

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 2011 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 recommends 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 Re and is represented on the Board of Labuan Re by two (2) 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 (2) 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 Holdings Berhad are:

- The Audit Committee, which is appointed by the Board comprising five (5) 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 three (3) 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 three (3) Non-Executive Directors, is responsible for the review and recommendation to the 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.

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- The Nomination Committee, which comprises three (3) Non-Executive Directors, is responsible to recommend to the Board the appointment of directors. The Nomination Committee is also responsible for the annual assessment of the effectiveness of the Board.
- The Remuneration Committee, which comprises three (3) Non-Executive Directors, is responsible to recommend the appropriate remuneration packages for the directors.

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 Board and Management.
- The Underwriting Guidelines of the Reinsurance, Takaful and Retakaful subsidiary companies have been put in place to manage risks that are being underwritten.
- The Treaty programs ensure that there is a spread of reinsurers with acceptable ratings from accredited agencies. The securities of treaty reinsurers are reviewed on an annual basis.
- Departmental manuals are available within the Group and these set out policies and procedures for day-to-day operations and act as guidance to employees on the necessary steps to be taken in a given set of circumstances. The manuals enable tasks to be carried out with minimal supervision. It also specifies relevant authority limits to be complied with by each level of management within the subsidiaries. In this respect, the Reinsurance subsidiary has obtained the ISO 9001:2008 certification, while the Takaful Operator subsidiary has obtained the ISO 9001:2008 and MS 1900:2005 certifications from SIRIM.
- The Group's financial systems record all transactions to produce monthly and quarterly performance reports that allow the respective Management to focus on key areas of concern.
- Annual business plans are submitted to the Board for approval.
- A detailed budgeting process has been implemented in the Group where each department prepares a budget for the up-coming financial year for the approval of the Board. The budget is monitored and major variances are followed-up by the respective Management.
- Every employee of the Group is contractually bound to observe prescribed standards of business ethics in the manner of conducting themselves at work and their relationships with external parties such as customers and suppliers. The Group expects each employee to conduct him/herself with integrity and objectivity and not to place him/herself in a position of conflict of interest. The competence of staff personnel is maintained through a structured recruitment process, a performance measurement and rewarding system and a wide variety of training and development programmes.

The Board believes that the system of internal controls of the Group is adequate for its purposes and will adequately safeguard shareholders' investments and the Group's assets. Reviews of the state of internal controls are carried out on an ongoing basis in accordance with "Statement on Internal Controls: Guidance for Directors of Public Listed Companies", to ensure continued effectiveness of the system and to further strengthen it, where necessary.

This Statement is made in accordance with a resolution of the Board of Directors dated 31 May 2011.