

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 Group 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 CG Report 2018 of the Bank in relation to this statement is published on the Bank’s website, www.hlb.com.my (“the Bank’s Website”).

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 Group, 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 last reviewed by the Board in September 2017, and will be periodically reviewed. The Board Charter is published on 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 Group’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 Group Managing Director/Chief Executive Officer (“GMD/CEO”) who is assisted by the management team. The GMD/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 to the Board Audit Committee (“BAC”); and risk management to the Board Risk Management Committee (“BRMC”). The Nomination Committee (“NC”) is delegated the authority to, inter alia, assess and review Board, Board Committees and GMD/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 GMD/CEO. This division of responsibilities between the Chairman and the GMD/CEO ensures an appropriate balance of roles, responsibilities and accountability.

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

The GMD/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.

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 shareholders.

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

The Board observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia (“CCM”), which has been adopted by the Board and published on the Bank’s Website.

B. BOARD COMPOSITION

The Board currently comprises seven (7) Directors. The seven (7) Directors are made up of six (6) Non-Executive Directors, of whom four (4) 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 and the Main Market Listing Requirements (“MMLR”) of Bursa Malaysia Securities Berhad (“Bursa”) 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 Bank has in place a Board Diversity Policy. 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. The Board will work towards increasing women participation on the Board in line with the MCCG.

Based on the review of the Board composition in July 2018, 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 shareholders in the Bank.

C. BOARD COMMITTEES

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

(a) BAC

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

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

(b) BRMC

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

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

(c) NC

The NC was established on 17 June 2003. The composition of the NC is as follows:

- **Ms Chok Kwee Bee** (*Chairman*)
- **Mr Tan Kong Khoon**
- **YBhg Dato’ Nicholas John Lough**
@ **Sharif Lough bin Abdullah**

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

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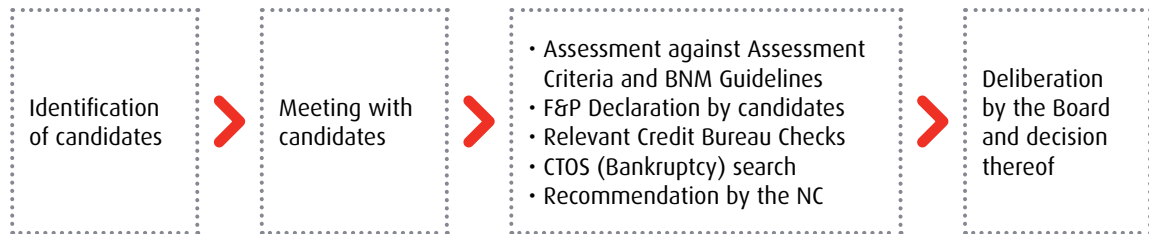
C. BOARD COMMITTEES (CONTINUED)

(c) NC (continued)

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 GMD/CEO, (ii) appointment of Board Committee members, and (iii) annual F&P assessment of Chairman, Directors and GMD/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.

(i) New Appointments

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

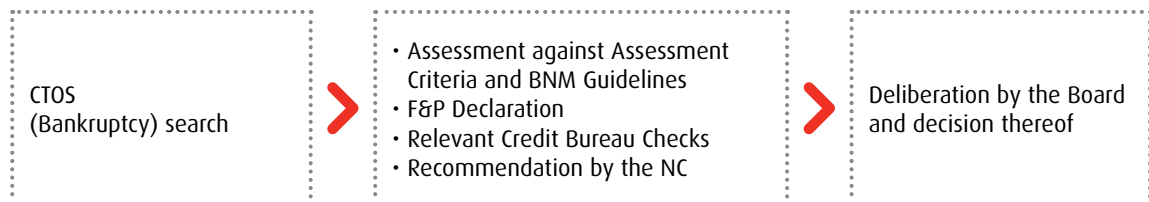


In assessing the candidates for Board appointments, the NC will take into account, inter alia, the strategic and effective fit of the candidates for the Board, the overall desired composition and the mix of expertise and experience of the Board as a whole and having regard to the candidates’ attributes, 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 GMD/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 GMD/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.

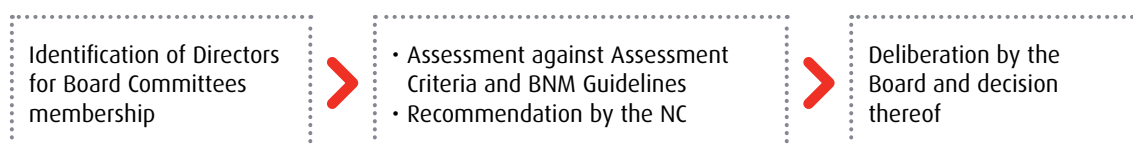
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C. BOARD COMMITTEES (CONTINUED)

(c) 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 the Chairman, Directors and GMD/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 GMD/CEO, the Annual Board Assessment will be conducted at the next annual assessment exercise following the completion of one year 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 (“FYE”) 2018, two (2) NC meetings were held and the attendances of the NC members were as follows:

Member	Attendance
Ms Chok Kwee Bee	2/2
Mr Tan Kong Khoon	2/2
YBhg Dato’ Nicholas John Lough @ Sharif Lough bin Abdullah	2/2

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C. BOARD COMMITTEES (CONTINUED)

(c) NC (continued)

The NC carried out the following activities in the discharge of its duties in accordance with its TOR during the FYE 2018:

- 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. The NC will work towards increasing women participation on the Board in line with the MCGG;
- 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 and GMD/CEO in line with the BNM policy document on F&P Criteria and was satisfied that the Directors and GMD/CEO met the requirements as set out in BNM policy document on F&P Criteria;
- Reviewed the term of office and performance of the BAC and each of its members in accordance with the TOR of BAC and was of the view that the BAC and each of its members had carried out their duties in accordance with the BAC TOR for the periods under review;
- Reviewed the re-appointments of Directors in accordance with the F&P Policy, BNM CG and MMLR 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 tenure of Independent Directors, and criteria of Independent Directors.

(d) Remuneration Committee ("RC")

The RC was established on 17 June 2003. The composition of the RC is as follows:

- **YBhg Dato' Nicholas John Lough @ Sharif Lough bin Abdullah** (*Chairman*)
- **YBhg Tan Sri Quek Leng Chan**
- **YBhg Datuk Dr Md Hamzah bin Md Kassim**

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

During the FYE 2018, three (3) RC meetings were held and the attendances of the RC members were as follows:

Member	Attendance
YBhg Dato' Nicholas John Lough @ Sharif Lough bin Abdullah	3/3
YBhg Tan Sri Quek Leng Chan	2/3
YBhg Datuk Dr Md Hamzah bin Md Kassim	3/3

The Group'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 Group'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 shareholders of the Bank at its Annual General Meeting ("AGM").

The detailed remuneration of each Director during the FYE 2018 is as set out in Note 37 of the Audited Financial Statements in this Annual Report.

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C. BOARD COMMITTEES (CONTINUED)

(d) Remuneration Committee ("RC") (continued)

Remuneration

The Bank's remuneration framework provides a balanced approach between fixed and variable components that change according to individual performance, division performance, and the Bank's performance outcomes and individual seniority/level and accountability. Such framework is in alignment with Hong Leong Group's total compensation philosophy which promotes high performing culture to deliver the Bank's business objectives, and this is applicable to all employees of Hong Leong Bank (inclusive of overseas/offshore offices where applicable).

The framework includes a combination of cash and non-cash elements such as shares or share-linked instruments which is aimed toward achieving the desired long term business performance. It is supported by a rigorous and robust performance management process that promotes pay-for-performance and also incorporates risk and compliance management (to fulfil risk control objectives) as part of the key performance indicators for remuneration decisions to ensure excessive risk-taking behaviours of staff is minimised and sufficient control mechanisms are in place. This is in alignment with Hong Leong Group's philosophy in driving long-term sustainable performance of the company, in order to create sustainable financial performance and value for the company and shareholders.

In order to reinforce strong internal governance on the performance and remuneration of Control functions (i.e. Risk, Audit and Compliance), the remuneration of these officers in Control functions are assessed independently from business units/functions they support to avoid conflict of interests. The Board also plays an active oversight where the overall performance and remuneration of these officers (in addition to the GMD/CEO and Senior Management team) are to be reviewed and approved by the Board Audit and Risk Management Committee (BRMC) annually to ensure the incentives provided by the remuneration system takes into consideration risks, capital, liquidity, and the likelihood and timing of earnings, without prejudice to the tasks of the Remuneration Committee.

Pay Mix Delivery and its Purpose

The overall Total Compensation for the GMD/CEO and members of the Senior Management team generally includes base pay, fixed cash allowances, performance-based variable pay, long term incentives, benefits and other employee programs.

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.

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 our shareholders and multiple stakeholders. A robust key performance indicators ("KPIs") setting process that incorporates risk management as part of the scorecards are also in place to ensure excessive risk taking behaviours of staff is minimised and sufficient control mechanism are in place.

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 crystallise over a period of time, reinforces HLB'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 HLB remains competitive in the industry and that the employees are well taken care of.

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C. BOARD COMMITTEES (CONTINUED)

(d) Remuneration Committee ("RC") (continued)

Remuneration Disclosure

The following depicts the total value of remuneration awarded to the GMD/CEO, Senior Management team and Material Risk Takers for the FYE 2018:

GMD/CEO, Senior Management and Material Risk Takers	No. of officers received	Unrestricted (RM)	Deferred (RM)	Total amount of outstanding deferred remuneration as at 30.6.2018 (RM)	Total amount of outstanding deferred remuneration paid out (vested) in FYE2018 (RM)
Fixed Remuneration					
Cash-based	31	28,142,373	-	-	-
Shares and share-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Variable Remuneration					
Cash-based	31	21,715,230	-	-	-
Shares and share-linked instruments	12	-	83,132,249	83,132,249	-
Other	-	-	-	-	-

Note: The value of share is based on the valuation used for MFRS 2 Accounting.

D. INDEPENDENCE

The Board takes cognisance of the provisions of the MCCG, which states that the tenure of an Independent Director should not exceed a cumulative term of 9 years and upon completion of the 9 years, an Independent Director may continue to serve on the Board subject to the Director's re-designation as a Non-Independent Director. It further states that in the event the Board wishes to retain an Independent Director who has served a cumulative term of 9 years and above, shareholders' approval shall be annually sought with justification. In the event the Board wishes to retain an Independent Director who has served a cumulative term of 12 years and above, shareholders' approval shall be annually sought through a two-tier voting process.

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.

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 clearance in accordance with BNM Guidelines. For public listed bank/companies under the Hong Leong Financial Group, shareholders' approval at AGMs shall be sought in accordance with the relevant requirements under the MCCG and the MMLR subject to favourable assessment of the NC and the Board.

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

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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 Group, its market and the industry.

E. COMMITMENT

The Directors are aware of their responsibilities and devote sufficient time to carry out such responsibilities. In line with the MMLR, Directors are required to comply with the restrictions on the number of directorships in public listed companies. 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 of the Group 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. She 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 GMD/CEO 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 eight (8) times for the FYE 2018 with timely notices of issues to be discussed. Details of attendances of Directors were as follows:

Director	Attendance
YBhg Tan Sri Quek Leng Chan	8/8
Mr Tan Kong Khoon	8/8
Mr Kwek Leng Hai	8/8
Ms Lim Lean See	8/8
Ms Chok Kwee Bee	8/8
YBhg Dato' Nicholas John Lough @ Sharif Lough bin Abdullah	8/8
YBhg Datuk Dr Md Hamzah bin Md Kassim	8/8
YBhg Datuk Wira Azhar bin Abdul Hamid ⁽¹⁾	6/7

Note:

⁽¹⁾ Retired on 14 May 2018.

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.

All Directors of the Bank have completed the Mandatory Accreditation Programme.

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-a-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 2018, 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 2018, the Directors of the Bank, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- FIDE Forum – Fintech: Opportunities for the Financial Services Industry in Malaysia
- FIDE Forum – Current Issues in Corporate Governance
- FIDE Forum – Securities Commission Dialogue: Leveraging Technology for Growth
- FIDE Forum – 1st Distinguished Board Leadership Series: Navigating the VUCA world
- FIDE FORUM – 5th Annual Dialogue with the Governor of BNM
- FIDE Forum – 5th Annual Dialogue with the Deputy Governor of BNM
- FIDE Forum – Cryptocurrency and Blockchain Technology
- FIDE Forum – Win the innovation race: Unlocking the creative power of Asians
- BNM – Industry Seminar on Recovery and Resolution Planning in Malaysia
- BNM – Value-Based Intermediation Dialogue
- BNM, International Monetary Fund (“IMF”) & IMF Economic Review – Summer Conference: Globalisation in the Aftermath of the Crisis
- KPMG – MCCG Update
- KPMG – Cyber Security Awareness
- Securities Commission – World Capital Markets Symposium 2018: Renaissance of Capitalism: Markets for Growth
- Securities Industry Development Corporation (“SIDC”) – 2018 Budget: Implications to the Malaysian Economy and Capital Market
- SIDC – Cyber Security: Cyber Proofing for the Next Wave
- Bursa Malaysia – Risk Management Programme: I am Ready to Manage Risk
- ICLIF – CG Breakfast Series Entitled: Leading Change @ The Brain
- ICLIF – Understanding Liquidity Risk Management in Banking
- Malaysian Institute of Accountants – Capital Market Conference 2017
- Asian Institute of Finance (AIF) – 9th International Conference on Financial Crime and Terrorism Financing (IFCTF) 2017
- Khazanah Nasional – Khazanah Megatrends Forum 2017
- Cyber Security Insights & Sharing
- Islamic Banking in the 4th Industry Revolution, Compliance, Digital Innovation, Profitability and the Way Forward – Insider & Global Perspectives
- Digital Transformation and Impact to Businesses
- Malaysian Financial Reporting Standards 17 (MFRS17) Insurance Contracts
- KPMG – Digitalization/transformation of operations and sales channels with sharing of case studies for KPMG's other clients
- KPMG – The Guangdong-HongKong-Macao Greater Bay Area
- Briefing on Proposed Changes Code on Corporate Governance
- Update on Singapore Stock Exchange Regulations
- Briefing on Singapore Corporate Access (CorpPass) – a new corporate digital identity to transact online with Government agencies
- Briefing on Guide on prevention of Insider Trading – Handling of Confidential Information and Dealings in Securities
- Update on Amendments to the Building Maintenance and Strata Management Act.

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F. STRENGTHENING CORPORATE GOVERNANCE CULTURE

Hong Leong Bank Group Code of Conduct & Ethics

A fundamental value of the Group is that we are 'Here for the Long Term'. In upholding this value, the 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").

The Code is applicable to:

- All employees who work in the Group across the jurisdictions in which we operate – including but not limited to permanent, part-time and temporary employees;
- Any other persons permitted to perform duties or functions within the Group – including but not limited to vendors, service providers, 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 and professional activities.

Principles

There are six key pillars to the Group's Code of Conduct & Ethics:

PRINCIPLE 1: COMPETENCE

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

PRINCIPLE 2: INTEGRITY

The 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 our business.

PRINCIPLE 3: FAIRNESS

A core mission of the 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 Group is committed to providing a safe, reliable and secured banking 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 judgment. 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 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 Group and raising staff awareness about the importance of caring for the environment. The 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

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

Other Policies and Codes of the Group

For good governance, the 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 programmes, are in place to enable easy access for employees to be upskilled. Attestation to the Code is conducted on an annual basis.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

G. 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 Group. The Board receives the recommendation to adopt the financial statements from the BAC, 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 BRMC is delegated with the responsibility to provide oversight on the Bank's management of critical risks that the Group faces while the BAC is delegated with the responsibility to 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 Group.

III. Relationship with Auditors

The appointment of external auditors is recommended by the BAC, which determines the remuneration of the external auditors. The BAC reviews the suitability and independence of the external auditors annually. In this regard, an annual assessment is conducted by the BAC 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 BAC 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 BAC 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 BAC members at least twice a year without the presence of Executive Directors and management.

H. DISCLOSURE

The Bank has in place a Corporate Disclosure Policy for compliance with the disclosure requirements set out in the MMLR, and to raise awareness and provide guidance to the Board and management on the Group's disclosure requirements and practices.

All timely disclosure and material information documents will be posted on the Bank's Website after release to Bursa.

I. SHAREHOLDERS

I. Dialogue between Companies and Investors

The Board acknowledges the importance of regular communication with shareholders and investors via the annual reports, circulars to shareholders and quarterly financial reports and the various announcements made during the year, through which shareholders and investors can have an overview of the Group's performance and operation.

Notices of general meetings and the accompanying explanatory notes are provided within the prescribed notice period on the Bank's Website, Bursa's website, in the media and by post to shareholders. This allows shareholders to make the necessary arrangements to attend and participate in general meetings either in person, by corporate representative, by proxy or by attorney.

The Bank has a website at www.hlb.com.my which the shareholders can access for information which includes the Board Charter, TORs of Board Committees, corporate information, announcements/press releases/briefings, financial information, products information and investor relations. A summary of the key matters discussed at the AGM is published on the Bank's Website.

The Board has identified Ms Lim Lean See, the Chairman of the BAC, as the Independent Non-Executive Director of the Board to whom concerns may be conveyed, and who would bring the same to the attention of the Board.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

I. SHAREHOLDERS

I. Dialogue between Companies and Investors (continued)

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

GENERAL MANAGER, COMMUNICATION & CSR

Tel No. : 03-2081 8888 ext. 61916
Fax No. : 03-2081 7801
e-mail address : capr@hongleong.com.my

CHIEF FINANCIAL OFFICER

Tel No. : 03-2081 8888
Fax No. : 03-2081 8924
e-mail address : IR@hlbb.hongleong.com.my

II. AGM

The AGM provides an opportunity for the shareholders to seek and clarify any issues and to have a better understanding of the Group's performance. Shareholders are encouraged to meet and communicate with the Board at the AGM and to vote on all resolutions. Senior management and the external auditors are also available to respond to shareholders' queries during the AGM. All Directors and the GMD/CEO attended the last AGM held on 23 October 2017.

Pursuant to Paragraph 8.29A(1) of the MMLR, all resolutions tabled at general meetings will be put to a vote by way of a poll and the voting results will be announced at the meetings and through Bursa.

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 BAC and BRMC 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'.

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 Group'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 Group, 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 Group 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, procedures and guidelines on risk management and internal control.

III. Risk Management and Internal Control Framework

The organisational structure of the Group clearly defines the lines of accountability and responsibility. Risk assessment and evaluation is an integral part of the Group'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 Group's assets for effective risk return rewards or to limit losses. The Group Risk Management ("GRM") and GC divisions have implemented an enterprise-wide integrated risk management framework to inculcate continuous risk and regulatory compliance awareness, understanding of procedures and controls and thus, improve the overall control environment.

Operationally, the Group operates multiple lines of defenses 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, control and pricing 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 Internal Audit function complements GRM and GC by monitoring and evaluating significant exposures to risk and contributing to the improvement of the risk management and 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 (CONTINEUD)

III. Risk Management and Internal Control Framework (continued)

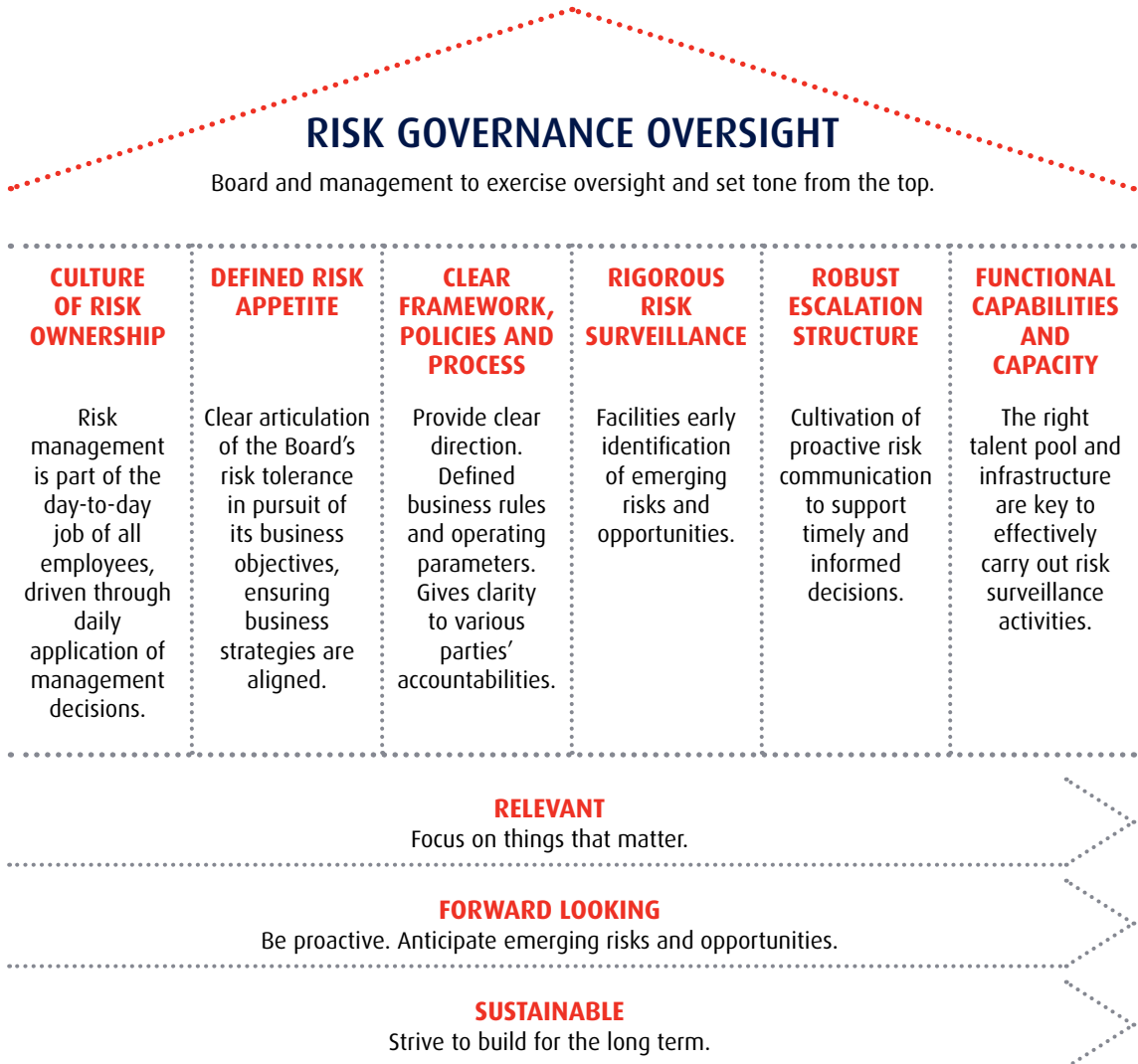
FIRST LINE OF DEFENCE	SECOND LINE OF DEFENCE	THIRD LINE OF DEFENCE
Business and Support Regulatory and Operational	Group Risk Management Group Compliance	Group Internal Audit
<i>Manages inherent risks and ensures compliance in day-to-day activities.</i>	<i>Sets policies, reviews portfolio risks and provides oversight of the management of risk and compliance.</i>	<i>Independent assessment of effectiveness and enforcement of frameworks and policies.</i>

a) Risk Management

Managing risks is an integral part of the Group’s overall business strategy. It involves a process of identifying, assessing and managing risks and uncertainties that could inhibit the Group’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 Group’s risk management framework structure incorporates the components depicted in the diagram below:



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:



The Board has the overall responsibility to ensure there is proper oversight of the management of risks in the Group. The Board sets the risk appetite and tolerance level and allocates the Group's capital that is consistent with the Group's overall business objectives and desired risk profile. GRM monitors and reports the Group's Credit, Market, Liquidity, Operational and IT 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 the BRMC regularly.

The BRMC deliberates and evaluates the reports prepared by GRM and GC on the adequacy and effectiveness of the controls to mitigate the Group's risks and provides updates to the Board, and where appropriate, make the 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 BANKING GROUP'S KEY RISKS

CREDIT RISK

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

OPERATIONAL RISK

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.

MARKET RISK

Market Risk is the risk of loss in financial instruments or the balance sheet due to adverse movements in market factors such as interest and exchange rates, prices, spreads, volatilities, and/or correlations.

LIQUIDITY RISK

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.

REGULATORY COMPLIANCE RISK

Regulatory 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.

IT & CYBER RISK

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.

b) Basel II and III

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

For Basel II Pillar 1, the Group is in compliance with the regulatory standards and is progressively employing advance risk measurement in the respective businesses. For Basel II Pillar 2, the Group has established an Internal Capital Adequacy Assessment Process framework that forms an integrated approach to manage the Group's risk, capital and business strategy. For Basel II Pillar 3, which is related to market discipline and disclosure

requirements, the Group has provided the disclosures under a separate Pillar 3 section in this Annual Report.

For Basel III, the Group has put in place plans to continuously strengthen its capital and liquidity positions well ahead of the Basel Committee's time schedule and in advance anticipation of any local jurisdiction guidelines in all the countries that the Bank operates in.

c) Internal Audit

The Bank's 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.

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)

c) Internal Audit (continued)

The results of the audits conducted by GIAD are reported to the BAC. Follow-up actions and the review of the status of corrective action plans are carried out by Management via the Risk and Compliance Governance Committee ("RCGC") chaired by the GMD/CEO, whose members comprise senior management. The minutes of meetings of RCGC are tabled to the BRMC and BAC for notation.

Implementation of corrective action plans are followed up on a monthly basis and reported to the BAC. Highlights of the BAC 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 BAC 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 Group's human resources comply with internal controls.

IV. Assessment of Risk Management and Internal Control System

The Board has received assurances from the GMD/CEO, chief financial officer, chief risk officer, chief internal auditor and chief compliance officer that the Group'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 Group'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.

V. Review of the Statement by External Auditors

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Audit and Assurance Practice Guide ("AAPG") 3 issued by the Malaysian Institute of Accountants. AAPG 3 does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

K. DIRECTORS' RESPONSIBILITY IN FINANCIAL REPORTING

The MMLR requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Bank as at the end of the financial year and of its financial results and cash flows of the Group and of the Bank for the financial year.

The Directors are satisfied that in preparing the financial statements of the Group and of the Bank for the FYE 2018, the Group 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 Overview, Risk Management and Internal Control is made in accordance with the resolution of the Board.