

# STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors of Bank Pembangunan Malaysia Berhad is committed to uphold good corporate governance by continuously advocating transparency, accountability, responsibility and integrity, in line with the principles and best practices of Corporate Governance, the Bank Negara Malaysia (BNM)'s Guidelines on Corporate Governance for Development Financial Institutions and primary legislative and regulatory provisions.

## Board Composition and Balance

The Directors' professional backgrounds, skills, extensive experience and knowledge in various fields, that they accumulated while serving the private and government sectors, brings to the Board the essential range of capability and experience required to effectively perform its functions. A brief profile of each Director is presented on pages 20 to 26 of the Annual Report.

The Board consists of ten (10) members with one (1) Non-Executive Chairman, one (1) Executive Director, who is the Bank's President/Group Managing Director, one (1) Non-Independent Non-Executive Director and seven (7) Independent Non-Executive Directors. All Independent Directors are persons of high caliber and integrity to exercise independent judgment and act in the best interest of the Bank.

The appointment/re-appointment of Directors is governed by BNM Guidelines on Corporate Governance for Development Financial Institutions (DFIs) and the Bank's Articles of Association. The Nominating Committee (NC) reviews and assesses the Directors for the purpose of appointments/re-appointments before recommendation is made to the Board for approval. NC will also refer to the results of the individual assessments conducted via Directors Self and Peer Assessment for re-appointment of Directors. The application for the appointment/re-appointment of Directors will be submitted to BNM for verification.

The Board had also implemented annual assessment in relation to the effectiveness of the Board and Board Committees, as a whole. The feedback and suggestions from the Board will be gathered for deliberation/information of the NC and thereafter presented to the Board for consideration and approval.

## Duties and Responsibilities

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

There is a schedule of matters reserved specifically for the Board's decision, including approval of business plan and annual budget, recommendation of dividend, acquisition and disposal of undertaking and properties of substantial values, major investment and financial decisions, changes to the management and control structure within the Group, including policies and delegated authority limits.

Where a potential conflict of interest arises, the Director concerned needs to declare his/her interest and abstain from the deliberation and decision-making process.

## Board Meeting and Supply of Information

The Board meets at least once a month to discuss and monitor amongst others, the overall conduct and performance of the Bank, including matters relating to financials, policies, strategies, performance and resources. Approvals on urgent or important business issues requiring the sanction of the Board are sought by convening Special Board meetings or by way of Circular Resolutions enclosing all relevant information to enable the Board to make informed decisions. All Circular Resolutions approved by the Board will then be tabled at the next Board meeting for notation.

The Board and Board Committees meetings are scheduled in advance prior to the commencement of a new year and the same is circulated to all Directors to enable them to plan ahead. The agenda for each Board meeting and papers relating to the matters to be deliberated at the meetings are forwarded to all Directors prior to the date of the Board/Board Committees meetings.

The Board also peruses the decisions deliberated by the Board Committees through minutes of those Committees. The Chairman of every Board Committees is responsible to inform the Directors during the Board meetings of any salient matters noted by the Committees, which requires the Board's notice or direction. All proceedings of the Board meetings are minuted and signed by the Chairman in accordance with the provisions of the Companies Act, 1965.

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

During the financial year ended 31 December 2013, the Board met 12 times. The attendance record of the Directors at the Board Meetings for 2013 is as follows:

NAME OF DIRECTOR	NO. OF MEETINGS AND ATTENDANCE
<b>Tan Sri Dato' Sri Dr Wan Abdul Aziz Wan Abdullah</b> Non-Executive Chairman	12/12
<b>Dato' Mohd Zafer Mohd Hashim</b> President/Group Managing Director	10/12
<b>Puan Siti Zauyah Md Desa</b> Non-Independent Non-Executive Director (resigned on 28 March 2013)	2/3*
<b>Tuan Haji Zainul Rahim Mohd Zain</b> Independent Non-Executive Director	9/12
<b>Tan Sri Faizah Mohd Tahir</b> Independent Non-Executive Director (term ended on 1 June 2013)	5/5*
<b>Datuk Dr Syed Jaafar Syed Aznan</b> Independent Non-Executive Director	12/12
<b>Datuk Idris Abdullah</b> Independent Non-Executive Director	9/12
<b>Tuan Haji Rosli Abdullah</b> Independent Non-Executive Director	12/12
<b>Tuan Haji Abdul Aziz Ishak</b> Independent Non-Executive Director	12/12
<b>Tuan Haji Ariffin Hew</b> Independent Non-Executive Director	12/12
<b>Datuk Nozirah Bahari</b> Non-Independent Non-Executive Director (appointed on 28 March 2013)	6/9*
<b>Dato' Abd Rahman Md Khalid</b> Independent Non-Executive Director (appointed on 28 October 2013)	2/2*

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

## Training and Development of Directors

The newly appointed Directors are required to attend an induction programme organized by the Management. The Directors will be briefed on the Bank's history, operations and financial performance as 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 newly appointed Directors on their areas of responsibilities in order to offer the Directors with background knowledge of the Bank as well as a platform to establish personalized interaction with the key senior management.

The Board keeps abreast with the development 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 its Directors to attend talks, training programmes and seminars to update themselves on new development in the business environment.

## D. COMMITTEES

There are five (5) 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.

### 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 loans 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 the CCB, the meeting is to be held once a fortnight or when necessary. The CCB met 16 times during the financial year 2013. The Committee members and their records of attendance are as follows:

MEMBERS	NO. OF MEETINGS AND ATTENDANCE
<b>Tan Sri Dato' Sri Dr Wan Abdul Aziz Wan Abdullah</b> <i>Chairman</i>	16/16
<b>Puan Siti Zauyah Md Desa</b> <i>(resigned on 28 March 2013)</i>	3/5*
<b>Tuan Haji Zainul Rahim Mohd Zain</b>	15/16
<b>Tan Sri Faizah Mohd Tahir</b> <i>(term ended on 1 June 2013)</i>	6/7*
<b>Tuan Haji Rosli Abdullah</b>	16/16

MEMBERS	NO. OF MEETINGS AND ATTENDANCE
<b>Tuan Haji Abdul Aziz Ishak</b>	15/16
<b>Datuk Nozirah Bahari</b> (appointed on 25 April 2013)	7/10*
<b>Tuan Haji Ariffin Hew</b> (appointed on 24 June 2013)	8/8*

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

## AUDIT AND EXAMINATION COMMITTEE

### 1. Objectives

The objectives of the Audit and Examination Committee (AEC) shall be to review the financial conditions of the Bank and its subsidiaries, the internal controls, performance and findings of the Internal Auditors, and to recommend appropriate remedial actions regularly.

### 2. Functions and Responsibilities

The functions and responsibilities of the AEC are as follows:

- 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.
  - (g) Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Professional Practices Framework for Internal Auditing consisting of the Definition of Internal Auditing, Code of Ethics and the Standards*.
  - (h) Review the assessment or findings arising from the Shariah audit and report the non-compliance events to the Board.
- Recommend to the Board each year on the appointment/reappointment of External Auditors, the fee and other matters pertaining to the resignation or termination or change of External Auditors.
- Review with the 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; and
  - (e) the assistance given by the management and staff to the External Auditors.
- Receive and consider reports relating to the perpetration and prevention of fraud.
- Review the Bank's compliance with the related Government's regulations including Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) measures.
- Review the quarterly results and the year-end financial statements prior to their submission to the Board for approval. The review of the year-end financial statements by the external auditor, shall focus particularly on:

- (a) Any major changes in the accounting policy or its implementation.
  - (b) Adequacy of allowance against contingencies, bad and doubtful debts.
  - (c) Significant and unusual events.
  - (d) Compliance with accounting standards and other legal requirements.
- Ensure that the accounts are prepared in a timely and accurate manner and ensure 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 shall 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.
  - For the preparation of the Bank's annual report, prepares an AEC report, which shall contain the following information:
    - 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;
    - d) A summary of the activities of the AEC in the discharge of its functions and duties for the financial year; and
    - e) A summary of the activities of the Internal Audit Department.
  - Inform the Board on the issues and concerns discussed during its meetings, including those raised by the external auditors and where appropriate, make the necessary recommendations to the Board.

### 3. Committee Meeting and Attendance

Based on the Term of Reference of the AEC, the meeting is to be held at least four (4) times a year and such additional meeting as the Chairman shall decide. The AEC met 11 times during the financial year 2013. The Committee members and their record of attendance are as follows:

MEMBERS	NO. OF MEETINGS AND ATTENDANCE
<b>Tuan Haji Rosli Abdullah, Chairman</b>	11/11
<b>Tan Sri Faizah Mohd Tahir</b> <i>(term ended on 1 June 2013)</i>	6/6*
<b>Datuk Dr Syed Jaafar Syed Aznan</b>	11/11
<b>Datuk Idris Abdullah</b> <i>(resigned on 24 June 2013)</i>	3/6*
<b>Tuan Haji Abdul Aziz Ishak</b>	10/11
<b>Tuan Haji Ariffin Hew</b> <i>(appointed on 24 June 2013)</i>	5/5*

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

## NOMINATING COMMITTEE

### 1. Objectives

The objectives of the Nominating Committee (NC) are to establish a documented, formal and transparent procedure for the appointment/reappointment of Directors, President/Group Managing Director and key Senior Executives (Senior Vice President/ 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 (Senior Vice President/ 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. NC also responsible for overseeing the overall composition of the Board in 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 the Directors and President/Group Managing Director proposed for reappointment, before an application is submitted to Bank Negara Malaysia for verification.
- 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 the President/Group Managing Director, if he is ineffective, errant or negligent in discharging his responsibilities.
- Ensuring that all Directors undergo appropriate induction programmes and received continuous training.
- Overseeing appointment and management succession planning of key senior executives (Senior Vice President/Head of Function and above), and performance evaluation of the Chief Operating Officer and President/Group Managing Director and recommending to the Board for the removal of key Senior Executives (Senior Vice President/Head of Function and above), if they are ineffective, errant and negligent in discharging their responsibilities.

The President/Group Managing Director is delegated to assess and evaluate candidates for new appointments, negotiate and determine the salary, benefits and terms and conditions of service for the positions of Senior Vice President who is also a Head of Function and above and thereafter tabled to the NC for approval and lastly to the Board for notation.

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

### 3. Committee Meetings and Attendance

Based on the Term of Reference of the NC, the meeting is to be held at least once a year. The NC met 8 times during the financial year 2013. The Committee members and their records of attendance are as follows:

MEMBERS	NO. OF MEETINGS AND ATTENDANCE
<b>Datuk Dr Syed Jaafar Syed Aznan, Chairman</b>	8/8
<b>Puan Siti Zauyah Md Desa</b> <i>(resigned on 28 March 2013)</i>	3/3*
<b>Tuan Haji Zainul Rahim Mohd Zain</b>	8/8
<b>Tan Sri Faizah Mohd Tahir</b> <i>(term ended on 1 June 2013)</i>	4/4*
<b>Tuan Haji Rosli Abdullah</b>	8/8
<b>Datuk Nozirah Bahari</b> <i>(appointed on 25 April 2013)</i>	2/5*
<b>Datuk Idris Abdullah</b> <i>(appointed on 24 June 2013)</i>	3/4*

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

## REMUNERATION COMMITTEE

### 1. Objectives

The objectives of the Remuneration Committee (RC) are to provide a formal and transparent procedure for developing a remuneration policy for the Directors, President/Group Managing Director and key Senior Executives (Senior Vice President/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 (Senior Vice President/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 (Senior Vice President/Head of Function and above);
  - (c) be sufficient to attract and retain Directors, President/Group Managing Director and key Senior Executives (Senior Vice President/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 subsidize excessive remuneration packages.
- Recommending specific remuneration packages for Directors, President/Group Managing Director and key Senior Executives (Senior Vice President/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 (Senior Vice President/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 the Bank before submission to the Board 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. The RC met 4 times during the financial year 2013. The Committee members and their records of attendance are as follows:

MEMBERS	NO. OF MEETINGS AND ATTENDANCE
<b>Tan Sri Faizah Mohd Tahir, Chairman</b> <i>(term ended on 1 June 2013)</i>	2/2*
<b>Puan Siti Zauyah Md Desa</b> <i>(resigned on 28 March 2013)</i>	1/1*
<b>Datuk Dr Syed Jaafar Syed Aznan</b>	4/4
<b>Tuan Haji Zainul Rahim Mohd Zain</b>	4/4
<b>Tuan Haji Rosli Abdullah</b>	4/4
<b>Datuk Nozirah Bahari</b> <i>(appointed on 25 April 2013)</i>	1/3*
<b>Datuk Idris Abdullah, Chairman</b> <i>(appointed on 24 June 2013)</i>	1/2*

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

## RISK MANAGEMENT COMMITTEE

### 1. Objectives

The objectives of the Risk Management Committee (RMC) are to oversee the senior management's activities in managing the key areas of the Group 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 the Bank.
- Review and endorse policies, including group-wide policies for the management of the various risks for approval by the Board.
- Provide oversight on the management of risks exposures at group-wide level, including the implementation of group-wide risk management policies throughout the group.
- Review and approve objectives, functions and strategies for Credit Risk, Operational Risk and Market Risk Functions.
- Ensure that the structures and procedures for risk management are in place and they are reflective of the Bank risk tolerance.
- Review and endorse credit/lending policies encompassing all products and business for approval by the Board.
- 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 Group.
- 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 risks.



### 3. Committee Meetings and Attendance

Based on the Term of Reference of the RMC, the meeting is held once in every two months. The RMC met 6 times during the financial year 2013. The Committee members and their records of attendance are as follows:

MEMBERS	NO. OF MEETINGS AND ATTENDANCE
<b>Tuan Haji Zainul Rahim Mohd Zain, Chairman</b>	6/6
<b>Puan Siti Zauyah Md Desa</b> <i>(resigned on 28 March 2013)</i>	1/1*
<b>Datuk Dr Syed Jaafar Syed Aznan</b>	4/5*
<b>Tuan Haji Rosli Abdullah</b>	6/6
<b>Tuan Haji Ariffin Hew</b>	6/6
<b>Datuk Nozirah Bahari</b> <i>(appointed on 24 June 2013)</i>	1/4*
<b>Dato' Abd Rahman Md Khalid</b> <i>(appointed on 28 November 2013)</i>	0/1*

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