

## **1. INTERNAL CONTROL FRAMEWORK**

### **INTRODUCTION**

Pursuant to the requirement under the BNM Corporate Governance Policy Document, the internal control framework is presented herewith outlining the key features of rules and controls governing Maybank Islamic's organisational and operational structure, including reporting processes and control functions.

Under the leverage model, Islamic business operations are residing in Maybank Group. Hence, Maybank Islamic is similarly adopting Maybank Group risk management and internal control system with customisation where required to address the Bank's internal control environment.

### **GOVERNANCE AND OVERSIGHT**

#### **The Board Of Directors**

The Board is overall responsible for establishing a sound risk management and internal control system and reviewing its adequacy and effectiveness. Recognising the importance of a sound risk management and internal control system, the Board has established the governance structure and frameworks to ensure effective oversight of risks and controls.

The Board has delegated its governance and oversight functions to its Board Committee, i.e. the Board Investment Committee, as well as Maybank Group Board level Committees, namely, Audit Committee, Risk Management Committee, Credit Review Committee, Nomination and Remuneration Committee and Employee's Share Scheme Committee.

#### **Shariah Committee**

The Board has appointed an independent Shariah Committee ("SC") to provide decision, views and opinions related to Shariah matters, as well as perform oversight role on Shariah matters related to the business operations and activities to ensure compliance with Shariah. Among its main duties and responsibilities are to provide relevant advice to the Board and to assess work carried out by Shariah Review and Compliance and Shariah Audit.

#### **Management Committees**

The Management Committee of the Bank is established to assist and support the Board to oversee the core areas of business operations and implement the Board's policies and procedures on risks and controls. Maybank Islamic is also leveraging on the various Maybank Group Executive Level Management Committees (ELCs), namely, the Group Executive Committee, Group Management Credit Committee, Group Executive Risk Committee, Group Asset and Liability Management Committee, Group Procurement Committee, Group IT Steering Committee, and Group Staff Committee.

#### **Lines Of Defence**

Maybank Islamic’s governance model provides a transparent and effective governance structure that promotes active involvement from the Board and Senior Management to ensure a uniform view of risk. The governance model aims to place accountability and ownership whilst facilitating an appropriate level of independence and segregation of duties between the lines of defence, which include the following:

Functions	Key Responsibilities
<b>First Line of Defence</b>	
<b>Risk Taking Units</b>	<ul style="list-style-type: none"> <li>• Consist of business / front-line and support units with the ultimate responsibility to manage day-to-day risks inherent in its business, activities and risk exposures.</li> <li>• Ensure that the business operates within the established risk strategies, risk tolerance, risk appetite, risk frameworks, policies and procedures.</li> <li>• Established within the business sectors, the Business Risk unit ensures effective risk oversight, implementation of risk frameworks, policies and procedures and clarity in the risk management practices.</li> </ul>
<b>Second Line of Defence</b>	
<b>MIB Shariah Advisory and Research function</b>	Ensure that all structures, terms and conditions, legal documentation and operational process flow and procedures are Shariah compliant

<b>MIB Compliance function</b>	<ul style="list-style-type: none"> <li>Establishes compliance framework and policies, provides advice and guidance on all areas of regulations, and surveillance over the effectiveness of the compliance controls embedded in the business i.e. risks of non-conformity / non-compliance with applicable laws and regulations as well as internal regulations.</li> <li>Provides guidance in the implementation and execution of the established Compliance frameworks, policies and tools</li> </ul>
<b>MIB Risk Management function</b>	<ul style="list-style-type: none"> <li>Establishes risk frameworks, policies and procedures to identify, assess, control, mitigate, monitor and report all risk types which forms part of businesses day-to-day operations. It is also responsible for communicating risk strategies and creating risk awareness within the entire organisation.</li> <li>Provides guidance in the implementation and execution of the established Risk Management frameworks, policies and tools.</li> </ul>
<b>Third Line of Defence</b>	
<b>Group Internal Audit</b>	<ul style="list-style-type: none"> <li>Provides reasonable assurance via regular and independent assessment and validation that: <ul style="list-style-type: none"> <li>i) Risk management and compliance frameworks, policies and tools are sufficiently robust and consistent with regulatory standards.</li> <li>ii) Controls to mitigate risks are adequate and effectively executed by the Risk Taking Units.</li> <li>iii) Adequate oversight by the Risk Control Units over the Risk Taking Units.</li> </ul> </li> </ul>
<b>MIB Shariah Review function</b>	<ul style="list-style-type: none"> <li>Provides independent and periodical assessment to improve the degree of compliance in ensuring a sound and effective internal control system for Shariah Compliance.</li> <li>Continuous review of processes and deliverables, as well as determining that such processes and outcomes comply to Shariah requirement.</li> </ul>

#### KEY ELEMENTS OF INTERNAL CONTROL SYSTEM

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

##### Risk Management Framework

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

Principles	Description
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1	Establish risk appetite & strategy	The risk appetite which is approved by MIB Board, articulates the nature, type and level of risk the Bank 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 environments in which MIB operates.
3	Ensure proper governance and oversight function	There is clear and effective governance structure with well-defined, transparent and consistent lines of responsibility established within MIB.
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 and policies	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 MIB.
7	Ensure sufficient resources and system infrastructure	Ensure sufficient resources, infrastructure and techniques are in place to enable effective risk management.

### **Compliance Management Framework**

The Compliance Management Framework provides the fundamental policies and guidelines on compliance management and oversight for Maybank Islamic. This Framework serves as a key tool for Compliance Officers alongside the Board, the Management and all the employees of the Bank in understanding, complying and managing compliance risk.

### **Shariah Governance Framework**

Maybank Islamic has in placed a Shariah Governance Framework, which sets out the expectations of the Shariah governance structures, processes and arrangements within the Bank. This is to ensure its operations and business activities are in accordance with Shariah, as well as to provide comprehensive guidance to the Board, Shariah Committee (“SC”) and the Management in discharging their duties in matters relating to Shariah.

A sound and robust Shariah Govenance Framework is reflected by effective and responsible Board and Management, independent SC that is both competent and accountable supported by strong internal Shariah functions comprising of Shariah Management, Shariah Risk under Risk Management, Shariah Audit and Shariah Review and Compliance functions.

### **Risk Appetite**

The risk appetite is a critical component of a robust risk management framework which is driven by both top-down Board leadership and bottom-up involvement of management at all levels. The risk appetite enables the Board and Senior Management to communicate, understand and assess the types and levels of risk that the Bank is willing to accept in pursuit of its business objectives. The development of the risk appetite is integrated into the annual strategic planning process and is adaptable to changing business and market conditions. The articulation of the

risk appetite is done through a set of risk appetite statements that defines the Bank's appetite on all material risks of the Bank. The Bank's risk appetite balances the needs of all stakeholders by acting both as a governor of risk, and a driver of future and current business activities.

### **Risk And Compliance Culture**

The risk and compliance culture of Maybank Islamic is driven with a strong tone from the top, complemented by the tone from the middle, to ingrain the expected values and principles of conduct that shape the behaviour and attitude of employees at all level of business and activities across the Bank. Risk frameworks and policies are clearly defined, consistently communicated and continuously reinforced throughout the Bank, to embed a robust culture that cultivates active identification, assessment and mitigation of risk as part of the responsibility of all employees across the Bank.

As part of the risk and compliance culture, the Bank has instilled a compliance culture where the Board, Senior Management and every employee of the Bank are committed to adhere to the requirement of relevant laws, rules, regulations and regulatory guidelines. This commitment is clearly demonstrated through the establishment of strong compliance policies and guidelines to ensure that non-compliance risks are effectively managed.

### **Anti-Fraud Policy**

The Anti-Fraud Policy outlines the vision, principles and strategies for the Bank to adopt to effectively manage fraud from detection to remedy, and to deter future occurrences. Robust and comprehensive tools and programmes are employed to reinforce the Policy, with clear roles and responsibilities outlined at every level of the organisation in promoting and instilling high standard of integrity in every employee.

### **Technology Risk Management Framework**

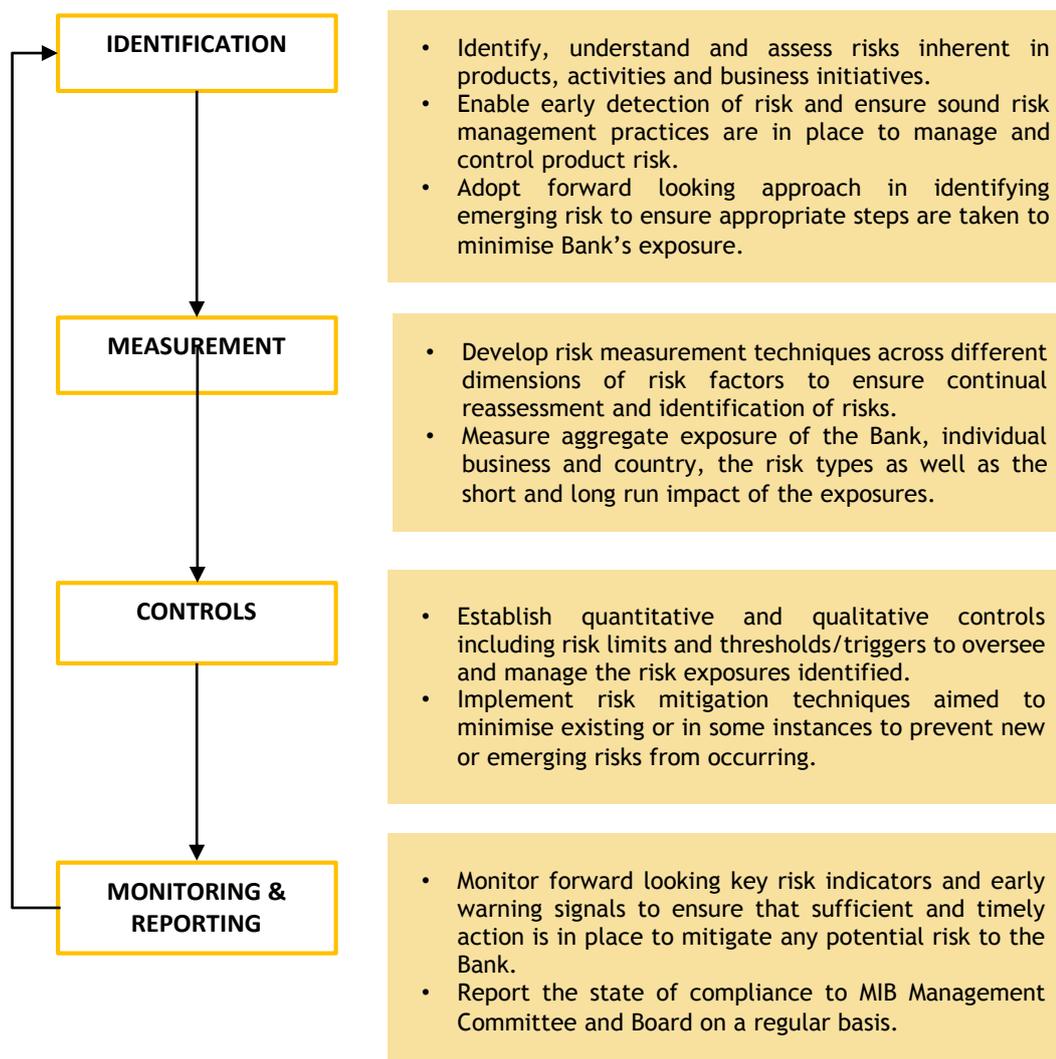
Technology Risk Management Framework is established at Maybank Group level for application across the Group. The Framework sets the standards for systematically identifying the causes of failure in the organisation's technology related functionalities, assessing the impact to the business and taking the appropriate risk remedial actions. This is established to maintain high service levels to customers and business units within Maybank Group, as well as to safeguard reputation.

### **Cyber Risk Management Framework**

The Cyber Risk Management Framework is established at Maybank Group level for application across the Group to identify risks, build resilience, detect cyber threats and effectively respond to cyber related events. The Framework encompasses the cyber risk management strategy, governance structure and risk management enablers. It complements the Technology Risk Management Framework and covers both Business and Technology drivers from an end to end perspective, which focuses on the key layers of People, Process and Technology.

### **Risk Management Practices & Processes**

The risk management practices and processes enable the Bank to systematically identify, measure, control, monitor and report risk exposures across the Bank.



### **Regular Updates And Communication Of Risk Management Principles, Policies, Procedures And Practices**

Risk management principles, policies, procedures and practices are reviewed and updated regularly to ensure relevance to the current business environment as well as compliance with current/applicable laws and regulations. Maybank Islamic has a dedicated Risk Management function to facilitate establishment and review of these documents and ensure their implementation within the Bank.

### **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**

Business plan and budget are submitted to the Board for approval, annually. Performance achievements are reviewed against the targeted results on a monthly basis allowing timely responses and corrective actions to be taken to mitigate risks. The Board reviews regular reports from the Management on the key operating parameters, as well as legal and regulatory matters. The Board also approves any changes or amendments to the Bank's policies.

### **Written Control Policies**

A written Management Control Policy (MCP) and Internal Control Policy (ICP) from Management are in place. The MCP outlines the specific responsibilities of the various parties i.e. the Maybank Group Management, Internal Audit Committee (IAC) and the Audit Committee of the Board (ACB) pertaining to internal control. The ICP is to create awareness among all the employees within the Group, including Maybank Islamic, with regards to the internal control components and the basic control policy.

### **Management Of Information Assets**

Confidentiality, integrity and availability of information are critical to the day-to-day operations and strategic decision making of Maybank Islamic. To safeguard the information assets of the Bank, the Information Risk Management Guideline is established to clearly define the processes for effective management of information assets and its associated risks. Guided by information handling rules in alignment to the information lifecycle, all information must be properly managed, controlled and protected. Additional measures include reinforcing the clear desk policy to minimise information leakage/theft and fraud.

### **Non-Credit Discretionary Power**

Appropriate empowerment and authority limits have been approved by the Board for procurement activities, acquisition & disposal of assets, operational write-off, donations, as well as approving general and operational expenses.

### **Standard Practice Instruction**

Policies and procedures are in place to ensure compliance with internal controls and the prescribed laws and regulations. These policies and procedures are set out in the Standard Practice Instruction (SPIs) and are updated from time to time in tandem with changes to the business environment or regulatory guidelines. These SPIs are published in the communication portal which is made available to all employees.

### **Human Resource Policies And Guidelines**

In addition, 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, 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**

Maybank Islamic observes the Islamic code and values. The Shariah is the overarching principle steering the Bank at all times in all its businesses and operations. In addition, 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 observed by all.

### **Whistle Blowing Channel**

Maybank Group also adopts a whistle blowing policy, providing an avenue for all employees and external parties to report actual or suspected malpractice, misconduct or violations of policies and regulations, in a safe and confidential manner.

## **INTERNAL AUDIT**

### **Internal Audit Function**

The Internal Audit (IA) function is established to undertake continuous review and assessment on the adequacy, efficiency and effectiveness of risk management, control and governance processes implemented in the Group including Maybank Islamic. It reports directly to the Audit Committee of the Board (ACB) and is independent from the activities or operations of other operating units in the Group. The fundamentals of the internal audit function involve identifying risks that could negatively impact the performance of Maybank Group and/or keep it from achieving its corporate goals, ensuring the Management and Maybank Group Management fully understands these risks and proactively recommending improvements to minimise these risks. The Management and Maybank Group Management follow through and ensure remedial actions taken are prompt, adequate and effective. Status reporting of the remedial actions taken is also tabled to the ACB and IAC regularly for deliberation and tracking.

### **Audit Committee Of The Board**

ACB is a Board Committee established by the Maybank Board to assist in the execution of its governance and oversight responsibilities. The responsibilities include the assessment of the effectiveness and adequacy of Maybank Group's internal control system through the Internal Audit function. The ACB has active oversight over Internal Audit's independence, scope of work and resources. The ACB meets on a scheduled basis to review findings identified in the audit and investigation reports prepared by Internal Audit, taking into consideration the deliberation of the same report at the IAC. ACB also deliberates on the outstanding audit findings to ensure prompt and effective remedial actions are taken by the Management and Maybank Group Management. Where necessary, representatives from the parties being audited are requested to attend the ACB meeting to facilitate the deliberation of the audit findings. Minutes of the ACB meetings are tabled to Maybank Board while an extract on pertinent matters relating to the Islamic banking business and operations are reported to the Maybank Islamic Board.

### **Internal Audit Committee**

IAC is a management level committee comprising senior level representatives from the various lines of business including Islamic banking. It is chaired by the Group Chief Financial Officer

(GCFO). It meets on a scheduled basis to deliberate on the findings highlighted in the audit and investigation reports and decide on the appropriate remedial actions required. Where necessary, representatives from the parties being audited are requested to attend the IAC meeting to enable a more detailed deliberation and speedy resolution of the matter at hand. The status of the audit findings is also tabled to the IAC to ensure the committed remedial actions are promptly and effectively implemented within the set timeline. Minutes of the IAC meeting are then tabled to the ACB together with the audit reports. The IAC also follows through on the actions required by the ACB.