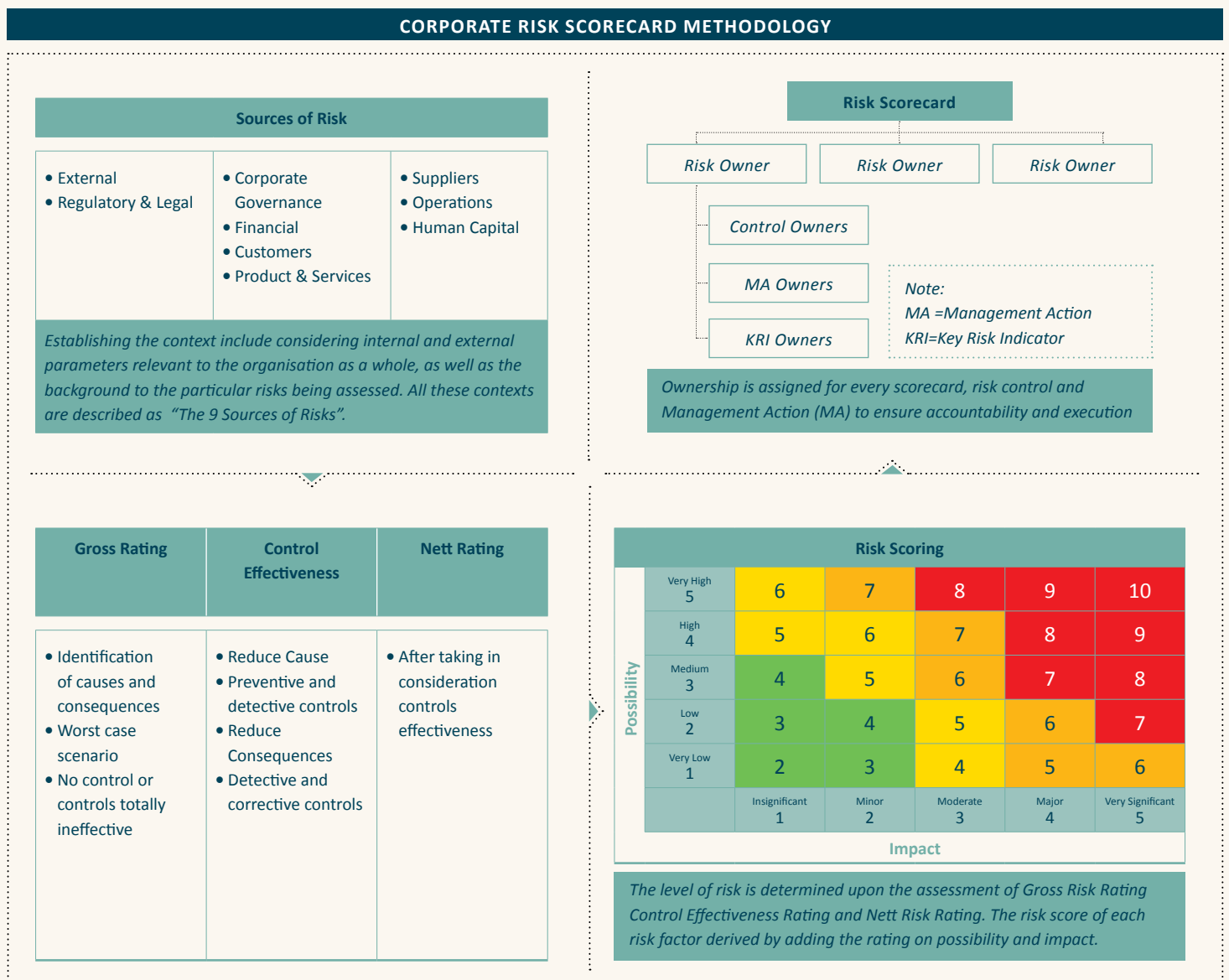
Access to the ORM system is provided on an enterprise-wide basis so that all Risk Scorecard Owners, Risk Owners, Control Owners and Management Action (MA) Owners can undertake RCSA activities effectively. A total of 100 risk scorecards were in place in 2015, consisted of one CEO risk scorecard, three DCEO risk scorecards, 28 department risk scorecards and 68 spokes risk scorecards.

Risks are monitored and managed through ownership from the line management. Through the Corporate Digital Assurance (CDA) process, scorecard, risk, control and MA owners are required to provide digital assurance six times a year to the Management that they have been managing risks within their profiles appropriately.

Key risk indicators (KRIs) identified in the risk scorecards act as an early warning system, enabling the EPF to monitor potential risks before they escalate into serious concerns.

The Risk Management Department reports and highlights risk management related issues in the MORC, BRMC and the EPF Board for their information and/or decision making on a periodic basis.

The performance management is integrated with risk management to identify and monitor key risks impacting EPF's business objectives.

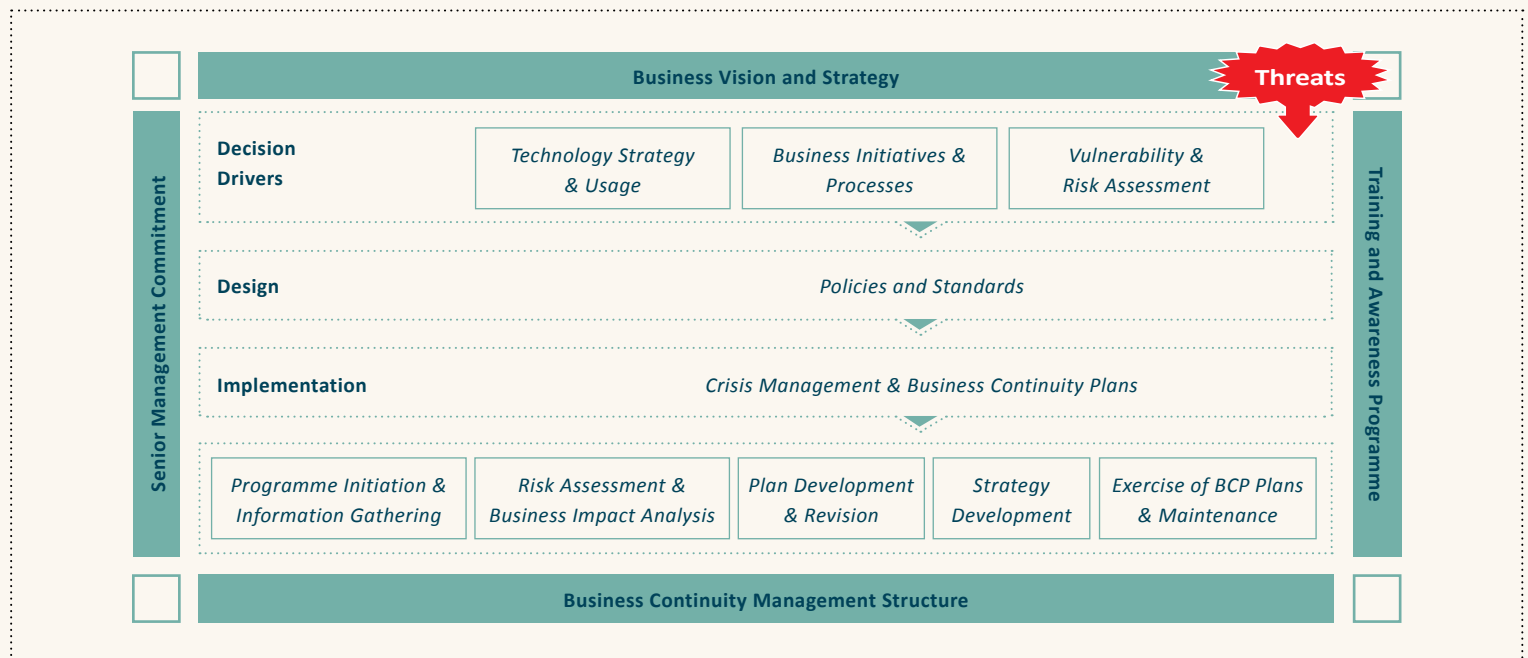


RISK MANAGEMENT

6.0 BUSINESS CONTINUITY MANAGEMENT

The Business Continuity Plan (BCP) Framework serves to develop a well-coordinated and consistent BCP that would allow the EPF to respond effectively to business disruption, resume essential operations within required time frames and minimise the cost of damage and interruptions to business operations from the effects of a disaster.

The illustration below shows the components of the EPF's Business Continuity Management (BCM) Framework:



The implementation of BCP in the EPF is based on three components namely:

- Human Resource Readiness – this refers to the development of knowledge and skills in managing disasters. Implementation is through training on BCP readiness, tutorials, walkthroughs, call trees, crisis simulations exercise and BCM i-learning.
- Infrastructure Readiness – this refers to testing the system to ensure optimal readiness and functionality in the event of a disaster. This is done through equipment and system testing which is performed twice a year.
- Plan Readiness – this refers to the readiness of the BCP to ensure the plan is up-to-date and revises continuously based on current work functions.

Activation of the BCP follows three disaster codes to signify the level of a disaster. Code green means that there is no disaster. Code Yellow means that an incident has occurred and is under investigation. Code Red means the BCP is activated and relevant teams will have to execute the relevant recovery procedures including activation of the Recovery Centre.

As part of a continuous process of enhancing disaster preparedness, two crisis simulation exercises were conducted in EPF Melaka and Ipoh. The purpose of these exercises was to evaluate the readiness of branch employees in handling customers and IT system recovery in the event of any disaster.

7.0 KEY RISK MANAGEMENT INITIATIVES IMPLEMENTED IN 2015

- Introduced the *Strategic Risk Culture Index* as a KPI for the EPF Corporate Scorecard to emphasise the importance of leadership and top management's role in risk management to ensure ongoing effectiveness. This strategic KPI complements the existing risk culture KPI in all departments and spokes to further enhance risk awareness and culture in the EPF.
- Embarked on risk validation initiative to facilitate in identifying emerging risks and enhancing controls for departments and spokes. These will then be incorporated into the risk scorecard to ensure that the scorecard remains relevant and dynamic.
- Subscribed a new risk system that allows the decomposition of risk into meaningful sources, relative to any benchmark as well as the ability to analyse factors affecting equity returns.
- Reviewed and validated the EPF's internal rating templates for financial institutions and corporate issuers to ensure their relevance.
- Expanded the foreign exchange currency hedging policy to include global equity portfolio.
- Performed stress testing and established management action plan to better manage any potential adverse market movements.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

The EPF has issued this Statement in accordance with the “Statement on Risk Management & Internal Control - Guidelines for Directors of Listed Issuers” (the Guidelines) issued by an industry-led task force supported by Bursa Malaysia and the Securities Commission Malaysia. This is to promote good corporate governance, as the Guidelines are not a requirement for the EPF.

The Guidelines are in line with Principle 6 of the Malaysian Code on Corporate Governance issued in March 2012, which states that the Board should establish a sound risk management framework and internal control system.

RESPONSIBILITY

The Board acknowledges its overall responsibility for the adequacy and effectiveness of the EPF’s risk management and internal control system. The EPF’s risk management framework is designed to identify, analyse and evaluate significant risks that hinder the achievement of the organisation’s policies and objectives. Accordingly, the internal control system is in place to manage rather than to eliminate those risks. It can, therefore, only provide reasonable and not absolute assurance.

Three committees have been delegated the responsibility for overseeing the adequacy and effectiveness of the EPF’s risk management and internal control system:

- The Board Audit Committee (BAC) on the internal controls, risk management and governance processes.
- The Board Risk Management Committee (BRMC) on the risk management activities, except activities in making investment decisions.
- The Investment Panel Risk Committee (IPRC) on investment risk management matters covering risk appetite, risk measurement, policies and limits, except activities involving investment operations. Further information on IPRC is provided in the Statement on Investment Risk Management in the Annual Report.

The Management’s role includes:

- Identifying relevant risks in achieving the EPF’s objectives and strategies;

- Designing, implementing and monitoring the risk management framework and system of internal control in accordance with the EPF’s strategic vision and overall risk appetite; and

- Identifying changes to risks or emerging risks, taking action as appropriate, and keeping the Board informed on a timely basis.

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The EPF has in place a sound risk management and internal control framework as part of good corporate governance practice.

The key systems and processes that the Board has established for the purpose of reviewing the adequacy and effectiveness of the risk management and internal control system are as follows:

Risk Management Framework

The Board has adopted an Operational Risk Management (ORM) Framework based on the MS ISO 31000:2010 Risk Management – Principles and Guidelines, which outlines the principles, policies and processes in managing the EPF’s operational risks.

The EPF has established clear lines of responsibility and accountability for the risk management process as well as outlined the principal risk and control responsibilities under the risk management structure.

- (a) The Board Risk Management Committee (BRMC) oversees all operational risk management activities and ensures that appropriate risk management processes are in place and functioning effectively. The Committee reviews and recommends risk management strategies and assesses the adequacy of the risk management framework.
- (b) The BRMC is assisted by the Management Operational Risk Committee (MORC), which reviews the risk management framework and ensures that it is implemented effectively throughout the organisation.

The EPF adopts the Three Lines of Defence Model. The departments and branches, being the first line of defence, are responsible for ensuring that a risk control environment is established and operating effectively as part of day-to-day operations.

The second line of defence is the Risk Management Department, which develops the risk management framework, policy, methodologies and tools for the management of key risks in the organisation. A detailed scope of work regarding the risk management function is provided in the Risk Management section in the Annual Report.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Internal Audit Department, being the third line of defence, provides the Board Audit Committee with independent and reasonable assurance on the adequacy and effectiveness of the risk management and internal control system.

The Risk Management Governance Structure is provided in the Risk Management section in the Annual Report.

Internal Control Framework

The system and framework are based on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Internal Control Integrated Framework, an internationally recognised benchmark on risk management and internal controls.

The Board Audit Committee assists the Board in evaluating the effectiveness of the internal controls, risk management (except risk management activities in making investment decisions, which come under the purview of the Investment Panel) and governance processes of the EPF. It reviews internal control issues identified in reports prepared by the internal and external auditors, and evaluates the effectiveness and adequacy of the internal control system, operational risk management and governance processes. It further reviews the internal audit function with particular emphasis on the internal audit's independence, scope, resources and quality of internal audits.

Details of the activities undertaken by the Committee are set out in the Board Audit Committee Report of the Annual Report.

The Internal Audit Department reviews the key activities of the EPF's businesses based on the annual internal audit plan as approved by the Board Audit Committee. A detailed scope of work of the Internal Audit Function is provided in the Statement on Internal Audit in the Annual Report.

KEY ELEMENTS OF INTERNAL CONTROL

Key elements of internal control in place within the EPF are as follows:

Control Environment

The control environment sets the tone of an organisation, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Relevant key activities include:

- **Terms of Reference**

Clearly defined terms of reference on the roles and responsibilities of all Board committees and the Investment Panel, as stated in the Statement on Corporate Governance.

- **Organisational Structure**

The structure has clearly defined lines of accountability, delegation of responsibility and levels of authorisation for all aspects of the business. Management committees meet on a regular basis to identify, discuss and resolve operational, financial, investment and key management issues and periodically report to the Board, Investment Panel and its respective committees.

- **Human Resource Policies and Procedures**

Proper guidelines within the organisation for hiring and termination of staff, staff training programmes, annual performance appraisals and other relevant procedures to ensure that employees are competent and adequately trained in carrying out their responsibilities.

- **Culture of Integrity**

Entrusted with managing members' savings, various programmes and initiatives are in place to inculcate and uphold the culture of integrity, such as timely declarations of assets by staff, declarations of conflict of interest in both procurement and investment processes as well as a no-gift policy. The Integrity and Governance Department is tasked to handle matters on integrity and governance.

- **Corporate Integrity Pledge**

The Corporate Integrity Pledge, signed on 7 December 2015, augments the commitment by the EPF to uphold integrity, which is essential to create a business and operating environment that is transparent and in line with global best practices in governance.

Risk Assessment

Risk assessment involves a dynamic and ongoing process of identifying and assessing risks that may hinder the achievement of objectives. Relevant key activities include:

- **Corporate Risk Scorecard (CRS)**

The Corporate Risk Scorecard (CRS) methodology is a detailed risk management approach where risks are identified based on internal and external sources, and are analysed, evaluated, treated and monitored.

The CRS allows for continuous Risk and Control Self-Assessment (RCSA) to be performed so that employees can self-assess and update their risk profiles.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out effectively. They ensure necessary actions are taken to mitigate the risks that hinder the achievement of the organisation's objectives. Relevant key activities include:

- **Business Performance Management**

The EPF uses the Balanced Scorecard (BSC) methodology to operationalise its strategies, aligned to its vision and mission and to drive performance.

The business performance is measured through a set of Key Performance Indicators (KPIs), integrated with risk management to enable the EPF to identify and monitor key risks impacting the business objectives.

- **Annual Corporate Plan**

The 2015 Annual Corporate Plan has incorporated the pertinent outcomes, key priorities and strategic initiatives to be implemented for the next three (3) years to meet both the immediate and medium- to long-term objectives of the organisation. It is reviewed by the relevant management committees and approved by the Board.

- **Strategic Risk Culture Index**

Strategic Risk Culture Index is incorporated as a KPI with the objective towards enhancing risk management practices in the EPF.

- **Policies and Procedures**

Policies and procedures to ensure compliance with internal controls (such as segregation of duties, independent checks, verification processes and system access controls) as set out in operation manuals, guidelines and directives issued by the EPF are updated regularly and signed off by the respective Heads of Departments and the CEO. Policy guidelines and delegated authority limits are also imposed on the Management with regards to day-to-day operations.

- **ICT Security Policy**

An ICT Security Policy outlining appropriate policies and procedures to ensure confidentiality, integrity and availability of information and system application has been put in place. Data Loss Protection (DLP), monitoring, hardening, assessment and other IT security controls are in place to mitigate the IT security risk. To further assess and improve IT security controls, a Cyber Security Maturity (CSM) assessment is initiated in 2015 to evaluate and further strengthen the Information and Technology security posture in the EPF.

- **Chinese Wall Policy**

The Chinese Wall Policy and its procedures are issued to safeguard against any compromise on the tenets of integrity, transparency and accountability by controlling, restricting and managing the flow of price sensitive information.

- **Business Continuity Management (BCM)**

BCM plans and systems are continuously monitored, tested and communicated to all levels to ensure that the organisation is prepared in the event of a crisis or disaster.

- **Insurance Coverage**

Adequate insurance coverage of major assets is in place to ensure the EPF's assets are protected against incident that could result in material loss.

Information and Communication

Information and Communication support all other control components by communicating control responsibilities to employees and by providing information in a form and timeframe that allow people to carry out their duties. Relevant key activities include:

- **Fraud Control Management Plan**

The Fraud Management Committee oversees the EPF's overall approach on fraud control under the Fraud Control Management Plan, which includes Anti-Fraud and Whistleblower Protection Policies.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- **Communication of Operational Risk Management (ORM)**

ORM principles, framework and processes adopted by the EPF have been disseminated to all employees at all levels for better understanding of the practices adopted.

- **Monitoring**

Ongoing monitoring and evaluation of the effectiveness of internal control are built into business processes at different levels of the organisation. Relevant key activities include:

- **Operational Risk Management System**

An integrated operational risk management system is used to monitor and manage the EPF's risk exposure. Key risks are identified and the effectiveness of internal control is assessed and electronically confirmed by the respective departments and branches on a timely basis. Where the mitigated risks are not within acceptable levels, individual action plans are identified and their implementation are monitored to reduce the gap.

- **Regular reporting**

Adequate processes are in place to discuss issues on risk management and internal control deficiencies, which are reported regularly to the Management through various committees. The Management evaluates and communicates to parties responsible for taking corrective action in a timely manner.

- **Monitoring Activities by Internal Audit**

The results of all audit engagements are reported to the Board Audit Committee (BAC) and communicated to the Management. The Internal Audit Department maintains a follow-up process to monitor and help ensure that all the agreed audit observations and resolutions have been promptly addressed.

- **Quality Management Standard**

All the EPF's core processes comply with the MS ISO 9001:2008 standard.

ASSURANCE ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board is of the opinion that the EPF's risk management and system of internal control are sound and sufficient to safeguard the interests of members. The Board's review of the effectiveness of the risk management and system of internal control is supported by:

- The Board Risk Management Committee, which meets a minimum of four times a year to oversee risk management activities.
- The Board Audit Committee, which meets a minimum of four times a year and reviews the findings and recommendations of the internal auditor and the Auditor General.
- The Auditor General's issuance of the annual audit certificate on the financial statements.
- The Management's assurance that the EPF's risk management and internal control system are operating adequately and effectively in all material aspects.

This statement is made in accordance with the resolution of members of the Board dated 1 March 2016.

BOARD AUDIT COMMITTEE REPORT

1. MEMBERSHIP

The Board Audit Committee consists of the following members:

a) For term 1 June 2015 to 31 May 2017

| No. (A) | Board Audit Committee Members (B) | Representative (C) |
|---------|---|------------------------------|
| i. | Datuk Thomas George | Chairman – Professionals |
| ii. | Datuk Dr. Sundaran Annamalai | Deputy Chairman – Government |
| iii. | Datuk Abang Haji Abdul Karim Tun Abang Haji Openg | Employers |
| iv. | Datuk Lok Yim Pheng | Employees |
| v. | Mr. Zainal Abidin Kassim | Professionals |

b) Previous term, from 1 June 2013 to 31 May 2015

| No. (A) | Board Audit Committee Members (B) | Representative (C) |
|---------|--|------------------------------|
| i. | Tuan Haji Md. Jafar Abdul Carrim | Chairman – Professionals |
| ii. | Dato' Mat Noor Nawi Datuk Ahmad Badri Mohd Zahir (Alternate Member) (appointed on 1 May 2014) Dato' Siti Zauyah Mohd Desa (Alternate Member) (completed service on 1 May 2014) | Deputy Chairman – Government |
| iii. | Datuk Abang Haji Abdul Karim Tun Abang Haji Openg | Employers |
| iv. | Datuk Lok Yim Pheng | Employees |
| v. | Datuk Thomas George | Professionals |

2. MEETINGS

The Board Audit Committee holds meetings at least four (4) times a year. In addition, it meets with external auditors at least twice a year in the absence of the Management.

During the financial year 2015, the Board Audit Committee met ten times (four (4) Special Board Audit Committee meetings, four (4) Board Audit Committee meetings and two (2) Board Audit Committee meetings with the Auditor General).

Further details of the Board Audit Committee attendance are set out in the Statement of Corporate Governance.

3. TERMS OF REFERENCE

The Board Audit Committee is governed by its own terms of reference. A summary of the latest Board Audit Committee's Terms of Reference, which was approved by the Board on 16 July 2012, is as below:

3.1 Duties and Responsibilities

The duties and responsibilities of the Board Audit Committee shall be:

3.1.1 Internal Audit

- To approve the Internal Audit Charter, defining the authority, accountability and role given by the Management to the internal auditors in order to carry out their work.
- To review and approve the annual audit plan prepared by the internal auditors.
- To evaluate the internal control system through reviews of the internal audit reports that highlight any weaknesses in accounting, organisational or operational controls and rectifications carried out by the Management.
- To evaluate the effectiveness and efficiency of the Internal Audit Department through periodic meetings.
- To evaluate the annual performance of the internal auditors based on the implementation of the annual audit plan and other assessments as instructed by the Board Audit Committee from time to time.

BOARD AUDIT COMMITTEE REPORT

- f. To review and consider the implementation of a quality assurance review of the internal audit function by qualified independent reviewers at least once in every five years. Findings from the quality assurance review shall be reported to the Board.
- g. To supervise and direct special projects or investigations deemed necessary or as instructed by the Board.

3.1.2 Risk Management

To provide an independent opinion and reasonable assurance on the adequacy and effectiveness of risk management, except for risk management activities related to investment decision-making.

3.1.3 External Audit

- a. To evaluate the internal control system through reviews of the external audit reports that highlight any weaknesses in accounting, organisational or operational controls and rectifications carried out by the Management.
- b. To review and consider the need for a special management audit by external auditors, the findings of which are to be reported to the Board.

3.1.4 Audit Reports

- a. To review and analyse all audit findings and queries raised by the internal and external auditors.
- b. To determine the schedule of periodical reports from the Management, and internal and external auditors, taking into consideration the impact of significant changes, improvements on accounting treatments and reporting requirements as proposed by the accounting bodies and/or any other significant issues through an annual review.

3.1.5 Financial Reports

- a. To evaluate and endorse the Quarterly and Annual Financial Reports to the Board.
- b. To analyse and report to the Board observations raised by the external auditors on the Annual Financial Report.

3.1.6 Policies

- a. To review the effectiveness and adequacy of the EPF's accounting policies, financial management and procedures through discussions between the internal and external auditors together with the respective executives/Management.
- b. To review and endorse to the Board the effectiveness and adequacy of any significant changes in the EPF's Information Security Policies.

3.1.7 Related Party Transactions

To review, evaluate and report to the Board any related party transaction or conflict of interest which might arise in the EPF or its subsidiaries or joint venture companies in which the EPF has control over business management, procedures and conduct which may jeopardise the Management's integrity.

3.1.8 Other Matters

- a. To evaluate the effectiveness and adequacy of the Fraud Control Management Plan.
- b. To prepare and establish reporting schedules to the Board, summarising the Board Audit Committee's performance in discharging its responsibilities.
- c. To carry out any other functions as requested by the Board from time to time.

4. SUMMARY OF ACTIVITIES

During the financial year 2015, the Board Audit Committee carried out the following activities:

4.1 Internal Audit

- 4.1.1 Reviewed the annual audit plan to ensure adequate scope and comprehensive coverage of the EPF's activities.
- 4.1.2 Reviewed the internal audit reports tabled during the year, the recommendations made, root causes identified and the Management's response to these recommendations. Where appropriate, the Board Audit Committee directed the Management to rectify and improve the adequacy of the internal control procedures and workflow processes based on the internal auditors' recommendations and suggestions for improvement.

BOARD AUDIT COMMITTEE REPORT

4.1.3 Reviewed findings of investigations and other ad-hoc special reviews on specific areas of operations to ascertain the root causes of the issues and the effectiveness of corrective actions taken to address identified weaknesses.

4.1.4 Monitored the corrective actions taken on outstanding audit issues to ensure all key risks and control lapses have been addressed.

4.1.5 Reviewed the effectiveness of the audit process and resource requirements for the year, and assessed the performance of the Internal Audit Department.

4.2 External Audit

Reviewed all the audit findings and queries raised by the external auditors together with the Management's response to their findings.

4.3 Financial Reports

4.3.1 Reviewed the quarterly unaudited financial reports of the EPF before recommending them for approval by the Board.

4.3.2 Reviewed the annual audited financial reports of the EPF with the external auditors' prior submission to the Board for their approval.

4.4 Related Party Transactions

Reviewed any related party transactions entered into by the EPF and its subsidiaries.

5. TRAINING

During the year, members of the Board Audit Committee attended the following training programmes, conferences and seminars:

| No. (A) | Course (B) |
|---------|---|
| 1. | International Social Security Conference 2015 |
| 2. | Strategy Workshop |
| 3. | EPF Investment Seminar 2015 |

6. INTERNAL AUDIT FUNCTION

6.1 The internal audit function is carried out by the Internal Audit Department which reports directly to the Board Audit Committee on its activities based on the approved annual internal audit plan.

6.2 The Internal Audit Department provides independent, objective assurance and consulting services designed to add value and improve the EPF's operations. The Internal Audit Department helps the EPF to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the risk management, internal controls and governance processes.

6.3 Further details of the internal audit function are set out in the Statement on Internal Audit.

STATEMENT ON INTERNAL AUDIT

“Internal audit activities are governed by the EPF’s Internal Audit Charter which is approved by the Board Audit Committee and is in line with the Institute of Internal Auditors (IIA) Standards. The EPF’s Internal Audit Charter is assessed at least once every five (5) years, to determine whether the role, authority, responsibilities, scope of work and other areas as incorporated in the Charter continue to be adequate.”

1. OVERVIEW

The Internal Audit Department provides independent, objective assurance and consulting services designed to add value and improve the EPF’s operations. The Internal Audit Department helps the EPF accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

2. INDEPENDENCE AND OBJECTIVITY

The Head of Internal Audit Department reports functionally to the Board Audit Committee and administratively to the Chief Executive Officer. The internal audit activities are free from interference in determining the scope of internal auditing, performing work and communicating results.

In the interest of protecting its independent status, the Internal Audit Department has no executive or managerial powers, authorities, functions or duties except those relating to the management of internal audit functions. The Internal Audit Department is also not responsible for the detailed development or implementation of new systems, plans, regulations, policies or procedures.

3. SCOPE OF WORK

3.1 The Internal Audit Department’s functions include audits of the financials, operations, compliance and management of the EPF. Its scope of work, primarily, is to determine whether the EPF’s risk management, internal control systems, management information systems and governance processes, as designed and represented by the Management, are adequate and functioning in a manner to ensure:

3.1.1 risks are appropriately identified and managed;

3.1.2 resources are acquired economically, and employed effectively and efficiently;

3.1.3 assets are safeguarded;

3.1.4 significant management, financial and operating information is accurate, reliable and timely;

3.1.5 applicable laws and regulations, policies, standards and procedures are complied with; and

3.1.6 established objectives and goals are achieved.

3.2 Internal Audit Department’s secondary scope of work encompasses the following:

3.2.1 carrying out special investigations requested by the Management/Board Audit Committee;

3.2.2 coordinating with the external auditors to ensure adequate audit coverage and minimal duplication of work; and

3.2.3 participating as an observer in selected management committees set up to develop or implement new systems or processes. Such participation is limited to providing advice on control matters and does not preclude the Internal Audit Department from auditing the systems or processes.

3.3 The Internal Audit Department developed its audit plan using an Enhanced Audit Risk Scoring Model, prioritising the internal audit activities according to the audit risk level. The Enhanced Audit Risk Scoring Model evaluates audit risks based on the assessment of inherent risks, control risks and detection risks for each operation, function and information technology system.

3.4 During the year 2015, 125 reports were presented to the Board Audit Committee.

4. INTERNAL AUDIT RESOURCES

As at 31 December 2015, the total Internal Audit Department headcount stood at 89, of whom 11 auditors are professionally qualified in their respective field. The Board Audit Committee reviews and approves the Internal Audit Department’s human resource requirements to ensure the function is adequately equipped with competent internal auditors.

STATEMENT ON INTERNAL AUDIT

In the list below, the auditors are categorised according to their fields of expertise as at 31 December 2015:

| No. (A) | Field of Expertise (B) | No. of Auditors (C) | Percentage (D) |
|---------|------------------------|---------------------|----------------|
| 1. | Finance and Accounting | 70 | 79% |
| 2. | Information Technology | 15 | 17% |
| 3. | Management | 2 | 2% |
| 4. | Engineering | 1 | 1% |
| 5. | Quantity Surveying | 1 | 1% |

5. TRAINING

The courses, seminars and conferences attended by the internal auditors to increase their knowledge of auditing and keep updated with the latest developments in the business are as listed below:

| No. (A) | Course (B) |
|------------------------------|--|
| (A) In-House Training | |
| 1. | Skills and Techniques in 'Value For Money Auditing' |
| 2. | Shariah Awareness Briefing |
| 3. | Improving Audit Findings: Identification and Reporting |
| (B) External Training | |
| 1. | The Institute of Internal Auditors (IIA): National Conference 2015 On Governance, Risks And Control – Gearing For Innovation |
| 2. | Simposium ASOSAI: Leveraging Technology To Enhance Audit Quality and Effectiveness |
| 3. | Related Party Transaction Audit: Internal Control, Risk and Disclosure Requirements |
| 4. | Control Self-Assessment (CSA) |
| 5. | Leading Practical Fraud Investigation |
| 6. | Infrastructure Academy 2015 |
| 7. | Real Estate Academy 2015 (Module 1) |
| 8. | Enhancing Mindfulness and Emotion |
| 9. | Leadership Talk |
| 10. | Accelerated Development Program (ADP): Leadership |
| 11. | ADP: Design Thinking Bootcamp |
| 12. | ADP: High Performance Leadership |
| 13. | ADP: Maximising Your Leadership |
| 14. | ADP: Power And Leadership |

6. QUALITY AND IMPROVEMENT PROGRAMMES

6.1 The Internal Audit Department has established and maintained a quality assurance and improvement programme designed to evaluate the operations of the function. This programme includes periodic internal and external quality assessments and ongoing internal monitoring.

Internal assessments include:

6.1.1 ongoing reviews of the performance of internal audit activities; and

6.1.2 peer reviews of the audit processes, procedures and documentation on a periodic basis.

6.2 The Internal Audit Charter stipulates that a Quality Assurance Review by a qualified independent reviewer is required at least once every five (5) years. The last Quality Assurance Review of the Internal Audit Department was carried out in 2014.

6.3 Based on the review by KPMG Management & Risk Consulting Sdn. Bhd., the Internal Audit Department has generally conformed with all of the International Standards for the Professional Practice of Internal Auditing (IIA Standards) promulgated by the Institute of Internal Auditors.

6.4 The next Quality Assurance Review by a qualified independent reviewer is scheduled in year 2019.

STATEMENT ON INVESTMENT RISK MANAGEMENT

RESPONSIBILITY

In accordance with Section 18(1) of the Employees Provident Fund Act 1991, the Investment Panel is responsible for matters pertaining to the Fund's investments and acknowledges responsibility for the investment risk management framework. The framework is designed to provide reasonable assurance and to mitigate rather than to eliminate the risk of misstatement or loss in carrying out the organisation's investment policies and objectives.

INVESTMENT RISK MANAGEMENT FRAMEWORK

The EPF's investment risk management framework encompasses the organisation's governance structure, risk appetite, asset allocation, policies and processes. It is reviewed regularly to ensure relevance and effectiveness.

INVESTMENT RISK MANAGEMENT STRUCTURE

The Investment Panel (IP) is responsible for overseeing risk management pertaining to the EPF's investment decision making.

The Investment Panel Risk Committee (IPRC) is responsible for assisting the IP in recommending the risk appetite and appropriate allocation of the risk 'budget'. The IPRC regularly reviews the risk measurement, policies, processes and limits to ensure their continued effectiveness.

The IPRC is assisted by the Management Risk Committee (MRC) to monitor and review risk management activities.

The Risk Management Department supports the MRC, IPRC and IP in risk management related matters covering independent measurement and credit assessment, monitoring and reporting of the EPF's investment risk exposures.

RISK CONTROLS

The Risk Appetite Statements, as approved by the IP, broadly outline the levels of risk that the EPF is willing to tolerate and form the basis of the allocation of funds for investment. Asset allocation reviews are regularly conducted to ensure funds are invested within the EPF's risk appetite.

Various policies and limits are in place to ensure risks are adequately mitigated for each asset class. Risk and Performance Systems have been installed and continuously enhanced to ensure that risks are systematically measured and monitored.

CONCLUSION

The Investment Panel (IP) is of the opinion that the investment risk management practices in place are sound and sufficient to safeguard the EPF's investments. The IP is supported by the IPRC, which meets a minimum of four times a year to review the risk and compliance reports from the management.

This statement has been made in accordance with the resolution of members of the IP dated 25 February 2016.

ACTIVE MEMBERS' AVERAGE SAVINGS AT AGE 54 BY GENDER

| YEAR | MALE | | | FEMALE | | |
|-------------|-------------------|--------------------------|----------------------|-------------------|-------------------------|----------------------|
| | NUMBER OF MEMBERS | TOTAL SAVINGS (RM) | AVERAGE SAVINGS (RM) | NUMBER OF MEMBERS | TOTAL SAVINGS (RM) | AVERAGE SAVINGS (RM) |
| 2008 | 35,415 | 5,322,180,263.65 | 150,280.40 | 17,607 | 1,705,344,177.95 | 96,856.03 |
| 2009 | 36,387 | 5,794,733,416.85 | 159,252.85 | 18,552 | 1,886,638,751.19 | 101,694.63 |
| 2010 | 40,542 | 6,507,302,075.54 | 160,507.67 | 21,486 | 2,360,738,880.90 | 109,873.35 |
| 2011 | 40,004 | 6,657,338,897.64 | 166,416.83 | 22,354 | 2,647,519,595.35 | 118,436.06 |
| 2012 | 43,230 | 7,581,549,702.42 | 175,377.05 | 24,921 | 3,206,896,233.42 | 128,682.49 |
| 2013 | 45,805 | 8,427,983,030.27 | 183,997.01 | 27,363 | 3,765,478,721.08 | 137,612.06 |
| 2014 | 47,135 | 9,385,899,752.66 | 199,128.03 | 29,289 | 4,382,090,265.86 | 149,615.56 |
| 2015 | 49,878 | 10,719,311,180.86 | 214,910.61 | 31,768 | 5,155,803,817.21 | 162,295.51 |

MEMBERS' AVERAGE SAVINGS AT AGE 54

| YEAR | ACTIVE MEMBERS | | | INACTIVE MEMBERS | | |
|-------------|-------------------|--------------------------|----------------------|-------------------|-------------------------|----------------------|
| | NUMBER OF MEMBERS | TOTAL SAVINGS (RM) | AVERAGE SAVINGS (RM) | NUMBER OF MEMBERS | TOTAL SAVINGS (RM) | AVERAGE SAVINGS (RM) |
| 2008 | 53,022 | 7,027,524,441.60 | 132,539.78 | 130,653 | 2,860,548,303.03 | 21,894.24 |
| 2009 | 54,939 | 7,681,372,168.04 | 139,816.38 | 134,556 | 3,055,433,735.60 | 22,707.53 |
| 2010 | 62,028 | 8,868,040,956.44 | 142,968.35 | 148,844 | 3,528,282,764.37 | 23,704.57 |
| 2011 | 62,358 | 9,304,858,492.99 | 149,216.76 | 146,172 | 3,418,820,358.90 | 23,389.02 |
| 2012 | 68,151 | 10,788,445,935.84 | 158,302.09 | 157,425 | 3,802,693,653.81 | 24,155.59 |
| 2013 | 73,168 | 12,193,461,751.35 | 166,650.20 | 160,131 | 4,203,516,072.22 | 26,250.48 |
| 2014 | 76,424 | 13,767,990,018.52 | 180,152.70 | 166,131 | 4,578,149,209.30 | 27,557.46 |
| 2015 | 81,646 | 15,875,114,998.07 | 194,438.37 | 169,425 | 5,343,743,319.39 | 31,540.47 |

Note: Total Savings Amount not inclusive 2015 annual dividend