

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

Financial year ended 31 December 2018

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 level 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 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 across the Group. The governance model aims to place accountability and ownership whilst facilitating an appropriate level of independence and segregation of duties between the three lines of defence.

The three lines of defence are as follows:

Lines of Defence		
1 st Line	2 nd Line	3 rd Line
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<p>Provides assurance via independent assessment, review and validation of:</p> <ul style="list-style-type: none"> Risk management frameworks, 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.

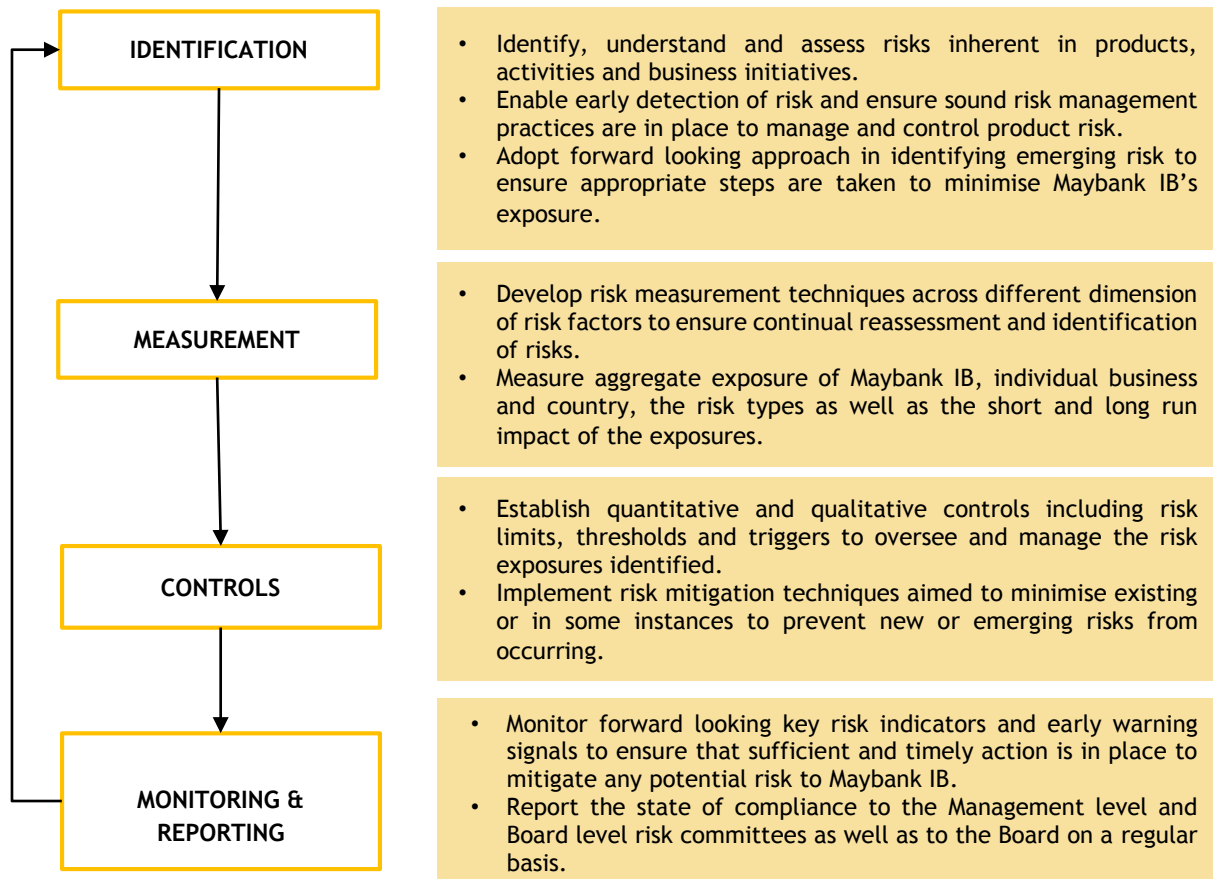
Risk and Compliance Culture

The risk and compliance culture is driven by a strong tone from the top and strengthened by the tone from the middle. This is to ingrain the expected values and principles of conduct that shapes 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 in our journey to continuously embed a positive attitude and responsibility of all Maybank IB’s employee.

As part of the risk and compliance culture, Maybank IB has instilled a culture where the Board, senior management and every employee of Maybank IB is committed to adhere to the requirement 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 Management Practices & Processes

The risk management practices and processes enable a systematic identification, measurement, control, monitoring and reporting of risk exposures across 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 is the agent to further enhance compliance culture and to assist the business in fulfilling their regulatory obligation in accordance with the relevant laws, regulations and standards whilst managing compliance risk.

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 of Maybank Group and Management in discharging their duties in matters relating to Shariah.

The Shariah Governance Framework reflects the responsibility of the Board and Management of MAYBANK IB, as well as the Shariah Committee, Shariah Audit, Shariah Advisory and Research of the Maybank Group 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.

Cyber and Technology Risk Management Framework

The Cyber Risk Management Framework is established based on the National Institute of Standards and Technology, US (“NIST”) standards which emphasises on controls from identifying risks, building resilience, detecting cyber threats and effectively responding 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.

Technology Risk Management Framework sets the standards for identifying the risk and required controls in the 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 and 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 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. Data loss prevention items are deliberated at Management Risk Committee where data protection measures are formulated to further strengthen the controls and mitigate the risk of information breach.

- **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.

- **Anti-Fraud Policy**

The MKE Group Anti-Fraud Policy outlines the vision, principles and strategies for Maybank IB to instil a culture of vigilance and effectively manage fraud from detection to remedy, as well as 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 high standards of integrity in every employee. Stern disciplinary action is taken against employees involved in fraud.

- **Reputational Risk Policy**

Protecting our reputation is paramount to operating as an institution that provides financial services. Upholding trust forms a vital part of our obligation as a financial institution. Hence, the way in which we conduct ourselves through engagements with markets, regulators, customers, and the communities we serve is crucial. Given the importance of reputation, the MKE Group Reputational Risk Policy is established to effectively manage reputational risk and to institutionalise awareness on and its consequences. The Policy outlines the roles and responsibilities of key stakeholders and the guiding principles to protect Maybank IB's reputation.

- **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 member 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 undertake continuous testing and assessment on the effectiveness and efficiency of the risk management and internal control system. It provides risk-based and objective assurance, advice and insight to stakeholders with the aim of enhancing and protecting organisational values and supporting the organisation to achieve its goals.

The IA function of MIBB is undertaken by Maybank’s Group Audit, led by the Group Chief Audit Executive (“GCAE”). To preserve its independence, the function is placed under the direct authority and supervision of the ACB and the GCAE reports functionally to the ACB and administratively to the Group President & Chief Executive Officer (“GPCEO”) of Maybank. The function is also independent of the activities and operations of other operating units in the organisation. The annual audit plan (“AAP”), which defines the scope and coverage of IA for the year is tabled to the ACB for approval and thereafter to the Board for noting. The AAP is established based on the Maybank Risk Based Audit (“MRBA”) approach, whilst the COSO Framework is used to assess the adequacy and effectiveness of internal controls.

Audit and investigation reports (“reports”) are tabled to the Internal Audit Committee (“IAC”) to ensure adequacy of deliberation over issues/concerns raised by IA. The IAC comprises the Senior Management team and is chaired by the Chief Financial Officer (“CFO”). It meets on a scheduled basis to deliberate the findings highlighted in the reports and decide on the appropriate remedial actions required. The reports are then tabled to the ACB for deliberation and where necessary, significant control lapses are also escalated by the ACB to the Board for further deliberation. Where required, the IAC follows through on the ‘necessary actions as resolved by the ACB. Representatives from the audited units are requested as and when necessary, to attend the IAC and ACB meeting to enable a more detailed deliberation and speedy resolution of the audit findings. Status of the audit findings are closely tracked and reported to the IAC and ACB periodically to ensure the committed remedial actions taken by the Management are prompt, adequate and effective.