

Maybank Islamic Berhad
(Incorporated in Malaysia)

CORPORATE GOVERNANCE

1. THE BOARD OF DIRECTORS

COMPOSITION OF THE BOARD

The Board of Maybank Islamic Berhad (“Maybank Islamic” or “the Bank”) comprised five (5) directors of which four (4) were Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Chairman. The composition of the Board complied with the requirement under the BNM Corporate Governance Policy (“BNM CG Policy”) of having a majority of independent directors at all times.

The members of the Board as at 31 December 2018 were as follows:

Name	Position	First Appointment Date
Chairman		
Encik Zainal Abidin bin Jamal	Non-Independent Non-Executive Director	Non-Independent Non-Executive Director 28 January 2010 Chairman 1 June 2017
Members		
Dato' Dr Muhammad Afifi al-Akiti	Independent Non-Executive Director	15 August 2013
Encik Dali bin Sardar	Independent Non-Executive Director	11 August 2014
Encik Nor Hizam bin Hashim	Independent Non-Executive Director	18 October 2016
Datuk Mohd Anwar Yahya	Independent Non-Executive Director	17 July 2017

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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

COMPOSITION OF THE BOARD (cont'd.)

A profile of each member of the Board is presented below:-

ZAINAL ABIDIN BIN JAMAL

Non-Independent Non-Executive Director (Chairman)

Nationality

Malaysian

Age

64

Appointment

28 January 2010

Qualification

- LL.B (Honours), University of Singapore
- Advocate & Solicitor, High Court of Malaya
- Arbitrator, Asian International Arbitration Centre (formerly known as Kuala Lumpur Regional Center for Arbitration)

Working Experience

Present

- Senior Partner of Zainal Abidin & Co, Advocate & Solicitor

Past

- First Class Magistrate in Brunei Darussalam
- Advocate & Solicitor of the Supreme Court of Singapore
- Company Secretary of Harrisons Malaysian Plantation Berhad

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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

COMPOSITION OF THE BOARD (cont'd.)

ZAINAL ABIDIN BIN JAMAL (cont'd.)

Non-Independent Non-Executive Director (Chairman)

Directorship of Other Companies

- Sime Darby Plantation Berhad
- Lam Soon (M) Berhad
- Prominent Beauty Sdn Bhd
- Global Humanitarian Fund

Attendance in 2018

- 10 out of 10 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Malayan Banking Berhad
- No conflict of interest with Maybank Islamic Berhad and has never been charged for any offence
- Does not hold any shares in Maybank Islamic Berhad

DATO' DR MUHAMMAD AFIFI AL-AKITI

Independent Non-Executive Director

Nationality

Malaysian

Age

42

Appointment

15 August 2013

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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

COMPOSITION OF THE BOARD (cont'd.)

DATO' DR MUHAMMAD AFIFI AL-AKITI (cont'd.)

Independent Non-Executive Director

Qualification

- Doctor of Philosophy in Islamic Studies, Oxford University
- Master of Studies in Islamic Studies, Oxford University
- Bachelor of Arts in Scholastic Philosophy and the History of Science, Queen's University of Belfast

Working Experience

Present

- Kuwait Foundation for the Advancement of Science (KFAS) Fellow, Oxford Centre for Islamic Studies
- International Advisory Board, Abu Dhabi Educational Council (ADEC), UAE
- International Advisory Board, Sultan Omar 'Ali Saifuddien Centre for Islamic Studies, Universiti Brunei Darussalam (UBD), Brunei
- Visiting Professor, Universiti Teknologi Mara (UiTM), Malaysia
- Visiting Professor, Universiti Sains Malaysia (USM), Malaysia
- Associate Fellow, Centre for Islamic Development Management Studies ("ISDEV"), Universiti Sains Malaysia
- Deputy Editor, Journal of Islamic Studies (Oxford University Press)
- Associate Editor-in-Chief, World Journal of Islamic History and Civilization (IDOSI)
- Consultant, Qatar Foundation
- Consultant, Sultan of Brunei Foundation (Yayasan Sultan Haji Hassanal Bolkiah)
- Consultant, BBC Religion and Ethics Department
- Distinguished Visiting Professor, University Utara Malaysia (UUM), Malaysia
- Consultant, Muslim Aid, UK

Past

NIL

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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

COMPOSITION OF THE BOARD (cont'd.)

DATO' DR MUHAMMAD AFIFI AL-AKITI (cont'd.)

Independent Non-Executive Director

Directorship of Other Companies

- Oxford Islamic Finance Ltd, U.K.
- Oxford Real Estate Ltd, U.K.
- KUISAS Berhad
- LTH Oxford Ltd, Jersey
- Wilaya Trust, UK

Attendance in 2018

- 10 out of 10 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Malayan Banking Berhad
- No conflict of interest with Maybank Islamic Berhad and has never been charged for any offence
- Does not hold any shares in Maybank Islamic Berhad

DALI BIN SARDAR

Independent Non-Executive Director

Nationality

Malaysian

Age

59

Appointment

11 August 2014

Qualification

- Bachelor of Arts (majoring in Economics), Knox College, Illinois, USA
- Master in Business Administration, American Graduate School of International Management, Arizona, USA

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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

COMPOSITION OF THE BOARD (cont'd.)

DALI BIN SARDAR (cont'd.)

Independent Non-Executive Director

Working Experience

Present

NIL

Past

- Relationship Manager and Vice President of Citicorp/ Citibank
- Executive Director and subsequently promoted as Managing Director of Citicorp Capital.
- Chief Executive Officer of Utama Merchant Bank Berhad
- Director of Maybank Private Equity Sdn Bhd

Directorship of Other Companies

- Chuan Huat Resources Bhd
- Malaysian General Investment Corporation (MGIC) Bhd
- DTA Capital Partners Sdn Bhd
- DTA Growth Capital Sdn Bhd
- Mavcap ICT Sdn Bhd
- Peranex Sdn Bhd
- NorhTec Corporation Ltd (Thailand)
- M Development Ltd (Singapore)

Attendance in 2018

- 10 out of 10 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Malayan Banking Berhad
- No conflict of interest with Maybank Islamic Berhad and has never been charged for any offence
- Does not hold any shares in Maybank Islamic Berhad

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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

COMPOSITION OF THE BOARD (cont'd.)

NOR HIZAM BIN HASHIM

Independent Non-Executive Director

Nationality

Malaysian

Age

70

Appointment

18 October 2016

Qualification

- Bachelor of Jurisprudence (BOJ) (External) with honours, University of Malaya
- Chartered Accountant, Malaysia Institute of Accountants
- Bachelor of Commerce (Finance, Accounting and Economics), University of Western Australia

Working Experience

Present

NIL

Past

- Accountant and Financial Analyst of ESSO Malaysia Berhad
- Financial Controller of Mamor Sdn Bhd
- General Manager (Finance) of Raleigh Berhad
- Held various senior positions including as Chief Operating Officer of Telekom Malaysia Berhad Group
- Chief Financial Officer of TELKOM SA Ltd
- Chief Executive Officer of TM International Corporation
- Expert Officer to the Public Private Partnership Unit and Economic Planning Unit in the Prime Minister's Department

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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

COMPOSITION OF THE BOARD (cont'd.)

NOR HIZAM BIN HASHIM (cont'd.)

Independent Non-Executive Director

Directorship of Other Companies

- Malayan Banking Berhad
- MCB Bank Limited (Pakistan)
- Minority Shareholders' Watchdog Group
- Telekom Consultancy Sdn Bhd
- Bizforte Sdn Bhd

Attendance in 2018

- 10 out of 10 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Malayan Banking Berhad
- No conflict of interest with Maybank Islamic Berhad and has never been charged for any offence
- Does not hold any shares in Maybank Islamic Berhad

DATUK MOHD ANWAR YAHYA

Independent Non-Executive Director

Nationality

Malaysian

Age

64

Appointment

17 July 2017

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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

COMPOSITION OF THE BOARD (cont'd.)

DATUK MOHD ANWAR YAHYA (cont'd.)

Independent Non-Executive Director

Qualification

- Bachelor of Science (Honours) in Economics & Accountancy, University of Hull, United Kingdom
- Chartered Accountant, Institute of Chartered Accountants in England and Wales
- Member of Malaysia Institute of Accountants
- Member of Malaysian Institute of Certified Public Accountants

Working Experience

Present

NIL

Past

- Financial and Business Advisor of PricewaterhouseCoopers
- General Manager of Permodalan Kelantan Berhad
- Finance Manager of Lembaga Kemajuan Kelantan Selatan (KESEDAR)

Directorship of Other Companies

- Sage 3 Sdn Bhd
- Usains Holdings Sdn Bhd
- Fraser & Neave Holdings Berhad
- Felda Global Ventures Holdings Berhad
- Technology Park Malaysia Corporation Sdn Bhd
- Pelaburan Hartanah Nasional Berhad

Attendance in 2018

- 10 out of 10 Board meetings held in the financial year

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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

COMPOSITION OF THE BOARD (cont'd.)

DATUK MOHD ANWAR YAHYA (cont'd.)

Independent Non-Executive Director

Declaration

- No family relationship with any director and/or major shareholder of Malayan Banking Berhad
- No conflict of interest with Maybank Islamic Berhad and has never been charged for any offence
- Does not hold any shares in Maybank Islamic Berhad

BOARD CHARTER

The Board acknowledges the importance of developing and maintaining a framework of Corporate Governance that is robust and sound, to promote a culture of integrity and transparency throughout the Bank. In this regard, all directors are required to maintain the highest standards of transparency, integrity and honesty. This standard serves as the basis for the principles that govern directors' conduct and their relationship with the Bank's stakeholders.

The Board Charter outlines among others, the respective roles, responsibilities and authorities of the Board (both individually and collectively) in setting the direction, management and control of the Bank.

ROLES AND RESPONSIBILITIES OF THE BOARD

The Board's duties and responsibilities include the following function:

- (a) To review and approve the Bank's strategies, business plans as well as significant policies and include, the Annual Budget and its half yearly review;
- (b) To ensure and oversee the effective design and implementation of sound internal controls, compliance and risk management systems as well as ensuring that the Bank's overall operation is in compliance with Shariah principles;
- (c) To approve the recruitment, appointment, promotion, confirmation and termination of service, as well as the remuneration package, and compensation and benefits policies and the terms and conditions, including the job grade of executives in Key Management Positions;

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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

ROLES AND RESPONSIBILITIES OF THE BOARD (cont'd.)

The Board's duties and responsibilities include the following function (cont'd.):

- (d) To approve the organizational structure and ensuring that the senior management is monitoring the effectiveness of the internal control system;
- (e) To determine the general composition of the Board (size, skill and balance between executive directors and non-executive directors) in order to ensure that the Board consists of the requisite diversity of skills, experience, gender, qualification, and other core competencies required;
- (f) To approve a framework of remuneration for directors, covering fees, allowances, and benefits-in-kind (directors of all boards and committees);
- (g) To approve policies pertaining to corporate image, brand management, community relations, investor relations and shareholder communications programs;
- (h) To ensure that the Bank has a beneficial influence on the economic well-being of the communities within which it operates;
- (i) To ensure that the Board is supported by a suitably qualified and competent Company Secretary;
- (j) To ensure that the Board have access to appropriate education and training programmes to keep abreast of the latest developments in the industry, and as may be prescribed by the regulatory authorities from time to time; and
- (k) To approve the Bank's financial statements (and ensuring the reliability of the same) as well as the interim dividend and recommend the final dividend to shareholders.

BOARD COMMITTEES

Delegation of certain governance responsibilities has been undertaken by the Board in favour of its Board Committees, which operate within clearly defined terms of references, primarily to assist the Board in the execution of its duties and responsibilities. Although the Board has granted such discretionary authority to these Board Committees to deliberate and decide on certain key and operational matters, the ultimate responsibility for final decision on all matters lies with the entire Board.

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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

BOARD INVESTMENT COMMITTEE

As required by para 17.3 of the Investment Account Policy by BNM, every Islamic Bank must establish a separate board investment committee when the investment account constitutes a significant proportion of the total asset of the Bank.

The Board Investment Committee ("BIC") is responsible for assisting the Board in performing the oversight functions and provide recommendations in respect of the investment strategies, management and performance of the investment account.

The members of the BIC as at 31 December 2018 were as follows:

Name	Position	Appointment Date
Encik Dali bin Sardar	Chairman	28 September 2016
Dato' Dr Muhammad Afifi al-Akiti	Member	31 October 2016
Encik Nor Hizam bin Hashim	Member	26 April 2017

The specific duties of the BIC include:

- (i) Review and recommend to the Board on the matters including, but not limited to the establishment of investment objectives, strategies, policies, products, business collaborations with internal and external stake holders;
- (ii) Review and approve the changes in the existing Investment mandate, parameters, policies and procedures of Investment Account ("IA") including profit distribution policy and valuation policy;
- (iii) Ensure the investment operations are performed in accordance with the fiduciary duties and agency duties in the agreed terms and conditions of the IA, relevant legislations and Shariah rulings and review IA performance reports on a periodic basis;
- (iv) Ensure compliance to effective risk management policies, processes and infrastructure to identify, measure, monitor, control and report the various types of risk associated with the assets funded by the IA including policies and procedures to determine the significant level of IA business;

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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

BOARD INVESTMENT COMMITTEE (cont'd.)

The specific duties of the BIC include (cont'd.):

- (v) Ensure the management of the IA is conducted by personnel with the appropriate competency and investment expertise; and
- (vi) Review and approve the disclosures as per the requirements to ensure reliable, relevant and timely information are disseminated to the Investment Account Holders (“IAH”) to facilitate informed decision making and conduct regular review on the effectiveness of these policies to protect the interest of the IAH.

Under the leverage model, the Board delegated certain of its governance responsibilities to the following Board Committees of Maybank, which operate within clearly defined terms of references primarily to assist the Board in the execution of its duties and responsibilities. Nevertheless, the final decisions were made by the Board of Maybank Islamic.

1. Audit Committee¹
2. Credit Review Committee²
3. Nomination and Remuneration Committee
4. Risk Management Committee²
5. Compliance Committee of the Board
6. Employee Share Grant Plan Committee

Notes:

- ¹ The Chairman of the Audit Committee sits at the Board of Maybank Islamic Berhad.
- ² Representative of the Board sits in as an invitee at the committee meetings for the deliberations on matters related to Maybank Islamic Berhad.

TENURE OF DIRECTORSHIP

Consistent with the Maybank Group’s Directors’ Independence Policy and recommendations of the Malaysian Code on Corporate Governance 2017 (“the Code”), the Board via the Nomination and Remuneration Committee (“NRC”) assesses the independence of Independent Directors upon his/her appointment, re-appointment and in any event, annually. In line with the Code, the tenure of service for Independent Directors has been capped at the maximum period of nine years whereby upon completion of such tenure, the Independent Director may continue to serve on the Board subject to his redesignation as a Non-Independent Director. Currently, none of the Independent Directors has reached the 9-year term in Maybank Islamic.

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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

BOARD MEETINGS

During the financial year ended 31 December 2018, a total of 10 meetings were convened inclusive of 2 special meetings for urgent issues and/or important decisions required to be addressed between the scheduled meetings.

All the directors have exceeded the 75% meeting attendance requirement in accordance with BNM CG Policy. Details of attendance of each director on the Board and Board Investment Committee of Maybank Islamic during the financial year ended 31 December 2018 are highlighted in the table below.

Name of Directors	Board Number of Meetings			BIC Number of Meetings		
	Held	Attended	%	Held	Attended	%
Encik Zainal Abidin bin Jamal	10	10	100			
Dato' Dr. Muhammad Afifi al-Akiti	10	10	100	4	4	100
Encik Dali bin Sardar	10	10	100	4	4	100
Encik Nor Hizam bin Hashim	10	10	100	4	4	100
Datin Paduka Jam'iah Abdul Hamid ¹	9	9	100			
Datuk Mohd Anwar Yahya	10	10	100			

Notes:

¹ Demised on 19 November 2018.

DIRECTORS' REMUNERATION

The Board believes that one area that the Board needs to focus on in order to remain effective in the discharge of its duties and responsibilities is the setting of a fair and comprehensive remuneration package to commensurate with the expertise, skills, responsibilities and the risks of being a director of a financial institution. In line with good corporate governance, Maybank Group has set out its intention to periodically review the Non-Executive Directors (NEDs) remuneration for Maybank and its group of companies at least once every three years. A summary of the total remuneration of the Directors (shown in nearest thousand), in aggregate with categorisation into appropriate components for the financial year ended 31 December 2018 is as disclosed in Note 30 to the financial statements.

**Maybank Islamic Berhad
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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

DIRECTORS' TRAINING

The Board acknowledges the importance of continuing education for its directors to ensure they are equipped with the necessary skills and knowledge to perform their functions and meet the challenges as the Board. During the year, all the Board members have attended various training programmes and workshops on relevant issues, including key training programme for directors of financial institutions, namely the Financial Institutions Directors' Education ("FIDE").

The Board continues to assess the training needs of its directors vide the Board Assessment and identify key areas of focus for training programmes.

Trainings programmes, conferences, forums and talks attended by the directors for the financial year ended 31 December 2018 were as follow:

Maybank Group Internal Training

- Artificial Intelligence & Technology Development Leadership Programme
- Audit Committee Institute Breakfast Roundtable 2018
- Compliance Training Programme with Maybank Group Board, Group EXCOs and Senior Management
- Dialog on VBI - Strengthening the Roles and Impact of Islamic Finance via Value-based Intermediation ("VBI")
- Leaders' Insight Series - Islamic Finance and The Real Economy: Deciphering the Link In Between
- Maybank Group Annual Risk Workshop
- Maybank Islamic Board Risk Workshop
- Maybank Islamic Compliance Training Program for Board Members and Senior Management
- The Investor's Conference - Malaysia A New Dawn
- Shariah Discourse Series - Epistemic Foundation and Ethical Considerations for Leadership in Business
- Shariah Discourse Series - Knowledge as a Foundational Element in Worldview of Islam
- Shariah Discourse Series - Leadership Crisis
- Shariah Discourse Series - Understanding the Foundations of Islamic Worldview

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CORPORATE GOVERNANCE (cont'd.)

1. THE BOARD OF DIRECTORS (cont'd.)

DIRECTORS' TRAINING (cont'd.)

Trainings programmes, conferences, forums and talks attended by the directors for the financial year ended 31 December 2018 were as follow (cont'd.):

External Training

(i) FIDE

- Blockchain in Financial Services Industry by IBM
- Emerging Risks, The Future Board and Return On Compliance
- FIDE Core Programme (Module A)
- FIDE Core Programme (Module B - Banks)

(ii) Other External Seminars/Conferences/Talks

- Directors' Continuing Education Program 2018 - F&N Holdings Bhd & Cocoland Holdings Bhd
- Global Islamic Finance Forum 2018 (GIFF 2018)
- IFSB Executive Forum - Effective Risk Management Oversight and Governance of Islamic Banks
- International Shariah Scholars Forum 2018 (ISSF 2018) - Islamic Social Finance: Realities and Prospects
- Islamic Finance for Board of Directors Programme
- SC - World Bank IOSCO Asia Pacific Hub Conference
- SC - World Capital Markets Symposium

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CORPORATE GOVERNANCE (cont'd.)

2. INTERNAL CONTROL FRAMEWORK

INTRODUCTION

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

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

GOVERNANCE AND OVERSIGHT

The Board of Directors

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

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

Shariah Committee

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

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CORPORATE GOVERNANCE (cont'd.)

2. INTERNAL CONTROL FRAMEWORK (cont'd.)

GOVERNANCE AND OVERSIGHT (cont'd.)

Management Committee

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

Lines of Defence

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

Functions	Key Responsibilities
First Line of Defence	
<p>Day-to-day management and ownership of risk</p>	<ul style="list-style-type: none"> ● Owns and manages day-to-day risks inherent in its business and / or activities, including that of risk taking. This includes identifying, assessing, controlling, mitigating, monitoring and reporting its risk exposures and ensuring that these activities are within the established risk strategies, risk tolerance, risk appetite, internal control frameworks, policies and procedures. ● Executes activities within the end-to-end process, in accordance with the process designs and controls. ● Drives and facilitates the management of risk by ensuring effective implementation and adherence to internal control framework, policies, procedures and controls, including the monitoring and reporting of risk exposures of the business/function. ● Provides clarity to risk owners in relation to risk management practices.

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CORPORATE GOVERNANCE (cont'd.)

2. INTERNAL CONTROL FRAMEWORK (cont'd.)

GOVERNANCE AND OVERSIGHT (cont'd.)

Lines of Defence (cont'd.)

Functions	Key Responsibilities
Second Line of Defence	
<p>Oversee risks and challenge first line</p>	<ul style="list-style-type: none"> ● Establishes and owns internal control frameworks, policies and procedures to identify, assess, control, mitigate, monitor and report a particular risk that the function is entrusted to govern. ● Provides overall risk governance and oversight over the internal control framework including monitoring and reporting overall risk exposures of the Group/entity. ● Reviews, analyses and challenges the first line's risk assessments and effectiveness in managing risk. ● Provides guidance in the implementation and execution of the established Compliance frameworks, policies and tools. ● Supports sustainable and quality asset growth with optimal returns through specific credit management functions such as credit evaluation, approval and monitoring. ● Communicates risk strategies and create risk awareness within the organisation. ● Ensures compliance to the applicable laws, regulations, internal policies, procedures, and limits (including risk limits). This includes maintaining policies and procedures to detect and minimise risk of non-compliances and to assess the adequacy and effectiveness of such policies and procedures on an on-going basis.

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CORPORATE GOVERNANCE (cont'd.)

2. INTERNAL CONTROL FRAMEWORK (cont'd.)

GOVERNANCE AND OVERSIGHT (cont'd.)

Lines of Defence (cont'd.)

Functions	Key Responsibilities
Third Line of Defence	
Independent Risk assurance	Provide reasonable assurance via independent assessment, review and validation, which includes the following: <ul style="list-style-type: none"> • Internal control frameworks, policies and tools are sufficiently robust and consistent with regulatory standards. • Controls to mitigate risks are adequate and effectively executed by the first line. • Adequate oversight by the second line over the first line.

KEY ELEMENTS OF INTERNAL CONTROL SYSTEM

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

Risk Management Framework

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

Principles	Description
Establish risk appetite & strategy	The risk appetite which is approved by the Board, articulates the nature, type and level of risk the Bank is willing to assume.
Assign adequate capital	The approach to capital management is driven by strategic objectives and accounts for the relevant regulatory, economic and commercial environments in which the Bank operates.

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CORPORATE GOVERNANCE (cont'd.)

2. INTERNAL CONTROL FRAMEWORK (cont'd.)

KEY ELEMENTS OF INTERNAL CONTROL SYSTEM (cont'd.)

Risk Management Framework (cont'd.)

Principles	Description
Ensure proper governance and oversight function	There is clear and effective governance structure with well-defined, transparent and consistent lines of responsibility established within the Bank.
Promote strong risk culture	Institutionalisation of a strong risk culture that supports and provides appropriate standards and incentives for professional and responsible behaviour.
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.
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 the Bank.
Ensure sufficient resources and system infrastructure	Ensure sufficient resources, infrastructure and techniques are in place to enable effective risk management.

Compliance Management Framework

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

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CORPORATE GOVERNANCE (cont'd.)

2. INTERNAL CONTROL FRAMEWORK (cont'd.)

KEY ELEMENTS OF INTERNAL CONTROL SYSTEM (cont'd.)

Shariah Governance Framework

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

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

Risk Appetite

The risk appetite is a critical component of a robust risk management framework which is driven by both top-down Board leadership and bottom-up involvement of management at all levels. The risk appetite enables the Board and senior management to communicate, understand and assess the types and levels of risk that the Bank is willing to accept in pursuit of its business and strategic goals while taking into consideration constraints under stressed environment.

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, stakeholders' 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 day to day business activities and decisions.

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

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CORPORATE GOVERNANCE (cont'd.)

2. INTERNAL CONTROL FRAMEWORK (cont'd.)

KEY ELEMENTS OF INTERNAL CONTROL SYSTEM (cont'd.)

Risk and Compliance Culture

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

As part of the risk and compliance culture, the Bank has instilled a compliance culture where the Board, senior management and every employee of the Bank are committed to adhere to the requirement of relevant laws, rules and regulations. This commitment is clearly demonstrated through the establishment and strengthening of policies, processes and controls in managing and preventing non-compliances.

Cyber and Technology Risk Management Policy and Guideline

The Cyber Risk Management Policy 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 policy encompasses the cyber risk management strategy, governance structure and risk management enablers. It complements the Technology Risk Management Guideline and covers both business and technology drivers from an end to end perspective, which focuses on the key layers of People, Process and Technology.

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

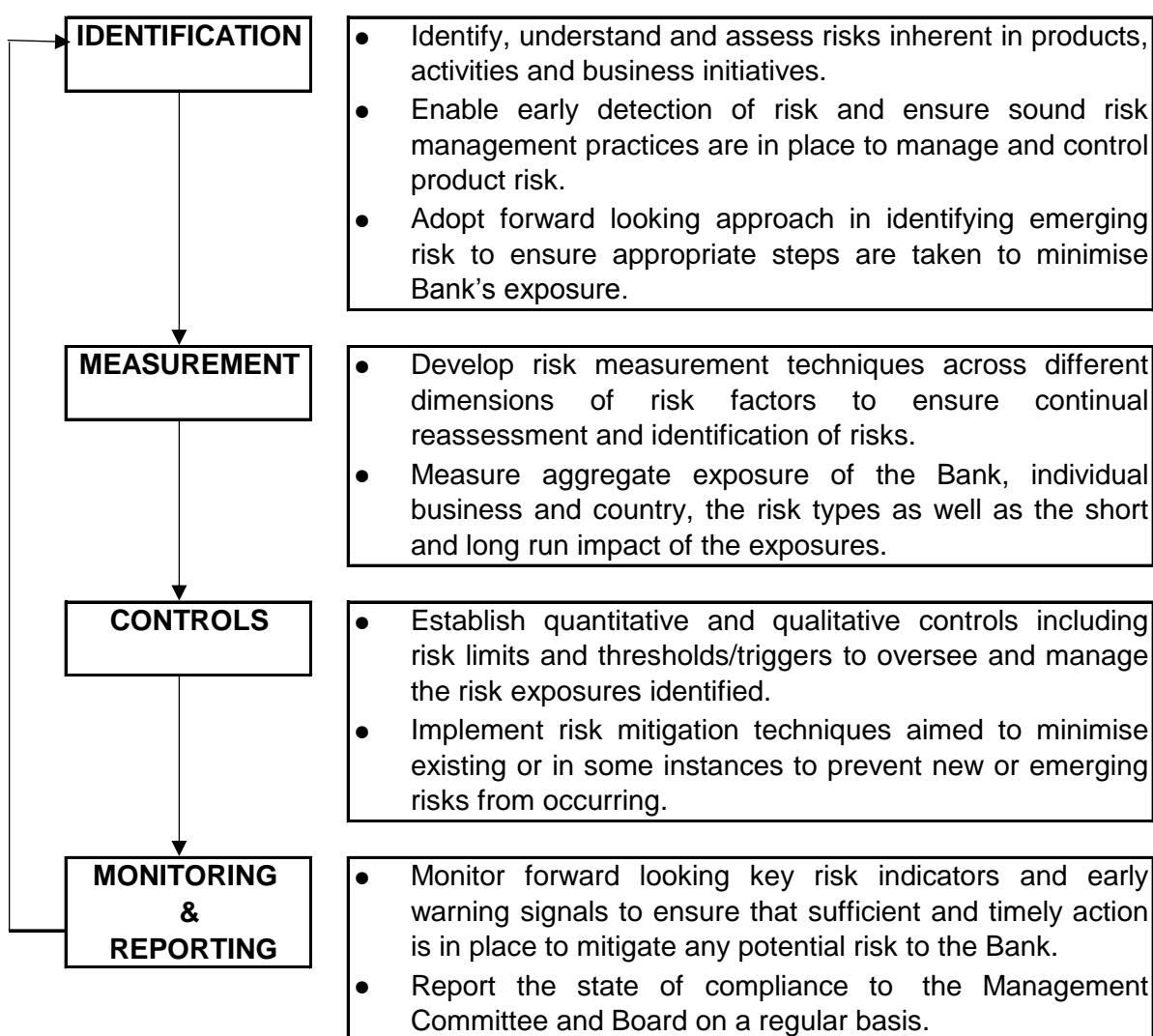
CORPORATE GOVERNANCE (cont'd.)

2. INTERNAL CONTROL FRAMEWORK (cont'd.)

KEY ELEMENTS OF INTERNAL CONTROL SYSTEM (cont'd.)

Risk Management Practices & Processes

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



**Maybank Islamic Berhad
(Incorporated in Malaysia)**

CORPORATE GOVERNANCE (cont'd.)

2. INTERNAL CONTROL FRAMEWORK (cont'd.)

KEY ELEMENTS OF INTERNAL CONTROL SYSTEM (cont'd.)

Regular Updates and Communication of Risk Management Principles, Policies, Procedures and Practices

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

Sustainability Management

Operating in a sustainable manner is an organic part of the Bank's approach to its core business. Our long term financial success depends upon our ability to identify and address environmental, social and ethical issues that present risks or opportunities for our business. A five year Sustainability Plan is in place, with the aim of generating long-lasting impact and value across three pillars: Community and Citizenship, Our People and Access to Products and Services; by integrating environmental, social and governance ("ESG") practices into our 'business-as-usual' as part of our commitment to all stakeholders, which are supported by relevant policies and systems.

Management of Information Assets

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

**Maybank Islamic Berhad
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CORPORATE GOVERNANCE (cont'd.)

2. INTERNAL CONTROL FRAMEWORK (cont'd.)

KEY ELEMENTS OF INTERNAL CONTROL SYSTEM (cont'd.)

Management of Information Assets (cont'd.)

With the increased adoption of technology capabilities and the increasing risk of cyber threats, information security has been among the key focus area. Technology controls are applied at various stages of the information cycle. Amongst the controls are Data Loss Protection to protect and prevent potential data loss or theft. Additionally, the establishment of Information Assets Working Group (IAWG) to deliberate and formulate data protection measures further strengthen the controls and mitigate the risk of information breach.

Anti-Fraud Policy

The Anti-Fraud Policy outlines the vision, principles and strategies for the Group to instil a culture of vigilance to effectively manage fraud from detection to remedy, and to deter future occurrences. Robust and comprehensive tools and programmes are employed to reinforce the Policy, with clear roles and responsibilities outlined at every level of the organisation in promoting 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, Reputational Risk Policy is implemented 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 the Bank's reputation.

Core Values and Code of Ethics and Conduct

Maybank Islamic observes the Islamic code and values. The Shariah is the overarching principle steering the Bank at all times in all its businesses and operations. In addition, the Maybank Group's core values, T.I.G.E.R. (Teamwork, Integrity, Growth, Excellence and Efficiency, Relationship Building) are the essential guiding principles to drive behavioural ethics. It is further complemented by the Code of Ethics and Conduct that sets out sound principles and standards of good practice observed by all.

**Maybank Islamic Berhad
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CORPORATE GOVERNANCE (cont'd.)

2. INTERNAL CONTROL FRAMEWORK (cont'd.)

KEY ELEMENTS OF INTERNAL CONTROL SYSTEM (cont'd.)

Independent Assurance by Group Audit

The Internal Audit ("IA") function of Maybank Islamic Berhad (MIB) is undertaken by Maybank Group Audit, led by the Group Chief Audit Executive ("GCAE"). The GCAE is supported by a team of qualified auditors with the requisite knowledge in Shariah and Islamic business. To maintain its independence, the IA function is placed under the direct authority and supervision of Maybank's Audit Committee of the Board ("ACB"), with administrative reporting to the Group President & Chief Executive Officer ("GPCEO"). The IA processes and activities are guided by the Audit Charter and governed by the relevant regulatory guidelines, Group's Code of Ethics and The Institute of Internal Auditor's ("IIA") mandatory guidance established under the International Professional Practices Framework ("IPPF").

The principal responsibility of IA is to evaluate effectiveness of the governance, risk management and internal control framework and to assess whether risks, which may hinder the organisation from achieving its objectives, are adequately evaluated, managed and controlled. 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.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

CORPORATE GOVERNANCE (cont'd.)

3. REMUNERATION

REWARDS AND REMUNERATION

At Maybank Islamic, we embrace an integrated rewards strategy that focusses on providing the right remuneration, benefits and career development/progression opportunities at the right time for our employees' personal and professional aspirations. It involves integration of total rewards' key elements that are aligned to the Maybank Group strategy, Maybank Group Human Capital strategy, culture and Core Values T.I.G.E.R., to create motivated, engaged and productive employees. This outcome will in turn create desired business performance for sustainable growth.

The Bank's remuneration policy is approved by the Board and is subject to periodic monitoring and reviewing. The remuneration policy reinforces a high performance culture to attract, motivate and retain talent through market competitive and differentiated pay.

Maybank Group rewards' principles are delivered holistically via the Maybank Group's Total Rewards Framework which include base pay, other fixed cash, performance-based variable cash, long- term incentive awards, benefits and development.

Key Elements	Purpose
Fixed Pay	<ul style="list-style-type: none"> ● Attract and retain talent by providing competitive pay that is externally benchmarked against relevant peers and location, and internally aligned with consideration of differences in individual performance and achievements, skill set, job scope as well as competency level.
Variable Pay	<ul style="list-style-type: none"> ● Reinforce pay-for-performance culture and adherence to Maybank Group's core values. ● Variable cash award design that is aligned with the long-term performance goals of the Maybank Group through our deferral and claw-back policies. ● Based on overall Maybank Group's performance, business/corporate function and individual performance. ● Performance is measured via Balanced Scorecard approach. ● Deferral Policy: Any variable bonus award in excess of certain threshold will be deferred over a period of time.

Maybank Islamic Berhad
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CORPORATE GOVERNANCE (cont'd.)

3. REMUNERATION (cont'd.)

REWARDS AND REMUNERATION (cont'd.)

Key Elements	Purpose
Variable Pay (cont'd.)	<ul style="list-style-type: none"> Clawback: The Maybank Board, based on risk management issues, financial misstatement, fraud and gross negligence or wilful misconduct, has the discretion to make potential adjustment or clawback on variable bonus awards.
Long Term Incentive Awards	<ul style="list-style-type: none"> Attract and retain employees who have a direct line of sight to the Maybank Group's long-term performance.
Benefits	<ul style="list-style-type: none"> Employee benefits provide employees with financial protection, access to health care, paid time-off, staff financing at preferential rates, programmes to support work/life balance, etc. and aims to remain relevant for a diverse workforce. The benefits programmes which blend all elements including cost optimisation and employee/job needs, are reviewed regularly with proactive actions taken to remain competitive in the increasingly dynamic business landscape and continuously enrich our employees, as part of our total rewards strategy.
Development and Career Opportunities	<ul style="list-style-type: none"> Opportunities provided to employees to chart their careers across different businesses and geographies.

Total Compensation ensures that employees are paid equitably to the market, delivered via cash and share/share-linked instruments. The mixed of cash and shares/shares-linked instruments is aligned to our long-term value creation and time horizon of risk with targeted mix ratio. The target positioning of Base Pay is mid-market while target positioning for Total Compensation for a performer is to be within the Upper Range of market. Target positioning for benefits is mid-market. In certain markets/geographies, there may be exceptions for selected benefits with above mid-market positioning for strategic purposes. As Maybank Group operates globally, it is essential that local legislation and practices are observed. Should any clause of any policy conflict with local legislation, local legislations shall take precedence.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

CORPORATE GOVERNANCE (cont'd.)

3. REMUNERATION (cont'd.)

REWARDS AND REMUNERATION (cont'd.)

Key features of Remuneration Framework that Promote Alignment between Risk and Rewards

The Bank's Total Compensation, a mixture of fixed and variable components (i.e. variable bonus and long-term incentive plan) is designed to align with the long-term performance goals and objectives of the organisation. The compensation framework provides a balance approach between fixed and variable components that change according to individual performance, business/corporate function's performance, group performance outcome and individual's level and accountability.

The Bank has good internal governance on performance and remuneration of control functions which are measured and assessed independently from the business units they support to avoid any conflict of interests. Remuneration of the control functions is approved by the respective committees of the Board.

Performance Management principles ensure Key Performance Indicators ("KPI") continue to focus on outcomes delivered that is aligned to the business plans. Each of the senior officers and other material risk takers carry Risk, Governance & Compliance goals in their individual scorecard and are cascaded accordingly. Being a responsible organisation, the right KPI setting continues to shape the organisational culture, actively drive risk and compliance agenda effectively where inputs from control functions and Board Committees are incorporated into the Sector and individual performance results.

Remuneration Practices

As part of the overall corporate governance framework, the Bank ensures its remuneration policies and structure are in line with the requirement of governance regulations. From a risk management perspective, the remuneration policy is supported by strong governance and sensitive to risk outcomes.

Staff rewards are reviewed on annual basis and consistent with business performance and prudent risk management. Appropriately, involvement by the relevant control functions are sufficiently embedded to provide an independent and objective assessment of the remuneration principles and practices which are pre-requisites for executing a sound remuneration policy.

Maybank Islamic Berhad
(Incorporated in Malaysia)

CORPORATE GOVERNANCE (cont'd.)

3. REMUNERATION (cont'd.)

REWARDS AND REMUNERATION (cont'd.)

Senior Officers and Other Material Risk Takers

The remuneration package for Senior Officers and Other Material Risk Takers are reviewed on an annual basis and submitted to the Nomination and Remuneration Committee for recommendation to the Board for approval.

Summary of financial year ended 31 December 2018 compensation outcome for those identified as senior officers of Maybank Islamic is as follow:

Total value of remuneration awards for the financial year	Senior Officers			
	Unrestricted		Deferred	
Fixed remuneration				
- Cash-based	12 headcounts	7,999,535	-	-
- Shares and share-linked instruments	-	-	-	-
- Others	12 headcounts	478,483	-	-
Variable remuneration				
- Cash-based	12 headcounts	3,693,564	-	-
- Shares and share-linked instruments	6 headcounts	1,553,991	-	-
Definition	Senior officers of the Identified entities & senior officers of BNM-regulated companies refers to Chief Executive Officer and Chief Financial Officer.			

Notes:

Figures presented in the table are in MYR. Currency exchange used for remuneration in foreign currency is based on average exchange rate for the year.