

Public Islamic Bank

Corporate Governance Disclosures

As an Islamic financial institution licensed under the Islamic Financial Services Act 2013 (IFSA), Public Islamic Bank (PIBB) complies with the corporate governance standards and practices set out in Bank Negara Malaysia (BNM) Policy Document on Corporate Governance (BNM Policy Document on CG) and principles of BNM Shariah Governance Framework for Islamic Financial Institutions.

BOARD OF DIRECTORS

Board Size and Composition

The Board currently comprises 5 members. The size and composition of the Board remain adequate to provide for a diversity of views and facilitate effective decision making.

The 5 members of the Board are persons of high calibre and integrity, and they possess the appropriate skills, knowledge, experience and competencies to address key risks and major issues relating to PIBB's business and its policies and strategies. The Directors more than adequately fulfill the fit and proper criteria as specified in the IFSA and the BNM Policy Document on Fit and Proper Criteria.

The composition of the Board is in compliance with the requirements on composition of Board as stated in the BNM Policy Document on CG and the Malaysian Code on Corporate Governance 2017.

Tan Sri Dato' Sri Dr. Teh Hong Piow, a Non-Independent Non-Executive Director of PIBB, is the Founder and Chairman of Public Bank (PBB), the parent company. He is widely acclaimed both domestically and internationally as a banking grandmaster. Tan Sri Dato' Sri Dr. Teh Hong Piow has received countless prestigious awards in recognition of his significant contributions to the banking and finance industries, and for his socio-economic development initiatives, both locally and abroad.

Dato' Mohammed Najeeb bin Abdullah, the Independent Non-Executive Chairman has more than 38 years' experience in both conventional and Islamic banking, of which he had served in PBB for 25 years and as a General Manager in PIBB for 2 years. He is an MBA graduate of the University of Charles Darwin, Australia and is also a graduate from the Chartered Institute of Marketing (UK). He currently also holds directorships in Public Mutual Bhd, PB Trustee Services Bhd, Cambodian Public Bank Plc, and AIA PUBLIC Takaful Bhd.

Tan Sri Dato' Sri Tay Ah Lek, a Non-Independent Non-Executive Director, is the Managing Director/Chief Executive Officer of PBB. His wide experience and knowledge of the financial industry is recognised by his appointment as the Chairman of the Association of Hire Purchase Companies Malaysia, and his appointment as a Member/Director of several organisations/companies of the banking industry.

Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid, an Independent Non-Executive Director, possesses appropriate professional qualifications and wide experience, knowledge and expertise in Shariah and Islamic Finance. He was appointed as the Chairman of Shariah Committee of PIBB on 1 November 2008. Dato' Dr. Mahmood Zuhdi is a well known Shariah scholar and is also the Chairman of the Shariah Committee for AIA PUBLIC Takaful Berhad.

Mr Vasantha Kumar Tharmalingam, who was appointed as an Independent Non-Executive Director on 27 September 2016, has vast experience and expertise as a real estate valuer and Property Consultant for more than 40 years in the finance industry. Mr Kumar is a registered Real Estate Valuer and Property Consultant. He is currently the Senior Advisor to AREA Management Sdn Bhd.

Board Balance and Independence of Directors

The Board comprises 2 Non-Independent Non-Executive Directors and 3 Independent Non-Executive Directors ie. more than half of the Board members are Independent Non-Executive Directors. The presence of a majority of Independent Non-Executive Directors provides effective check and balance to safeguard the interests of PIBB and all stakeholders.

The 3 Independent Non-Executive Directors are not employees and there are no relationships or circumstances which are likely to affect, or could appear to affect, the Independent Non-Executive Directors' judgement. They bring an external perspective, constructively challenge and help develop proposals on strategy, scrutinise the performance of Management in meeting approved goals and objectives, and monitor the risk profile of PIBB's business and the reporting of monthly business performances.

Each of the 3 Independent Non-Executive Directors continues to demonstrate conduct and behaviour that are essential indicators of independence, and each of them continues to fulfill the definition of independence as set out in BNM Policy Document on CG.

Board Charter

The Board Charter sets out roles, responsibilities and functions of the Board in accordance with the standards, practices and principles of good corporate governance stated in the policy documents and guidelines issued by BNM and relevant regulatory authorities.

The Board Charter covers the following key areas:

- Board Composition and Maximum Tenure for Directors
- Annual Review of Directors
- New Appointment/Re-appointment/Re-election of Director
- Key Responsibilities of the Board
- Matters Reserved for Board's Consideration and Approval
- Role of Non-Executive Chairman
- Role of Non-Executive Directors
- Roles of CEO and Management
- Procedures of Board
- Maximum Number of External Professional Commitments
- Board Committees
- Shariah Committee

Tenure of Independent Directors

The maximum tenure of an Independent Non-Executive Director shall be a cumulative term of 9 years. Upon reaching such maximum tenure, the Independent Non-Executive Director may continue to serve on the Board but shall be re-designated as Non-Independent Non-Executive Director.

Board Responsibilities

The key responsibilities of the Board include but are not limited to the following:

- Approving PIBB's risk appetite, annual business plans, and the medium-term and long-term strategic plans.
- Approving PIBB's annual budget and carrying out periodic review of the achievements by the various operating divisions against their respective business targets.
- Prescribing the minimum standards and establishing policies on the management of credit risks and other key areas of PIBB's operations.
- Overseeing PIBB's business operations and financial performance.
- Overseeing the implementation of PIBB's governance framework and ensuring that the operating infrastructure, systems of internal control, systems for risk identification and management, financial and operational controls, are in place and properly implemented.
- Overseeing the selection, performance, remuneration and succession plans of the CEO, control function Heads and other members of Senior Management, such that the Board is satisfied with the collective competence of Senior Management to effectively lead the operations of PIBB.

- Promoting, together with Senior Management, a sound corporate culture within PIBB which reinforces ethical, prudent and professional behaviour including fostering a strong compliance culture within PIBB.
- Ensuring that the culture of accountability; transparency; integrity; professionalism and responsible conduct is consistently adhered to in PIBB.
- Promoting sustainability through appropriate environment, social and governance considerations in PIBB's business strategies.
- Overseeing and approving the recovery and resolution as well as business continuity plans for PIBB to restore its financial strength, and maintain or preserve critical operations and critical services when it comes under stress.
- Promote timely and effective communication between PIBB and BNM on matters affecting or that may affect the safety and soundness of PIBB.
- Ensuring that the operations are Shariah compliant.
- Promote Shariah compliance in accordance with expectations set out in the policy document on Shariah Governance Framework for Islamic Financial Institutions and ensure its integration with PIBB's business and risk strategies.
- Undertaking various functions and responsibilities as specified in the policy documents and directives issued by BNM from time to time.

Board Meetings

The Board holds regular meetings of no less than 16 times a year. In addition to monthly Board meetings, the Board also meets as soon as the Bank's quarterly and annual results are finalised in order to review and approve the results for submission to BNM.

The proceedings of the Board meetings are conducted in accordance with a structured agenda. The agenda for each Board meeting and papers relating to the agenda items are furnished to the Directors at least 7 days before the Board meeting. This is to allow time for the Directors to review the Board papers and to facilitate full discussion at the Board meeting. There is a process in place for Directors to seek clarifications or obtain details concerning the Board agenda papers from the Management or the Company Secretary or if they deem necessary to take independent professional advice at the Company's expenses. Confidential papers are presented and tabled at the Board meetings under supplemental agenda.

The Board meeting papers are prepared and presented in a concise and comprehensive manner so that the Directors have a proper and relevant depiction of the issues at hand, in order that the Board deliberations and decision-making are performed systematically and in a well-informed manner.

Meeting papers tabled to the Board include progress reports on business operations, new policies and guidelines issued by BNM, and reports for updating the Board on the Bank's business.

A Director is required to abstain from deliberation and decisions of the Board on matters where he is the interested party, and he does not exercise any influence over the Board in respect of the matter.

The minutes of the Board meetings are circulated to all Directors for their perusal prior to confirmation of the minutes to be done at the commencement of the following Board meeting. The Directors may request for clarification or raise comments before the minutes are tabled for confirmation and upon receiving confirmation from all the members at the Board meetings, the minutes will be signed by the Chairman of the meeting as a correct record of the proceedings of the meeting.

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

Time Commitment

To ensure that Directors do not have competing time commitments that impair their ability to discharge their duties effectively, the Board has established a policy on the maximum number of directorships/positions in non-public listed companies and non-profit organisations that a Director can hold in Malaysia and offshore/overseas, as follows:

- Maximum 5 directorships in public listed companies.
- Maximum 15 directorships/positions held in non-public listed companies and non-profit organisations.

The Board is satisfied that each Director has committed sufficient time to the Company as evident from the Directors' record of attendance at Board meetings held in the financial year ended 31 December 2017, as reflected below:

Name of Director	Number of Board Meetings	
	Held During Tenure in Office	Attended
Non-Independent		
Tan Sri Dato' Sri Dr. Teh Hong Piow <i>Non-Executive Director</i>	19	19
Tan Sri Dato' Sri Tay Ah Lek <i>Non-Executive Director</i>	19	18
Independent		
Dato' Mohammed Najeeb bin Abdullah <i>Non-Executive Chairman</i>	19	19
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid <i>Non-Executive Director</i>	19	18
Mr Vasantha Kumar Tharmalingam <i>Non-Executive Director</i>	19	19

All Directors have thus well complied with the BNM Policy Document on CG which specifies that each Director must attend at least 75% of the Board meetings held in each financial year.

Directors' Training

The Members of the Board had attended seminars and briefings during the financial year 2016 to strengthen their skill sets and knowledge in order to effectively discharge their responsibilities, and to acquire sound understanding of current issues and developments in the financial and business environment.

The Company Secretary and the Knowledge & Learning Centre of PBB undertake the role as the co-ordinator to manage and co-ordinate the Directors' training requirements, which include the following:

- **Mandatory**
 - New Directors are to participate in induction programmes which allows the new Directors to meet with the Chief Executive Officer/Senior Management staff and be accustomed with the Company's governance framework, financial management and business operations.
 - Financial Institutions Directors' Education (FIDE) Core Programme, which is set up to enhance corporate governance practices in the boards of financial institutions and to develop world class Directors who are advocates of best practices and excellence in corporate governance, shall be the core training for Directors.

- **Electives**

Upon completion of the FIDE Core Programme, Directors are eligible to attend FIDE Elective programmes that focus on Board Committee, technical and advanced governance issues.

- Enrichment

To keep abreast with the current developments in the marketplace, Directors will be provided with opportunities to attend public programmes or seminars on the areas related to their functions/roles and for continuous development.

Directors may request that training programmes on specific subjects be arranged in order to facilitate them to discharge their duties effectively.

The Company Secretary, Secretaries of Audit Committee and Risk Management Committee regularly update and apprise the Directors on new statutes, policy documents and guidelines issued by the regulatory authorities, and the requirements to be observed by the Company and Directors thereupon.

The Nomination Committee conducts annual review of training attended by the Directors during each financial year.

Conferences, seminars and training programmes attended by Directors in 2017 included the following:

Risk/Compliance/Regulatory

- Compliance Conference.

Banking, Finance and Economy

- Talk on Cybersecurity and Threat Landscape in Banking.
- Briefing Session on Bank Negara Malaysia (BNM) Annual Report. 2016/Financial Stability and Payment Systems Report 2016.
- Talk on The Global Macroeconomic Outlook - Understanding the Megatrends Post Brexit and Trump.
- 1st Distinguished Board Leadership Series: Efficient Inefficiency - Making Boards Effective in a Changing World - Have Positive Margins Gone Forever.
- Talk on Fund Transfer Pricing in a Basel III World.
- Global Symposium on Microfinance.
- Talk on Banking Strategy - Value Creation in Banking: Recent Developments with Capital Allocation and Fund Transfer Pricing.
- Global Symposium on Development Financial Institutions.

FinTech and Technology Based Innovations

- 2nd SC-FIDE FORUM Dialogue: Leveraging Technology for Growth.

Islamic Banking

- 14th Kuala Lumpur Islamic Finance Forum 2017.
- Shariah Forum 2017.
- 12th International Shariah Scholars Forum.

Directors' Remuneration

The Remuneration Committee recommends the level and structure of Directors' fees which comprise an annual fee for service on the Board. In making its recommendation, the Remuneration Committee considers the responsibilities of the Directors and the Directors' fee structure of comparable Islamic banks in the market.

The Board as a whole determines the remuneration of Non-Executive Directors.

The proposed Directors' fees for the financial year ended 31 December 2017 are subject to shareholder's approval. (Approved Directors' remuneration is set out in PIBB Financial Statements)

COMMITTEES ESTABLISHED BY THE BOARD

The Board has established several Board Committees whose compositions and terms of reference are in accordance with the BNM Policy Document on Corporate Governance.

The functions and terms of reference of Board Committees as well as authority delegated by the Board to these Committees, are reviewed from time to time to ensure that they remain relevant and are up-to-date.

The Board Committees are as follows:

- Risk Management Committee
- Audit Committee
- Nomination Committee
- Remuneration Committee

Risk Management Committee

PIBB Risk Management Committee is accountable to the Board and has non-executive responsibility to assist the Board in meeting the expectations on risk management as set out in its Terms of Reference and oversee the Management's activities in managing risks to ensure that the risk management process is in place and functioning.

a. Composition

- The Committee, being a Board Committee shall be appointed by the Board of Directors and shall consist of not less than three (3) members, all of whom shall be non-executive directors. The majority of the Committee members shall be independent directors.
- The Chairman of the Committee shall be approved by the Board of Directors and shall be an independent non-executive director. In the absence of the Chairman of the Committee, the directors present shall elect one of themselves to chair the meeting.

b. Frequency of the meetings

Meetings shall be held not less than twelve (12) times a year.

c. Quorum

A quorum shall consist of two (2) members and shall comprise a minimum of one (1) independent director.

d. Secretary

The Secretary of the Committee shall be the Chief Risk Officer (CRO) of PBB.

e. Authority

The authority of the Committee is delegated by the Board of Directors.

- Have full and unrestricted access to any information and documents pertaining to PIBB;
- Seek any information relevant to its activities from employees of PIBB;
- To seek independent skilled professional third party views on matters within its purview;
- Have sufficient support and be provided with appropriate resources to investigate any matter within the Committee's mandate; and
- Request the attendance of any employee at meetings of the Committee, as and when required.

The roles and responsibilities of PIBB Risk Management Committee are as follows:

- a. Support the Board of Directors in meeting the expectations on risk management in the following areas:
- Ensure PIBB's corporate objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities;
 - Provide effective oversight of senior management's actions to ensure consistency with the risk strategy and policies approved by the Board of Directors including the risk appetite;
 - Ensure the risk management framework enables the identification, measurement and continuous monitoring of all relevant and material risks on a firm-wide basis, supported by robust management information systems that facilitate the timely and reliable reporting of risks and the integration of information across PIBB;

- Ensure risk management is well-integrated throughout the organisation and embedded into the culture and business operations of PIBB;
 - Ensure the effective implementation of the risk management framework is reinforced with an effective compliance function and subjected to an independent internal audit review;
 - Ensure PIBB have the appropriate mechanisms in place for communicating risks across the organisation and for reporting risk developments to the Board of Directors and senior management;
 - To understand PIBB's operational and organisational structure and the risks it poses and is satisfied that it is not overly complex or opaque such that it hampers effective risk management;
 - To ensure the suitability of the group approaches and methodologies adopted, having regard to the context of the local environment and operations of PIBB; and
 - To escalate to the PBB Risk Management Committee any material risks and issues in PIBB that might affect PBB or the Group.
- b. Support the Board of Directors in its implementation of a sound remuneration system by examining whether the incentives provided by the remuneration system takes into consideration risks, capital, liquidity and the likelihood of earnings without prejudice to the tasks of the Remuneration Committee;
- c. Coordinate with Audit Committee to understand how the internal audit work plan and compliance work plan are aligned with the risks that have been identified so as to obtain assurance that the identified risks are managed in an integrated manner.

Accountability

The Board of Directors has overall responsibilities for the design and development of the risk management framework and to ensure that the framework is effective for controlling risk-taking activities and in line with the approved risk appetite.

PIBB Risk Management Committee supports the Board of Directors in carrying out its risk management roles and responsibilities as delegated and authorised by the Board of Directors.

The Risk Management Committee meetings are held not less than twelve (12) times a year.

The attendance for Members at PIBB Risk Management Committee meetings held in 2017 is reflected below:

Name of Committee Members	Number of Committee Meetings	
	Held During Tenure in Office	Attended
Mr Vasantha Kumar Tharmalingam (Chairman) <i>Independent Non-Executive Director</i>	12	12
Dato' Mohammed Najeeb Bin Abdullah <i>Independent Non-Executive Chairman</i>	12	12
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid <i>Independent Non-Executive Director</i>	12	12

Audit Committee

The Audit Committee (AC)'s duties and responsibilities are set out under its Terms of Reference approved by the Board. The AC assists the Board by providing an objective non-executive review of the effectiveness and efficiency of the internal controls, risk management and governance systems of PIBB.

The Terms of Reference of the AC are as follows:

a. Composition

- The AC shall be appointed by the Board of Directors and shall consist of not less than three members, all of whom shall be non-executive directors. The majority of the AC members shall be independent directors.
- The AC must comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the AC.
- Chairman
 - The Chairman of the AC shall be an independent non-executive director and must not be the Chairman of the Board of Directors.

b. Frequency of Meetings

Meetings shall be held not less than twelve (12) times a year.

c. Quorum

A quorum shall consist of two members and shall comprise independent directors.

d. Secretary

The Secretary of the AC shall be the Group Chief Internal Auditor of Public Bank Berhad (PBB).

e. Authority

The AC shall have the authority to:

- investigate any matter within its terms of reference.
- have the resources which are required to perform its duties.
- seek any information relevant to its activities from employees of PIBB.
- obtain such independent professional advice as it considers necessary.
- have full and unrestricted access to any information and documents pertaining to PIBB.
- convene meetings with the Internal Auditors without the presence of the Chief Executive Officer and other Senior Management staff whenever deemed necessary.
- meet with the External Auditor at least twice a year without the presence of the Chief Executive Officer and other Senior Management staff and when necessary, without the Internal Audit staff/Group Chief Internal Auditor.

f. Responsibilities and Duties

The responsibilities and duties of the AC shall be:

- **Risk Management**

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

- **Internal Audit**

- i. To review the adequacy of the scope, functions, competency and resources of the Internal Audit (IA) Function (undertaken by the IA Function of PBB) and that it has the necessary authority to carry out its work.

- ii. To approve annual audit plan.

- iii. To establish a mechanism to assess the performance and effectiveness of the IA Function (undertaken by the IA Function of PBB).

- iv. To escalate through the AC's Secretary any material audit issues on PIBB to the AC of PBB.

- **External Audit**

- i. To review the External Auditor's audit plans, scope of its audits and audit reports, including the External Auditor's evaluation of the system of internal controls.

- ii. To assess the performance of the External Auditor and make recommendations to the Board of Directors on their appointment/reappointment, remuneration and removal.

- iii. To review the independence and objectivity of the External Auditor and their services, including non-audit services.
- iv. To review the provision of non-audit services by the External Auditor for recommendation to the Board for approval.

- **Audit Reports**

- i. To review the:
 - a) Internal and external audit reports to ensure that appropriate and adequate remedial actions are taken by Management to address and resolve the significant lapses in controls and procedures that are identified.
 - b) Significant internal and external audit findings and Management's response and remedial action plan.
- ii. To note the significant disagreements between the Group Chief Internal Auditor of PBB and the rest of the Senior Management team, irrespective of whether these have been resolved, in order to identify any impact the disagreements may have on the audit process or findings.

- **Financial Reporting**

To review the quarterly and annual financial statements of PIBB for recommendation to the Board of Directors for approval, with particular focus on:

- i. changes in or implementation of new accounting policies and practices;

- ii. significant matters highlighted including financial reporting issues, significant judgements made by management, significant and unusual events or transactions, and how these matters are addressed; and
- iii. compliance with the applicable approved accounting/auditor reporting standards and other legal and regulatory requirements.

g. Related Party Transactions

To review the audit report on the related party transactions that may arise between PIBB and its related parties on a quarterly basis.

h. Other Matters

- To review the accuracy and adequacy of the Chairman's Statement in the Directors' Report, corporate governance disclosures and interim financial reports.
- To monitor compliance with the Board of Directors' conflicts of interest policy.
- To review third-party opinions on the design and effectiveness of PIBB's internal control framework.
- To consider such other matters as the AC considers appropriate or as authorised by the Board.

The minutes of the AC meetings are tabled to the Board for noting and action by the Board where appropriate.

The attendance of Members at the Audit Committee meetings held in 2017 are as follows:

Name of Committee Members	Number of Audit Committee Meetings	
	Held During Tenure in Office	Attended
Mr Vasantha Kumar Tharmalingam ¹ (Chairman) <i>Independent Non-Executive Director</i>	17	17
Dato' Mohammed Najeeb bin Abdullah <i>Independent Non-Executive Chairman</i>	17	17
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid <i>Independent Non-Executive Director</i>	17	17

Notes:

1. *Appointed as Chairman on 1 January 2018.*

Nomination Committee

PIBB Nomination Committee comprises exclusively Non-Executive Directors, the majority of whom are Independent Directors. The Nomination Committee is chaired by Mr Vasantha Kumar Tharmalingam, an Independent Non-Executive Director.

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 CEO.
- To assess and recommend to the Board the nominees for appointment as Directors, Board Committee Members as well as 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 persons' 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 68 of the IFSA and the Shariah Committee members are not disqualified under the Shariah Governance Framework for 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.

The Nomination Committee meets as and when required.

The attendance of Members at the Nomination Committee meetings held in 2017 is as reflected below:

Name of Committee Members	Number of Nomination Committee Meetings	
	Held During Tenure in Office	Attended
Mr Vasantha Kumar Tharmalingam ¹ (Chairman) <i>Independent Non-Executive Director</i>	3	3
Dato' Mohammed Najeeb bin Abdullah <i>Independent Non-Executive Chairman</i>	3	3
Tan Sri Dato' Sri Tay Ah Lek <i>Non-Independent Non-Executive Director</i>	3	3
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid <i>Independent Non-Executive Director</i>	3	3

Notes:

1. Appointed as Chairman on 1 January 2018.

Remuneration Committee

The Remuneration Committee is made up exclusively of Non-Executive Directors and is chaired by Mr Vasantha Kumar Tharmalingam, an Independent Non-Executive Director.

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 commensurate with and reflective of the roles and functions of the Shariah Committee.

The Remuneration Committee meets as and when required.

The attendance of Members at the Remuneration Committee meetings held in 2017 is as reflected below:

Name of Committee Members	Number of Remuneration Committee Meetings	
	Held During Tenure in Office	Attended
Mr Vasantha Kumar Tharmalingam ¹ (Chairman) <i>Independent Non-Executive Director</i>	3	3
Dato' Mohammed Najeeb bin Abdullah <i>Independent Non-Executive Chairman</i>	3	3
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid <i>Independent Non-Executive Director</i>	3	3

Notes:

1. *Appointed as Chairman on 1 January 2018.*

Risk Management Committee on Compliance Function

The Risk Management Committee (RMC) on Compliance Function is responsible for the oversight of PIBB's compliance function upon the change in reporting line from the Audit Committee with effect from 25 April 2017.

The terms of reference of the RMC on Compliance Function are as follows:

a. Frequency of Meetings

Meeting shall be held not less than twelve (12) times a year.

b. Quorum

A quorum shall consist of two members and shall comprise independent directors.

c. Secretary

The Secretary of the Committee on Compliance function shall be the Chief Compliance Officer (CCO) of Public Bank Berhad (PBB) and his/her Deputy.

d. Authority

The Committee shall have the authority to:

- investigate any matter within its terms of reference;
- have the resources which are required to perform its duties;
- seek any information relevant to its activities from employees of PIBB;
- obtain such independent professional advice as it considers necessary;

- have full and unrestricted access to any information and documents pertaining to PIBB; and
- convene meeting with the CCO without the presence of the Chief Executive Officer and other Senior Management staff whenever deemed necessary.

The responsibilities and duties of the RMC on Compliance Function shall be as follows:

- a. To approve policies and methodologies in assessing the compliance profile and evaluate the effectiveness of overall management of compliance risks.
- b. To review and concur with the revision of the PIBB's Compliance Policy and to oversee its implementation.
- c. To review and approve the PIBB's compliance plan.
- d. To assess and review compliance risk profile to ensure that the overall compliance risk is effectively managed.
- e. To ensure appropriate infrastructure, resources, processes and systems are in place for compliance assessment and to support initiatives that are directed at improving and contributing to the effectiveness of the compliance function. This includes ensuring that the staff of PBB's Compliance Division have access to any records or files for the purpose of discharging their responsibilities.
- f. To review the periodic reports presented on the assessment of compliance status of PIBB and updates on regulatory trends and requirements.
- g. To deliberate compliance issues to ensure that the issues are resolved effectively and expeditiously.
- h. To ensure appropriate lines of reporting have been established for timely escalation of compliance issues to the Management and the Board of Directors.

- i. To ensure training is provided to the compliance staff to upgrade their knowledge and to keep abreast with the laws and regulations, standards and guidelines on compliance-related issues.

The attendance of each member at the meetings on Compliance Function held in 2017 are as follows:

Name of Committee Members	Number of Committee Meetings	
	Held During Tenure in Office	Attended
Audit Committee on Compliance Function		
Dato' Mohammed Najeeb Bin Abdullah <i>Independent Non-Executive Chairman</i>	4	4
Mr Vasantha Kumar Tharmalingam (Chairman) <i>Independent Non-Executive Director</i>	4	4
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid <i>Independent Non-Executive Director</i>	4	4
RMC on Compliance Function		
Mr Vasantha Kumar Tharmalingam (Chairman) <i>Independent Non-Executive Director</i>	8	8
Dato' Mohammed Najeeb Bin Abdullah <i>Independent Non-Executive Chairman</i>	8	8
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid <i>Independent Non-Executive Director</i>	8	8

SHARIAH COMMITTEE

To ensure that the Bank's operations and activities are consistently conducted in accordance with Shariah principles, PIBB has appointed five scholars as their Shariah Committee (SCOM). The appointment of these members as approved by the Board of Directors are as listed below:

- Professor Emeritus Dato' Paduka Dr. Mahmood Zuhdi bin Haji Ab Majid
- Tuan Haji Mohd Ridzuan bin Awang
- Associate Professor Datin Dr. Rusnah binti Muhamad
- Assistant Professor Dr. Mohd Afandi bin Awang Hamat
- Associate Professor Dr. Abdul Bari bin Awang

Pursuant to the Shariah Governance Framework as provided by Bank Negara Malaysia (BNM) in its Guideline on Shariah Governance for Islamic Financial Institutions and the Islamic Financial Services Act 2013, the Board of Directors is ultimately responsible and accountable for the oversight and management of Shariah matters in the Bank's operation as well as the operations of its subsidiaries that it has management control.

Whilst the independence of the SCOM in exercising its duties is emphasized to promote objective and informed decision-making, they shall at all times comply with the standards specified by PIBB including PIBB's internal policies and procedures on Shariah governance as specified by BNM. To further ensure the managing of the business, affairs and activities is not contrary to Shariah, the Malaysian regulatory bodies i.e. BNM and Securities Commission have spelled out several provisions in relation to the establishment of a SCOM in an Islamic Financial Institution (IFI).

It is the Regulatory's expectations on the SCOM to provide clarity and qualities to be an effective driver of Shariah governance implementation.

The roles and responsibilities of the SCOM include the following:

- Oversight role on Shariah matters related to the Bank's operations and activities;
- Advise the Board and provide input to PIBB on Shariah matters in order for PIBB to comply with Shariah principles at all times;
- Review principles and contracts relating to the introduction of products, transactions and application of Shariah principles to PIBB's operations. In the review process, SCOM is guided by the resolutions and decisions made by the Shariah Advisory Council ("SAC") of BNM and Securities Commission where applicable;
- Endorse Shariah policies and procedures, product documentations and relevant disclosures presented to SCOM;
- Render opinion on PIBB's operations to be in compliance with Shariah principles based on representation made by the management and the review of the financial reports;
- Ensure that the calculation and payment of zakat are in compliance with Shariah principles;
- Ensure rectification of any Shariah non-compliant events, preventive actions to avoid the recurrence of such events and disposal of the tainted income received from such events to the charitable bodies or Baitulmal have been undertaken by PIBB accordingly.

There were 12 SCOM meetings held in 2017 and their attendances are as follows:

Name of Committee Members	Number of Shariah Committee Meetings	
	Held During Tenure in Office	Attended
Professor Emeritus Dato' Paduka Dr. Mahmood Zuhdi bin Haji Ab Majid (Chairman)	12	12
Tuan Haji Mohd Ridzuan bin Awang	12	11
Associate Professor Datin Dr. Rusnah binti Muhamad	12	12
Assistant Professor Dr. Mohd Afandi bin Awang Hamat	12	12
Associate Professor Dr. Abdul Bari bin Awang	12	12

SENIOR MANAGEMENT

The CEO in leading the senior management team has the primary responsibility over the day to day management of PIBB. The senior management team plays a pivotal role in ensuring that the business and risk strategies, remuneration, succession planning and other policies of PIBB are established and implemented in accordance with the directions set out by the Board including the establishment of a management structure that promotes accountability and transparency throughout PIBB's operations and preserves the effectiveness and independence of control functions. The clear segregation of responsibilities amongst the senior management team provides an embedded check and balance system for its day to day business and operations.

The control functions of PIBB are independent and report direct to the Shariah Committee or the respective Board Committee, namely Audit Committee and Risk Management Committee. To safeguard the independence and authority of individuals engaged in control functions, the remuneration of such individuals is based principally on the achievements of control functions objectives and independent from the business units they oversee.

Various initiatives and measures have been put in place in order to promote a sound corporate culture within PIBB which reinforces ethical, prudent and professional behaviour including fostering a strong compliance culture within the Bank. This includes implementing relevant policies, guidelines, codes of ethics as well as provision of related training and education.

To enforce good corporate governance and robust risk management across PIBB, the internal control mechanisms which includes compliance with regulatory requirements and internal policies are constantly being monitored and reviewed by PIBB's control functions namely Shariah Compliance Division, Risk Management/Shariah Risk Management Control Unit and Shariah Audit Unit. PIBB has in place a stringent disciplinary procedure which spells out specific and appropriate consequences to ensure breaches are dealt with accordingly.

Senior Management Appointment and Removal

PIBB's Fit and Proper Policy has established processes for the appointment and removal of the relevant Key Responsible Person (KRP) as well as the stringent assessment of candidates against the minimum requirements. All KRPs are assessed to have met all the fit and proper criteria based on the following factors:

1. Probity, Personal Integrity and Reputation	Possesses the personal quality such as honesty, integrity, diligence, independence of mind and fairness.
2. Competence and Capability	Have the necessary knowledge, skills, experience, ability and commitment to carry out his role.
3. Financial Integrity	Able to manage his debts or financial affairs prudently.

Pursuant to BNM's Policy Document on Corporate Governance, a substantial shareholder of PIBB must not hold a Senior Management position. In accordance with this, PIBB's Fit and Proper Policy requires persons proposed to be appointed as Senior Management staff to declare whether they hold an aggregate interest of 5% or more in the shares of PIBB.

None of the present Senior Management staff of PIBB holds an aggregate interest of 5% or more in the shares of PIBB.

All Senior Management staff are assessed on a yearly basis. They are also required to immediately disclose to the Board any circumstances that may affect their ability to meet the minimum requirement.

Succession Planning

PIBB has in place a robust succession planning process to ensure the continuity of leadership and long term business sustainability in particular covering all the key leaderships positions. The framework encompasses the determination of criticality of positions, identification and selection of talents based on a pre-defined competency profiles, drawing up individual development plan to bridge the competency gap and monitoring and reviewing the progress and leadership readiness of talents.

The Bank emphasises on the “look within” policy in the identification of talents to retain corporate knowledge and ensure the perpetuating of corporate culture. This further upholds the Bank’s philosophy in providing staff with rewarding career advancement.

PIBB’s succession planning policy and program is subject to the review and approval of the Board assisted by the Nomination Committee and collectively implemented by the senior management team.

Remuneration Policy & Practice

The PBB Group Remuneration Policy is established to put in place a framework to ensure a robust balance between attracting, retaining, motivating staff and prudent risk management within the organisation to be in line with its risk culture.

The Policy has been reviewed by the PBB Remuneration Committee and approved by the Board for implementation to all levels of staff including Senior Management staff of the Bank. Senior Management in this context refers to the Chief Executive Officer and Senior Officers of the Bank.

For consistency, the Senior Officers are identified as KRP who are defined under BNM’s Fit and Proper Policy Document as those who have primary and significant responsibility for the management and performance of significant business activities of PIBB.

The remuneration framework is designed to ensure that reward is measurably linked to achievement of business and performance objectives. However, to prevent any conflict of interest, the framework stipulates that staff of the control functions (i.e Shariah Compliance Division, Risk Management/Shariah Risk Management Control Unit and Shariah Audit Unit) are to be assessed independently from the business units that they oversee. For effective segregation, these staff will be appraised principally based on achievement of their control objectives set out by the Shariah Committees or the respective Board Committees of their respective control functions and differentiated from that of the business units they oversee.

The remuneration framework outlines the total compensation packages of fixed remuneration and variable remuneration payable to staff. Fixed remuneration refers to basic salary and other fixed income which commensurate with the role and position of an individual staff, including professional experience, qualifications, responsibilities, job complexity and local market condition etc.

The variable remuneration refers to discretionary bonus which is cash based and does not consist of shares or non-cash instruments as PIBB does not have such instruments in place. The pool for the variable remuneration is determined by financial matrices such as PIBB's overall performance, achievement of selected financial ratios, market trends and economic outlook.

To ensure the financial matrix is appropriately adjusted for risk, the framework also allows for downward adjustment to the pool if PIBB's risk taking threshold e.g. level of impaired financing, treasury financing, liquidity short falls and capital control are compromised or exceeded.

The awarding of the variable remuneration to individual staff is determined by the performance and contribution of individual staff and the business units or departments in terms of business achievement.

Other considerations include the non-financial matrix which captures the achievement on qualitative performance such as compliance with risk management policies, adherence to legal, regulatory and ethical standard, customer service and effectiveness and efficiency of supporting operations.

Poor achievement in the financial and non-financial matrices will result in reduction or forfeiture of the variable remuneration.

As part of the risk control measures, the variable remuneration is subject to a deferment of up to 8 months to align the reward with the time horizon of risk. This deferral timeframe is based on the non-complexity of PIBB's business model as well as the nature of PIBB's retail focus business where the risk is better diversified and requires shorter timeframe for results validation.

Up to 100% of the deferred remuneration shall be subject to malus arrangement which may result in a full or partial forfeiture of the amount vested. Events that may lead to the operations of malus include material violation of risk limits, material loss due to negligence, misstatement, misconduct or fraud. The mechanism also allows for the suspension of bonus if staff is under investigation arising from regulatory or disciplinary circumstances especially those related to fraud.

The Remuneration Policy is subject to annual review to ensure it remains applicable and in compliance with relevant corporate governance provision.

The following depicts the total value of cash based remuneration paid out to Senior Management staff of PIBB for financial year 2017:

Remuneration	No. of Senior Management Staff	Non-Deferred	Deferred
Fixed	3	RM1,084,127	-
Variable		RM167,098	RM388,000

Code of Ethics

PIBB's Code of Ethics for Directors, Officers and Employees has been revised in alignment to BNM's Corporate Governance Policy Document and consistent with the professional and ethical standards issued by the Financial Services Professional Board (FSPB). The revised PIBB Code of Ethics is enshrined in Five (5) Fundamental Ethical Principles which PIBB and each employee must adhere to, both in letter and in spirit. The Five (5) Fundamental Ethical Principles are as follows

1. Competence
2. Integrity
3. Fairness
4. Confidentiality
5. Objectivity

Whistleblowing Policy

PIBB is committed to ensuring that its business and operations are conducted in an ethical, professional and legal manner. In line with this commitment, the Bank has expanded the scope of its Whistleblowing Policy and Procedures (WBP) to include all employees and third parties (e.g contractors, consultants, interns, suppliers, vendors and/or customers) in making the disclosure of any improper conduct or irregularities without any risk of reprisal. The platform, accessibility and channels of reporting have also been revamped to make it more accessible and user-friendly for the submission of disclosure

A Board member has also been appointed and designated as the Non-Executive Director responsible for the effective implementation of WBP.

Anti-Fraud Policy

The Anti-Fraud Policy sets out the responsibility of employees of PIBB for preventing and detecting defalcations, misappropriations and other irregularities, the specific roles of employees in the prevention and detection of fraud and fraud discovery reporting. The Anti-Fraud Policy also articulates PIBB's ultimate objective in eliminating any form of fraud from all its business activities; hence, the Bank has zero-tolerance towards any form of fraud. The strict enforcement of the Anti-Fraud Policy reduces the risk to PIBB's reputation arising from any fraudulent acts.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is committed to provide a balanced, clear and comprehensive assessment on the financial performance of PIBB in all disclosures made to the stakeholders and the regulatory authorities.

The Board, assisted by the AC, oversees the financial reporting process and the reliability of the financial reporting of PIBB. The AC seeks explanations and additional information from the Senior Management and the Chief Financial Officer of PBB in regard to the financial performance and preparation of the financial statements of PIBB. The AC reviews and discusses with the external auditor on their observations of the annual and interim financial results of PIBB, including the appropriateness of the accounting policies applied, its changes and the significant judgements and assumptions made by Management affecting the financial statements as well as compliance with approved accounting standards and regulatory requirements.

Internal Control

The Board has overall responsibility for maintaining a system of internal controls which provides reasonable assurance on the effectiveness and efficiency of the operations that ensure compliance with the applicable laws and regulations, as well as with internal procedures and guidelines.

In view of the size and diversity of the operations of PIBB that invariably involves a wide variety of risks, it is the Board's responsibility to ensure that these risks are properly managed. Depending on the nature of the risks, certain events may occur which would give rise to unanticipated or unavoidable losses. The system of internal controls in PIBB is designed to provide reasonable and not absolute assurance against the risk of material errors, frauds or losses from occurring.

The AC, supported by the Internal Audit (IA) function of PBB reviews the adequacy and effectiveness of the system of internal controls of PIBB, covering risk management, operational and compliance controls as well as the process for the identification, evaluation and management of the significant risks faced by PIBB. The scope of review also covers the internal controls over the financial reporting process and compliance with relevant accounting standards and regulations.

The IA function of PBB reviews and assesses the adequacy and effectiveness of the risk management systems, internal control and governance processes as well as checks for compliance with statutory/regulatory requirements, internal policies and procedures. The IA function of PBB also reviews the work processes/procedures for efficiency and effectiveness. The IA reports are tabled to the AC for its review, deliberations and noting/approval during its periodic meetings and the Board is informed of all significant audit matters reported to the AC.

A system of internal controls based on segregation of duties, independent checks, segmented system access control and multi-tier authorisation processes is put in place to ensure control procedures and limits are implemented and complied with at PIBB. Authority limits are imposed on the Management within PIBB to govern the day-to-day risk taking activities such as extension of credits, treasury operations, investments, acquisitions and disposal of assets. Policies and procedures are formulated in support of PIBB's internal control framework including PBB Group's Risk Appetite Framework, PBB Group's Compliance Policy, PBB Group's Guidelines on Outsourcing Activities and Public Bank Group's Policy and Procedures on Risk Management Practices for New Products to ensure compliance with internal controls and relevant laws and regulations and to govern the business and operations of PIBB. These policies and procedures are subject to periodic review and updated during the year in response to changes in the operational needs, business environment or regulatory requirements and are approved by the relevant board committees or management committees.

In addition, procedural guidelines are established to set out a systematic process and procedure in the review of the adequacy and effectiveness of the risk management and internal control system. Half-yearly assessments are conducted by PIBB to assess the adequacy and effectiveness of their respective risk management and internal control systems. The assessment results are reviewed by Internal Audit Division and Risk Management Division of PBB.

Related Party Transactions

The IA function of PBB conducts review of the related party transactions and submits to the AC for review quarterly reports on the outcome of the review of related party transactions.

Relationship with External Auditor

It is the requirement of the AC to meet with the external auditor to discuss their audit plan, audit findings and their views in respect of the true and fair view of PIBB's financial statements. At least two of these meetings are held without the presence of the Management and IA staff. The AC also meets with the external auditor whenever it deems necessary to discuss on key changes to regulatory requirements and latest developments in the accounting and auditing standards.

The AC is responsible for the review and assessment on the appointment or re-appointment of external auditor for statutory audit, recurring audit-related and non-audit related services. Recurring audit-related and non-audit related services comprise regulatory reviews and reporting, interim reviews, tax advisory and compliance services. The review and assessment for the appointment/re-appointment of external auditor is carried out annually via an assessment checklist in accordance with the assessment criteria covering regulatory requirements, performance and independence and objectivity as set out in the PBB Group's Policies and Procedures for Appointment/Re-appointment of External Auditors for Audit and Non-Audit Services

to ensure that the independence and objectivity of the external auditor as statutory auditor are not compromised.

In addition, the AC reviews the terms of engagement for services provided by the external auditor prior to submission to the Board for approval.

The Board, upon concurrence with the outcome of the assessment, approved the appointment or re-appointment of the external auditor based on the AC's recommendation subject to the approval by Bank Negara Malaysia and shareholder at the annual general meeting.