

Corporate Governance Overview, Risk Management & Internal Control Statement



Corporate Governance is the process and structure used to direct and manage the business and affairs of the Company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of other stakeholders.



Finance Committee on Corporate Governance

The Board of Directors (“Board”) is pleased to present this statement with an overview of the corporate governance (“CG”) practices of the Bank which supports the three key principles of the Malaysian Code on Corporate Governance (“MCCG”) namely board leadership and effectiveness; effective audit and risk management; and integrity in corporate reporting and meaningful relationship with stakeholders.

The Board also reviewed the manner in which the Bank Negara Malaysia’s (“BNM”) policy document on Corporate Governance (“BNM CG Policy”) is applied in the Bank, where applicable, as set out below.

A. ROLES AND RESPONSIBILITIES OF THE BOARD

The Board assumes responsibility for effective stewardship and control of the Bank and has established terms of reference (“TOR”) to assist in the discharge of this responsibility.

In discharging its responsibilities, the Board has established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which was reviewed periodically by the Board. The Board Charter is published on the Bank’s website, www.hlisb.com.my (“the Bank’s website”). The key roles and responsibilities of the Board broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Bank’s businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage those risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals, and major capital expenditure and such other responsibilities that are required as specified in the guidelines and circulars issued by BNM from time to time. The day-to-day business of the Bank is managed by the Chief Executive Officer (“CEO”) who is assisted by the management team. The CEO and his management team are

accountable to the Board for the performance of the Bank. In addition, the Board has established Board Committees which operate within clearly defined TOR primarily to support the Board in the execution of its duties and responsibilities.

To discharge its oversight roles and responsibilities more effectively, the Board has delegated the independent oversight over, inter alia, internal and external audit functions and internal controls; and risk management to the Board Audit and Risk Management Committee (“BARMC”). The Nomination Committee (“NC”) is delegated the authority to, inter alia, assess and review Board, Board Committees and CEO appointments and re-appointments and oversee management succession planning. Although the Board has granted such authority to Board Committees, the ultimate responsibility and the final decision rest with the Board. The chairmen of Board Committees report to the Board on matters dealt with at their respective Board Committee meetings. Minutes of Board Committee meetings are also tabled at Board meetings.

There is a clear division of responsibilities between the Chairman of the Board and the CEO. This division of responsibilities between the Chairman and the CEO ensures an appropriate balance of roles, responsibilities and accountability.

The Chairman leads the Board and ensures its smooth and effective functioning.

The CEO is responsible for formulating the vision and recommending policies and the strategic direction of the Bank for approval by the Board, implementing the decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing shareholder wealth, providing management of the day-to-day operations of the Bank and tracking compliance and business progress.

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A. ROLES AND RESPONSIBILITIES OF THE BOARD (CONTINUED)

Independent Non-Executive Directors (“INEDs”) are responsible for providing insights, unbiased and independent views, advice and judgment to the Board and bring impartiality to Board deliberations and decision-making. They also ensure effective checks and balances on the Board. There are no relationships or circumstances that could interfere with or are likely to affect the exercise of INEDs’ independent judgment or their ability to act in the best interest of the Bank and its shareholder.

The Bank continues to operate in a sustainable manner and seeks to contribute positively to the well-being of stakeholders. The Bank takes a progressive approach in integrating sustainability into its businesses as set out in the Bank’s Sustainability Statement which forms part of its Annual Report.

The Board observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia (“CCM”) and Hong Leong Bank Group Code of Conduct & Ethics, which have been adopted by the Board and published on the Bank’s Website. Details of the Hong Leong Bank Group Code of Conduct & Ethics are set out in Section G of this Statement.

B. BOARD COMPOSITION

The Board currently comprises five (5) Directors. The five (5) Directors are made up of one (1) Executive Director and four (4) Non-Executive Directors, of whom three (3) are independent. The profiles of the members of the Board are set out in the Annual Report.

The Bank is guided by BNM CG Policy in determining its board composition. The Board shall determine the appropriate size of the Board to enable an efficient and effective conduct of Board deliberation. The Board shall have a balance of skills and experience to commensurate with the complexity, size, scope and operations of the Bank. Board members should have the ability to commit time and effort to carry out their duties and responsibilities effectively.

The Board recognises the merits of Board diversity in adding value to collective skills, perspectives and strengths to the Board. The Board will consider appropriate targets in Board diversity including gender balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate.

Based on the review of the Board composition in July 2019, the Board is of the view that the current size and composition of the Board are appropriate and effective for the control and direction of the Group’s strategy and business. The composition of the Board also fairly reflects the investment of shareholder in the Bank.

C. BOARD COMMITTEES

Board Committees have been established by the Board to assist in the discharge of its duties.

(A) BARMC

The composition of the BARMC and a summary of its activities in the discharge of its functions and duties for the financial year and explanation on how the BARMC had met its responsibilities are set out in the BARMC Report in this Annual Report.

The BARMC’s functions and responsibilities are set out in the TOR which is published on the Bank’s Website.

(B) NC

The NC was established on 29 September 2005. The composition of the NC is as follows:

- Encik Alan Hamzah Sendut (Chairman)
- YBhg Datuk Dr Md Hamzah bin Md Kassim
- Mr Domenic Fuda

The NC’s functions and responsibilities are set out in the TOR which is published on the Bank’s Website.

The Bank has in place Fit and Proper (“F&P”) Policy as a guide for the following process and procedure for assessment of (i) new appointments and re-appointments of Chairman, Directors and CEO, (ii) appointment of Board Committee members, and (iii) Annual F&P Assessment of Chairman, Directors and CEO, and the criteria and guidelines used for such assessments. Upon the approval of the Board, an application on the prescribed forms will be submitted to BNM for approval in respect of new appointments and re-appointments.

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C. BOARD COMMITTEES (CONTINUED)

(B) NC (CONTINUED)

(i) New Appointments

The nomination, assessment and approval process for new appointments is as follows:

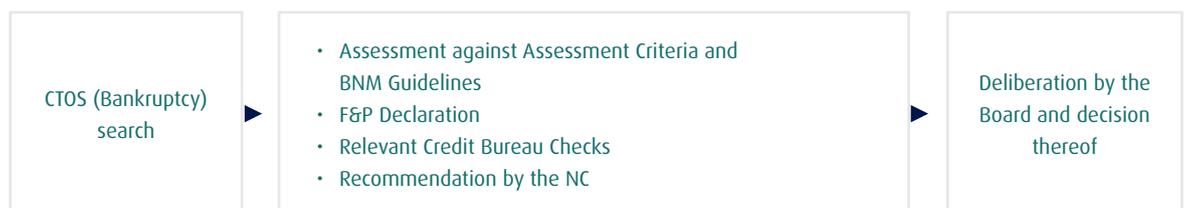


In assessing the candidates for Board appointments, the NC will take into account, inter alia, the strategic and effective fit of the candidates for the Board, the overall desired composition and the mix of expertise and experience of the Board as a whole and having regard to the candidates' attributes, qualifications, management, leadership, business experience and their F&P Declarations in respect of their probity, competence, personal integrity, reputation, qualifications, skills, experience and financial integrity in line with the standards required under the relevant BNM Guidelines. The Bank has taken steps to build and maintain a pool of potential Board candidates from internal and external introductions, recommendations and independent sources with Director databases in its search for suitable Board candidates.

In the case of CEO, the NC will take into account the candidate's knowledge and experience in the industry, market and segment. The NC will also consider the candidate's F&P Declaration in line with the standards required under the relevant BNM Guidelines.

(ii) Re-Appointments

The assessment and approval process for re-appointments is as follows:



For re-appointments, the Chairman, Directors and CEO will be evaluated on their performance in the discharge of duties and responsibilities effectively, including, inter alia, contribution to Board deliberations, time commitment as well as the Annual Board Assessment (as defined below) results, contributions during the term of office, attendance at Board meetings, F&P Declarations in respect of their probity, competence, personal integrity, reputation, qualifications, skills, experience and financial integrity in line with the standards required under the relevant BNM Guidelines and for Independent Directors, their continued independence.

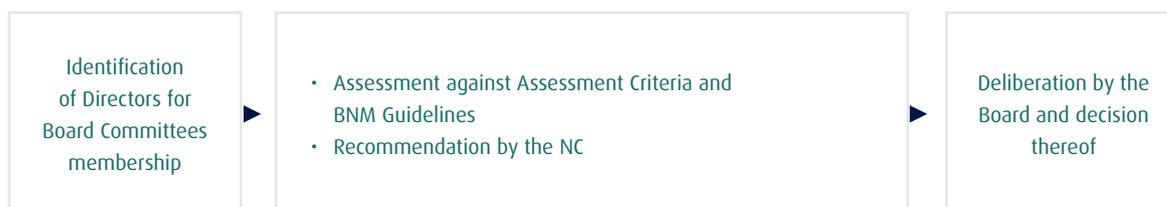
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C. BOARD COMMITTEES (CONTINUED)

(B) NC (CONTINUED)

(iii) Board Committee Appointments

The nomination, assessment and approval process for appointments to Board Committees (“Board Committee Appointments”) is as follows:



The assessment for Board Committee Appointments will be based on the Directors’ potential contributions and value-add to the Board Committees with regard to Board Committees’ roles and responsibilities.

In addition, a formal evaluation process has been put in place to assess the effectiveness of the Board as a whole, the Board Committees and the contribution and performance of each individual Director on an annual basis (“Annual Board Assessment”) in conjunction with the annual F&P assessment of Chairman, Directors and CEO per BNM Guidelines. The NC will deliberate on the results of the Annual Board Assessment and submit its recommendation to the Board for consideration and approval. For newly appointed Chairman, Directors and CEO, the Annual Board Assessment will be conducted at the next annual assessment exercise following the completion of one year of service.

Assessment criteria for Board as a whole include, inter alia, the effectiveness of the Board composition in terms of size and structure vis-à-vis the complexity, size, scope and operations of the Bank; the core skills, competencies and experience of the Directors; and the Board’s integrity, competency, responsibilities and performance. The assessment criteria for Board Committees include the effectiveness of the respective Board Committees’ composition in terms of mix of skills, knowledge and experience to carry out their respective roles and responsibilities per the Board Committees’ TOR and the contribution of Board Committees members. Each individual Director is assessed on, inter alia, the effectiveness of his/her competency, expertise and contributions. The skills, experience, soundness of judgment as well as contributions towards the development of business strategies and direction of the Bank and analytical skills to the decision-making process are also taken into consideration.

For management succession planning, it has been embedded in the Group’s process over the years to continuously identify, groom and develop key talents from within the Group. The Group also has a talent development programme to identify, retain and develop young high potential talents.

The NC meets at least once in each financial year and additional meetings may be called at any time as and when necessary.

During the financial year ended 30 June 2019 (“FYE 2019”), three (3) NC meetings were held and the attendances of the NC members were as follows:

Member	Attendance
Encik Alan Hamzah Sendut	3/3
YBhg Datuk Dr Md Hamzah bin Md Kassim	3/3
Mr Domenic Fuda	3/3

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C. BOARD COMMITTEES (CONTINUED)

(B) NC (CONTINUED)

(iii) Board Committee Appointments (continued)

The NC carried out the following activities in the discharge of its duties in accordance with its TOR during the FYE 2019:

- Carried out the Annual Board Assessment and was satisfied that the Board as a whole, Board Committees and individual Directors have continued to effectively discharge their duties and responsibilities in accordance with their respective TORs, and that the current Board composition in terms of Board balance, size and mix of skills is appropriate and effective for the discharge of its functions. The NC took cognisance of the merits of Board diversity including women participation on the Board, in adding value to the Bank;
- Carried out the Annual Assessment and was satisfied that the Shariah Committee and individual Shariah Committee members have continued to effectively discharge their duties and responsibilities in accordance with the Shariah Governance Framework;
- Considered and assessed the position of Independent Directors of the Bank and was satisfied that the Independent Directors met the regulatory requirements for Independent Directors;
- Reviewed the F&P Declarations by Directors, CEO and Shariah Committee members in line with the BNM policy document on F&P Criteria and was satisfied that the Directors, CEO and Shariah Committee members met the requirements as set out in BNM policy document on F&P Criteria;
- Reviewed the re-appointments of Directors and Shariah Committee members in accordance with the F&P Policy, BNM CG Policy and Shariah Governance Framework and recommended to the Board for consideration and approval;
- Reviewed the appointment of Company Secretary in accordance with the BNM CG Policy and recommended to the Board for consideration and approval; and
- Reviewed and recommended to the Board for adoption the revisions to the F&P Policy of the Bank on assessment criteria and guidelines for appointment and re-appointment of Chairman, Directors and CEO.

(C) REMUNERATION COMMITTEE ("RC")

The RC was established on 29 September 2005. The composition of the RC is as follows:

- Encik Alan Hamzah Sendut (Chairman)
- YBhg Datuk Dr Md Hamzah bin Md Kassim
- Puan Rowina Ghazali Seth

The RC's functions and responsibilities are set out in the TOR which is published on the Bank's Website.

During the FYE 2019, two (2) RC meetings were held and the attendances of the RC members were as follows:

Member	Attendance
Encik Alan Hamzah Sendut	2/2
YBhg Datuk Dr Md Hamzah bin Md Kassim	2/2
Puan Rowina Ghazali Seth	2/2

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C. BOARD COMMITTEES (CONTINUED)

(D) REMUNERATION COMMITTEE (“RC”) (CONTINUED)

The Bank’s remuneration scheme for Executive Directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Bank’s annual plan and budget.

The level of remuneration of Non-Executive Directors reflects the scope of responsibilities and commitment undertaken by them.

The RC, in assessing and reviewing the remuneration packages of Executive Directors, ensures that a strong link is maintained between their rewards and individual performance, based on the provisions in the Group’s Human Resources Manual, which are reviewed from time to time to align with market/industry practices. The fees of Directors are recommended and endorsed by the Board for approval by the shareholder of the Bank at its Annual General Meeting (“AGM”).

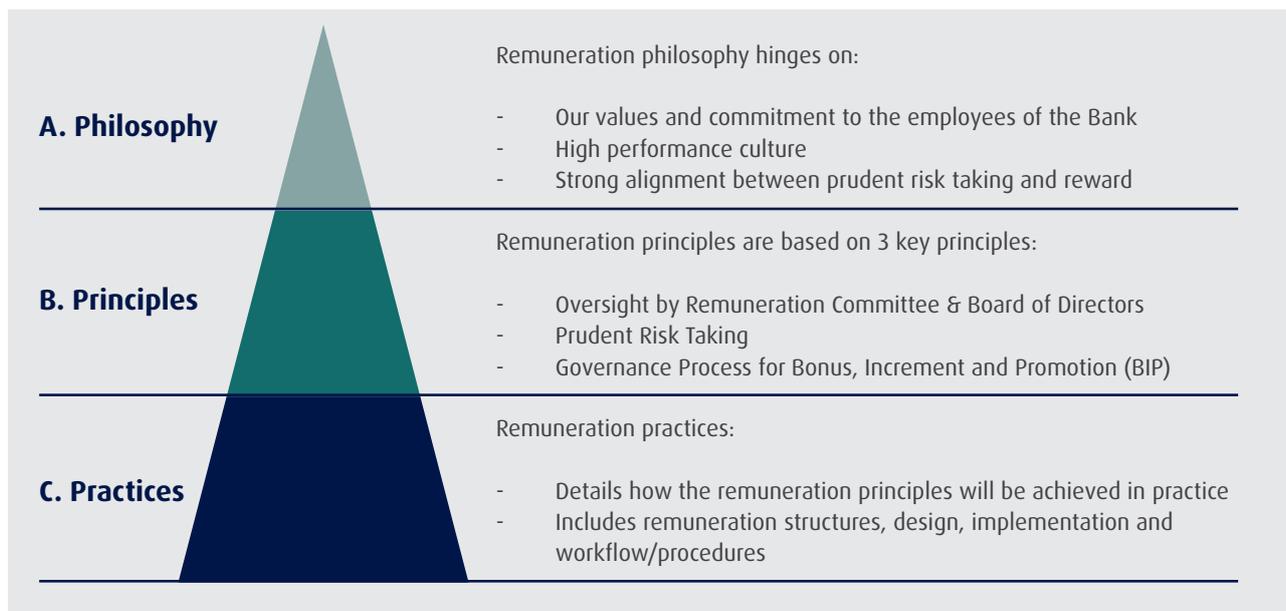
The detailed remuneration of each Director during the FYE 2019 is as set out in Note 36 of the Audited Financial Statements in this Annual Report.

REMUNERATION PHILOSOPHY & FRAMEWORK

The remuneration strategy of Hong Leong Bank Group (“HLB Group”) supports and promotes a high performance culture to deliver the Bank’s Vision to be a highly digital & innovative ASEAN financial services company. It also forms a key part of our Employer Value Proposition with the aim to drive the right behaviors, create a workforce of strong values, high integrity, clear sense of responsibility and high ethical standards.

The remuneration framework provides a balanced approach between fixed and variable components that is measured using a robust and rigorous performance management process that incorporates meritocracy in performance, the Bank’s values, prudent risk-taking and key behaviours in accordance to our Code of Conduct and risk and compliance management as part of the key performance indicators for remuneration decisions.

OVERVIEW OF REMUNERATION POLICY FRAMEWORK



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C. BOARD COMMITTEES (CONTINUED)

GUIDING PRINCIPLES

Principle 1 – Oversight by Remuneration Committee & Board of Directors

The Remuneration Committee's (RC) responsibilities are to recommend to the Board the framework and policies that govern the remuneration of the directors, Chief Executive Officer, senior management officers and other material risk takers. The RC ensures that the remuneration system is in line with the business and risk strategies, corporate values and long-term interests of the Bank and that it has a strong link between rewards, collective and individual performance and is periodically benchmarked to market/industry. The Board ensures that the corporate governance disclosures on remuneration are accurate, clear, and presented in a manner that is easily understood by our shareholders, customers and other relevant stakeholders.

Principle 2 – Prudent Risk Taking

Remuneration for employees within the Bank is aligned with prudent risk-taking. Hence, remuneration outcomes must be symmetric with risk outcomes. This includes ensuring that remuneration is adjusted to account for all types of risk, and must be determined by both quantitative measures and qualitative judgement.

Principle 3 – Governance Process for Bonus, Increment and Promotion (“BIP”)

The Bank has established a robust BIP process to ensure proper governance and sufficient controls are in place. Provision for variable remuneration is tied to the performance of the Bank and the pool is allocated according to the performance of each business unit and then the individual contribution to that performance. To safeguard the independence and authority of individuals engaged in control functions, the Bank ensures that the remuneration of such individuals is based principally on the achievement of control functions objectives and determined in a manner that is independent from the business lines they oversee.

REMUNERATION PRACTICES

Measurement of Performance

The Bank's performance is determined in accordance with a balanced scorecard which includes key measures on profitability, cost, capital, shareholders' return, medium to long-term strategic initiatives, as well as risk, audit and compliance outcomes.

For each employee, performance is tracked through Key Result Areas (KRAs) in a balanced scorecard. It focuses on the achievement of key objectives which are aligned to value creation for our shareholders and the multiple stakeholders we serve. At the end of the year, performance of the employee is assessed through the performance management framework which is based on 70% of KRAs (with mandatory weightage for Compliance and Training) and 30% on demonstrating embodiment of the Bank's Values.

Pay Mix Delivery and its Purpose

The overall Total Compensation for the CEO, members of the senior management team and other material risk takers generally includes base pay, fixed cash allowances, performance-based variable pay, long term incentives, benefits and other employee programmes.

1. Fixed Pay (base pay and fixed cash allowances)

Fixed pay is delivered at an appropriate level taking into account skills, experience, responsibilities, competencies and performance; ensuring its competitiveness vis-à-vis comparable institutions for attraction and retention purposes.

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C. BOARD COMMITTEES (CONTINUED)

REMUNERATION PRACTICES (CONTINUED)

Pay Mix Delivery and its Purpose (continued)

2. Performance-based variable pay

Performance-linked variable pay in the form of bonuses is paid out at the end of the Financial Year subject to the Bank's performance and in recognition of individual performance and key achievements during the year. It focuses on the achievement of key objectives which are aligned to value creation for shareholders and our multiple stakeholders. A robust key performance indicator ("KPIs") setting process that incorporates risk management as part of the scorecards are also in place to ensure excessive risk taking behaviours by staff is minimised and sufficient control mechanism are in place. Variable bonus awards for individuals in senior management position and in excess of a certain amount thresholds will be deferred over a period of time, to ensure that outcomes are sustainable and any risks associated with the generation of the income in a particular year have sufficient time to emerge and manifest themselves before employees have access to the full amount of the variable portion.

3. Long term incentives

In addition, the Bank also recognises and rewards individuals for their contributions towards the Bank's long-term business achievements (both in qualitative and quantitative measures) through a combination of cash and non-cash (i.e. shares or share-linked instruments) elements that are subject to partial deferment over a period of time (typically over a few years) with built-in clawback mechanism.

The clawback mechanism can be triggered when there are non-compliances to regulations and policies and where Management deemed necessary due to achievements of performance targets that are not sustainable. Clawbacks are typically (and not limited to) applied in the case of Gross Misconduct, Financial Misstatements, Material Risks and/or Malfeasance of Fraud.

The variable portion of remuneration (both Performance-based variable pay and Long term incentives) increases along with the individual's level of accountability. By subjecting an adequate portion of the variable remuneration package to forfeiture, it takes into account potential financial risks that may crystallize over a period of time, reinforces the Bank's corporate and risk culture in promoting prudent risk taking behaviours.

4. Employee Benefits and Programmes

Employee benefits (e.g. screening, health and medical, leave passage) are used to foster employee value proposition and wellness to ensure the overall well-being of our employees. These are being reviewed annually to ensure the Bank remains competitive in the industry and that the employees are well taken care of.

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C. BOARD COMMITTEES (CONTINUED)

REMUNERATION PRACTICES (CONTINUED)

Remuneration Disclosure

The following depicts the total value of remuneration awarded to the CEO, Senior Management team and Other Material Risk Takers for the FYE 2019:

CEO, Senior Management and Other Material Risk Takers	No. of officers received	Unrestricted (RM)	Deferred (RM)	Total amount of outstanding deferred remuneration as at 30.6.2019 (RM)	Total amount of outstanding deferred remuneration paid out (vested) in FYE 2019 (RM)
Fixed Remuneration					
Cash-based	10	4,182,066	-	-	-
Shares and share-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Variable Remuneration					
Cash-based	10	2,098,537	-	-	-
Shares and share-linked instruments	-	-	-	-	-
Other	-	-	-	-	-

Note: The value of share is based on the valuation used for MFRS2 Accounting.

D. INDEPENDENCE

The Bank has in place a policy in relation to the tenure for Independent Directors of the Bank ("Tenure Policy") under the F&P Policy of the Bank. Pursuant to the Tenure Policy, an Independent Director who has served on the Board of the Bank for a period of 9 years cumulatively shall submit a Letter of Intent to the NC informing of his intention to continue in office or to retire from the Board as an Independent Director, upon:

- the expiry of his term of office approved by BNM; or
- the due date for his retirement by rotation pursuant to the Constitution of the Bank.

If the intention is to continue in office, the NC shall consider based on the assessment criteria and guidelines set out in the F&P Policy and make the appropriate recommendation to the Board. If the intention is to retire from office, an application shall be made to BNM to seek approval in accordance with BNM CG Policy.

The Board seeks to strike an appropriate balance between tenure of service, continuity of experience and refreshment of the Board. Although a longer tenure of directorship may be perceived as relevant to the determination of a Director's independence, the Board recognises that an individual's independence should not be determined solely based on tenure of service. Further, the continued tenure of directorship brings considerable stability to the Board, and the Bank benefits from Directors who have, over time, gained valuable insight into the Bank, its market and the industry.

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D. INDEPENDENCE (CONTINUED)

The tenure of all the Independent Directors on the Board of the Bank does not exceed 9 years. The Independent Directors have declared their independence, and the NC and the Board have determined, at the annual assessment carried out, that the Independent Directors have continued to bring independent and objective judgment to Board deliberations and decision making.

E. COMMITMENT

The Directors are aware of their responsibilities and devote sufficient time to carry out such responsibilities. Directors provide notifications to the Board for acceptance of any new Board appointments. This ensures that their commitment, resources and time are focused on the affairs of the Bank to enable them to discharge their duties effectively. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. Additional meetings may be convened on an ad-hoc basis as and when necessary. Where appropriate, decisions are also taken by way of Directors' Circular Resolutions. Directors are required to attend at least 75% of Board meetings held in each financial year pursuant to the BNM CG Policy.

All Board members are supplied with information in a timely manner. The Bank has moved towards electronic Board reports. Board reports are circulated electronically prior to Board and Board Committee meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, updates on the performance of the Bank and management's proposals which require the approval of the Board.

All Directors have access to the advice and services of a qualified and competent Company Secretary to facilitate the discharge of their duties effectively. The Company Secretary is qualified to act under Section 235 of the Companies Act 2016. The Company Secretary supports the effective functioning of the Board, provides advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions and facilitates effective information flow amongst the Board, Board Committees and senior management. All Directors also have access to the advice and services of the internal auditors and in addition, to independent professional advice, where necessary, at the Bank's expense, in consultation with the Chairman or the CEO of the Bank or the Group Managing Director/CEO of Hong Leong Bank Berhad, the immediate holding company of the Bank.

At Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. A Director who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the board meeting where the material transaction or material arrangement is being deliberated by the Board.

The Board met six (6) times for the FYE 2019 with timely notices of issues to be discussed. Details of attendance of each Directors were as follows:

Director	Attendance
YBhg Datuk Dr Md Hamzah bin Md Kassim	6/6
Mr Kwek Leng Hai	6/6
Encik Alan Hamzah Sendut	6/6
Mr Domenic Fuda	6/6
Puan Rowina Ghazali Seth	6/6

The Bank recognises the importance of continuous professional development and training for its Directors.

The Bank is guided by a Directors' Training Policy, which covers an Induction Programme and Continuing Professional Development ("CPD") for Directors of the Bank. The Induction Programme is organised for newly appointed Directors to assist them to familiarise and to get acquainted with the Bank's business, governance process, roles and responsibilities as Director of the Bank. The CPD encompasses areas related to the industry or business of the Bank, governance, risk management and regulations through a combination of courses and conferences. A training budget is allocated for Directors' training programmes.

The Bank regularly organises in-house programmes, briefings and updates by its in-house professionals. The Directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge. Directors are kept informed of available training programmes on a regular basis.

The Bank has prepared for the use of its Directors, a Director Manual which highlights, amongst others, the major duties and responsibilities of a Director vis-à-vis various laws, regulations and guidelines governing the same.

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E. COMMITMENT (CONTINUED)

In assessing the training needs of Directors, the Board has determined that appropriate training programmes covering matters on corporate governance, finance, legal, risk management, information technology, cyber security, internal control and/or statutory/regulatory compliance, be recommended and arranged for the Directors to enhance their contributions to the Board.

During the FYE 2019, the Directors received regular briefings and updates on the Bank's businesses, strategies, operations, risk management and compliance, internal controls, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Bank also organised an in-house programme for its Directors and senior management.

The Directors of the Bank have also attended various programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties as Directors.

During the FYE 2019, the Directors of the Bank, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- AIBIM (Association of Islamic Banking and Financial Institution Malaysia) – Global Islamic Finance Forum 2018
- AMLATFPUAA 2001 (Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001) – Risk, Challenges & Vulnerabilities Towards Risk Based Approach
- Bursa Malaysia – Demystifying the Diversity Conundrum: The Road to Business Excellence
- BNM – MyFintech Week 2019
- CG Board Asia Pacific – Sustainability: Governance 2019 Towards long term value creation
- Deloitte – Cyber Security in Boardroom – Accelerating from Acceptance to Action
- Directors' Duties & Powers – Recent Developments in the Law and How It Affects You
- FIDE Forum – Masterclass on Cybersecurity: Unseen Threats
- FIDE Forum – IBM THINK Malaysia
- FIDE Forum – Dinner Talk: "The Director as Coach": An exclusive dialogue with Dr Marshall Goldsmith and Launch of FIDE Forum's "DNA of a Board Leader"
- FIDE Forum – Dinner Talk: "Digital Assets: Global Trends Legal Requirements and Opportunities for Financial Institutions"
- Insight of Value-Based Intermediation
- ICLIF – Anti-Money Laundering/Counter Financing of Terrorism – Banking Sector
- ICLIF – Emerging Risks, the Future Board and Return on Compliance
- ICLIF – Understanding the Evolving Cybersecurity Landscape
- ICDM – 'Revisiting the Misconception of Board Remuneration by Mark Reid'
- ICDM – 'Would A Business Judgement Rule Help Directors Sleep Better At Night?'
- ISRA Consultancy – Islamic Finance for Board of Directors Programme
- Malaysian Institute of Corporate Governance: 'Enterprise Risk Management – The Essential Building Blocks For A Holistic & Robust ERM Framework'
- Malaysian Institute of Corporate Governance: 'Introduction to Corporate Liability Provision: What it is, how will my Company be affected, and what do I need to put in place by way of safeguards?'
- Malaysian Alliance of Corporate Directors – The Human Firewall: Five Critical Concepts for Cultivating a Cyber Security Culture
- PNB (Permodalan Nasional Berhad) – Leadership Forum
- Tricor (Tricor Knowledge House Sdn Bhd) – 'Roles and Responsibilities of Directors, Board and Board Committees Under the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad, Malaysian Code on Corporate Governance and Corporate Disclosure Policy Under the MMLR
- Update on regulations in relation to the increase in additional buyer stamp duty rates and tightening loan-to-value limits
- Update on Code of Corporate Governance 2018
- Update on Singapore Stock Exchange Listing Rules
- Briefing on Developers (Anti-Money Laundering and Terrorism Financing) Bill
- Update on Guidelines on Use, Collection and Disclosure of NRIC numbers and Changes to the Employment Act

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F. SHARIAH

(I) SHARIAH GOVERNANCE

The Shariah Committee (“SC”) was established in 2005. The SC is among the key functions established under the Shariah Governance Board Policy (“SGBP”) of HLISB.

The SGBP of HLISB comprises the following:

- (i) The Board oversight on Shariah compliance aspects of HLISB’s overall operations. The Board is ultimately responsible for the establishment of an appropriate Shariah governance framework of HLISB;
- (ii) SC with qualified members who are able to deliberate Islamic finance issues brought before them and provide sound Shariah decisions;
- (iii) Effective management responsibilities in providing adequate resources and capable manpower support to every function involved in the implementation of Shariah governance, in order to ensure that the execution of business operations are in accordance with the Shariah;
- (iv) Shariah Advisory to provide day-to-day Shariah advice and consultancy to relevant stakeholders;
- (v) Shariah Compliance Review to conduct regular assessment on a continuous basis, to review all processes and deliverables, to ensure that such processes and outcomes comply with Shariah;
- (vi) Shariah Audit to conduct regular review on an annual basis, verifying that HLISB’s key functions and business operations comply with Shariah;
- (vii) Shariah Risk Management to identify all possible Shariah non-compliance risks and, where appropriate, remedial measures that need to be taken to reduce the risk;
- (viii) Shariah Research & Secretariat to conduct research on Shariah; and issuance & dissemination of Shariah decisions to the relevant stakeholders.

(II) SHARIAH COMMITTEE MEMBERS

The SC comprises of five (5) qualified Shariah scholars as required by BNM Shariah Governance Framework (“BNM SGF”). The members of SC appointed by HLISB are as follows:

- a. Dr. Ab. Mumin bin Ab. Ghani (Chairman)
- b. Assoc. Prof. Dr. Nurul Aini binti Muhamed
- c. Encik Imran bin Mohammad Khayat
- d. Dr. Mohamad @ Md. Som bin Sujimon
- e. Prof. Dr. Rusni Hassan

(III) MEETINGS

The SC met twelve (12) times during the financial year. All SC members fulfilled the minimum attendance requirement as per BNM Shariah Governance Framework which provides that SC member must attend at least 75% of the SC meetings held in each financial year.

Detail attendance of the members at the meetings is as follows:

Member	Attendance
Dr. Ab. Mumin bin Ab. Ghani	12/12
Assoc. Prof. Dr. Nurul Aini binti Muhamed	12/12
Encik Imran bin Mohammad Khayat	12/12
Dr. Mohamad @ Md. Som bin Sujimon	12/12
Prof. Dr. Rusni Hassan	12/12

(IV) DUTIES AND RESPONSIBILITIES

In order to ensure that the Bank’s business operations and activities are in compliance with Shariah rules and principles, the SC have undertaken various roles such as the following:

- a. Oversight role on Shariah matters related to the Bank’s operations and activities;
- b. Advise the Board and provide input to the Bank on Shariah matters in order for the Bank to comply with Shariah principles at all times;
- c. Review principles and contracts relating to the products introduced by the Bank, transactions and application of Shariah principles to the Bank’s operations, that being disclosed to the SC. In the review process, SC is guided by the resolutions and decisions made by the Shariah Advisory Council (“SAC”) of Bank Negara Malaysia and Securities Commission where applicable;

Corporate Governance Overview, Risk Management & Internal Control Statement

F. SHARIAH (CONTINUED)

(IV) DUTIES AND RESPONSIBILITIES (CONTINUED)

- d. Endorse Shariah policies and procedures, product documentations and relevant disclosures that being presented to SC;
- e. Render opinion whether the Bank's operations are in compliance with the Shariah principles, based on representation made by the management and review of the financial reports;
- f. Ensure that the calculation and payment of zakat are in compliance with Shariah principles; and
- g. Ensure rectification of any Shariah noncompliant events, preventive actions to avoid the recurrence of such events and disposal of the tainted income received from such events to the charitable bodies or Baitulmal have been undertaken by the Bank accordingly.

(V) ENGAGEMENT BETWEEN SHARIAH COMMITTEE AND BOARD OF DIRECTORS

In enhancing an effective communication between the SC, Board of Directors and the Management of HLISB, the Bank has established joint meetings with the Board of Directors and SC.

Among the objectives of the joint meetings are as follows.

- (a) To serve as a platform to establish effective communication with the SC on matters relating to Shariah governance;
- (b) To strengthen the Board's oversight on accountability and responsibilities over Shariah governance and the requirements for the SC to provide objective and sound advice to the Bank;
- (c) To provide an opportunity for the Board to align the SC's advisory roles with the Bank's strategy and Key Performance Indicators ("KPIs");
- (d) To provide an opportunity for the SC to keep abreast with the business developments and risk strategies of the Bank; and
- (e) To address and promote the latest developments in legal and regulatory requirements in Islamic finance, especially in relation to Shariah governance;

There were two (2) joint meetings held between the SC and Board during the financial year 2018/2019 and one session with the SC and Board on the Insight on Value-Based Intermediation. The presence of these meetings had improved the quality of engagement between the Board with SC and the Board also received regular updates on significant matters deliberated during the SC's meetings.

(VI) TRAINING SESSIONS

As part of the requirement to undertake continuous learning and training programmes required by BNM SGF, the following are the conferences and courses attended by the SC members:

- (1) 12th Muzakarah Cendekiawan Syariah Nusantara 2018;
- (2) 13th International Shari'ah Scholars Forum (ISSF 2018);
- (3) Ijtima' ASAS 2018;
- (4) 2nd Islamic Fintech Dialogue (IFD 2019);
- (5) Liqa' ASAS Peringkat Kebangsaan 2019; and
- (6) Certified Shariah Advisor Programme.

(VII) SHARIAH COMMITTEE ASSESSMENT

Pursuant to the BNM SGF, HLISB is required to adopt a formal process of assessing the performance and competencies of the SC members to ensure that the SC members are capable of implementing Shariah governance.

HLISB has conducted internal evaluation process and this evaluation is to assess the effectiveness of the SC members in meeting its objectives and discharging their fiduciary duties. The summary of the evaluation/assessment is tabled to the Nomination Committee and Board of Directors meeting.

The profiles of the Bank's SC members are set out in pages 55 to 57 of this Annual Report.

G. STRENGTHENING CORPORATE GOVERNANCE CULTURE

HONG LEONG BANK GROUP CODE OF CONDUCT & ETHICS

A fundamental value of the HLB Group is that we are 'Here for the Long Term'. In upholding this value, the HLB Group commits to a high standard of professionalism and ethics in the conduct of our business and professional activities as set out in this Code of Conduct & Ethics ("Code").

Corporate Governance Overview, Risk Management & Internal Control Statement

G. STRENGTHENING CORPORATE GOVERNANCE CULTURE (CONTINUED)

The Code is applicable to:

- All employees who work in the HLB Group across the jurisdictions in which we operate – including but not limited to permanent, part-time and temporary employees;
- Board of Directors of the HLB Group; and
- Any other persons permitted to perform duties or functions within the HLB Group – including but not limited to contractors, secondees, interns, industrial attachment and agency staff.

As the Code forms part of the terms and conditions of employment, our employees are required to adhere to a high standard of professionalism and ethics in the conduct of their business, professional activities and personal lives, which might otherwise reflect poorly on the reputation of the HLB Group.

Principles

There are six key pillars to the HLB Code of Conduct & Ethics:

PRINCIPLE 1: COMPETENCE

The HLB Group is committed to ensuring that its employees develop and maintain the relevant knowledge, skills and behaviour to ensure that our activities are conducted professionally and proficiently.

PRINCIPLE 2: INTEGRITY

The HLB Group's Vision, Mission and Values identifies a strong values-based culture to guide decisions, actions and interactions with stakeholders as a key enabler for the success of the HLB Group.

PRINCIPLE 3: FAIRNESS

A core mission of the HLB Group is to help our clients succeed through simple, relevant, personal and fair banking. We must act responsibly and be fair and transparent in our business practices, including treating our colleagues, customers and business partners with respect. We must consider the impact of our decisions and actions on all stakeholders.

PRINCIPLE 4: CONFIDENTIALITY

The HLB Group is committed to providing a safe, reliable and secured banking environment and experience for our customers.

PRINCIPLE 5: OBJECTIVITY

Employees must not allow any conflict of interest, bias or undue influence of others to override their business and professional judgement. Employees must not be influenced by friendships or association in performing their role. Decisions must be made on a strictly arms-length business basis.

PRINCIPLE 6: ENVIRONMENT

The HLB Group is committed to reduce the effect of our operations on the environment so that we are able to build our franchise in a safe and healthy environment. We aim to do this by managing the resources we use across the HLB Group and raising staff awareness about the importance of caring for the environment. The HLB Group will be mindful of its activities with employees, business partners and the community we operate within to ensure human rights are safeguarded. Where there are adverse impacts, we are committed to addressing these.

Whistleblowing Policy

The Bank has also established a Whistleblowing Policy and it provides a structured channel for all employees of the HLB Group and any other persons providing services to, or having a business relationship with the HLB Group, to report any concerns about any improper conducts, wrongful acts or malpractice committed within the HLB Group. The Whistleblowing Policy is published on the Bank's Website.

Other Policies and Codes of the HLB Group

For good governance, the HLB Group has various other policies such as Group Compliance Policy, Group Financial Crime Compliance Policy, Code of Conduct For Wholesale Financial Markets, Group Whistleblowing Policy, Group IT Security Policy, Privacy Policy, Group Media and Public Relations Policy and Procurement Policy.

Continuous Training & Awareness

Multiple training channels, such as mandatory e-Learning modules on SmartUp, the Bank's mobile-first bite-sized learning app, are in place to enable easy access for employees to be upskilled. Attestation to the Code is conducted at time of joining the HLB Group and on an annual basis.

Corporate Governance Overview, Risk Management & Internal Control Statement

H. ACCOUNTABILITY AND AUDIT

The Bank has put in place a framework of processes whereby Board committees provide oversight on critical processes of the Bank's reporting of financial statements, in order to ensure that accountability and audit are integral components of the said processes.

(i) FINANCIAL REPORTING

The Board has a fiduciary responsibility to ensure the proper maintenance of accounting records of the Bank. The Board receives the recommendation to adopt the financial statements from the BARMC, which assesses the integrity of financial statements with the assistance of the external auditors.

(ii) RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for maintaining a system of internal controls which covers financial and operational controls and risk management. This system provides reasonable but not absolute assurance against material misstatements, losses and fraud.

The BARMC is delegated with the responsibility to provide oversight on the Bank's management of critical risks that the Bank faces and review the effectiveness of internal controls implemented in the Bank.

The Statement on Risk Management and Internal Control as detailed under Section J of this Statement provides an overview of the system of internal controls and risk management framework of the Bank.

(iii) RELATIONSHIP WITH AUDITORS

The appointment of external auditors is recommended by the BARMC, which determines the remuneration of the external auditors. The BARMC reviews the suitability and independence of the external auditors annually. In this regard, an annual assessment is conducted by the BARMC to evaluate the performance, independence and objectivity of the external auditors prior to making any recommendation to the Board on the reappointment of the external auditors.

The Bank also has a Policy on the Use of External Auditors for Non-Audit Services to govern the professional relationship with the external auditors in relation to non-audit services. Assessment will be conducted by the BARMC for non-audit services to ensure that the provision of non-audit services does not interfere with the exercise of independent

judgment of the external auditors.

During the financial year under review, the external auditors met with the BARMC to:

- present the scope of the audit before the commencement of audit; and
- review the results of the audit as well as the management letter after the conclusion of the audit.

The external auditors meet with the BARMC members at least twice a year without the presence of Executive Directors and management.

I. INVESTOR RELATIONS

The Bank has a website at 'www.hlisb.com.my' which investors can access for information which includes corporate information, announcements/press releases/briefings, financial information, products information and investor relations.

In addition, investors can have a channel of communication with the following persons to direct queries and provide feedback to the Bank:

GENERAL MANAGER, CORPORATE COMMUNICATION & CSR

Tel No. : 03-2081 8888 ext. 61914
Fax No. : 03-2081 7801
e-mail address : capr@hongleong.com.my

HEAD, CORPORATE FINANCE & INVESTOR RELATIONS

Tel No. : 03-2081 2972
Fax No. : 03-2081 8924
e-mail address : capr@hlbb.hongleong.com.my

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

(i) INTRODUCTION

The Board recognises that practice of good governance is an important process and has established the Board Audit and Risk Management Committee ("BARMC") to ensure maintenance of a sound system of internal controls and good risk management practices. The processes for risks and controls assessments and improvements are on-going and are regularly reviewed in accordance with the guidelines on the 'Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers'.

Corporate Governance Overview, Risk Management & Internal Control Statement

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(II) BOARD RESPONSIBILITIES

The Board acknowledges its overall responsibility for the risk management and internal control environment and its effectiveness in safeguarding shareholders' interests and the Bank's assets. The risk management and internal control framework is designed to manage rather than to eliminate the risk of failure in the achievement of goals and objectives of the Bank, and therefore only provide reasonable assurance and not absolute assurance, against material misstatement or loss.

The system of risk management and internal control instituted throughout the Bank is updated from time to time to align with the dynamic changes in the business environment as well as any process improvement initiatives undertaken. The Board confirms that its Management team responsibly implements the Board policies, Management policies and standard operating procedures ("SOP") on risk management and internal control.

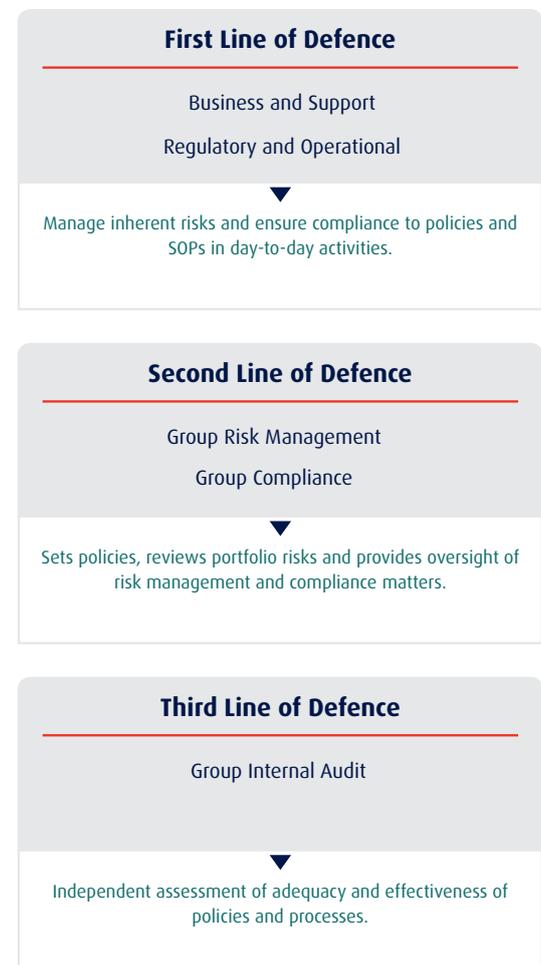
(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The organisational structure of the Bank clearly defines the lines of accountability and responsibility. Risk assessment and evaluation are integral part of the Bank's strategic planning cycle and are responsive to business environment and opportunities. Management committees are appropriately set up to ensure proper utilisation and investment of the Bank's assets for effective risk return rewards or to limit losses. The Group Risk Management ("GRM") and Group Compliance ("GC") divisions have implemented an enterprise-wide risk management framework to inculcate continuous risk, regulatory compliance and Shariah compliance awareness, understanding of procedures and controls thus improving the overall control environment.

Operationally, the Bank operates multiple lines of defence to effect a robust control framework. At the first level, the operating business and support units are responsible for the day-to-day management of risks inherent in the various business activities. Regulatory and operational compliance units are set up in the various lines of

business and support departments. They oversee the day-to-day compliance to all regulatory requirements, business and process controls. At the second level, GRM is responsible for setting the risk management framework and developing tools and methodologies for the identification, measurement, monitoring, and control of risks; whereas GC is responsible for ensuring that controls to manage compliance risks are adequate and operating as intended. At the third level, the Group Internal Audit division complements GRM and GC by monitoring and evaluating significant exposures to risk and contributing to the improvement of risk management and internal control systems. It also provides an independent perspective and assessment on the adequacy and effectiveness of the risk management framework governance systems and processes, including those instituted by the compliance function.

The above is depicted in the following diagram:



Corporate Governance Overview, Risk Management & Internal Control Statement

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

(a) Risk Management

Managing risks is an integral part of the Bank's overall business strategy. It involves a process of identifying, assessing and managing risks and uncertainties that could inhibit the Bank's ability to achieve its strategy and strategic objectives.

Risk governance oversight is underpinned by the core pillars of risk culture, appetite, policies, surveillance, escalation and capacity. Above all, the approaches need to be relevant, forward looking and sustainable.

The Bank's risk management framework incorporates the components depicted in the diagram below:

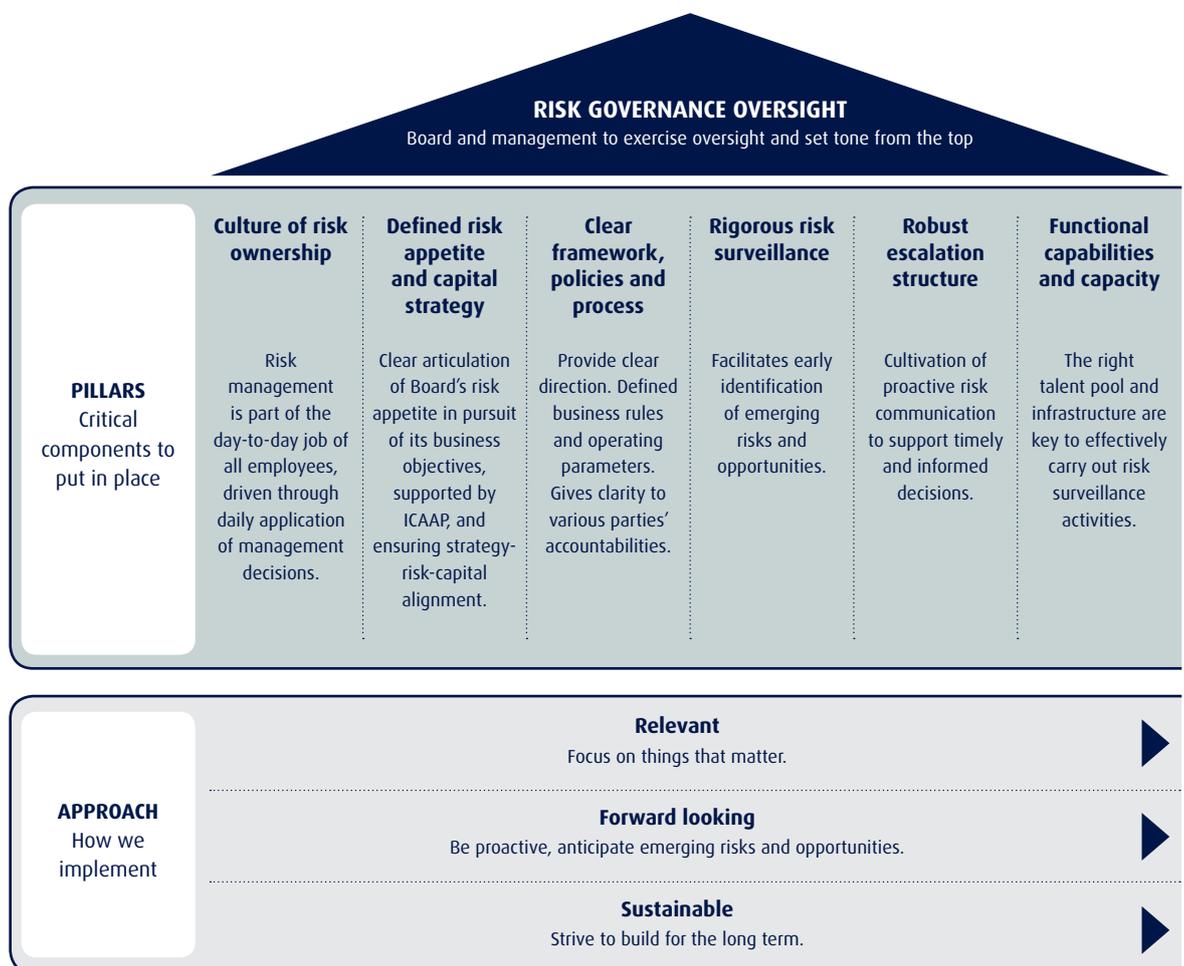


Figure 1: Risk Management Framework

Corporate Governance Overview, Risk Management & Internal Control Statement

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

(a) Risk Management (continued)

In addition, the risk management framework is effected through an organisational construct and escalation structure as depicted below:

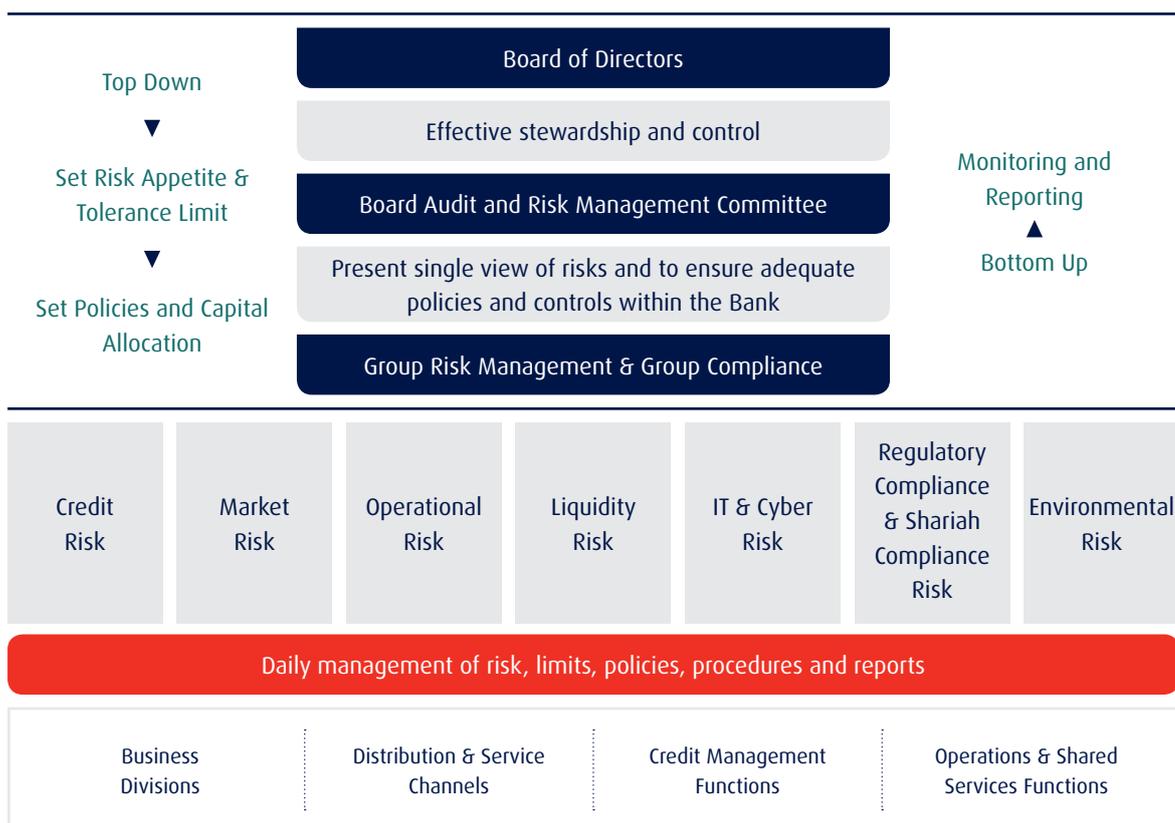


Figure 2: Risk Management Structure

The Board has the overall responsibility to ensure there is proper oversight of the management of risks in the Bank. The Board sets the risk appetite and tolerance level, and allocates the Bank's capital that is consistent with the Bank's overall business objectives and desired risk profile. GRM monitors and reports the Bank's Credit, Market, Liquidity, Operational, IT and Shariah Compliance Risks. GC identifies, assesses, monitors and reports compliance issues in addition to advising, providing guidance and training on regulatory requirements. These risks are presented to BARMC regularly.

The BARMC deliberates and evaluates the reports prepared by GRM and GC, and provides updates to the Board, and where appropriate, make necessary recommendations to the Board.

Corporate Governance Overview, Risk Management & Internal Control Statement

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

(a) Risk Management (continued)

HONG LEONG ISLAMIC BANK'S KEY RISKS

Type of Risk

Mitigating Actions Taken/Strategy

CREDIT RISK

Credit Risk is the risk of loss if a customer or counterparty in a transaction fails to meet its obligations.

- The Bank has established a credit risk management framework (via the Credit Risk Governance Board Policy) to ensure that exposure to credit risk is kept within the Bank's financial capacity to withstand potential future losses. Financing activities are also guided by internal credit policies. The above policies are subject to reviews and enhancements, at least on an annual basis.
- Credit portfolio strategies are developed to achieve a desired portfolio risk tolerance level and sector concentration distribution.
- To assess the credit risk of retail customers, the Bank employs risk scoring models and financing templates that are designed to assess the credit worthiness and the likelihood of the obligors to repay their obligations.
- To assess the credit risk of SME, commercial and corporate customers, they are evaluated based on the assessment of relevant factors such as the customer's financial position, industry outlook, types of facilities and collaterals offered; and are assigned with a credit rating.
- The Bank has a comprehensive credit approving process. While the business units are responsible for credit origination, the credit decisioning function rests mainly with the Credit Evaluation Departments, the MCC and the CSC. The Board delegates the approving and discretionary authority to the MCC and various personnel based on job function and designation.
- For any new products, credit risk assessment also forms part of the new product sign-off process to ensure that the new product complies with the appropriate policies and guidelines, prior to their introduction.
- Credit risk reports are presented to the relevant management and board level committees. Such reports identify adverse credit trends and asset quality to enable the Bank to take prompt corrective actions and/or take appropriate risk-adjusted decisions.
- In addition, the Bank also conducts periodic stress testing of its credit portfolios to ascertain the credit risk impact to capital under the relevant stress scenarios.

Corporate Governance Overview, Risk Management & Internal Control Statement

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

(a) Risk Management (continued)

HONG LEONG ISLAMIC BANK'S KEY RISKS	
Type of Risk	Mitigating Actions Taken/Strategy
<p>OPERATIONAL RISK</p> <p>Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which also include outsourcing and business continuity risks.</p>	<ul style="list-style-type: none"> Management oversight on operational risk management ("ORM") matters are effected through the Risk and Compliance Governance Committee ("RCGC") whilst Board oversight is effected through the BARMC. The Bank's ORM strategy is based on a framework of continuous improvements, good governance structure, policies and procedures as well as the employment of risk mitigation strategies. The objective is to create a strong risk and internal control culture by ensuring awareness of the significance of operational risk, its methodology of identification, analysis, assessment, control and monitoring. The Bank adopts ORM tools such as loss event reporting, risk and control self assessment and key risk indicators to manage operational risks and are used to assess risk by taking into consideration key business conditions, strategies and internal controls.
<p>MARKET RISK</p> <p>Market Risk is the risk of loss in financial instruments or the balance sheet due to adverse movements in market factors such as benchmark and exchange rates, prices, spreads, volatilities, and/or correlations.</p>	<ul style="list-style-type: none"> Market risk is primarily managed through various risk limits and controls following an in-depth risk assessment and review. The types and level of market risk that the Bank is able and willing to take in pursuit of its business objectives and risk-taking strategies are used as a basis for setting market risk appetite for the Bank. Market risk limits, the monitoring and escalation processes, delegation of authority, model validation and valuation methodologies are built into the Bank's market risk policies, which are reviewed and concurred by the Asset and Liability Management Committee ("ALCO"), endorsed by the BARMC and approved by the Board. Regular market risk stress tests are conducted on the trading book to measure the loss vulnerability under stressed market conditions.

Corporate Governance Overview, Risk Management & Internal Control Statement

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

(a) Risk Management (continued)

HONG LEONG ISLAMIC BANK'S KEY RISKS	
Type of Risk	Mitigating Actions Taken/Strategy
<p>LIQUIDITY RISK</p> <p>Liquidity Risk is the risk of loss resulting from the unavailability of sufficient funds to fulfill financial commitments, including customers' liquidity needs, as they fall due. Liquidity Risk also includes the risk of not being able to liquidate assets in a timely manner.</p>	<ul style="list-style-type: none"> The Bank adopts a prudent liquidity management that includes establishing comprehensive policies and procedures, risk controls, reviews and monitoring. The liquidity risk policies and governance are reviewed by ALCO, endorsed by the BARMC and approved by the Board. The key elements of liquidity risk management includes proactive monitoring and management of cashflow, maintenance of high quality liquid assets, diversification of funding sources and maintaining a liquidity compliance buffer to meet any unexpected cash outflow. The Bank also designs and conducts regular stress test programmes in accordance with the board-approved risk appetite and risk management policies. The appropriate management action plans would be developed and recommended to the Board if there is any potential vulnerabilities identified during the stress test exercise.
<p>IT & CYBER RISK</p> <p>Information Technology Risk is the risk of technological failure which may disrupt business operations such as system defects or service outages. This also includes cyber security risk, which is the risk of possible threat that might exploit a vulnerability to breach system security and therefore cause possible harm.</p>	<ul style="list-style-type: none"> New technology initiatives are subjected to a rigorous evaluation process which assesses the potential risks and readiness of the initiative prior to its implementation. The Bank performs continuous monitoring on system performance to ensure minimal system disruption, while ensuring that redundancies in IT infrastructure and Disaster Recovery Plans are regularly tested. In addition to continuously improving the Bank's cyber resilience by upgrading technology capabilities to mitigate cyber threats, cyber risks are also managed by closely monitoring key risk metrics and progressively enhancing its cyber threat intelligence gathering capabilities to improve the Bank's situational awareness. Management oversight on IT and cyber risk management matters are effected through the IT Steering Committee ("ITSC") and Information Security Governance Council ("ISGC") whilst Board oversight is effected through the BARMC.

Corporate Governance Overview, Risk Management & Internal Control Statement

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

(a) Risk Management (continued)

HONG LEONG ISLAMIC BANK'S KEY RISKS	
Type of Risk	Mitigating Actions Taken/Strategy
<p>REGULATORY COMPLIANCE & SHARIAH COMPLIANCE RISK</p> <p>Regulatory Compliance and Shariah Compliance Risk is the risk of legal or regulatory sanctions, material financial loss or loss to reputation as a result of failure to comply with laws and regulations including Shariah rules and regulations.</p>	<ul style="list-style-type: none"> The Bank undertakes robust monitoring of developments in laws and regulations and assesses its impact to its processes, where applicable. The assessments are undertaken to identify gaps in existing processes so that actions are taken within defined timeframes to ensure that the Bank is in compliance.
<p>ENVIRONMENTAL RISK</p> <p>Environmental risk is actual or potential threat of adverse effects on living organisms and environment by effluents, emissions, wastes, resource depletion and other impacts, arising out of an organization's activities. In our case, given our role in the economy, in addition to our own activities, we are cognisant of the fact that people and companies we do business with also have an impact on the environment, and hence, we ensure that our financing and procurement policies, for example, take this risk into account.</p>	<ul style="list-style-type: none"> The Bank has policies, principles and codes of conduct to ensure the interests of the Bank are aligned with the interests of stakeholders on responsible financing. These include assessments to screen for and review environmental and social risks, financial evaluation of existing and potential customers, and the provision of basic banking products to those who cannot afford to pay for fees so that they can participate in the financial system. We have credit policies that require sales and credit staff to review the customers' compliance with applicable environmental and social laws and review of the same at annual reviews of financing facilities to ensure ongoing compliance. The Bank manages environmental footprint through reduction of waste (such as paper and water) and efficient usage of energy. The Bank has an Independent Tender Review Committee that assesses diligence reviews of suppliers' across a number of risks, not just financial strength and operational performance. We take into account considerations on environment and social track record and policies, business continuity plans and cyber security capabilities. Suppliers have to satisfy our zero tolerance for corruption and unfair practices.

Corporate Governance Overview, Risk Management & Internal Control Statement

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

(b) Basel II and III

The Bank places great importance on Basel II and III and views Basel II and III as a bank-wide initiative that will ensure that the Bank continues to meet international best practices for the Bank's credit, market, operational and liquidity risk management practices. By adopting Basel II and III, the Bank is able and will continue to enhance and embed sound risk management practices within the Bank and be equipped with the right risk management discipline, practices, processes and systems.

For Basel II Pillar 1, the Bank is in compliance with the regulatory standards and is progressively employing advance risk measurement in the respective businesses. For Basel II Pillar 2, the Bank has established an Internal Capital Adequacy Assessment Process ("ICAAP") Board Policy that forms an integrated approach to manage the Bank's risk, capital and business strategy. For Basel II Pillar 3, which is related to market discipline and disclosure requirements, the Bank has provided the disclosures under a separate Pillar 3 section in this Annual Report.

For Basel III, the Bank has put in place plans to continuously strengthen its capital and liquidity positions well ahead of the Basel Committee's time schedule.

(c) Internal Audit

The Group Internal Audit Division ("GIAD") performs the internal auditing function for the various entities in the financial services group. GIAD regularly reviews the critical operations (as defined in BNM Guidelines on Internal Audit Function of Licensed Institutions) and critical controls in the Information Technology environment (as outlined in BNM GPIS) of the Group to ensure that the internal controls are in place and working effectively.

The results of the audits conducted by GIAD are reported to the BARMC. Follow-up actions and the review of the status of corrective action plans are carried out by Management via the RCGC chaired by the Chief Executive Officer, whose members comprise senior management. The minutes of meetings of RCGC are tabled to the BARMC for notation.

Implementation of corrective action plans are followed up on a monthly basis and reported to the BARMC. Highlights of the BARMC meetings are submitted to the Board for review and further deliberation.

In addition, internal controls are also effected through the following processes:

- The Board receives and reviews regular reports from Management on the key operating statistics, business dynamics, legal matters and regulatory issues that would have implications on internal control measures.
- The BARMC regularly reviews and holds discussions with Management on the actions taken on internal control issues identified in reports prepared by GIAD, external auditors and regulatory authorities.
- Policies on delegation and authority limits are strictly implemented to ensure a culture that respects integrity and honesty, and thereby reinforce internal controls.
- Policies and procedures are set out in operation manuals and disseminated throughout the organisation in support of a learning culture, so as to reinforce an environment of internal controls discipline.
- Policies for recruitment, promotion and termination of staff are in place to ensure the Bank's human resources comply with internal controls.

Corporate Governance Overview, Risk Management & Internal Control Statement

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(IV) ASSESSMENT OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Board has received assurances from the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor and Chief Compliance Officer that the Bank's risk management and internal control system are operating adequately and effectively.

Based on the assurances it has received from Management, the Board is of the view that the Bank's risk management and internal control system are operating adequately and effectively for the financial year under review and up to the date of approval of this report.

K. DIRECTORS' RESPONSIBILITY IN FINANCIAL REPORTING

The directors are satisfied that in preparing the financial statements of the Bank for the FYE 2019, the Bank has used the appropriate accounting policies and applied them consistently.

The directors are also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

This Statement on Corporate Governance, Risk Management and Internal Control is made in accordance with the resolution of the Board.