

statement on internal control

BOARD RESPONSIBILITY

The Board acknowledges its responsibility for maintaining a sound internal control system to safeguard shareholders' interest and the Group's assets and for reviewing the adequacy and integrity of this system. The process to identify, evaluate and manage the significant risks is a concerted and continuing effort throughout the financial year. This process is regularly reviewed by the Board and accords with the guidance from the Statement of Internal Control - Guidance for Directors of Public Listed Companies issued by Malaysia Securities Exchange Berhad. The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable rather than absolute assurance against material misstatement or loss.

The Board is pleased to provide the following statement which outlines the key processes of the internal control system of the Group.

RISK MANAGEMENT

The Board has in July 2003 approved the formation of the Risk Management Committee (RMC), which will be responsible for effective functioning of the integrated risk management function within the Group. The main objective of the RMC is to formulate and review the risk strategy of the Group. To complement the function of this committee, an external consultant has been engaged to review and develop a Strategic Risk Management Framework for the Group. This strategic framework will encompass the determination of the Group's risk management principles, risk appetite/ tolerance setting, risk based oversight/ organisation design, enterprise risk reporting processes and risk information management as well as the development of the Group Risk Metrics and Scorecard to enable the Group to better monitor the risk exposures and risk-return performance. The Group Risk Metrics and Scorecard will include the formulation of risk-based economic capital computation, methodology for enterprise-wide integration of risk metrics and development of a group scorecard based on key risk indicators.

Additionally, as part of the overall assessment of the subsidiaries' state of internal control, the subsidiaries are required to assess the state of internal control of their respective companies and accordingly report and provide due assurance to the holding company.

Risk management framework has been implemented by the major banking subsidiaries such as BCB, CIMB and PT Bank Niaga ('PTBN'). The non-banking subsidiaries such as Commerce Life, CAFM, CAV and CTB have also started their risk management initiatives. A separate section of the Annual Report will elaborate on the major subsidiaries' risk management framework.

Furthermore, the major banking subsidiaries have specific committees which have been delegated the responsibility to examine all matters within their scope and report back to the respective board of directors on significant matters. The subsidiaries' Board Risk Management Committee and specific risk sub-committees have been entrusted to manage different types of risks common to financial institutions which include credit risk, market risk, operational risk and liquidity risk. The risk sub-committees meet regularly to review and manage the risk and recommend suitable follow-up actions.

Amongst the initiatives implemented by BCB are the board-approved Liquidity Contingency Plan which stipulates the action plan in the event of a liquidity crisis, Credit Risk Policy Guide which outlines the limiting risk, risk pricing, credit risk rating, measurement and reporting, Loss Event Database to track and monitor operational losses and Control Risk Self Assessment. At CIMB, the initiatives are the Enterprise Wide Risk Management framework and Anti Money Laundering initiatives. At PTBN, the initiative is the Risk Management Project Master Plan for 2003 - 2006. The steps taken by the major banking subsidiaries are in line with the current development in the market in an effort to achieve compliance with Basel II, Bank Negara guidelines and other regulatory authorities.

AUDIT COMMITTEE

The Audit Committee which is chaired by an independent non-executive director reviews the internal control system and findings of the internal auditors, external auditors and regulatory authorities and accordingly endorses appropriate remedial action.

The BCB Group, CIMB Group, PTBN Group and Commerce Life have their own separate Audit Committees. The reports of these committees are forwarded to the CAHB Audit Committee. If required, there is a channel for interaction between the CAHB Audit Committee and the major subsidiaries' Audit Committees to discuss specific issues. Further details on the Audit Committee are set out in the Audit Committee Report.

INTERNAL AUDIT FUNCTION

For all major subsidiaries under CAHB Group except for CIMB Group and PTBN Group, the internal audit function is carried out by the Internal Audit Division of BCB which is also functioning as CAHB Group Internal Audit Division. For CIMB Group and PTBN Group, the internal audit function is entrusted to their own departments called Strategic Risk and Compliance Unit and Internal Auditor Group respectively while CAHB Group Internal Audit reviews their reports.

The Internal Auditors regularly audit the internal control practices and report significant findings to the Audit Committee with proposed recommendations. The core function of the internal auditors is to perform an independent appraisal of the Group's activity, to provide assurance on and to help management to maintain the best internal control system. The management is responsible to ensure that corrective actions on reported weaknesses are undertaken within an appropriate time frame.

OTHER KEY ELEMENTS OF INTERNAL CONTROL

- The internal control culture is promoted via the introduction of various forms of Corporate Integrity Policy which includes amongst others emphasis on avoidance of conflict of interest and confidentiality of information, authorised credit limit and Code of Ethics. A major banking subsidiary has also embarked on an initiative to develop a Chinese Wall Policy.
- Group annual business plan and budget are prepared and tabled for the Board approval. Actual performance is compared against budget and reviewed regularly by the Board with explanation of major variances.

This statement was made in accordance with a Board of Directors resolution dated 12 March 2004.