RISK MANAGEMENT

The Board recognises that risk management is an integral part of the business operations of the Company and its subsidiary companies ("Group") and that the identification and management of risks will enhance the achievement of the Group's business objectives. The Group has implemented an on-going process of identifying, evaluating, monitoring and managing of risks that may affect the achievement of its business objectives. The on-going application of an integrated Enterprise-Wide Risk Management framework is aimed at enhancing the internal control by ensuring that risks related to the Group are managed through a systematic and consistent risk management process.

ACCOUNTABILITY AND RESPONSIBILITIES

The Company believes that clear accountability and responsibilities are crucial for the management of risks. The risk management framework is premised with three lines of defence that serves as the guiding principles within the Group:-

1. The Business Units acting as the "first line of defence" is primarily responsible for identifying, evaluating and managing risks within their Units. The Head of Business Units are responsible for implementing and executing appropriate risk mitigation action plans in a timely manner.

2. The Business Units are responsible for ensuring the execution of appropriate risk reduction action plans. The priority should be accorded to mitigate high and significant risks in order to ensure that their day-to-day business activities are carried out within acceptable risk level.

3. The Risk Management team acting as the "second line of defence" conducts risk oversight and supports the risk policies and framework that is approved by the Risk Management Committee. The Risk Management team facilitates in assessing the adequacy of the internal control systems.

4. The Audit Committee's key role, supported by the Internal Audit Department, as the "third line of defence" provides an independent assessment of the adequacy and reliability of the risk management processes and compliance among the Business Units with the risk policies, regulatory guidelines and Company's procedures.

5. The Board through the Risk Management Committee is ultimately responsible for effective risk oversight and framework within the Group. The Risk Management Committee determines the remit, roles, resources and structure for risk management functions to operate effectively and efficiently.

RISK MANAGEMENT PROCESS

The Company has established within its risk management framework a structured approach to Enterprise-Wide Risk Management. The risk management process encompasses the following four (4) stages:-

1. **Risk Identification**

   During the risk identification stage, the Risk Management Department works together with the Business Units to identify the Business Units' exposure to potential risks that could have an effect on achieving the Group's objectives.

2. **Risk Evaluation**

   In this stage, risks identified are evaluated on their probability of occurrence and their impact severity. It is at this stage that the risk profile for each risk is established. The risk factors are rated either as High Risk, Significant Risk, Moderate Risk or Low Risk.

3. **Risk Treatment**

   This is the stage where each risk is treated according to the risk appetite of the Business Units. The risks can be accepted or minimised or transferred or terminated. Risks are accepted if they are within risk tolerance limits and the controls are sufficient to mitigate the risks. Risks will be minimised if they are within risk tolerance limits and controls can be implemented to minimise the risks. In the case where the risks are not within tolerance limits but the function is important to the business operations, the risk will be transferred to a third party, i.e., outsourcing. Where the risks are not within tolerance limits and the function is not crucial to the business operations, the function will be terminated and discontinued.

4. **Risk Monitoring**

   Key Risks are monitored through a Risk Management Action Plan. The progress on the implementation of risk policies are reported to the Risk Management Committee from time to time. Internal Audit Department plays a crucial role in monitoring compliance with the risk management policies and action plans.

ACTIVITIES DURING THE YEAR

1. Risk Management Committee and the Board of Directors have approved the new Strategic ERM Frameworks aimed at improving the effectiveness of risk management practices within the Group. The new Framework establishes an organised and integrated approach to support the alignment of the strategy, process, people and technology. It is designed and formulated to integrate the following core components:-

   - External Risk Scanning;
   - Strategy Mapping and Balanced Scorecard;
   - Risk Appetite and Risk Tolerance; and
   - Risk Governance Structure (Policy, Process and Communication).

   Under this new Framework, the Group Risk Management Department assists the Business Units to adopt a more systematic and holistic approach to identify and manage critical risks. The focus for 2010 was as follows:-

   - Local:-
     i) Malaysian Assurance Alliance Berhad
     ii) MAA Takaful Berhad
     iii) MAA International Assurance Ltd

   - International:-
     i) PT MAA Life Assurance (Indonesia)
     ii) PT MAA General Assurance (Indonesia)
     iii) MAA General Assurance Philippines, Inc (Philippines)

   The Senior Management of the Business Units are guided by the underlying risk appetite principles in assessing trade-off between risks and returns, define risk tolerance boundary and stress level, evaluation and measurement of risks.

   Periodically, the Group Risk Management Department will compile data or statistics from the Business Units on the Key Risk Indicators ("KRI"). The Group Risk Management will report the results of the KRI to the Risk Management Committee. This enhances the effectiveness in detecting significant risk and alerts the Senior Management to take preventive or corrective actions.

2. As part of the Group's effort to comply with the Malaysian Code on Corporate Governance as well as to enhance the overall risk governance structure, core subsidiary companies namely Malaysian Assurance Alliance Berhad (MAA) and MAA Takaful Berhad (MAA Takaful) have a dedicated Risk Management team in managing their risk management function. The Heads of Risk Management of these subsidiary companies report to their respective Risk Management Committee.

   Capital Management Report was introduced and implemented by MAA Takaful in 2010. This report serves as a management tool to assess the level of capital at risk, given certain assets and liabilities. Capital Management Reporting was driven by adopting the Risk-Based Capital (RBC) Framework for Insurers, even though it is not effective as yet for implementation by takaful operators. This management reporting tool was adopted by MAA to better manage its capital and profits/surplus.

   The Group Risk Management Department will ensure consistent risk management practices and principles are applied within the group of companies, both local and international subsidiary companies. The Heads of Risk Management from subsidiary companies are required to report to the Group Risk Management Department and the Company's Senior Management for possible major and significant risk that may be detrimental to the Group's financial and operating performance.

With the initiatives mentioned above, the Group is paving the process to improve the overall risk sensitivity of the capital adequacy framework among the subsidiary companies. This will enhance effectiveness in evaluation of new product pricing, underwriting, capital management and strategy formulation.