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 ongoing process of identifying, evaluating, monitoring and managing of risks that may affect the achievement of its business objectives. The ongoing 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 principle 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 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 the 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 process 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 stages 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 the risk tolerance limit and the controls are sufficient to mitigate the risks. Risks will be minimised if they are within the risk tolerance limit and controls can be implemented to minimise the risks. In the case where the risks are not within the tolerance limit but the function is important to the business operations, the risks will be transferred to a third party, i.e., outsourcing. Where the risks are not within the 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 Risks 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. The ERM Frameworks was approved in 2006. To improve the ERM Frameworks comprehensively, on 23 August 2011 the Risk Management Committee and the Board of Directors have approved the new Group Risk Management Framework (version 3), adopting the globally-accepted Risk Management Standard (ISO 3100), issued by International Standardisation Organisation (ISO) in 2010.

   The new Framework incorporates Risk Management Principles, as a risk management guiding principle for the Group as well as establishes risk management policy that balances between risk and rewards. The updated ERM Framework is as follows:

   - To nurture and instill risk accountability and ownership, the Head of Business Unit (Head of Company) is required to present their company's risk profiles to the Risk Management Committee at least once a year;
   - Continual Improvement of Risk Management Framework as risks are dynamic;
   - Rephrased risk treatment labels, consistent with ISO 3100 labels – 4T (Tolerate, Treat, Transfer & Terminate);
   - Added 'Reputation' as a risk category, which is vital to an investment holdings company; and
   - Incorporated controls rating and description for likelihood and impact.

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, MAA Takaful Berhad ("MAAT") as the core subsidiary company have a dedicated Risk Management team in managing the risk management function. The Head of Risk Management of MAAT reports to their respective Risk Management Committee.

   Throughout the financial year ended 31 December 2011, continuous risk management activities have been carried out by the company and its subsidiary companies namely, MAAKL Mutual Bhd, MAA International Assurance Ltd., Wira Security Services Sdn Bhd, and MAAT.

   The Group Risk Management Department will ensure consistent risk management practices and principles are applied within the group of companies, both local and foreign subsidiary companies. The Head 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.