

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

Financial year ended 31 December 2020

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 is responsible to establish a sound risk management and internal control system as well as review its adequacy and effectiveness in identifying, assessing and responding to risks that could keep Maybank IB from achieving its objectives. One of the vital roles of the Board is to establish the risk appetite which articulates the levels and types of risk that Maybank IB is willing to accept in the pursuit of its business and strategic objectives. In this aspect, the Board actively participates in setting the strategic goals and plans of Maybank IB and ensures that 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, the Board takes cognisance that such a system only provide reasonable, rather than absolute assurance to realise Maybank IB’s objectives and against any material financial misstatement, fraud or losses.

The Board has established a strong risk management and internal control governance structure that is crucial in setting the tone and culture of 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 matters relating to risk, compliance and controls respectively. The Board committees update the Board periodically of their work, key deliberations and decisions on the delegated matters.

MANAGEMENT RESPONSIBILITY

The Management is responsible for implementing the Board’s policies and procedures on risk and control. The role of the Management includes:

- 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:



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. The 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. The risk appetite also provides a consistent structure in understanding risk and is embedded in 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 across Maybank IB to ultimately balance the strategic objectives of Maybank IB.

Statement on Risk Management and Internal Control

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 risks across Maybank IB.

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:

BOARD OF DIRECTORS

The Maybank IB's ultimate governing body with overall risk oversight responsibility including defining the appropriate governance structure and risk appetite.

BOARD RISK COMMITTEES**Risk Management Committee (RMC)**

Board level oversight of risk exposures as well as oversight on the effective implementation of risk management strategies, frameworks, policies, tolerance and risk appetite limits.

Credit & Underwriting Review Committee (CURC)

Board level oversight of transactional credits underwritten and portfolios.

MANAGEMENT LEVEL - RISK MANAGEMENT COMMITTEES**Management Risk Committee (MRC)**

Oversees the implementation of risk management strategies, tolerance, risk appetite limits as well as frameworks and policies.

Credit & Underwriting Committee (CUC)

Oversees the approval of loans/proposals based on a set of authority limits.

LINES OF DEFENCE**1st Line**

- Own and manage day-to-day risks inherent in business, activities including that of risk taking.
- Ensure the business operates within the established risk strategies, tolerance, appetite, frameworks, policies and procedures.

2nd Line

- Establish frameworks, policies and procedures.
- Provide overall risk governance and oversight and challenge the 1st line.
- Support sustainable and quality asset growth with optimal returns.
- Ensure compliance to the applicable laws, regulations, established policies and procedures.

3rd Line

- Provide assurance via independent assessment, review and validation of:
- Risk management framework, policies and tools are sufficiently robust and consistent with regulatory standards.
 - Controls to mitigate risks are adequate.
 - Adequate oversight by the 2nd line over the 1st line.

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Risk and Compliance Culture

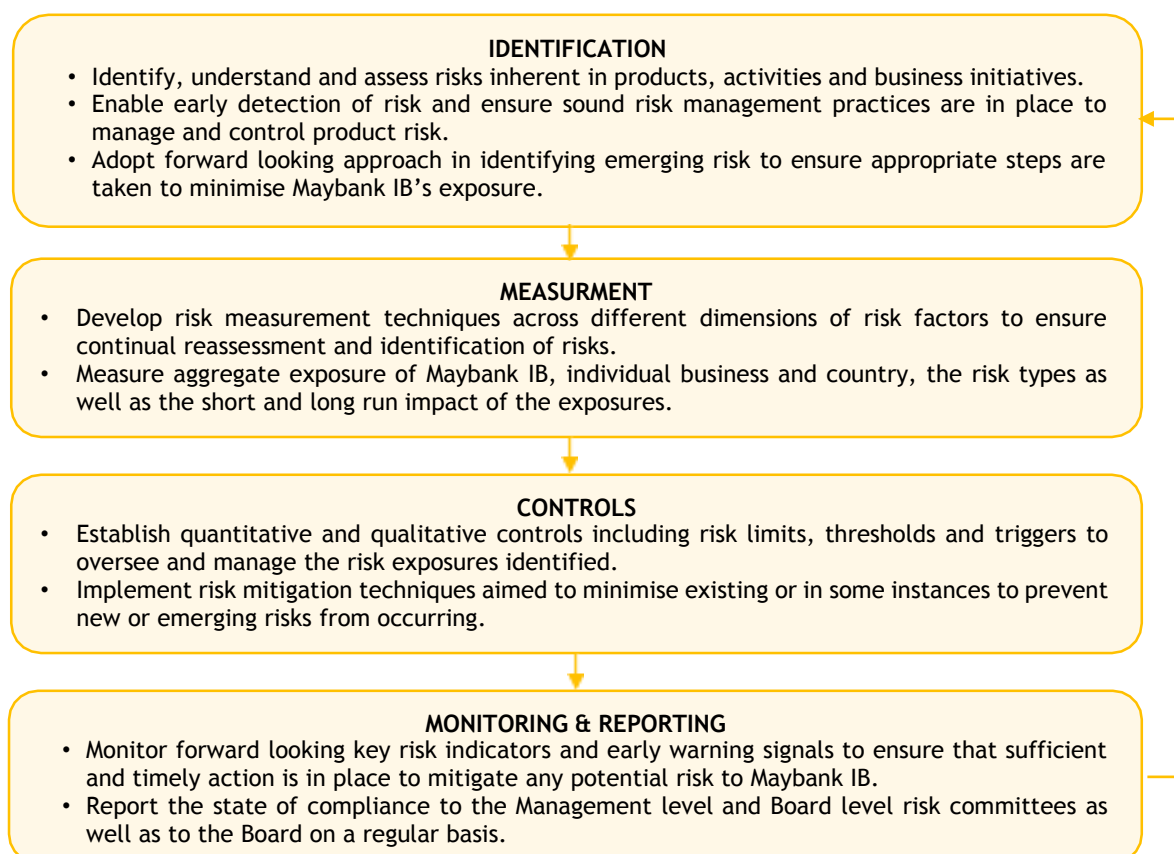
The risk and compliance culture is driven by a strong tone from the top and strengthened by the tone from the middle which serves as the foundation upon which a robust enterprise wide risk management structure and governance are built. This is to ingrain the expected values and principles of conduct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

The Framework provides the key principles and guidelines for managing Compliance Risk within Maybank IB. It serves as a guide for Compliance function alongside Board of Directors, Senior Management and all employees in all jurisdictions in understanding, complying and managing compliance risk. It is adopted and implemented across by operating entities across Maybank IB.

The Framework outlines:

- The overarching principles for the management of compliance risk across Maybank IB;
- The overall strategy in managing compliance risk to ensure uniformity in practices across Maybank IB in meeting regulatory and legal obligations;
- The minimum expected standards for compliance risk management; and
- The roles and responsibilities of compliance risk management across Maybank IB.

Shariah Governance Framework

The Maybank IB's Shariah Governance Framework sets out the expectations for the effective Shariah governance structures, processes and arrangements of all businesses within the Maybank IB that execute Islamic business transactions. The Framework was established in accordance with Bank Negara Malaysia's (BNM) latest Shariah Governance Policy Document. This is to ensure that all of 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 to ensure effective management of Shariah Non-Compliance risks. The end-to-end Shariah-compliant governance mechanism is executed through three line of defence that cater for both pre-execution and post-execution. The three lines of defence are as follows: which works closely with Business Units to ensure effective management of Shariah Non-Compliance risks.

- 1st - Business & support units and Shariah Secretariat
- 2nd - Shariah Risk and Shariah Review; and
- 3rd - Shariah Audit

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 Maybank IB and how this can be proactively managed.

Cyber and Technology Risk Management Policy & Guideline

The Cyber Risk Management Policy and Guideline 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 and Guideline 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, focusing on the key layers of People, Process and Technology.

Technology Risk Management Policy and Guideline sets the standards for identifying the risks and required controls in an organisation’s technology related functionalities and for 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**

The Board deliberates and approves the annual business plan and budget for the year. The 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 operational statistics, as well as legal and regulatory matters. The Board also approves any material changes or amendments to the Maybank IB’s policies.

- **Oversight by Audit Committee of the Board (ACB)**

The ACB is established by the Board to assist in the execution of its governance and oversight responsibilities, as well as to ensure that there is a reliable and transparent financial reporting process within the Group. The responsibilities include assessment of the adequacy and effectiveness of the Group’s governance, risk management and internal control system through the Internal Audit (IA) function. The ACB has active oversight of the independence, scope of work and resources of the IA. The ACB meets periodically to review audit and investigation reports prepared by IA, taking into consideration the corresponding Internal Audit Committee’s (IAC) deliberation of the same report. Significant control lapses are escalated by the ACB to the Board for further deliberation, where necessary. As for the unresolved audit findings, the ACB deliberates on them and ensures that Management undertakes the necessary remedial actions within the committed timeline.

- **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. The effectiveness of the risk management system is monitored and evaluated by Maybank IB Risk Management function on an ongoing basis.

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

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- **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. All information must be properly managed, controlled and protected as guided by these information handling rules which also covers cyber and technology risk considerations.

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.

Technology infrastructure and security controls continue to be strengthened and monitored as Maybank IB embraces mobile work arrangements following the COVID-19 pandemic outbreak. Clear desk policy is reinforced in the primary, alternative or mobile work arrangement site(s) to protect confidential and proprietary information.

- **Sustainability Management**

Premised on the mission of Humanising Financial Services, Maybank IB has in place a set of core ambitions which underpin our responsibility in promoting and driving sustainable growth as outlined in the Maybank Group Environmental, Social and Governance Policy. These ambitions include having sustainability as an integral part of our strategy and culture, whilst partnering with our clients to facilitate the transition towards more sustainable and responsible development. In an effort to integrate these ambitions into business practices, the Group Sustainability Council has been established, with the aims of setting the Group’s sustainability strategy, defining boundaries and approving proposals as well as monitoring and advising on sustainability-linked action plans and issues. Another key focus area is to understand our stakeholders’ material issues to enable a more holistic approach towards addressing sustainability across the Group.

- **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.

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- **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, which includes but not limited to talent acquisition and development, performance, consequence management, Code of Conduct and Diversity and Inclusion 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 processes, such as monitoring of social media sentiment, to facilitate an effective reputational risk management and monitoring of the risk exposures to be within the risk appetite.

- **Whistleblowing Policy**

MKE Group’s Whistle Blowing Policy 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 and Sanctions Requirements**

As a participant in the financial sector, 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”) and sanctions. MKE Group AML/CFT Policy establishes governing principles to ensure that all employees adhere to the highest standards of AML/CFT, that Maybank IB operates within its money laundering/ terrorism financing (“ML/TF”) risk appetite as expressed in the MKE Group Risk Appetite Statement; and to protect Maybank IB and its businesses from being a conduit for ML/TF. In addition the MKE Group Sanctions Policy is established to ensure that Maybank IB and all employees conduct business in accordance with applicable sanctions-related laws and regulations.

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 144 personnel in Malaysia as of December 2020. 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 within 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 mandatory guidance established under the International Professional Practices Framework by The Institute of Internal Auditors (The IIA).

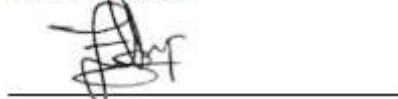
Reviewed and cleared by,

Risk Management:



Cheryl Cheng Siew Ying
Chief Risk Officer,
Maybank Investment Bank Berhad

Internal Audit:



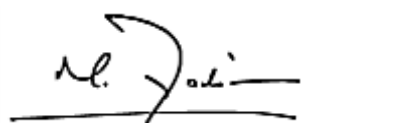
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