

Public Islamic Bank

Statement On Corporate Governance

The Bank adheres to the principles and minimum standards for sound corporate governance as set out in Bank Negara Malaysia's ("BNM")'s Guidelines on Corporate Governance for Licensed Islamic Banks (Revised BNM/GP1-i).

BOARD OF DIRECTORS

Board Structure, Composition and Processes

The Board comprises eight (8) members, all of whom are Non-Executive Directors. There are five (5) Independent Non-Executive Directors, and they do not participate in the day-to-day management of the Bank and do not engage in any business dealing or other relationship with the Bank in order that they are capable of exercising independent judgment and act in the best interests of the Bank.

Tan Sri Dato' Sri Dr. Teh Hong Piow, a Non-Independent Non-Executive Chairman of Public Islamic Bank, is the Founder and Chairman of Public Bank, the parent company. He is a renowned banker with an impeccable record since the onset of his banking career 59 years ago. He possesses transformational leadership skills and remarkable entrepreneurial qualities, and has received numerous accolades and awards for his invaluable contributions to banking and finance industries and development efforts in the Asia Pacific Region.

The Independent Non-Executive Co-Chairman, Tan Sri Dato' Thong Yaw Hong, had held various prominent and senior positions during his tenure of service with the Government. Upon his retirement from public service, he joined the private sector as Chairman/Director of several large public listed corporations.

Tan Sri Dato' Sri Tay Ah Lek, a Non-Independent Non-Executive Director, is the Managing Director/Chief Executive Officer of Public Bank. He has more than 40 years' experience in banking and finance industries. He is the Chairman of the Association of Finance Companies of Malaysia and the Chairman of the Association of Hire Purchase Companies Malaysia.

Dato' Lee Kong Lam, a Non-Independent Non-Executive Director, who is also the Executive Director of Public Bank, is well respected and highly regarded in the financial industry. His long service with BNM of 29 years provided him with deep insight from the regulator's view point which is invaluable to the discharge of his duties as a Director.

The other four (4) Independent Non-Executive Directors are persons of high calibre and professionals in their own right with wide experience, skills and expertise in various fields.

The Directors of the Bank have the necessary skills, expertise, experience, knowledge and qualities relevant to banking and finance. They possess professional qualifications in fields such as accounting, economics, business management, public policy and regulation.

Directors' Code of Ethics

The Directors observe a code of ethics based on the code of conduct expected of Directors of financial institutions as set out in the BNM/GP7-Part 1 Code of Ethics : Guidelines on the Code of Conduct for Directors, Officers and Employees in the Banking Industry, and the Company Directors' Code of Ethics established by the Companies Commission of Malaysia.

Responsibilities of the Board

The Board addresses key matters which include the following:

- Formulates the Bank's annual business plans, and the medium-term and long-term strategic plans
- Approves the Bank's annual budget and carries out periodic review of the progress made by the various operating divisions against their respective business targets
- Prescribes the minimum standards and establishes policies on the management of credit risks and other key areas of the Bank's operations
- Oversight of the Bank's business operations and financial performance
- Ensures that the operating infrastructure, systems of control, systems for risk management, financial and operational controls are in place and properly implemented
- Undertakes various functions and responsibilities as specified in guidelines and directives issued by BNM from time to time

The Directors may obtain independent professional advice as deemed necessary for the effective discharge of their duties, at the Bank's expense.

Board Meetings

In addition to monthly Board meetings, the Board also meets immediately upon the finalisation of the Bank's quarterly results to review and approve the results for submission to BNM.

Board meetings are conducted in accordance with a structured agenda. The agenda for each Board meeting and papers relating to the agenda items are forwarded to all Directors at least 5 days before the Board meeting. This is to facilitate the Directors to peruse the Board papers and review the issues to be deliberated at the Board meeting well ahead of the meeting date.

The Board meeting papers are presented in a comprehensive and concise manner. Board meeting papers furnished to Directors include progress reports on business operations, new policies and guidelines issued by BNM, and reports for updating the Board on the Bank's business.

The Chief Executive Officer is invited to attend the Board meetings to provide presentations and detailed explanations on matters tabled to the Board.

Training and Development of Directors

The Directors have participated in conferences, seminars and training programmes on Islamic banking and areas relating to banking and finance to enhance their skills and knowledge in discharging their duties as directors.

BOARD COMMITTEES

The Board has established various Board Committees in accordance with the requirement of the Revised BNM/GP1-i.

The functions and terms of reference of Board Committees as well as authority delegated by the Board to these Committees, are clearly defined by the Board.

The Board Committees are as follows :

- Nomination Committee

- Remuneration Committee

- Audit Committee

The compositions of the Board Committees are as follows :

- **Nomination Committee**

Tan Sri Dato' Thong Yaw Hong Chairman/
Independent Non-Executive

Dato' Yeoh Chin Kee Independent Non-Executive

Y.A.M Tengku Abdul Rahman Independent Non-Executive
Ibni Sultan Haji Ahmad Shah
Al-Mustain Billah

Dato' Haji Abdul Aziz bin Independent Non-Executive
Omar

Dato' Dr. Haji Mohamed Ishak Independent Non-Executive
bin Haji Mohamed Ariff

The terms of reference of the Nomination Committee are as follows:

- To establish the minimum requirements on the skills, knowledge, expertise, experience, qualifications and other core competencies of a Director and of the Chief Executive Officer (“CEO”).
- To assess and recommend to the Board technically competent persons of integrity with strong sense of professionalism and who foster and practise the highest standard of Islamic banking in the country for appointment as Directors/CEO.
- To assess and recommend to the Board persons of acceptable reputation, character, integrity and possess necessary knowledge, expertise or experience in Islamic jurisprudence (Usul al-Fiqh) or Islamic transaction/commercial law (Fiqh al-Mu'amalat) for appointment as members of the Bank's Shariah Committee subject to the approval of BNM.

- In the case of persons for the position of Independent Non-Executive Director, to evaluate the person's ability to discharge such responsibilities/functions as expected from Independent Non-Executive Directors.
- To assess and recommend to the Board, the re-appointment of Directors/CEO and Shariah Committee members upon the expiry of their respective terms of appointment as approved by BNM.
- To oversee the overall composition of the Board in terms of appropriate size, required mix of skills, experience and core competencies, and adequacy of balance between Executive Directors, Non-Executive Directors and Independent Directors through annual review.
- To determine annually whether a Director is independent as may be defined in the guidelines issued by BNM.
- To establish the mechanisms for the formal assessment on the effectiveness of the Board as a whole; the effectiveness of each Director; and the performance of the CEO. The annual assessment to be conducted would be based on objective performance criteria as approved by the Board.
- To assess, on an annual basis, that the Directors/CEO and key Senior Management Officers are not disqualified under Section 23 of the Islamic Banking Act, 1983 and the Shariah Committee members are not disqualified under the Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions and that the Directors and CEO continue to comply with the standards for "fit and proper" criteria as approved by the Board.

- To ensure that all Directors and Shariah Committee members receive appropriate continuous training programmes in order to broaden their perspectives and to keep abreast with developments in the market place and with changes in new statutory and regulatory requirements.
- To recommend to the Board the removal of a Director/CEO/Shariah Committee member if he is ineffective, errant or negligent in discharging his responsibilities.
- To oversee the appointment, management succession planning and performance evaluation of the key Senior Management Officers.
- To recommend to the Board the removal of key Senior Management Officers if they are ineffective, errant or negligent in discharging their responsibilities.
- To assess and recommend to the Board, the terms of reference of Board Committees and to review the adequacy of committee structure of Board Committees.
- To carry out such other responsibilities as may be specified by BNM or delegated by the Board from time to time.

- **Remuneration Committee**

Tan Sri Dato' Thong Yaw Hong Chairman/
Independent Non-Executive

Dato' Yeoh Chin Kee Independent Non-Executive

Y.A.M Tengku Abdul Rahman Independent Non-Executive
Ibni Sultan Haji Ahmad Shah
Al-Mustain Billah

Dato' Haji Abdul Aziz bin Independent Non-Executive
Omar

Dato' Dr. Haji Mohamed Ishak Independent Non-Executive
bin Haji Mohamed Ariff

The terms of reference of the Remuneration Committee are as follows :

- To review annually and recommend to the Board the overall remuneration policy for Directors, CEO, Shariah Committee members and key Senior Management Officers to ensure that rewards commensurate with their contributions to the Bank's growth and profitability; and that the remuneration policy supports the Bank's objectives and shareholder value and is consistent with the Bank's culture and strategy.
- To review annually the performance of the Executive Director and the CEO and recommend to the Board specific adjustments in remuneration and/or reward payments, if any, reflecting their contributions for the year; and which are competitive and consistent with the Bank's objectives, culture and strategy.
- To ensure that the level of remuneration for Non-Executive Directors and Independent Directors are linked to their level of responsibilities undertaken and contributions to the effective functioning of the Board.

- Keeps abreast of the terms and conditions of service of the Executive Director, CEO and key Senior Management Officers including their total remuneration package for market comparability; and reviews and recommends changes to the Board whenever necessary.
- Keeps abreast of the remuneration packages for Members of Board Committees to ensure that they commensurate with the scope of responsibilities held and reviews and recommends changes to the Board whenever necessary.
- To determine the remuneration of the members of the Bank's Shariah Committee, which shall be commensurate with and reflective of the roles and functions of the Shariah Committee.

- **Audit Committee**

Tan Sri Dato' Thong Yaw Hong	Chairman/ Independent Non-Executive
Dato' Haji Abdul Aziz bin Omar	Co-Chairman/ Independent Non-Executive
Dato' Yeoh Chin Kee	Independent Non-Executive
Y.A.M Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah	Independent Non-Executive
Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff	Independent Non-Executive

The composition and terms of reference of the Audit Committee are as follows:

Composition

- a. The Audit Committee shall be appointed by the Board and shall consist of not less than three members, all of whom shall be Non-Executive Directors. The majority of the Audit Committee members shall be Independent Directors.
- b. Chairman/Co-Chairman
 - The Chairman/Co-Chairman of the Audit Committee shall be approved by the Board and shall be an Independent Non-Executive Director.
 - The Chairman or Co-Chairman shall be a member of the Malaysian Institute of Accountants (MIA).

c. At least one member of the Audit Committee:

- i. must be a member of the MIA; or
- ii. if he is not a member of MIA, he must have at least three years working experience and:
 - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967; or
 - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.

d. Quorum

A quorum shall consists of two members and shall comprise of Independent Directors.

Secretary

The Secretary of the Audit Committee shall be the Group Chief Internal Auditor of the Public Bank Group.

Frequency of Meetings

Meetings shall be held not less than four times a year.

Rights

The Audit Committee shall have the authority to:

- a. seek any information relevant to its activities from employees of the Bank;
- b. obtain such independent professional advice as it considers necessary;
- c. have full and unrestricted access to any information and documents pertaining to the Bank;
- d. to convene meetings with the internal auditors without the presence of other Directors and Management staff whenever deemed necessary; and
- e. to meet with the external auditors at least twice a year without the presence of other Directors and Management staff.

Responsibilities and Duties

The responsibilities and duties of the Audit Committee shall be:

- a. Risk Management

To review the adequacy and effectiveness of risk management, internal control and governance systems instituted in the Bank.

b. Internal Audit

- To review the adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out its work.
- To evaluate the performance of the Internal Auditors.

c. External Audit

- To review the External Auditors' audit plans, scope of their audits and their audit reports.
- To assess the performance of the External Auditors and make recommendations to the Board on their appointment and removal.
- To review the independence and objectivity of the External Auditors and their services, including non-audit services.
- To approve the provision of non-audit services by the External Auditors.

d. Audit Reports

To review the :

- Internal and external audit reports to ensure that appropriate and adequate remedial actions are taken by Management on significant lapses in controls and procedures that are identified.

- Significant internal and external audit findings and Management's responses.

e. Financial Reporting

To review the quarterly and annual financial statements of the Bank for recommendation to the Board for approval, focusing particularly on:

- changes in or implementation of new accounting policies and practices;
- significant and unusual events; and
- compliance with the applicable approved accounting standards and other legal and regulatory requirements.

f. Related Party Transactions

To monitor and review any related party transactions that may arise within the Bank.

g. Other Matters

To consider such other matters as the Audit Committee considers appropriate or as authorised by the Board.

- **Risk Management Committee**

As approved by BNM, the functions of the risk management committee are undertaken by the Risk Management Committee of Public Bank, the parent company.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is committed to providing a balanced, clear and comprehensible assessment of the financial performance and prospects of the Bank in all the disclosures made to the regulatory authorities. The Board, assisted by the Audit Committee, oversees the financial reporting process and the quality of the financial reporting of the Bank. The Audit Committee reviews and monitors the integrity of the Bank's annual and interim financial statements. It also reviews the appropriateness of the Bank's accounting policies and the changes to these policies.

Related Party Transactions

All related party transactions are reviewed by the internal auditors on a monthly basis and a report on the reviews conducted is submitted to the Audit Committee for their monitoring on a quarterly basis.

Internal Control

The Board has overall responsibility for maintaining a system of internal controls that provides reasonable assurance of effective and efficient operations and compliance with laws and regulations, as well as with internal procedures and guidelines. The size and complexity of the operations of the Bank involve the acceptance and management of a wide variety of risks. The nature of these risks means events may occur which would give rise to unanticipated or unavoidable losses. The Bank's systems of internal controls are designed to provide reasonable and not absolute assurance against the risk of material errors, frauds or losses occurring. The Risk Management Committee meets monthly to ensure that the accountability for managing the significant risks identified is clearly assigned and that identified risks affecting the Bank are being satisfactorily addressed on an ongoing basis. The effectiveness of the system of internal controls of the Bank is reviewed by the Audit Committee during its meetings. The review covers the financial, operational and compliance controls as well as the risk management functions. The Group Internal Audit Division monitors compliance with policies and standards and the effectiveness of internal control structures across the Bank.

Audit Committee

In addition to the duties and responsibilities set out under its terms of reference, the Audit Committee assists the Board in its review of the effectiveness of the internal control, risk management and governance processes of the Bank. The Group Chief Internal Auditor is present at every Audit Committee meeting. The minutes of the Audit Committee meetings are tabled to the Board for noting and for action by the Board where appropriate.

Relationship With External Auditors

It is the policy of the Audit Committee to meet with the external auditors at least twice a year to discuss their audit plan, audit findings and the Bank's financial statements. These meetings are held without the presence of the Management. The Audit Committee also meets with the external auditors whenever it deems necessary.

The Audit Committee is responsible for approving audit, recurring audit-related and non-audit services provided by the external auditors. These recurring audit-related and non-audit services comprise regulatory reviews and reporting, interim reviews, tax advisory and compliance services. Terms of engagement for these services are reviewed by the Audit Committee and approved by the Board. The Audit Committee approves all ad-hoc non-audit services on a case by case basis. In approving such cases, the Audit Committee ensures that the independence and objectivity of the external auditors are not compromised.

SHARIAH COMMITTEE

In compliance with Bank Negara Malaysia's Guidelines on the Governance of Shariah Committee for Islamic Financial Institutions (BNM/GPS1) the following Shariah scholars were appointed to the Bank's Shariah Committee :

- **Professor Dato' Dr. Mahmood Zuhdi Bin Haji Ab Majid**

Professor Dato' Dr. Mahmood Zuhdi Bin Haji Ab Majid, aged 62, has been the Chairman of Public Bank Group's Shariah Committee since 1 April 2005.

He holds a Masters Degree in Shariah from Al-Azhar University, Cairo, a Masters degree in Philosophy from Kent University in the United Kingdom and a Doctorate from University of Malaya.

He also serves on other Shariah supervisory boards, including the Majlis Fatwa Negeri Kelantan and Mahkamah Rayuan Shariah Kelantan. In previous years, he had been involved in various capacities relating to Islamic studies in several government bodies and Islamic colleges.

- **Associate Professor Mohd Ridzuan Bin Awang**

Associate Professor Mohd Ridzuan Bin Awang, aged 58, was appointed a member of Public Bank Group's Shariah Committee on 1 April 2005.

He has a degree in Islamic Studies from Universiti Kebangsaan Malaysia ("UKM") and a Masters Degree in Comparative Law from University of Malaya. His core specialisation is in Faraid and he is a frequent contributor to academic journals and books in this field.

He is currently attached with the Shariah Department, Faculty of Islamic Studies at UKM. He is also the Chief Editor of Al-Shariah journal and is an editor for the Malayan Law News. In addition, he is involved with the Malaysian Examination Council as the Chief Examiner for a Shariah paper. Previously, he had served as a member of the Shariah Panel of the Securities Commission.

- **Assistant Professor Dr. Mohd Afandi Bin Awang Hamat**

Assistant Professor Dr. Mohd Afandi Bin Awang Hamat, aged 38, was appointed a member of Public Bank Group's Shariah Committee on 1 April 2005.

He holds a Doctorate in Fiqh and Usul Fiqh from International Islamic University Malaysia ("IIUM") and specialises in Muamalat. He is currently the Head of Academic Advisors at Fiqh and Usul Department at IIUM. He has conducted various research projects in his field of interest and published several academic papers.

Role and Authority of Shariah Committee

The Shariah Committee's ("SC") main duty and responsibility is to advise the Bank on the operations of its business in order to ensure that it is devoid of any element not approved by Islam. The roles of the SC in the activities of the Bank include :-

- Advising the Board of Directors on Shariah matters in its business operations
- Endorsing Shariah compliance manuals which specify the manner in which a submission or request for advice is to be made to the SC, the conduct of meetings of the SC and the manner of compliance with any Shariah decision
- Endorsing the Bank's products and services and validating relevant Islamic banking documentation to comply with Shariah principles
- Assisting relevant parties such as legal advisors, auditors or consultants that require advice on Shariah matters

- Advising on matters to be referred to the Shariah Advisory Council of Bank Negara Malaysia
- Providing written Shariah opinions on operational matters

RISK MANAGEMENT

Overview

With the approval from BNM, the risk management functions of the Bank are undertaken by its parent company, Public Bank under the established Public Bank Group (“Group”) risk management framework. Dedicated risk management personnel are assigned to assess Bank’s key areas of risks i.e. credit, market, liquidity and operational risks.

Under the Group’s risk management framework, the key risks are comprehensively dealt with and systematically managed within established limits and controls, and supported by the prudent risk management culture. The risk management framework emphasizes effective risk management in the enhancement of risk-return as a critical success factor for sustainable profitability, strong asset quality and optimising shareholders’ value. The Group instils a risk par excellence culture across all levels of staff through effective communication, training, clear policies, procedures and organisational structure, as well as clearly defined roles and responsibilities. The foundation for delivery of effective risk management within the Group is the commitment of all employees in managing risks, within a rigorous risk management framework.

OVERALL RISK MANAGEMENT FRAMEWORK

The Group's risk management infrastructure which the Bank is subject to for its risk management process sets out the principal risk management and control responsibilities as follows:

ESTABLISH RISK APPETITE & POLICY	Board of Directors	AUDIT COMMITTEE
	Risk Management Committee	
ENSURE IMPLEMENTATION OF RISK POLICY AND COMPLIANCE	Dedicated Committees	
	Assets & Liabilities Management Committee	
	Credit Risk Management Committee	
	Operational Risk Management Committee	
	Independent Risk Management and Control Units	
Banking Operations Division		
Credit Administration & Supervision Division		
Internal Audit Division		
Risk Management Division		
IMPLEMENT AND COMPLY WITH RISK POLICY	Business Risk Units	
	Corporate Lending	
	Investment Banking	
	Islamic Banking	
	Retail Banking and Financing Operations	
	Share Broking and Fund Management	
	Treasury and Capital Market Operations	

The Board of Directors of Public Bank is ultimately responsible for the management of risks at the Group level. The Risk Management Committee (“RMC”) of the Group which maintains overall responsibility for risk oversight within the Group is assisted by the Assets & Liabilities Management Committee, the Credit Risk Management Committee and the Operational Risk Management Committee of the Group in the management of market and liquidity risk, credit risk and operational risk respectively. These dedicated committees are responsible for reviewing risk exposure and portfolio composition, and ensuring that infrastructure, resources and systems are put in place for effective risk management activities.

The independent risk management and control functions are undertaken by Banking Operations Division, Credit Administration & Supervision Division and Risk Management Division in Public Bank. These units provide crucial support to the dedicated committees and they are responsible for ensuring the risk policies are implemented and complied with. They are also responsible for the identification, measurement and monitoring of risks.

The business units, being the first line of defense against risks, are responsible for identifying, mitigating and managing risks within their lines of business. These units are to ensure that their day-to-day business activities are carried out within the established risk policies, procedures and limits.

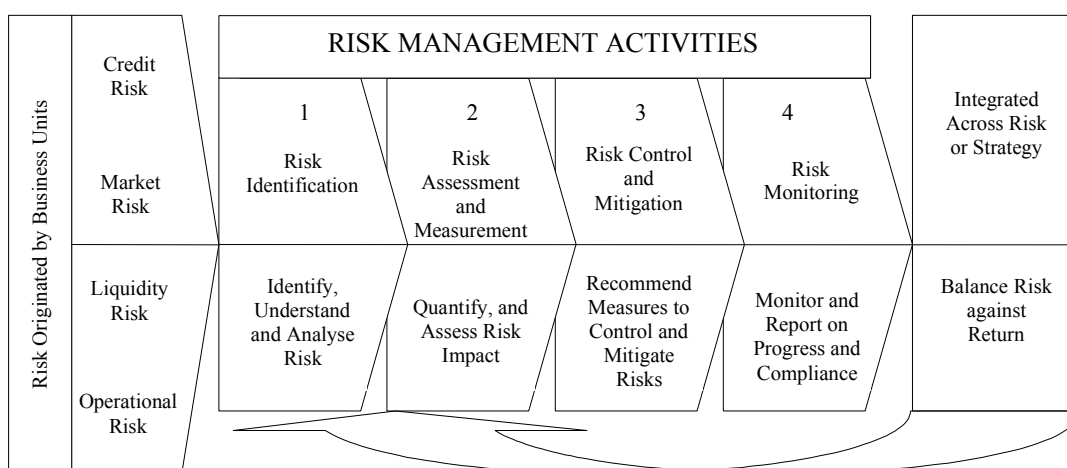
The Audit Committee, supported by the Group Internal Audit Division provides an independent assessment of the adequacy and reliability of the risk management processes and system of internal controls, and compliance with risk policies and regulatory requirements.

All risk management policies are subject to more frequent reviews to ensure that they remain applicable and effective in managing the associated risks brought about by the ever changes in the market and regulatory environments. Appropriate changes are also made to the Group's risk reporting framework to ensure adequate and timely risk reporting to the risk management committees for decision making. In particular, the management of credit risk is governed by a comprehensive set of credit policies and guidelines documenting the financing standards, discretionary power for approval of financing, credit risk rating, collateral and valuation, review, rehabilitation and restructuring of problematic and delinquent financing as well as classification and provisioning of non-performing financing. The Group practises a stringent credit appraisal system which emphasises individual accountability and clear lines of responsibility, with credit control function undertaken independently from the loan originating units. Qualified credit personnel are involved in all credit processes to ensure risks are properly identified, assessed, controlled and monitored throughout the credit chain. Independent credit reviews are conducted to assess the quality of credit appraisals and competency of credit personnel.

Notwithstanding that the risk management functions of the Bank are undertaken by Public Bank, the Board maintains the ultimate responsibility for the risks emanating from its operations, in particular compliance with Shariah principles. The Chief Executive Officer of the Bank is an invitee to the meetings of RMC and the dedicated committees where the risk exposures of the Bank are also discussed. Minutes of these meetings relating to the Bank are escalated and tabled to the Board for noting.

RISK MANAGEMENT PROCESS

In line with the risk management framework of the Group, the Bank adopts a structured approach to risk management which balances risks against returns, as well as integrated risk management processes for credit risk, market risk, liquidity risk and operational risk. The risk management activities encompass four broad processes which lead to a balanced risk-return framework integrated across all areas of risk.



STRESS TESTING

The Bank's stress test programme, which is in line with the Public Bank Group's Stress Test Policy, assesses the impact of abnormal changes in market conditions on its asset quality, funding and liquidity capabilities, profitability and capital adequacy and to facilitate the development of appropriate strategies for mitigating such risks. To achieve this, an integrated approach to stress-testing is adopted whereby the stress events for major types of risk such as market, credit, liquidity and profit rate risks are incorporated and are periodically updated in the stress test scenarios to address perceived vulnerabilities in both local and external markets. The results of the stress-testing together with remedial actions, if any, are tabled to the Risk Management Committee of the Group and the Board for deliberation and approval.