

statement on risk management

Risk Management Framework

The Board of MNRB believes that an effective Risk Management Framework is essential to the Group in its quest to achieve its corporate objectives, especially on the continued profitability and enhancement of shareholders' value in today's rapidly changing market environment.

With this in mind, the Board had established dedicated Board Committees known as the Risk Management Committee of the Board (RMCB) at the holding company and each of its subsidiary companies to develop and oversee the implementation of an enterprise-wide risk management framework in each company. To further complement the risk management framework of the Group, dedicated Management Committees known as the Operational Risk Management Committee (ORMC) at the operational level of the respective subsidiaries were also established to assist their respective RMCBs in ensuring a proactive risk management culture on an enterprise-wide basis at the subsidiaries level and by extension, the Group-wide basis as well.

Risk Management Committee Of The Board (RMCB)

The Terms of Reference of the RMCBs at the holding company and at the operating subsidiaries are as set out below:

Objectives

The primary objective of the RMCBs is to oversee the Senior Management's activities in managing the key risk areas of the holding company and the operating subsidiaries and to ensure that the risk management process is in place and functioning effectively.

Composition of the RMCB of MNRB

The members of the RMCB were appointed by the Board comprising at least three (3) non-executive directors. The

Chairman of the RMCB is an independent non-executive director appointed by the Board amongst the members of the Committee.

The members of the Committee are as follows:

Yusoff Yaacob – *Chairman*

P. Raveenderen

Datuk Mohd Khalil Dato' Mohd Noor #

Mohammad Abdullah *

Dato' Syed Ariff Fadzillah

Syed Awalluddin **

Sharkawi Alis **

Appointed on 24 October 2007

* Resigned on 3 September 2007

** Resigned on 24 October 2007

Committee's Responsibilities

The RMCB is responsible for:

- i) Reviewing and recommending risk management strategies, policies and risk tolerance for the Board's approval;
- ii) Reviewing and assessing the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;
- iii) Ensuring adequate infrastructure, resources and systems are in place for an effective risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the subsidiaries' risk taking activities; and

- iv) Reviewing the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

Committee Meeting

The RMCB holds regular meetings, at a minimum once every quarter and reports regularly to the full Board.

Quorum

The quorum for RMCB meetings consists of at least two members, one of whom is an Independent Director.

Operational Risk Management Committee (ORMC)

ORMCs were set up at each respective operating subsidiaries and its members consist of key management personnel of each company.

The ORMCs' key role is to assist the RMCB of each respective subsidiary in overseeing the management of operational risks. In conjunction with the set-up of the ORMCs, Risk Management Departments were also formed to improve operational risk management and to provide support to the respective ORMC in carrying out its functions.

In summary, the Board believes that risk management is a collective responsibility throughout the entire organisation and there must be clear accountability outlined to ensure its success. As such, the risk management framework within the Group is structured on the following basis:

- i) The Board is ultimately responsible for the management of risks. In this respect, the RMCB, on behalf of the

Board, oversees the effective implementation of the risk management process within the Group, including the major areas of risk relating to underwriting, investments, credit and interest rates.

- ii) The Audit Committee complements the role of the RMCB by providing an independent assessment of the adequacy and reliability of the risk management process, and compliance with the risk policies and regulatory guidelines. The Audit Committee is assisted by an independent Internal Audit Department in performing its role.
- iii) The ORMC provides the necessary assistance to the RMCB in managing the risk management process.
- iv) The individual departments must also play its role by implementing the risk management policies and ensure that they are complied with on the day-to-day activities.

Key Initiatives Undertaken

The Group had put in place the enterprise risk management framework for the effective and ongoing identification, evaluation, management and reporting of the Group's risks in compliance with the Listing Requirements.

In line with the needs of the risk management framework, the Group had completed an enterprise-wide level assessment of the Group's current state of risk profile, which includes the following:

- i) Identification of key risks that may impede the Group from achieving its strategic objectives;

- ii) Identification of existing controls to mitigate these key risks; and
- iii) Development of action plans to further reduce the risks and better management of the risks.

Further to the above, the following key activities have been completed to complement the enterprise-wide risk management framework:

- i) Cascading down the risk management process to the departmental level. In this respect, all the departments of the operating subsidiaries had implemented the departmental risk management process;
- ii) Installed a risk management enabler at all the departments which would allow for the continuous self assessment of risk by the risk owners; and
- iii) Apply the risk management process before embarking on any major projects/initiatives.

With the risk management framework in place, the Group has an established and structured process for the definition and management of risks as well as a formal reporting framework between the risk owners, the Management and the RMCB.