RISK MANAGEMENT STATEMENT

The Board recognises that effective risk management entails a systematic process and thorough approach to its implementation. As an integral part of the business operations of the Company and its subsidiary companies ("Group"), managing risks effectively will enhance the achievement of the Group's business objectives. The Group risk management strategy is to ensure that all risks undertaken by the Company and its subsidiary companies in relation to its earnings and capital position are within the risk appetite and limits set by the Group.

As such MAA Group Risk Management Framework (Version 3) incorporates Enterprise Risk Management (ERM) and globally-accepted Risk Management Standard (ISO 31000:2009), which can be applied throughout the Group and its subsidiaries, and to a wide range of activities, including strategies and decisions; operations; processes; functions; projects; products; services; and assets.

FRAMEWORK

Risk management in the Group begins with the establishment of a Board that consists of adequate number of competent Independent Executive/ Non-Executive Directors. The Board plays a risk oversight role and sets the business directions and risk strategies through its active participation in the process of approving the Group's key business strategies and risk policies.

The Board is assisted by the Risk Management Committee whose main responsibility is to review the effectiveness of the process and report key risks and recommend appropriate risk management strategies, policies, risk tolerance and mitigation plans for the Board's approval.

RISK MANAGEMENT COMMITTEE

The Committee had met four (4) times during the financial year. The Risk Management Committee consists of the following members:

- Risk Management Committee Meetings for the period from 01/01/2012 to 31/12/2012

Name of Committee Members	Total Meetings attended
Dato' Jaffar Indot *(Chairman, Independent Non-Executive Director)* *Appointed on 5.9.2012*	1/1
Dato' Narendrakumar Jasani A/L Chunilal Rugnath *(Member, Independent Non-Executive Director)* *Appointed on 5.9.2012*	1/1
Tan Sri Ahmad bin Mohd Don *(Member, Independent Non-Executive Director)*	4/4
General Dato' Sri Hj. Suleiman bin Mahmud (Rtd) *(Chairman, Independent Non-Executive Director)* *Resigned on 5.9.2012*	3/3
Major General Datuk Lai Chung Wah (Rtd) *(Chairman, Independent Non-Executive Director)* *Resigned on 5.9.2012*	3/3
Dato' Sri Iskandar Michael bin Abdullah *(Member, Independent Non-Executive Director)* *Resigned on 16.7.2012*	2/2

GROUP RISK MANAGEMENT DEPARTMENT ("GRMD")

The day-to-day responsibility for risk management is primarily supported by the GRMD, which is charged with the responsibility of overseeing the ERM activities. GRMD is responsible for setting the ERM framework and developing tools and methodologies to govern the conduct of the business. This includes facilitating in assessing the adequacy of the internal control systems.

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 has 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.

BUSINESS UNIT

Business Units are responsible for the day-to-day management of inherent business risks, 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 and 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.

- **Appointment of Risk Champion**

  The Board of the Risk Management Committee at its 37th (4/FY2012) meeting on 26th November 2012 has agreed to GRMD's recommendation on the appointment of a Risk Champion in each department, business unit and subsidiary. The appointment of a Risk Champion in the respective entities will help the Group to strengthen and improve its Risk Management in giving assurance to the Board.

  The Risk Champion is responsible to assist Business Unit Risk Owners in ensuring the risks of each business entity is managed and monitored effectively and adequately.

INTERNAL AUDIT

Group Internal Audit Department ("GIAD") is an independent department which reports directly to the Audit Committee. It 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.

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, GRMD works together with Business Units to identify the Business Units' exposure to potential risks that could have an effect on achieving the Group's objectives.

   Risks have been classified into nine (9) categories as follows:-

a)	**Strategic**	Associated with the unsuccessful performance or strategy failure due to potential threats, actions, or events that adversely affect the organisation's ability to achieve its objectives.
b)	**Human Resources**	Associated with employees that do not possess the requisite knowledge, skills and experience needed.
c)	**Compliance / Regulatory**	Associate with the breaching of relevant rules, regulation, guidelines, standards of laws issued by regulatory bodies.
d)	**Reputation**	Associated with loss of brand image that the Company may lose customers, key employees or its ability to compete.
e)	**Operational**	Associated with problems in the performance of business functions or processes. Exposure to this risk can result from deficiencies or breakdowns in internal controls or processes, technology failures and human errors, or from external events.
f)	**Financial**	Associated with financial loss that may be incurred or circumstances under which the opportunity or potential financial gain may be lost. **Credit risk:** Arises from inability or unwillingness to fully meet its on-balance sheet and/or off-balance sheet contractual obligations. It also includes the ability to secure financing for its operations and expansion. **Market risk:** Arises from changes in market rates or prices. Exposure to this risk can result from market-trading, dealing, and position-taking activities in markets such as interest rate, foreign exchange, equity, commodity and real estate **Liquidity risk:** Arises from inability to purchase or otherwise obtain the necessary funds, either by increasing liabilities or converting assets, to meet its on and off balance sheet obligations as they come due, without incurring unacceptable losses.
g)	**External**	Associated with the threat or opportunity arisen from current or future external environment factor, where the company has no or little influence on it.
h)	**Customers**	Associated with the persons who purchase or utilise the products or services.
i)	**Integrity**	Associated with the attitude and behavioural aspects of employees with respect to fraudulent activities, illegal, unethical, and unauthorised acts.

2. Risk Evaluation

In this stage, the identified risks 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, minimised, 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 in order to reduce the risk implication. 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 limit 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 Risks Management Action Plan. The appointed Risk Champion in each business entity is responsible to ensure risk management activities are carried out and reported timely. The progress on the implementation of risk policies and action plans are reported to the Board of Risk Management Committee from time to time. GIAD plays a crucial role in monitoring compliance with the agreed risk management policies and action plans.

RISK MANAGEMENT INITIATIVES AND ACTIVITIES

GRMD has undertaken several initiatives to ensure that the risk management process is continuously dynamic, tailored and responsive with the Group's business objectives. For year 2012, the following activities were undertaken:

(a) Carrying out a survey on Business Continuity Plan of the company to ascertain the availability of Business Continuity Plan in the business units, departments and subsidiaries, and to ascertain the adequacy of the Business Continuity Plan documentation.

(b) Conducted a Business Impact Analysis to all departments under MAA Group Berhad and subsidiaries including MAA Credit Berhad, MAA Bancwell Trustee Berhad and MAA International Assurance Ltd.

(c) Conducted risk assessment and review focusing on identifying related investment risk in MAA General Assurance Philippines. The process of identifying risk is based on the approved ERM framework.

(d) Conducted risk assessment on the operations of MAA Cards Sdn Bhd as a new business entity in the Group which currently offers MAA VISA Prepaid Card as a cashless convenience with worldwide recognition. The purpose of this assessment was to identify the risks associated to its business operations such as strategic, operational and financial risks.

(e) Conducted a preliminary stress test programme on MAAKL Mutual Bhd ("MAAKL Mutual") based on the available information and discussion as part of the annual plan. This exercise aims to provide value to stakeholders and facilitate continual improvement in a wide range of business operations to achieve their objectives and expectations.

CHALLENGES

Throughout the financial year ended 31 December 2012, continuous risk identification exercises have been carried out by the Company and its subsidiary companies. Some of the significant business challenges and risks identified were as follows:

- **Changes in Regulatory Requirements**

  Evolving and changing regulatory environment remains as one of the top challenges for the Group. Any changes in regulatory requirements may have an effect on the ability of the Group's compliance and effort to distribute its products and services.

  Despite uncertain environment, the Group is focused and keeps its pace with changes and planning for compliance with upcoming regulations.

- **Competitive Business Environment**

  The Group faces intense competition from its competitors in the respective fields in which the Group offers its products and services.

  Despite strong competitive challenges, the Group continues to grow the core businesses of MAAT and MAAKL Mutual. The Group continually emphasises in developing and delivering products and services which meets consumer needs.

- **Reputation and Branding**

  As a financial services Group, the ability to generate business and retain customers would require good reputation and strong branding. In this respect, maintaining good reputation and strong branding is one of the Group's top priority and key aspects.

  The Group would continue to make its presence visible through advertising and promotional campaigns. Any major changes in the Group's business operations would be communicated and disseminated to the media.

- **Weakness Internal Control and Operational**

  During Financial Year 2012, the Group faced issues on lapses in internal controls of PT MAA General Assurance ("PTMAAG") in its business operations, accounting and reporting functions to the Company affecting the Group's financial results. The Company has made the necessary adjustments to the 3rd and 4th quarter financial results based on the findings of GIAD and in consultation with its external auditors, Messrs PricewaterhouseCoopers. Remedial actions have been taken to address these lapses in the internal controls of PTMAAG in its business operations, accounting and reporting functions. These include instructing the Financial Controller of PTMAAG to report directly to the head office and payments above specified thresholds require approval by Head Office. The Company will continue to review and monitor the adequacy and effectiveness of internal controls to ensure mitigation of risks.

CONCLUSION

Following up on earlier risk management initiatives, control in the areas of strategic business planning, project management, business contingency and information security were further enhanced. As such, establishment of proper documentation of policies and procedures will govern the conduct of the business. Continuous risk management activities are carried out by conducting self-assessment to ensure that principal risks are identified, measured and managed with appropriate level of risk mitigating controls. The Board will continuously review the system for improvement and enhancement to ensure the risk management implementation is aligned with the Group's business objectives. In addition, GRMD assures to continue to play central roles in promoting and creating risk management awareness as well as overseeing the implementation of the risk management framework within the Group.