

Statement on Internal Control

RESPONSIBILITY FOR INTERNAL CONTROL

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness, adequacy and integrity. It recognizes that the review of the system of internal control is a continuous process, designed to manage rather than eliminate the risk of failure to achieve the Group's business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established processes for identifying, evaluating and managing the significant risks faced by the Group. These processes have been in place for the whole of the financial year ended 31 March 2007 and have continued up to the date on which this Statement was approved. The Board is confident that these processes provide reasonable assurance on the effectiveness and efficiency of both the financial and operational aspects of the Group.

Key Processes

The key processes that the Board has established for review of the adequacy and integrity of the system of internal controls of the Group are as follows:-

- The Group has a well-defined organisational structure with clear lines of responsibility and accountability.
- The Group's Risk Management policy, setting out the Board's attitude toward risks and the processes to achieve the business objectives of the Group, is clearly documented in the Statement of Risk Management as set out in this Annual Report.
- The Internal Audit Department of the Group, which reports to the Audit Committee, performs regular reviews of the business processes of the Group in an effort to assess the adequacy and effectiveness of internal controls and to highlight significant risks impacting the Group and recommend further improvement, where necessary.
- The Group holds a 20% effective equity interest in its associated company, Labuan Reinsurance (L) Limited (Labuan Re) through its subsidiary, Malaysian Reinsurance Berhad and is represented on the Board of Labuan Re by two of its directors. It also has a 40% effective equity interest in, another associated company, Motordata Research Consortium Sdn. Bhd. (MRC) and is similarly represented on the Board of MRC by two of its directors.

Committees Of The Board

The Board has established Committees of the Board at both the Group and subsidiary levels with a view to assist and provide added focus in discharging its duties.

The Committees of MNRB are:

- The Audit Committee, which is appointed by the Board comprising three (3) non-executive directors. The Audit

Committee reviews and considers both the internal and external auditors' reports, and in the process gauges the effectiveness and adequacy of the system of internal controls. Appropriate recommendations for improvement are made to the Board for approval.

- The Investment Committee, which comprises five (5) non-executive directors, is responsible for reviewing and approving investment proposals, as well as monitoring the Group's investment portfolio to ensure conformity with overall business objectives and statutory requirements.
- The Risk Management Committee, which comprises five (5) non-executive directors, is responsible for the review and recommendation to the full Board on the adoption of appropriate risk management strategies and policies. It is also responsible for the development and monitoring of the risk management process for the Group.
- The Nomination and Remuneration Committees each comprises five (5) non-executive directors. The main duty of the Nomination Committee is to recommend to the full Board the appointment of directors and that of the Remuneration Committee is to recommend the appropriate remuneration packages. The Nomination Committee is also responsible for the annual assessment of the effectiveness of the Board.

Other Key Elements Of Internal Control

- The Board has also adopted communication policies to ensure that all decisions made are communicated promptly to staff of all levels within the Group and vice versa where feedbacks and suggestions on improvements could be communicated to the Management and Board.
- The Underwriting Guidelines of the Reinsurance and Takaful subsidiary companies have been put in place to manage risks that are being underwritten.