

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 Responsibilities

The Board is responsible for formulating and reviewing the Bank's strategic plans and key policies, and charting the course of PIBB's business operations. The Board, through the Audit Committee, Risk Management Committee and Risk Management Committee on Compliance function, provides effective oversight of the Management's performance, risk assessment and controls over business operations, and compliance with regulatory requirements. The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives.

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 Chief Executive Officer (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 and Access to Information

Board meetings for the ensuing financial year are scheduled in advance before the end of the current financial year so that the Directors are able to plan ahead and ensure their full attendance at 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 PIBB's quarterly and annual results are finalised in order to review and approve the results for submission to BNM. Special Board meetings may be convened as and when necessary to consider urgent proposals or matters that require the Board's expeditious review or consideration.

At the monthly Board meetings, the Board reviews management reports on the business performance of PIBB and reviews, inter-alia, the results compared to the preceding month and year-to-date, and also the comparison against pro-rated business targets and against the industry. As part of the integrated risk management initiatives, the Board is informed of the decisions and salient issues deliberated by the Audit Committee and Risk Management Committee through minutes of these committees. The Board Members deliberate, and in the process, assess the viability of business propositions and corporate proposals, and the principal risks that may have significant impact on PIBB's business or on its financial position, and the mitigating factors. The Board also assesses various types of credit propositions and matters that are required to be submitted to the Board for concurrence or approval, in accordance with the policy documents issued by BNM.

The Chairman of the Audit Committee would inform the Directors at Board meetings, of salient views and recommendations of the Audit Committee upon its members' deliberations at Audit Committee meetings.

The Chairman of the Risk Management Committee would inform the Directors at Board meetings, of salient risk issues discussed at the Risk Management Committee meetings which require the Board's notice or direction to be given to the Management.

To facilitate productive and meaningful deliberations, the proceedings of the Board meetings are conducted in accordance with a structured agenda. The agenda together with comprehensive management reports and proposal papers are furnished to the Directors at least 7 days before the Board meeting.

The Board Members come well prepared for Board meetings and engage in robust discussions on key matters in the agenda. The Managing Director/CEO provides comprehensive monthly updates to the Board on the Bank's and the Group's business operations.

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 CEO is invited to attend the Board meetings to provide presentations and detailed explanations on matters tabled to the Board.

Board Charter

The Board Charter sets out the roles and responsibilities of the Board, Board Committees, individual Directors and Management in upholding sound corporate governance standards and practices. The Board Charter reflects the matters reserved for the Board's consideration and approval.

The Board Charter is available on PIBB's corporate website at www.publicislamicbank.com.my.

Board Size and Composition

The Board as at 25 February 2019 comprises 7 members following the appointment of 2 new Independent Non-Executive Directors i.e. Associate Professor Datin Dr. Rusnah binti Muhamad with effect from 25 September 2018 and Mr Lam Song Shen with effect from 1 February 2019. The size and composition of the Board are adequate to provide for a diversity of views and facilitate effective decision making.

The 7 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 is a Non-Independent Non-Executive Director of PIBB. Tan Sri Teh was re-designated as the Founder, Chairman Emeritus, Director and Adviser of Public Bank (PBB), the parent company with effect from 1 January 2019 upon his retirement as Chairman of PBB on 31 December 2018. He is widely acclaimed both domestically and internationally as a banking grandmaster. Tan Sri Teh 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 started his career in banking with a local bank and later worked in PBB/PIBB for over 27 years. Through the years he has built an exciting and successful career in banking, attaining a top management position. In April 2010, Dato' Mohammed Najeeb was appointed as a Senator of the Upper House of Parliament by the Government of Malaysia for a 3-year term. As a Senator he participated in many local and international forums and conferences. In October 2012, he led a Senatorial delegation to the United Nations 67th General Assembly, New York, where he presented Malaysia's two policy statements at the Second Committee Meeting on Economics and Financial.

Tan Sri Dato' Sri Tay Ah Lek, a Non-Independent Non-Executive Director, is the Managing Director/CEO 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 as a Member of the Steering Committee and the Service Provider Consultative Group of the National Payments Advisory Council.

Professor Emeritus Dato' Paduka Dr. Mahmood Zuhdi bin Haji Ab Majid, a Non-Independent Non-Executive Director, possesses appropriate professional qualifications and wide experience, knowledge and expertise in Shariah and Islamic Finance. He was the Chairman of the PBB Shariah Committee from 1 April 2005 to 31 October 2008 and was appointed as the Chairman of Shariah Committee of PIBB on 1 November 2008. Professor Emeritus Dato' Paduka Dr. Mahmood Zuhdi is a well-known Shariah scholar and is actively involved in various Shariah supervisory boards.

Mr Vasantha Kumar Tharmalingam, an Independent Non-Executive Director, 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 Fellow of the Royal Institution of Chartered Surveyors, United Kingdom, Fellow of the Institution of Surveyors Malaysia and registered as a Real Estate Valuer and Property Consultant with the Board of Valuers in Malaysia.

Associate Professor Datin Dr. Rusnah binti Muhamad, who was appointed as an Independent Non-Executive Director on 25 September 2018, possesses expertise and experience in Accounting and Finance. Associate Professor Datin Dr. Rusnah is a member of PIBB Shariah Committee since 1 April 2011. She is currently an Associate Professor at the Faculty of Business and Accountancy and Chairperson of the Ministry of Higher Education UM-INCEIF Islamic Finance Research Program. She also serves as the Chief Editor for the Asian Journal of Accounting Perspective.

Mr Lam Song Shen, who was appointed as an Independent Non-Executive Director on 1 February 2019, is a Certified Public Accountant of Malaysian Institute of Certified Public Accountants and Chartered Accountant of Malaysian Institute of Accountants. He started his career with Coopers & Lybrand (now known as PricewaterhouseCoopers) and after 10 years, he left to join the AmBank Group. He worked in AmBank Group for 31 years in various entities and in different capacities. Mr Lam was the Managing Director of Arab-Malaysian Credit Bhd from 1996 to 2001. He had represented AmBank in the Council of the Association of Hire Purchase Companies Malaysia from 1996 to 2018.

Board Balance and Independence of Directors

The Board comprises 3 Non-Independent Non-Executive Directors and 4 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 4 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 4 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.

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.

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, which is as follows:

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

The Directors remain fully committed in carrying out their duties and responsibilities and are able to give sufficient time commitment to their duties and responsibilities as reflected by inter-alia, the following:

- Their full attendance at the Board meetings held during the financial year ended 31 December 2018.
- The total number of directorships held by each Director are well below the maximum number set by the Board.

The Directors' record of attendance at Board meetings held in the financial year ended 31 December 2018, is 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	19
Professor Emeritus Dato' Paduka Dr. Mahmood Zuhdi bin Haji Ab Majid <i>Non-Executive Director</i> <i>(Re-designated from Independent to Non-Independent on 29 September 2018)</i>	19	19
Independent		
Dato' Mohammed Najeeb bin Abdullah <i>Non-Executive Chairman</i>	19	19
Mr Vasantha Kumar Tharmalingam <i>Non-Executive Director</i>	19	19
Associate Professor Datin Dr. Rusnah binti Muhamad <i>Non-Executive Director</i> <i>(Appointed on 25 September 2018)</i>	5	5
Mr Lam Song Shen <i>Non-Executive Director</i> <i>(Appointed on 1 February 2019)</i>	N/A	N/A

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

During financial year 2018, the Members of the PIBB Board had received training on areas relevant to their duties and responsibilities as Directors by attending external seminars/talks and internally facilitated sessions. The Directors had attended talks, dialogue sessions and focus group sessions organised by Financial Institutions Directors' Education (FIDE) Forum, an initiative of the alumni members of the FIDE 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.

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 CEO/Senior Management staff and be accustomed with the Company's governance framework, financial management and business operations.
 - FIDE Core Programme shall be the core training for Directors.
 - Islamic Finance for Board Programme is one of the initiatives of BNM in support of the developments that have shaped the Malaysian Islamic banking landscape over the past three decades. The programme aims to activate Islamic banking innovations as a board room priority of financial institutions, emphasising on a clear understanding of differences in the value orientation and operationalisation of Islamic banking business vis-à-vis conventional banking.

- **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 and Remuneration Committee conducts annual review of training attended by the Directors during each financial year.

Conferences, seminars and training programmes attended by Directors in 2018 included the following:

Corporate Governance

- FIDE Forum 1st Distinguished Board Leadership Series: Navigating the VUCA World by Professor Tan Sri Dato' Dr. Lin See-Yan.
- FIDE Forum Board Conversation - Dialogue with Senior Officials of BNM.
- Corporate Directors Conference 2018.
- 2nd CIBAFI – World Bank Conference Corporate Governance of Islamic Financial Institutions: Overcoming Challenges and Implementing Best Practices
- Talk on Open Source Leadership.
- Talk on Professionalism and Ethics for Board of Directors and Senior Management.
- Talk on Hostage at the Table - The Art of Leadership & Negotiations.

Risk/Compliance/Regulatory

- FIDE Elective Programme: Emerging Risks, the Future Board and Return on Compliance.
- Talk on Updates on Anti-Money Laundering/Counter Financing of Terrorism.

Banking, Finance & Economy

- Overview of MFRS 9 Financial Instruments.
- Talk on 2018 Global Macroeconomic Outlook - The Calm before the Storm.
- Talk on Economic Outlook.
- 3rd International Research Conference on Economics, Business and Social Sciences-MY Chapter.

FinTech and Technology Based Innovations

- Takaful Innovation Summit 2018: Seizing Smart Solutions in the Digital Era.
- Talk on Clearing the Digital Blur.

Islamic Banking

- Town Hall Session – Certified Shariah Advisors Programme Briefing.
- Islamic Finance for Board of Directors Programme.
- Global Islamic Finance Forum 2018.
- Session on Accounting and Islamic Finance.

Directors' Remuneration

The Nomination and 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 Nomination and Remuneration Committee considers the responsibilities of the Directors and also benchmarking against the Directors' fees 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 2018 are subject to shareholder's approval.

BOARD COMMITTEES

The Board has established the following Board Committees whose compositions and terms of reference are in accordance with the BNM Policy Document on CG to support the Board in carrying out its functions:

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

The Nomination Committee and Remuneration Committee of PIBB had been combined into a single committee named as "Nomination and Remuneration Committee" with effect from 1 January 2019.

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.

Risk Management Committee

The PIBB Risk Management Committee is made up of 3 Independent Non-Executive Directors and 1 Non-Independent Non-Executive Director and is chaired by Mr Vasantha Kumar Tharmalingam.

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

- a. Supports 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. In relation to the Investment Account product, to support the Board of Directors on the following:
- Provide oversight function; and
 - Provide recommendations in respect of the investment strategies, management and performance of the investment account.
- c. Supports 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; and
- d. Coordinates 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.

The PIBB Risk Management Committee holds monthly meetings.

The attendance of Members at the PIBB Risk Management Committee meetings held in 2018 is as reflected below:

Name of Committee Members	Number of Risk Management 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
Professor Emeritus Dato' Paduka Dr. Mahmood Zuhdi bin Haji Ab Majid <i>Non-Independent Non-Executive Director</i>	12	12
Associate Professor Datin Dr. Rusnah Binti Muhammad <i>Independent Non-Executive Director (Appointed as Member on 25 September 2018)</i>	3	3

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 RMC meetings on Compliance Function held in 2018 are as follows:

Name of RMC Members	Number of RMC on Compliance Function 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	11
Professor Emeritus Dato' Paduka Dr. Mahmood Zuhdi bin Haji Ab Majid <i>Non-Independent Non-Executive Director</i>	12	12
Associate Professor Datin Dr. Rusnah binti Muhamad <i>Independent Non-Executive Director</i> (Appointed as Member on 25 September 2018)	3	3

Audit Committee

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

The Composition and 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 of Directors 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 of Directors.

The minutes of the AC meetings are tabled to the Board of Directors for noting and action by the Board of Directors where appropriate. The details of the attendance of each member at the Audit Committee meetings held in 2018 are as follows:

Name of Committee Members	Number of Audit Committee Meetings	
	Held During Tenure in Office	Attended
Mr Vasantha Kumar Tharmalingam (Chairman) <i>Independent Non-Executive Director</i> (Appointed as Chairman on 1 January 2018)	16	16
Dato’ Mohammed Najeeb bin Abdullah <i>Independent Non-Executive Chairman</i>	16	16
Professor Emeritus Dato’ Paduka Dr. Mahmood Zuhdi bin Haji Ab Majid <i>Non-Independent Non-Executive Director</i> (ceased as Member on 25 September 2018)	12	12
Associate Professor Datin Dr. Rusnah binti Muhamad <i>Independent Non-Executive Director</i> (Appointed as Member on 25 September 2018)	4	4

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board of Directors 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 of Directors, 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 of Directors 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 of Directors' 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 of Directors 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.

Related Party Transactions

The AC reviews the related party transactions entered into by PIBB and the Public Bank Group on a quarterly basis to ensure that these transactions are undertaken on an arm's length basis.

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 of Directors for approval.

The Board of Directors, 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.

Nomination and Remuneration Committee

The members of the PIBB Nomination and Remuneration Committee are as follows:

- Mr Vasantha Kumar Tharmalingam
(Chairman)
Independent Non-Executive Director
- Dato' Mohammed Najeeb bin Abdullah
Independent Non-Executive Chairman
- Professor Emeritus Dato' Paduka Dr. Mahmood Zuhdi bin Haji Ab Majid
Non-Independent Non-Executive Director
- Associate Professor Datin Dr. Rusnah binti Muhamad
Independent Non-Executive Director

Roles and Responsibilities

The roles and responsibilities of the Nomination and Remuneration 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 suitable persons for appointment as Directors, Board Committee Members, CEO, and other key responsible persons (KRPs) as defined in the BNM Policy Document on Fit and Proper Criteria.
- To assess and recommend to the Board suitable persons for appointment as Shariah Committee Members as defined in the BNM Shariah Governance Framework for Islamic Financial Institutions.
- In the case of persons for appointment as Independent Non-Executive Director, to assess that the person meets the criteria of Independent Director as may be defined in the BNM Policy Document on CG. This includes to assess annually that the Independent Director meets the criteria of an Independent Director as may be defined in the BNM Policy Document on CG.

- To assess and recommend to the Board, the Directors/CEO/Shariah Committee Members for re-appointment before the application for approval is submitted to 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 establish the mechanisms for the formal assessment of the effectiveness of the Board as a whole; the Board Committees; the effectiveness of each Director; the performance of Shariah Committee Members, and the performance evaluation of the CEO and other KRPs as defined in the BNM Policy Document on Fit and Proper Criteria. 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, the CEO, the Company Secretary and other KRPs as defined in the BNM Policy Document on Fit and Proper Criteria are not disqualified under Section 68 of the Islamic Financial Services Act 2013 and that the Directors, the CEO, the Company Secretary and other KRPs as defined in the BNM Policy Document on Fit and Proper Criteria continue to meet the fit and proper criteria as stated in the Islamic Financial Services Act 2013; BNM Policy Document on Fit and Proper Criteria and the Company's Fit and Proper Policy as approved by the Board.
- To assess, on an annual basis, that the Shariah Committee Members are not disqualified under the Shariah Governance Framework for Islamic Financial Institutions and that the Shariah Committee Members as defined in the BNM Policy Document on Fit and Proper Criteria continue to meet the fit and proper criteria as stated in the Islamic Financial Services Act 2013; BNM Policy Document on Fit and Proper Criteria and the Company's Fit and Proper Policy 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, the CEO and a Shariah Committee Member if he/she is ineffective, errant or negligent in discharging his/her responsibilities, or if he/she fails to meet the fit and proper criteria as defined in the Islamic Financial Services Act 2013, the BNM Policy Document on Fit and Proper Criteria and the Company's Fit and Proper Policy.
- To recommend to the Board the removal of KRPs as defined in the BNM Policy Document on Fit and Proper Criteria if they are ineffective, errant or negligent in discharging their responsibilities.

- To review periodically and recommend to the Board the remuneration system for Directors, CEO, Shariah Committee Members and other KRPs as defined in the BNM Policy Document on Fit and Proper Criteria to ensure that rewards are in line with the business risk strategy, corporate values and long term interest of the Bank.
- To oversee the performance evaluation of the CEO, and other KRPs as defined in the BNM Policy Document on Fit and Proper Criteria and recommend to the Board their promotions, 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 is 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 CEO, and other KRPs as defined in the BNM Policy Document on Fit and Proper Criteria 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 and Shariah Committee to ensure that they commensurate with the scope of responsibilities held, and reviews and recommends changes to the Board whenever necessary.
- To carry out such other responsibilities as may be specified by BNM or delegated by the Board from time to time.

Frequency of Meetings

The Nomination and Remuneration Committee meets at least twice a year, or as and when required.

The attendance of Members at the Nomination Committee meetings held in 2018 is as reflected below:

Name of Committee Members	Number of Nomination Committee Meetings	
	Held During Tenure in Office	Attended
Mr Vasantha Kumar Tharmalingam (Chairman) <i>Independent Non-Executive Director</i>	9	9
Dato' Mohammed Najeeb bin Abdullah <i>Independent Non-Executive Chairman</i>	9	9
Tan Sri Dato' Sri Tay Ah Lek <i>Non-Independent Non-Executive Director</i> <i>(Ceased as Member on 1 January 2019)</i>	9	9
Professor Emeritus Dato' Paduka Dr. Mahmood Zuhdi bin Haji Ab Majid <i>Non-Independent Non-Executive Director</i>	7	7
Associate Professor Datin Dr. Rusnah binti Muhamad <i>Independent Non-Executive Director</i> <i>(Appointed on 25 September 2018)</i>	1	1

The attendance of Members at the Remuneration Committee meetings held in 2018 is as reflected below:

Name of Committee Members	Number of Remuneration Committee Meetings	
	Held During Tenure in Office	Attended
Mr Vasantha Kumar Tharmalingam (Chairman) <i>Independent Non-Executive Director</i>	3	3
Dato' Mohammed Najeeb bin Abdullah <i>Independent Non-Executive Chairman</i>	3	3
Professor Emeritus Dato' Paduka Dr. Mahmood Zuhdi bin Haji Ab Majid <i>Non-Independent Non-Executive Director</i>	3	3
Associate Professor Datin Dr. Rusnah binti Muhamad <i>Independent Non-Executive Director</i> (Appointed as Member on 25 September 2018)	1	1

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 2018 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	12
Associate Professor Datin Dr. Rusnah binti Muhamad	12	11
Assistant Professor Dr. Mohd Afandi bin Awang Hamat	12	12
Associate Professor Dr. Abdul Bari bin Awang	12	12

Senior Management

The CEO together with the senior management are responsible for the Bank's operations and risk management including the development, coordination, implementation and control of the business and corporate strategies in accordance with the directions set out by the Board of Directors. There is a clear segregation of responsibilities amongst the senior management team which promotes accountability and transparency as well as serving an embedded check and balance system for its day to day business and operations.

The internal control mechanisms which includes compliance with regulatory requirements and internal policies are constantly being monitored and reviewed by the Bank's control functions namely Shariah Compliance Division, Risk Management/ Shariah Risk Management Control Unit, Compliance Unit and Shariah Audit Unit in order to enforce good corporate governance and robust risk management across the Group. The control functions are independent and report directly to the Shariah Committee or respective Board Committees i.e. Risk Management Committee and Audit Committee.

Senior Management Appointment and Removal

The Bank's Fit and Proper Policy has established procedures and processes for the appointment and removal of the relevant Key Responsible Persons (KRPs) 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
2. Competence and Capability
3. Financial Integrity
4. They do not hold an aggregate interest of 5% or more in the shares of Public Bank.

Succession Planning

The Bank 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 leadership 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.

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

Remuneration Policy & Practice

The Public Bank 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 Remuneration Committee and approved by the Board for implementation at all levels of staff including Senior Management and other staff not governed by any collective agreement in Public Bank, Public Islamic Bank Berhad and Public Investment Bank Berhad. Senior Management in this context refers to the Chief Executive Officers and Senior Officers of the abovementioned companies in the Group.

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 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 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 the Group does not have such instruments in place. The pool for the variable remuneration is determined by financial matrices such as Group's overall performance, achievement of selected financial ratios, market trends and economic outlook.

The following depicts the total value of cash based remuneration paid out to Senior Management staff of Public Bank for financial year 2018:

Remuneration	No. of Senior Management Staff	Non-Deferred (RM)	Deferred (RM)
Fixed	3	1,132,672	-
Variable		176,386	401,000

Strengthening Corporate Culture

The Public Bank Group has in place the following policies to further inculcate ethical values and compliance culture in the Group:

Public Bank Group Code of Ethics

The Public Bank Group Code of Ethics is alignment to the Professional Code established by the Financial Services Professional Board and it is encapsulated in Five (5) Fundamental Ethical Principles which the Bank 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 and Procedures

The scope of the Whistleblowing Policy and Procedures (WBP) covers all employees and third parties in making disclosure of any improper conduct or irregularities without any risk of reprisal. The platform, accessibility and channels of reporting are user-friendly to facilitate the submission of disclosure.

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

Anti-Fraud Policy

The Anti-Fraud Policy sets out the Bank's expectations on all its staff and the requirements relating to the prohibition, recognition, reporting and investigation of suspected fraud, corruption, misappropriation and other similar irregularities.

The Policy also articulates the Group's ultimate objective in eliminating any form of fraud from all its business activities, hence, the Group has zero-tolerance towards any form of fraud.

The definition/scope of "Fraud" in the Anti-Fraud Policy has been expanded to cover the following:

- a. Asset Misappropriation
- b. Fraudulent Statement / Representation
- c. Corruption
- d. Fraudulent acts or attempted fraudulent acts committed on but not limited to assets, data, records, documents or other information etc belonging to a shareholder, customer, staff, supplier, vendor, agent or any persons who has dealings with the Bank.