

Statement on Internal Control

for the financial year ended 31 December 2004

BOARD RESPONSIBILITY

The Board acknowledges its responsibility for maintaining sound internal control systems to safeguard shareholders' interest and the Group's assets; and for reviewing the adequacy and integrity of these systems. Such systems, however, are 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 process to identify, evaluate and manage the significant risks is a concerted and continuing effort throughout the financial year under review. 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 Bursa Malaysia Securities Berhad and Malaysian Code on Corporate Governance.

In addition, as part of the overall assessment of major subsidiaries' state of internal control, these 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. The banking and insurance subsidiaries' statement of internal control were approved by its respective Audit Committee.

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

RISK MANAGEMENT

In January 2004, the Group Risk Management Committee (GRMC) initiated a Strategic Risk Management Framework (Framework) project. The project was completed and approved by the Board in June 2004. The approach taken in this Framework reflects the Group's risk aspiration, profile, philosophy and strategy.

The prime objective of the Framework is to put in place integrated risk management capabilities that enable the holding company to achieve a single view of risks across its various subsidiaries and business operations and to gain strategic competitive advantage from its risk management capabilities.

The following are the key principles of the Framework:

- Retain the dynamism of the Group and the subsidiaries' autonomy in managing their risks

- Drive the Group's risk management through:
 - Analysing comprehensive and timely information on subsidiaries' risk and performance status through Group Risk Dashboard
 - Building processes to speedily control wayward situations in subsidiaries, if required
 - Enhancing consistency in risk management approaches through periodic intra-group risk management dialogue
- Build the Group's capabilities for pro-active economic capital management

Risk management frameworks have also been implemented by the major banking subsidiaries such as Bumiputra-Commerce Bank Berhad (BCB), Commerce International Merchant Bankers Berhad (CIMB) and PT Bank Niaga (PTBN) and other subsidiaries such as Commerce Life Assurance Berhad (Commerce Life), Commerce Assurance Berhad (formerly known as AMI Insurans Bhd) (Commerce Assurance) and Commerce Asset Ventures Sdn Bhd. The frameworks involve a continuous process of risk identification, assessment, control, monitoring and reporting. A separate section of the Annual Report will further describe CAHB and its major subsidiaries' risk management framework and initiatives which will also include Basel II efforts where relevant.

Furthermore, the major banking subsidiaries have specific committees which have been delegated the responsibility to examine all matters within their scope and report 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.

The major banking subsidiaries continuously review its internal control policies and practices to be in line with the current developments in the market and are aiming to comply with Basel II, Bank Negara Malaysia (BNM) guidelines and other regulatory authorities. During the year, several initiatives taken by BCB include, amongst others, the establishment of the Basel Programme Office to manage Basel II implementation with its immediate focus

of assessing the key issues and identifying critical success factors for implementing the Standardised Approach for credit risk; the enhancement to the Treasury Risk Management Policy to incorporate Value-at-Risk methodology and Treasury Trading Statement Policy to comply with BNM's market risk adequacy framework; and the continuous effort in setting up a Banking Data Warehouse to ensure comprehensive, accurate and up-to-date data is available for the Bank's risk management. At CIMB, its initiative includes the establishment of Group Risk Monitoring during the year to review compliance with regulatory requirements, compliance to internal policies and procedures and undertake investigations for breaches. During the year, the initiatives at PTBN include the Control Self Assessment Tool for operational risk and development of the Historical Loss Event Database.

AUDIT COMMITTEE

The Audit Committee which is chaired by an independent non-executive director reviews the internal controls 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, Commerce Life and Commerce Assurance have their own separate Audit Committees. The summary reports of these committees are forwarded to the CAHB Audit Committee.

There is a channel available 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 Corporate Assurance Department and Group Internal Auditor respectively. CAHB Group Internal Audit reviews their reports.

The Internal Auditors regularly audit the internal controls 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 an adequate 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 initiatives which include, amongst others, emphasis on avoidance of conflict of interest and confidentiality of information, authorised credit limit, Code of Ethics and exceptions management procedure. At CIMB a Group-wide Chinese Wall Policy to manage the conflict of interest arising from the convergence of various business practices was developed.
- Our major banking subsidiaries have established policies and procedures for anti-money laundering to facilitate the detection and reporting of money laundering activities.
- Policies and procedures to ensure compliance with internal controls and the relevant laws and regulations are documented and duly approved by the Board. The policies and procedures of major banking subsidiaries are stated in operation manuals, guidelines and directives issued by the subsidiaries which are updated from time to time.
- Group annual budget is prepared and tabled for the Board approval. Actual performance is compared against budget and reviewed by the Board with explanation of major variances.

This statement was made in accordance with a Board of Directors resolution dated 28 February, 2005.