

Statement Of Corporate Governance

The Board of Directors of Bank Pembangunan Malaysia Berhad recognises the importance of the principles of Corporate Governance and subscribes to Bank Negara Malaysia's Guidelines on Corporate Governance Standards on Directorship for Development Financial Institutions i.e. BNM/RH/GL 005 – 4 in achieving an optimal governance framework and maximising the shareholder value of the Bank.

A. BOARD OF DIRECTORS

The Board is responsible to ensure the effectiveness of the Bank's operations. This includes the responsibility for determining the Bank's overall strategic direction, approval of performance targets, monitoring of management achievements, providing overall policy guidance and ensuring that policies and procedures for internal control system and succession planning are in place.

The Board currently has 8 members with 1 Non-Executive Chairman, 1 Executive Director who is the Bank's President/Group Managing Director, 1 Non-Independent Non-Executive Director and 5 Independent Non-Executive Directors. All Non-Executive Directors are persons of calibre and credibility to exercise independent judgement to the Board. Their role is to ensure that any decision of

the Board is deliberated fully and objectively with regard to the long-term objectives of the Bank.

The diversity of the Directors' background from the fields of management, banking, finance, legal, accounting, economics, engineering and their experience accumulated while serving both in private and government sectors, brings to the Board the necessary range of expertise and experience required by the Board to effectively perform its functions. Brief backgrounds of each of the Directors are presented on page 14 to 22 of the Annual Report.

The appointment of the Chairman and all the Directors are in accordance with BNM/RH/GL 005 – 4 and the Bank's Articles of Association.

The Board of Directors meets at least once a month to discuss and monitor amongst others, the overall conduct and performance of the Bank's business, including matters relating to financial, policies, strategies, performance and resources. Special board meetings are also convened to deliberate and approve urgent or important business issues that affect the Bank as and when required. During the financial year ended 31 December 2010, the Board met 12 times. The record of attendance by Directors at the Board Meetings for 2010 are as follows :

| Name of Director | No. of Meetings and attendance |
|--|--------------------------------|
| Datuk Dr. Abdul Samad bin Haji Alias Non-Executive Chairman | 12/12 |
| Dato' Mohd Zafer bin Mohd Hashim President/Group Managing Director | 12/12 |
| Dato' Ab. Halim bin Mohyiddin Independent Non-Executive Director (term ended on 29 July 2010) | 7/7* |
| Tuan Haji Mohd Zarif A/L Mohd Zaman Independent Non-Executive Director (term ended on 10 March 2010) | 2/2* |
| Puan Siti Zauyah binti Md Desa Non-Independent Non-Executive Director | 11/12 |

* Reflects the number of meetings attended during the time the Director held office.

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| Name of Director | No. of Meetings and attendance |
|---|--------------------------------|
| Tuan Syed Hussain bin Syed Hamzah Independent Non-Executive Director <i>(term ended on 5 October 2010)</i> | 9/9* |
| Encik Zainul Rahim bin Mohd Zain Independent Non-Executive Director <i>(appointed on 8 March 2010)</i> | 9/10* |
| Kapten A Ghani bin Ishak Independent Non-Executive Director <i>(appointed on 26 March 2010) (demise on 21 March 2011)</i> | 10/10* |
| Tan Sri Faizah binti Mohd Tahir Independent Non-Executive Director <i>(appointed on 1 June 2010)</i> | 7/7* |
| Dato' Dr Syed Jaafar bin Syed Aznan Independent Non-Executive Director <i>(appointed on 1 June 2010)</i> | 7/7* |
| Datuk Idris bin Abdullah @ Das Murthy Independent Non-Executive Director <i>(appointed on 1 December 2010)</i> | 1/1* |

* Reflects the number of meetings attended during the time the Director held office.

B. SUPPLY OF INFORMATION

Directors are provided with notices and Board papers prior to Board Meetings to give Directors time to deliberate on issues raised at meetings.

All Directors have direct access to the services of the Company Secretary and to the Senior Management. Independent professional advice is also made available to Directors in furtherance of their duties in the event such services are required.

C. TRAINING AND DEVELOPMENT OF DIRECTORS

Newly appointed Directors are required to attend an induction programme organized by the Management to brief on the Bank's history, operations and financial performance to enable them to have first hand understanding of the Bank's operations. At the induction programme, Heads of Functions/Chief Executive Officer

of the main subsidiaries will brief the new Directors on their areas of responsibilities to provide the Directors with background knowledge of the Bank as well as a platform to establish initial interaction with the key senior officers.

The members of the Board keep abreast with developments in the banking industry by attending conferences and seminars held in Malaysia and abroad for their continuing education and skills improvement.

The Bank also encourages Directors to attend talks, training programmes and seminars to update themselves on new developments in the business environment.

D. COMMITTEES

There are five Board Committees established to assist the Board in discharging its duties and responsibilities, namely the Credit Committee of the Board, Audit and Examination Committee, Nominating Committee, Remuneration Committee and Risk Management Committee.

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CREDIT COMMITTEE OF THE BOARD

1. Objective

The primary objective of the Credit Committee of the Board (CCB) is to perform supervisory and oversight role of loan approval and to ensure adequate risk management processes are in place.

2. Functions and Responsibilities

- Veto power to challenge, reject loan and modify the terms of all loans related financing facilities.
- To approve “policy loans” and loans which are required by statute to be approved by the Board, provided that the initial filter of approval is conducted by the full-time executive committee.
- Recommend, verify and endorse all cases of write-offs to the Board of Directors for final approval.

- Have full authority to seek/obtain any information it requires from any employee of the Bank and to commission any investigations, reports or surveys, which it deems necessary.
- Appoint or obtain any outside legal or other professional consultation which it deems necessary, at the Bank’s expense.
- To approve and endorse any recommendation from the approving authority in cases of ambiguity and/or enhancement in credit risk.

3. Committee Meeting and Attendance

Based on the Term of Reference of CCB, the meeting is to be held once a fortnight or when necessary. During the financial year 2010 the CCB held 19 meetings. The members of the Committee and their record of attendance are as follows:

| Name of Director | No. of Meetings and attendance |
|---|--------------------------------|
| Datuk Dr. Abdul Samad bin Hj Alias, Chairman | 17/19 |
| Dato’ Ab. Halim bin Mohyiddin <i>(term ended on 29 July 2010)</i> | 7/9* |
| Tuan Haji Mohd Zarif A/L Mohd Zaman <i>(term ended on 10 March 2010)</i> | 4/4* |
| Puan Siti Zauyah binti Mohd Desa | 18/19 |
| Encik Zainul Rahim bin Mohd Zain <i>(appointed on 9 April 2010)</i> | 13/14* |
| Kapten A Ghani bin Ishak <i>(appointed on 9 April 2010)</i> <i>(demise on 21 March 211)</i> | 14/14* |

* Reflects the number of meetings attended during the time the Director held office.

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AUDIT AND EXAMINATION COMMITTEE

1. Objective

The objective of the Audit and Examination Committee (AEC) is to review the financial condition of the Bank and its subsidiaries, its internal controls, performance and findings of the Internal Auditors, and to recommend appropriate remedial action regularly.

2. Functions and Responsibilities

The functions and responsibilities of the AEC are as follows:

- Recommend to the Board on the appointment of External Auditors, the fee and other matters pertaining to the resignation or termination or change of External Auditors.
- Review with External Auditors:
 - (a) Their audit plan.
 - (b) Their evaluation of the system of internal control.
 - (c) Their audit report.
 - (d) Their management letter and management's response.
 - (e) The assistance given by the management and staff to the External Auditors.
- Carry out the following with regards to the internal audit function:
 - (a) Review the adequacy of scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its work.
 - (b) Review and approve internal audit plan, programme and processes.
 - (c) Review audit reports and consider adequacy of Management's actions taken on audit findings or recommendations.
 - (d) Recommend to the Nominating Committee of the Board on the appointment and termination of the Head of Internal Audit.
 - (e) Recommend to the Remuneration Committee of the Board on the remuneration of the Head of Internal Audit.
 - (f) Review any appraisal or assessment of members of the internal audit function as well as decide on

their remuneration package, excluding the Head of Internal Audit.

- Receive and consider reports relating to the perpetration and prevention of fraud.
- Review the Bank's compliance with the related Government's regulations.
- Review the first six months result and the year-end financial statement prior to its submission to the Board for approval.
- The review of the year-end financial statement, whereby the presentation to the AEC will be conducted by the External Auditors, focuses particularly on:
 - (a) Any major changes in the accounting policy or its implementation.
 - (b) Adequacy of provisions against contingencies, bad and doubtful debts.
 - (c) Significant and unusual events.
 - (d) Compliance with accounting standards and other legal requirements.
- Ensure the prompt publication of annual accounts.
- Discuss any problem and reservations that may arise from the interim and final audits, as well as any matter which the External Auditors may wish to discuss (in the absence of management where necessary).
- Review any related party transactions and conflict of interest situation that may arise in the Bank or within the Banking group including any transaction, procedure or conduct that raises questions of management integrity.
- Preparation of an AEC report at the end of each financial year, which will be published in the Bank's Annual Report.
- Review and endorse the status and progress of Management's responses and corrective measures on issues raised in the BNM Examination Report, before it is tabled to the Board for approval.
- The AEC shall also report on the following to the Board to enable the Board in preparing an AEC Report for the Bank's Annual Report:
 - (a) The composition of the AEC, including name, designation and directorship of the members and whether the Director is independent or otherwise.
 - (b) The terms of reference of AEC.
 - (c) The number of AEC meetings held in the financial year and details of attendance of each member.

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- (d) A summary of the activities of the AEC in the discharge of its functions and duties for the financial year.
- (e) A summary of the activities of the Internal Audit Department.
- The AEC shall update the Board on the issues and concerns discussed during their meetings including those raised by External Auditors and where appropriate, make the necessary recommendation to the Board.
- The AEC shall review the Policies on Significant / Sensitive Payments and Executive Expenditures and where appropriate, make the necessary recommendations to the Board.

3. Committee Meeting and Attendance

Based on the Term of Reference of AEC, the meeting is to be held at least 4 times a year. During the financial year 2010 the AEC held 7 meetings. The members of the Committee and their record of attendance are as follows:

| Name of Director | No. of Meetings and attendance |
|---|--------------------------------|
| Dato' Ab. Halim bin Mohyiddin, Chairman (term ended on 29 July 2010) | 4/4* |
| Tuan Haji Mohd Zarif A/L Mohd Zaman (term ended on 10 March 2010) | 1/1* |
| Puan Siti Zauyah binti Md Desa (term ended on 28 July 2010) | 4/4* |
| Encik Zainul Rahim bin Mohd Zain (appointed on 9 April 2010) | 6/6* |
| Tan Sri Faizah binti Mohd Tahir (appointed on 28 July 2010) | 3/3* |
| Dato' Dr Syed Jaafar bin Syed Aznan (appointed on 28 July 2010) | 3/3* |

* Reflects the number of meetings attended during the time the Director held office.

NOMINATING COMMITTEE

1. Objective

The objective of the Nominating Committee (NC) is to establish a documented, formal and transparent procedure for the appointment of Directors, President/ Group Managing Director and key Senior Executives (Vice President who is also a Head of Function and above) and to assess the effectiveness of individual Directors, the Board as a whole and the various committees of the

Board, President/Group Managing Director and key Senior Executives (Vice President who is also a Head of Function and above).

2. Functions and Responsibilities

The functions and responsibilities of the NC are as follows:

- Establishing minimum requirements for the Board and the President/Group Managing Director to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in

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terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive and Independent Directors, and mix of skills and other core competencies required through annual reviews.

- Recommending and assessing the nominees for directorship, the Directors to fill board committees, as well as nominees for the President/Group Managing Director position. This includes assessing Directors and the President/Group Managing Director proposed for reappointment, before an application for verification is submitted to Bank Negara Malaysia.
- Establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the President/Group Managing Director.
- Recommending to the Board on removal of a President/Group Managing Director if he is ineffective, errant or negligent in discharging his responsibilities.
- Ensuring that all Directors undergo appropriate induction programmes and receive continuous training.
- Overseeing appointment and management succession planning of key senior executives (Vice President who is also a Head of Function and above), and performance evaluation of Senior Vice President, Chief Operating

Officer and President/Group Managing Director and recommending to the Board the removal of key Senior Executives (Vice President who is also a Head of Function and above) if they are ineffective, errant and negligent in discharging their responsibilities.

The President/Group Managing Director be given the authority to assess and evaluate candidates for new appointments, negotiate and determine the salary, benefits and terms and conditions of service for the positions of Vice President who is also a Head of Function and above and thereafter it would be tabled to the Nominating Committee for approval and thereafter to the Board Directors for notation.

That the performance evaluation of Vice President (Head of Function) is delegated to the President/Group Managing Director.

- Propose the appointment of Board members to the Board of Directors of subsidiary companies.

3. Committee Meetings and Attendance

Based on the Term of Reference of NC, the meeting is to be held at least once a year. During the financial year 2010, the NC held 5 meetings. The members of the Committee and their record of attendance are as follows:

| Name of Director | No. of Meetings and attendance |
|---|--------------------------------|
| Tuan Haji Mohd Zarif A/L Mohd Zaman, Chairman (term ended on 10 March 2010) | 1/1* |
| Dato' Ab. Halim bin Mohyiddin (term ended on 29 July 2010) | 3/3* |
| Puan Siti Zaayah binti Mohd Desa | 5/5 |
| Encik Zainul Rahim bin Mohd Zain (appointed on 31 March 2010) | 3/4* |
| Kapten A Ghani bin Ishak, Chairman (appointed on 31 March 2010) (demise on 21 March 211) | 4/4* |
| Tan Sri Faizah binti Mohd Tahir (appointed on 26 August 2010) | 2/2* |
| Dato' Dr Syed Jaafar bin Syed Aznan (appointed on 30 September 2010) | 1/1* |

* Reflects the number of meetings attended during the time the Director held office.

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REMUNERATION COMMITTEE

1. Objective

The objective of the Remuneration Committee (RC) is to provide a formal and transparent procedure for developing a remuneration policy for Directors, President/Group Managing Director and key Senior Executives (Vice President who is also a Head of Function and above) and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.

2. Functions and Responsibilities

The functions and responsibilities of the RC are as follows:

- Recommending a framework of remuneration for Directors, President/Group Managing Director and key Senior Executives (Vice President who is also a Head of Function and above). The remuneration policy should:
 - (a) Be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
 - (b) Reflect the experience and level of responsibility borne by individual Directors, the President/Group Managing Director and key Senior Executives (Vice President who is also a Head of Function and above);
 - (c) Be sufficient to attract and retain Directors, President/Group Managing Director and key Senior Executives (Vice President who is also a Head of Function and above) of caliber needed to manage the Bank successfully; and

- (d) Be balanced against the need to ensure that the funds of the Bank are not used to subsidise excessive remuneration packages.
- Recommending specific remuneration packages for Directors, President/Group Managing Director and key Senior Executives (Vice President who is also a Head of Function and above). The remuneration packages should:
 - (a) Be based on an objective consideration and approved by the full Board;
 - (b) Take due consideration of the assessments of the Nominating Committee of the effectiveness and contribution of the Director, President/Group Managing Director or key Senior Executives (Vice President who is also a Head of Function and above) concerned;
 - (c) Not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and
 - (d) Be competitive and is consistent with the Bank's culture, objective and strategy.
- Endorsing any changes deemed necessary to the schemes, terms of services and new terms for executives and staff of BPMB before submission to the Board of Directors for final approval.

3. Committee Meetings and Attendance

Based on the Term of Reference of RC, the meeting is to be held at least once a year. During the financial year 2010, the RC held 4 meetings. The members of the Committee and their record of attendance are as follows:

| Name of Director | No. of Meetings and attendance |
|---|--------------------------------|
| Tuan Syed Hussein Syed Hamzah, Chairman (term ended on 5 August 2010) | 3/3* |
| Dato' Ab Halim bin Mohyiddin (term ended on 29 July 2010) | 3/3* |
| Puan Siti Zauyah binti Mohd Desa | 4/4 |
| Kapten A Ghani bin Ishak (appointed on 9 April 2010) (demise on 21 March 2011) | 3/3* |
| Dato' Dr Syed Jaafar bin Syed Aznan (appointed on 28 July 2010) | 1/1* |

* Reflects the number of meetings attended during the time the Director held office.

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RISK MANAGEMENT COMMITTEE

1. Objective

The objective of the Risk Management Committee (RMC) is to oversee the senior management's activities in managing the key areas of the DFI and to ensure that the risk management process is in place and functioning effectively.

2. Functions and Responsibilities

The functions and responsibilities of the RMC are as follows:

- Provide oversight and strategic direction for the management of all risks in BPMB.
- Review and endorse policies for the management of the various risks for approval by Board of Directors.
- Review and approve objectives, functions and strategies for Credit Risk, Operational Risk and Market Risk Functions.
- Ensure structures and procedures for risk management are in place and they are reflective of BPMB risk tolerance.

- Review and endorse credit/lending policies encompassing all products and business for approval by Board of Directors.
- Review risk limits and concentration.
- Oversee the implementation of risk related strategic initiatives contained in its corporate plan.
- Review and address the overall risk profile of the Bank and monitor the risk portfolio composition of significant activities of the Bank.
- Review and endorse contingency plans for critical and worst case scenarios and address related issues.
- Review reports of credit review process, asset quality and ensure prompt corrective action.
- Promoting an integrated approach to evaluate and monitor interrelated risk.

3. Committee Meetings and Attendance

Based on the Term of Reference of RMC, the meeting is held once in every two months. During the financial year 2010, the RMC held 6 meetings. The members of the Committee and their record of attendance are as follows:

| Name of Director | No. of Meetings and attendance |
|--|--------------------------------|
| Tuan Syed Hussain Syed Hamzah (term ended on 5 August 2010) | 4/4* |
| Puan Siti Zauyah binti Mohd Desa | 5/6 |
| Dato' Ab Halim bin Mohyiddin (term ended on 29 July 2010) | 3/3* |
| Encik Zainul Rahim bin Mohd Zain, Chairman (appointed on 9 April 2010) | 5/5* |
| Kapten A Ghani bin Ishak (appointed on 30 September 2010) (demise on 21 March 2011) | 2/2* |

* Reflects the number of meetings attended during the time the Director held office.