

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL OF MAYBANK INVESTMENT BANK BERHAD

Financial year ended 31 December 2019

INTRODUCTION

This Statement on Risk Management and Internal Control is in accordance from Corporate Governance Disclosures requirement of BNM Corporate Governance Policy Document (“CG”). The CG states that Maybank Investment Bank Berhad (“Maybank IB”) may leverage on disclosures relating to the centralised group-wide framework made by Malayan Banking Berhad. The statement outlines the key features of the risk management and internal control system of Maybank IB during the year under review.

BOARD RESPONSIBILITY

The Board acknowledges its overall responsibility in establishing a sound system of risk management and internal control as well as reviewing its adequacy and effectiveness in identifying, assessing and responding to risks to achieve Maybank IB’s objectives. The Board plays a pivotal role in providing risk oversight and determining the aggregate level and types of risk that Maybank IB is willing to take in achieving its strategic objectives (“Risk Appetite”). The Board actively participates in the setting of Maybank IB’s objectives and strategies, and ensures the corresponding risks are adequately mitigated within its approved risk appetite. In view of the inherent limitations in any risk management and internal control system, such system can therefore only provide reasonable, rather than absolute assurance to realise Maybank IB’s objectives and against material financial misstatement, losses or fraud.

The Board has established a strong risk management and internal control governance structure that is crucial in setting the tone and culture towards effective risk management and internal control. To effectively carry out its risk and control oversight responsibilities, the Board is assisted by the Risk Management Committee (“RMC”) and Audit Committee of the Board (“ACB”) to oversee all matters regarding risk, compliance and controls. The Board receives reports periodically from these Board Committees to keep the Board informed of the board committee’s work, key deliberations and decisions on delegated matters.

The Board is satisfied that Maybank IB has implemented an ongoing process to identify, evaluate, monitor, manage and respond to significant risks faced by Maybank IB in its achievement of the business goals and objectives amidst the dynamic and challenging business environment and increasing regulatory scrutinisation. This ongoing process has been in place for the entire financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report.

MANAGEMENT RESPONSIBILITY

Management is responsible for implementing the Board’s policies and procedures on risk and control and its roles include:

- Identifying and evaluating the risks relevant to Maybank IB’s business, and the achievement of business objectives and strategies;
- Formulating relevant policies and procedures to manage these risks in accordance with Maybank IB’s strategic vision and overall risk appetite;
- Designing, implementing and monitoring the effective implementation of risk management and internal control system;
- Implementing remedial actions to address the compliance deficiencies as directed by the Board; and
- Reporting in a timely manner to the Board on any changes to the risks or emerging risks and the corrective and mitigation actions taken.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Risk Management

Risk Management Framework

Risk management has evolved into an important driver for strategic decisions in support of business strategies while balancing the appropriate levels of risk taken to the desired level of rewards. As risk management is a core discipline of Maybank IB, it is underpinned by a set of key principles which serves as the foundation in driving strong risk management culture, practices and processes:

Principles		Description
1	Establish risk appetite & strategy	The risk appetite is approved by the Board, which articulates the nature, type and level of risk that Maybank IB is willing to assume.
2	Assign adequate capital	The approach to capital management is driven by strategic objectives and accounts for the relevant regulatory, economic and commercial environment in which Maybank IB operates.
3	Ensure proper governance and oversight function	There is a clear, effective and robust governance structure with well-defined, transparent and consistent lines of responsibility established within Maybank IB.
4	Promote strong risk culture	Institutionalisation of a strong risk culture that supports and provides appropriate standards and incentives for professional and responsible behaviour.
5	Implement sound risk frameworks, policies and procedures	Implementation of integrated risk frameworks, policies and procedures to ensure that risk management practices and processes are effective at all levels.
6	Execute strong risk management practices and processes	Robust risk management processes are in place to actively identify, measure, control, monitor and report risks inherent in all products and activities undertaken by Maybank IB.
7	Ensure sufficient resources and system infrastructure	Ensure sufficient resources, infrastructure and techniques are established to enable effective risk management.

Risk Appetite

Maybank IB's risk appetite is an integral component of the Maybank IB's robust risk management framework and is driven by both top-down Board leadership and bottom-up involvement of Management at all levels. Our risk appetite enables the Board and Senior Management to communicate, understand and assess the types and levels of risk that Maybank IB is willing to accept in pursuit of its business and strategic goals while taking into consideration constraints under stressed environments.

The risk appetite is integrated into the strategic planning process, and remains dynamic and responsive to the changing internal and external drivers such as market conditions, stakeholder's expectations and internal capabilities. In addition, the budgeting process is aligned to the risk appetite in ensuring that projected revenues arising from business transactions are consistent with the risk profile established. Our risk appetite also provides a consistent structure in understanding risk and is embedded in the day-to-day business activities and decisions throughout Maybank IB.

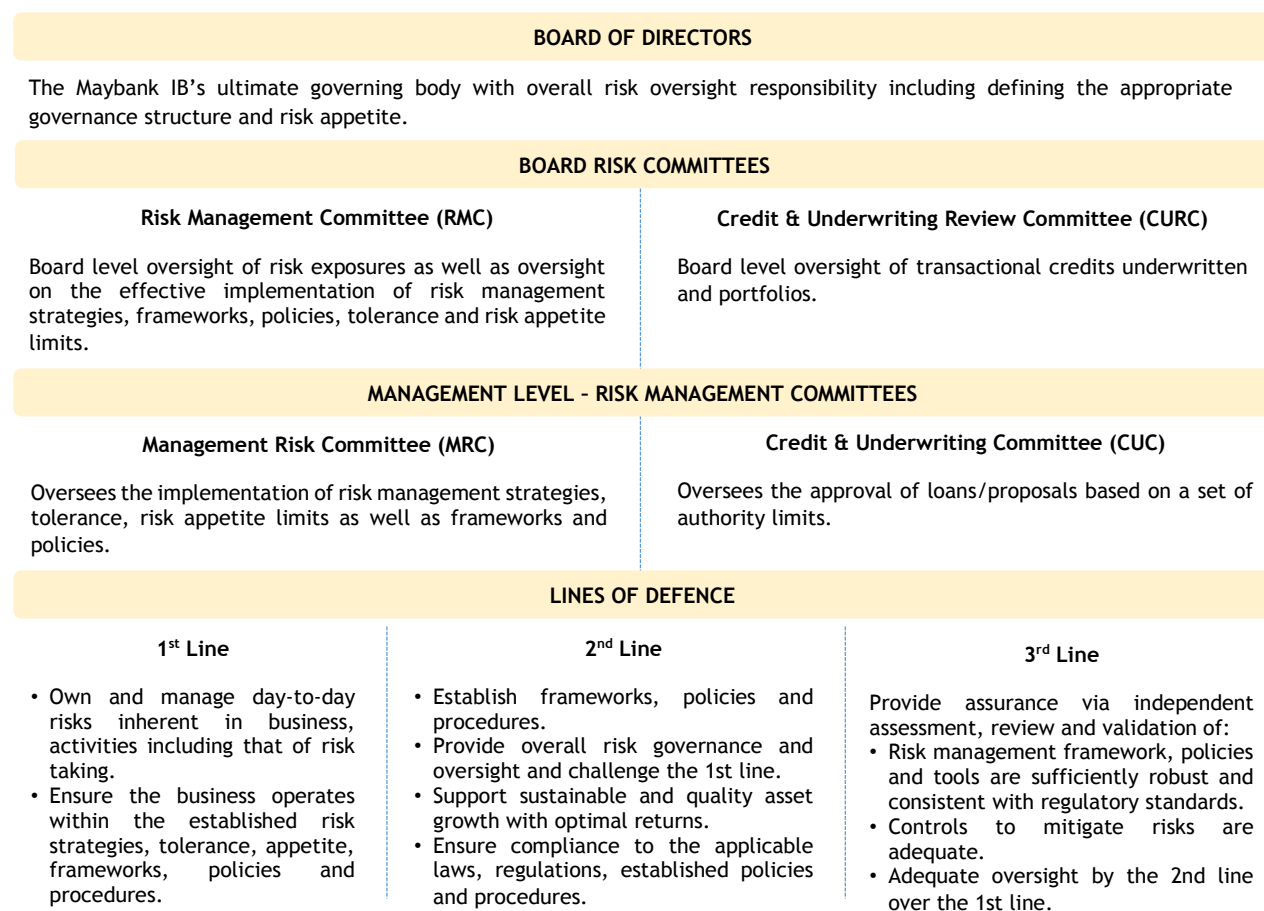
Guided by these principles, our risk appetite is articulated through a set of Risk Appetite Statements for all material risks identified to ultimately balance the strategic objectives of Maybank IB.

Risk Governance & Oversight

The risk governance model of Maybank IB provides a formalised, transparent and effective governance structure that promotes active involvement from the Board and Senior Management in the risk management process to ensure a uniform view of risk.

Our governance model places accountability and ownership in ensuring an appropriate level of independence and segregation of duties between the three lines of defence. The management of risk broadly takes place at different hierarchical levels and is emphasised through various levels of committees, business lines, control and reporting functions.

The Maybank IB's overall risk governance structure is as illustrated below:



Risk and Compliance Culture

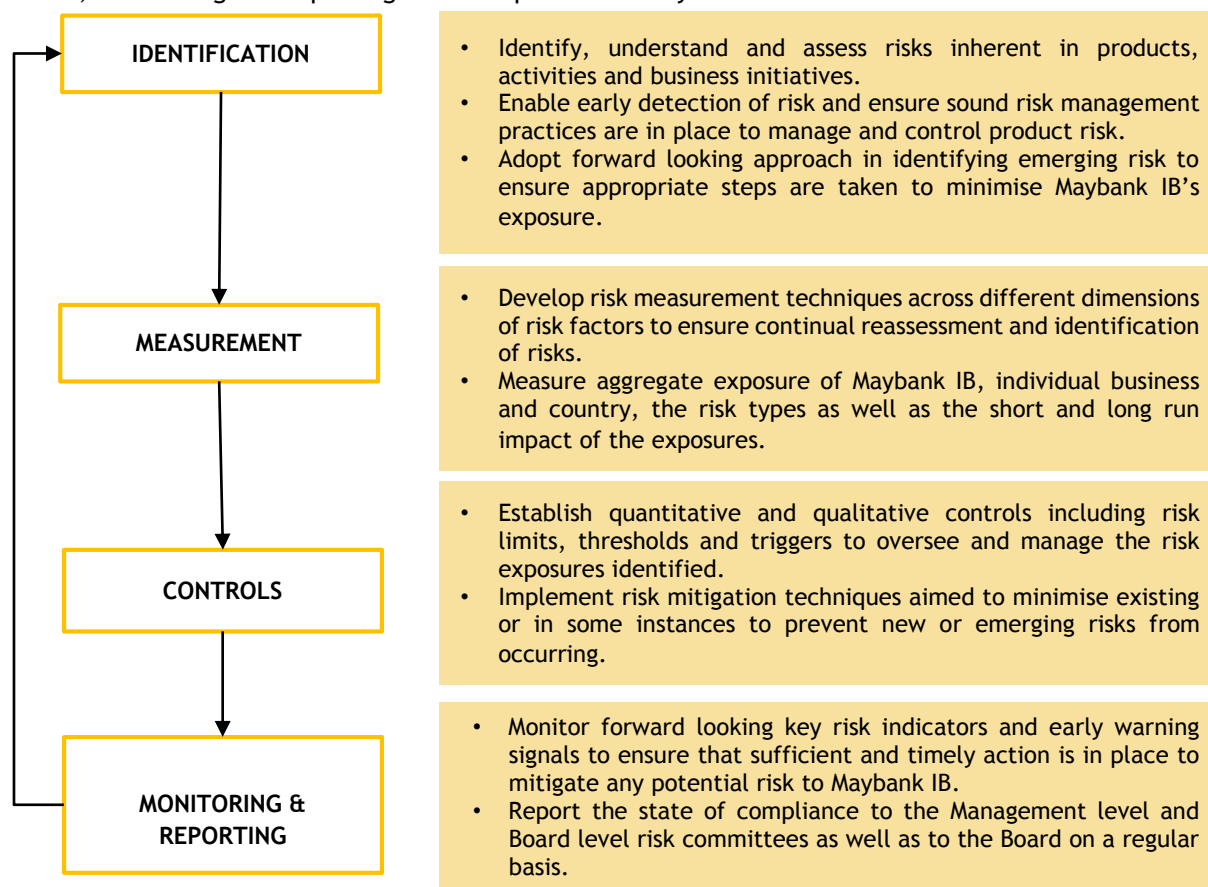
The risk and compliance culture is driven by a strong tone from the top and strengthened by the tone from the middle which serves as the foundation upon which a robust enterprise wide risk management structure and governance are built. This is to ingrain the expected values and principles of conduct that shape the behaviour and attitude of employees across all levels of business and activities in Maybank IB.

Risk and compliance policies are clearly defined, consistently communicated and continuously reinforced throughout Maybank IB to embed a robust culture that cultivates active identification, assessment and mitigation of risks. As part of the risk and compliance culture, Maybank IB has instilled a culture where the Board, Senior Management and employees of Maybank IB are committed to adhere to the requirements of relevant laws, rules, and regulations. This commitment is clearly demonstrated through the establishment and strengthening of policies, processes and controls in managing and preventing non-compliances.

Risk and compliance culture programmes are emplaced and driven by the Board and Senior Management which encompass amongst others, induction programme, engagement sessions and e-Learnings. This ensures risk considerations are embraced by all employees together in enhancing customer experience, building trust and brand value of Maybank IB for long term sustainability of the organisation.

Risk Management Practices & Processes

The risk management practices and processes enable a systematic identification, measurement, control, monitoring and reporting of risk exposures in Maybank IB.



Compliance Roles and Responsibilities

The roles and responsibilities of Compliance are primarily guided by but not limited to the rules and regulations issued by the relevant regulators including BNM, Securities Commission and Bursa Malaysia Berhad. Compliance provides solutions to business whilst ensuring business objectives and regulatory obligations are met.

Shariah Governance Framework

The Maybank Kim Eng Group (“MKE Group”)’s Shariah Governance Framework which includes Maybank IB sets out the expectations of the Shariah governance structures, processes and arrangements of all businesses and countries within the MKE Group that execute Islamic business transactions. This is to ensure that all its operations and business activities are in accordance with Shariah principles as well as to provide comprehensive guidance to the Board, Shariah Committee and Management in discharging their duties in matters relating to Shariah.

The Shariah Governance Framework reflects the responsibility of the Board, Management of Maybank IB, Shariah Committee and Shariah Control functions, namely Shariah Advisory and Research, Shariah Risk, Shariah Review and Shariah Audit which works closely with Business Units to ensure effective management of Shariah Non-Compliance risks.

The end-to-end Shariah compliant governance mechanism is executed through four lines of defence that cater for both pre-execution and post-execution. The four lines of defence are 1st-Management and Business Unit, 2nd-Shariah Advisory and Research, 3rd-Shariah Risk and 4th-Shariah Audit and Shariah Review.

Stress Testing

Maybank IB's stress testing programme is embedded within risk and capital management process and also is a key function of the business planning process. It serves as a forward looking tool to facilitate the understanding of the risk profile under extreme but plausible events that may be contributed by various factors such as economic, political and environmental and ascertain the impact to the organisation and how this can be proactively managed.

Cyber and Technology Risk Management Policy & Guideline

The Cyber Risk Management Policy is established based on the National Institute of Standards and Technology, US ("NIST") standards which emphasise on identifying risks, building resilience, detecting cyber threats and effectively responding to cyber related events. The Policy encompasses the cyber risk management strategy, governance structure and risk management enablers. It complements the Technology Risk Management Guideline and covers both Business and Technology drivers from an end-to-end perspective, which focuses on the key layers of People, Process and Technology.

Technology Risk Management Guideline sets the standards for identifying the risks and required controls in an organisation's technology related functionalities and taking the appropriate risk remedial actions. This is established to standardise the Technology operations environment which will increase high service levels to customers as well as business units.

INTERNAL CONTROL SYSTEM

The key elements of the internal control system established by the Board that provides effective governance and oversight of internal controls include:

- **Group Organisation Structure**

The Board has established an organisation structure with clearly defined lines of responsibility, authority limits, and accountability aligned to business and operations requirements which support the maintenance of a strong control environment.

- **Annual Business Plan and Budget**

An annual business plan and budget are submitted to the Board for approval. Performance achievements are reviewed against the targeted results on a regular basis allowing timely responses and corrective actions to be taken to mitigate risks. The Board reviews regular reports from the Management on the key business updates, as well as legal and regulatory matters. The Board also approves any material changes or amendments to the Maybank IB's policies.

- **Oversight by Risk Management Committee**

The Board has delegated the risk oversight responsibility to the RMC. The committee is responsible for formulating policies and frameworks to identify, measure, monitor, manage and control the material risk components impacting the businesses.

Further information on the roles and responsibilities and specific duties of the RMC is included in the Statement of Corporate Governance.

- **Other Board Committee**

Other Board Committee, namely Credit and Underwriting Review Committee is established to assist the Board in executing its governance responsibilities and oversight function as delegated by the Board. This Committee has the authority to examine all matters within the scope defined in the terms of reference and report to the Board with their recommendations.

Further information on the various Board Committees can be found in the Statement of Corporate Governance

- **Management Level Committees**

Various Management Level Committees are also established by Management to assist and support the various Board Committees to oversee the core areas of business operations. These Management Level Committees include the Management Risk Committee (“MRC”), Credit & Underwriting Committee (“CUC”) and Executive Committee.

- **Management of Information Assets**

Confidentiality, integrity and availability of information are critical to the day-to-day operations and to facilitate management decision-making. The MKE Group Information Risk Management Guidelines which includes Maybank IB outlines the guiding principles for an effective management of information assets. Guided by information handling rules in alignment to the information life cycle, all information must be properly managed, controlled and protected. Clear desk policy is reinforced to minimise information leakage/theft and fraud.

With the increased adoption of technology capabilities and the increasing risk of cyber threats, information security has been among our key focus area. Technology controls are applied at the various stages of information cycle. Amongst the controls are Data Loss Protection to protect and prevent the potential for data loss or theft.

- **Sustainability Management**

Operating in a sustainable manner is reliant on a structured forward looking approach undertaken across the Maybank Group. Our long term financial success depends upon our ability to identify and address environmental, social and ethical issues that present risks or opportunities for our business, now and into the future.

- **Regular Updates and Communication of Risk Management Principles, Policies and Procedures.**

MKE Group’s Risk management principles, policies and procedures are reviewed and updated regularly to ensure relevance to the current business environment as well as compliance with applicable laws and regulations. Risk frameworks, policies and procedures are applicable across the MKE Group, which Maybank IB are to adopt the principles prescribed by the MKE Group while complying with local requirements.

- **Human Resource Policies and Guidelines**

The Maybank Group People Policies (“MGPP”) serves as a baseline with clarity on the philosophy and principles for People Management and Development in Maybank Group. It incorporates key principles and philosophies that support Maybank Group’s Mission of Humanising Financial Services. The MGPP consists of a set of policies and guidelines that governs all aspects of human resource management, from talent acquisition and development, performance and consequence management, and code of conduct to cessation of employment. A Disciplinary Policy is also established to provide for a structure where disciplinary matters are dealt with fairly, consistently and in line with the prevailing labour laws and employment regulations.

- **Core Values and Code of Ethics and Conduct**

The Maybank Group's core values, T.I.G.E.R. ("Teamwork, Integrity, Growth, Excellence and Efficiency, Relationship Building") are the essential guiding principles to drive behavioural ethics. It is further complemented by the Code of Ethics and Conduct that sets out sound principles and standards of good practice to be observed by all employees.

- **Fraud Management**

Maybank IB instils a culture of vigilance amongst employees in handling and combating fraud, and to deter future occurrences. Robust and comprehensive tools/infrastructure and programmes are emplaced ensuring risks resulting from fraud are reported and managed in a decisive and timely manner. Stern disciplinary action is taken against employees involved in fraud.

- **Reputational Risk Management**

Maybank IB adopts a holistic approach and sound governance in managing reputational risk, and to institutionalise awareness and its consequences. Protecting our reputation is paramount to operating as an institution that provides financial services. Upholding trust and creating better customer experience and security forms a vital part of our obligation as a financial institution. Hence, the MKE Group Reputational Risk Policy which includes Maybank IB is emplaced with roles and responsibilities of key stakeholders and guiding principles to facilitate an effective reputational risk management and monitoring of the risk exposures to be within the risk appetite.

- **Whistleblowing Policy**

Maybank IB's Regional Whistleblowing Policy and Procedures encapsulates the governance and standards to promote an ethical, responsible and secure whistleblowing practice within the Bank. This is in line with the requirements of BNM's Corporate Governance Policy and the principles as prescribed in the Whistleblower Protection Act 2010. The core of the policy is aimed to provide a proper and secured avenue for employees and/or members of the public who has knowledge or is aware of any improper conduct to report any suspected fraud, corruption, criminal activity or unethical conduct/behaviour by employee, without facing any adverse consequences, such as retaliation.

Maybank IB is committed to ensuring the confidentiality of the identity of the whistleblower and no person raising a concern in good faith is victimised, harassed, retaliated or otherwise unfairly treated in any manner.

- **Compliance to AML/CFT Requirements**

Maybank IB is committed to fight against financial crime and ensuring effective implementation of measures in the areas of anti-money laundering and counter financing of terrorism ("AML/CFT"). In addition, ongoing enhancement on people, culture, process and systems are being carried out to improve the Group's ability to prevent, deter and detect financial crime activities.

INTERNAL AUDIT

Independent Assurance by Internal Audit

The Internal Audit (IA) function is established by the Board to provide independent assurance on the adequacy and effectiveness of governance, risk management and internal control. The IA function of Maybank IB is undertaken by Maybank's Group Audit which has a total workforce of 153 personnel in Malaysia as of December 2019. The IA function is currently headed by Puan Nazlee Abdul Hamid, the Group Chief Audit Executive (GCAE), who has over 30 years extensive experience in auditing within the financial industry as well as with BNM. She holds a Masters of Business Administration in Management and Organisational Leadership and a Diploma in Accountancy. The IA function is independent of the activities and operations of other operating units in the Group where the GCAE reports functionally to the ACB and administratively to the Group President & Chief Executive Officer (GPCEO). The IA processes and activities are guided by the Audit Charter and governed by the relevant regulatory guidelines, Group's Code of Ethics and the Institute of Internal Auditor's (IIA) mandatory guidance established under the International Professional Practices Framework (IPPF).