

risk management

1. COMMERCE ASSET-HOLDING BERHAD (CAHB)

As the holding company of a large and diversified financial services group of companies operating in a dynamic and fast-changing environment, CAHB is faced with many challenges which are derived internally from within the Group and externally from market environment. These challenges produce both risks and opportunities for the Group. CAHB believes that effective risk management is a fundamental element to ensure that the Group sustains and improves its profitability and meets stakeholders' expectation.

Acknowledging the importance of having a structured risk management framework to respond to continuous changes in the financial services industry, the Board has approved the formation of the Board Risk Management Committee (RMC) in July 2003 at CAHB, one of the committees proposed under the Financial Sector Masterplan. The RMC is chaired by an independent Non-Executive Chairman. Composition of the RMC is as follows:

Tan Sri Datuk Asmat Kamaludin Chairman

Dr Rozali Mohamed Ali Member

En Mohd Salleh Mahmud Member

The RMC is primarily responsible for effective functioning of the integrated risk management function within the Group which include formulating and reviewing the risk strategy, approving and periodically reviewing the Group's risk management policies in line with the risk strategy, defining the risk management objectives across risk categories and business lines, setting appropriate risk appetite, reviewing the risk-based economic capital, reviewing the overall risk profile, approving the contingency plan for dealing with various extreme internal/external events and disasters, and ensuring a risk aware culture within the Group.

To complement the functions of the RMC, a Risk Management Department was formed and an external consultant was engaged to assist in reviewing and developing a Strategic Risk Management Framework for the Group. This strategic framework will enable the establishment of a consistent risk management framework throughout the Group to better manage the risk exposures as well as the development of the Group Risk Metrics and Scorecard to better monitor the risk-return performance in tandem with proactive capital management objectives.

Proactive Capital Management will allow the Group to link risks to the required capital and measure the risk in terms of economic reality. It will also allow the Group to drive a return on equity discipline into individual transaction decisions through risk-based pricing and provide an enterprise-wide language for discussing and pricing risks.

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
- risk information management

The Group Risk Metrics and Scorecard will include the formulation of the following:

- risk-based economic capital computation
- methodology for enterprise-wide integration of risk metrics
- development of a group scorecard based on key risk indicators.

2. MAJOR SUBSIDIARIES IN THE GROUP

At our major subsidiaries, the risk management initiatives undertaken have advanced further as elaborated in the following paragraphs:

a. Bumiputra-Commerce Bank Berhad (BCB) Group

At BCB Group, the key risk management initiatives that have been put in place are further refined and improved during the financial year. The risk management structure begins with the BCB's Board RMC, which comprises only Non-Executive Directors. The RMC provides an overview and direction of the BCB Group's risk profile and risk appetite, including formulation of risk policies and reviews and ensures risk exposures are within the defined parameters and risk limits. It also ensures that sufficient capital is maintained relative to the total risk exposure. Supporting the RMC are three specific risk committees, namely Credit Risk Committee, Market Risk Committee and Operational Risk Committee. These are in turn supported by independent management units that report directly to the Executive Vice President of Risk Management, who will then report directly to the RMC.

Credit Risk

Key to the credit risk management is to ensure that structures and processes are in place to maintain and continuously enhance the BCB Group's risk assessment capabilities in key areas of credit. These include sound credit policies and procedures, quality credit approvals, appropriate risk measurement and methodology, strong credit controls with independent reviews and effective and workable recovery strategies.

BCB's Credit Risk Management is vested upon the Credit Risk Committee (CRC). The CRC reports to and assists the Board (through the RMC) in its oversight role on management of credit risk of BCB Group. Regular meetings are held to monitor credit risk exposures, regular review on an account and portfolio basis and ensure timely reporting to risk committees.

Market Risk

BCB's risk management framework, processes and comprehensive governance surrounding market risk-taking activities are undertaken by the Market Risk Committee (MRC) with the assistance from Asset and Liability Management (ALM) and Treasury Risk Management (TRM).

A Funds Transfer Pricing Policy has been drawn up to centralise the management of interest rate risk, improve performance evaluation and assist asset liability management. ALM has also developed a bank-wide Liquidity Contingency Plan which listed among others, the responsibilities and corrective measures to be taken during a liquidity crisis. In addition, TRM has completed a review of the investment guidelines under the Global Treasury Policy to ensure the comprehensiveness and effectiveness of the policy. TRM also monitors limits and informs senior management of any breach of stop-loss limits for trading positions in order that the breach is promptly and effectively addressed. BCB Group also participates in the derivative market for the primary purpose of hedging.

For liquidity management, ALM utilises the Bank Negara Malaysia New Liquidity Framework to monitor maturity mismatches over successive time bands, concentration of funding sources and liquid asset ratio. Additionally, stress test is conducted on the net interest income including worst-case scenario analysis as well as generation of gap and simulation reports which are furnished to MRC on a timely basis.

Operational Risk

BCB's Operational Risk Committee (ORC) has the functions of managing and mitigating operational risk. ORC also ensures that there are clear and predefined roles and responsibilities among ORC and other risk committees, business units as well as Internal Audit. In achieving this, ORC has a comprehensive Operational Risk Policy which outlines the risk identification, controls, mitigation and prioritisation issues.

There is ongoing monitoring and reporting on the effectiveness of operational risk management processes. Some of the initiatives currently undertaken are anti-money laundering reporting, data integrity and maintenance, fraud detection and prevention measures as well as communication on operational risk alerts. Other projects being implemented are the Loss Event Database to track and monitor actual operational losses, Control Risk Self Assessment programme and selection and development of Key Risk Indicators.

b. CIMB Berhad (CIMBB) Group

At CIMBB Group, enterprise-wide risk management framework (EWRM) is adopted to manage its risk. The EWRM framework involves the ongoing process of identifying, managing and reporting significant risks that may affect the achievement of its business objectives. This robust methodology equips the Board and management with a comprehensive toolkit to anticipate and manage both the existing and potential risks, taking into consideration the changes in the risk profile experienced in the industry and within CIMBB Group. This proactive approach is cascaded down to the rest of the companies in CIMBB Group through management's conscious efforts of embedding a strong risk and control culture at the operational level.

In line with best practices in corporate governance, the Board determines the risk policy objectives and assumes ultimate responsibility for risk management. The Board also establishes the yearly allocation of risk capital to support all risks taken by CIMBB Group.

The day-to-day responsibility for risk management and control has been delegated to the Risk Committee, which reports direct to the Board. On the other hand, the Audit Committee oversees strategic risk issues, internal control, audit matters and compliance with corporate governance practices.

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Risk Committee, comprising the senior management of CIMBB Group, undertakes the oversight function for capital allocations and overall risks limit guided by the risk appetite as defined by the Board. The Risk Committee is further supported by four specialised sub-committees; namely Market Risk Committee, Credit Risk Committee, Liquidity Risk Committee and Operational Risk Committee. These are all Board delegated committees that meet at least on a monthly basis. Their functions are summarised below.

Market risk arises from changes in market prices from exposure to interest rates, currency, credit spreads and equity prices. The Market Risk Committee oversees exposure to interest rate, currency, credit spreads and equity risks and approves proprietary trading activities and investments/underwriting arrangements within defined limits.

Credit risk arises from the losses due to counter-party or issuer of securities or other instruments held fail to perform its contractual obligations to CIMBB Group. The Credit Risk Committee has credit approval authority, manages the CIMBB Group's exposures to credit risk, oversees counter party, industry sector and product exposures and sets credit support standards.

Liquidity risk relates to the funding and liquidity management of the CIMBB Group's activities. The Liquidity Risk Committee manages the funding profile and liquidity risk.

Operational risk relates to the potential for losses arising from a breakdown in controls and the implementation of safeguards to ensure the proper functioning of people, systems and facilities. This includes legal and regulatory issues and the need to ensure that all work undertaken by CIMBB Group is adequately documented and meets regulatory standards. This responsibility has been delegated to the Operational Risk Committee.

c. Bank Niaga (Bank Niaga) Group

At Bank Niaga Group, an integrated risk management policy has been developed and implemented in which control and monitoring are conducted through several executive committees which comprise Audit Committee at the level of Board Commissioners and the following committees at the level of Board of Directors.

- Risk Management Committee
- Credit Risk and Policy Committee
- Market Risk Committee
- Asset and Liability Committee
- Operation and Technology Committee

Members of these committees are primarily from the Board of Directors and senior management of Bank Niaga Group. The Risk Management Committee determines the Bank Niaga Group's risk appetite that combines analyses between business opportunities, potential risks inherent in the business and the capital strength. The decisions made in the executive committees meeting are strategic decisions that become operating policies and guidelines for all operational levels of Bank Niaga Group. The responsibility of the other executive committees are summarised under the sub-heading of credit, market, liquidity and operational risks below.

The Risk Management Group supports all risk management activities in Bank Niaga Group that include providing data for risk analysis. The availability of adequate and accurate risk data is very crucial for the formulation of the Bank Niaga Group's policies. In addition, the Risk Management Group is responsible to conduct review of delegation of authority on various limits in Bank Niaga Group, including reviewing the quality and progress of various investment portfolios, improving the system on internal control, both directly and indirectly through the improvement of the existing policies and procedures.

The independent supervision and control over the Bank Niaga Group's operations are conducted by the Bank Niaga Group's Internal Audit department.

Credit Risk

Credit Risk and Policy Committee is responsible to manage the credit risk by establishing various guidance and procedures in credit granting process, credit approval and credit policy, implementation of risk principles in credit proposal and credit portfolio to monitor the performing and non-performing loans.

Market Risk

The Market Risk Committee defines and ensures conformity to the trading limits for the trading activities in the Treasury business unit which comprise foreign exchange transactions and financial market and securities trading.

Liquidity Risk

The Asset and Liability Committee (ALCO) meets regularly to discuss the position and condition of the Bank Niaga Group's balance sheet relative to the market condition and to formulate the best strategy for Bank Niaga Group to manage its liquidity and interest rate risk.

In managing liquidity and balancing asset and liability, ALCO focuses on the following key aspects: the size of the liquidity assets, the capacity of Bank Niaga Group to raise money on the inter-bank market, the Bank Niaga Group's funding structure, maturity of funds and liabilities, diversification of funding sources, future funding requirements and macro-economic condition.

Operational Risk

Operational risk includes the risks that arise from failure of internal processes. Operational risk is less direct than credit and market risk but managing them is equally critical. For this purpose, Bank Niaga Group has an Operational Risk Committee with oversight responsibility for all operational matters that affect the Bank Niaga Group's daily activities.

The control self-assessment was conducted twice annually on a company-wide basis. The company, through its monthly management committee meeting, elaborates on the risks and challenges facing the company. The decisions and action plans agreed are then communicated downwards for further actions by the respective personnel.

3. OTHER SUBSIDIARIES IN THE GROUP**a. Commerce Life Assurance Bhd (Commerce Life)**

At Commerce Life, the Risk Management Committee which consists of four members is responsible to implement the Risk Management Framework which has been approved by the Board of Directors in 2002. The committee is scheduled to meet four times annually. Additionally, the monthly Board of Directors meeting provides the avenue for the Board to cascade downwards to the management the level of acceptable risk.

b. Commerce Asset Ventures Sdn Bhd (CAV)

CAV has implemented an Enterprise-Wide Risk Management approach using the Corporate Risk Scorecard as the risk assessment tool to assist the Board in reviewing and monitoring the risks. The management of the risks is under the overall strategy determined by the CAV's Risk Management Committee and the implementation is coordinated by the CAV's Risk Management Division. Major risks identified will be discussed in the Management Committee meeting for possible solutions. The implementation of the proposed solutions will be carried out by the risk owner and monitored by the Risk Management Division.

c. Commerce Trust Berhad (CTB)

At CTB, significant risks have been identified after taking into account internal and external factors. A team has been formed to constantly review the risk management and the possible impact it may have on the business. The internal control mechanisms have been imbedded in the work processes and the procedures at all levels within the organisation. Reports prepared by the Group Internal Auditors on CTB are submitted to the CAHB's Audit Committee with proposed remedial actions.

d. Commerce Asset Fund Managers Sdn Bhd (CAFM)

At CAFM, a committee was formed with the delegated responsibility to regularly review the risk management practices and the impact the risks may have on the business. Internal control processes were established after considering the overall control environment of the company as well as assessment of the operational and financial risks and effectiveness of the monitoring mechanisms. Reports prepared by the Group Internal Auditors are submitted to the CAHB's Audit Committee with proposed remedial actions.